



Latin American Paper Products Market Outlook



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Economic Challenges & Opportunities

Global slowdown in 2023-2024 limiting growth

AVERAGE GROWTH EXPECTED IN 2023-24

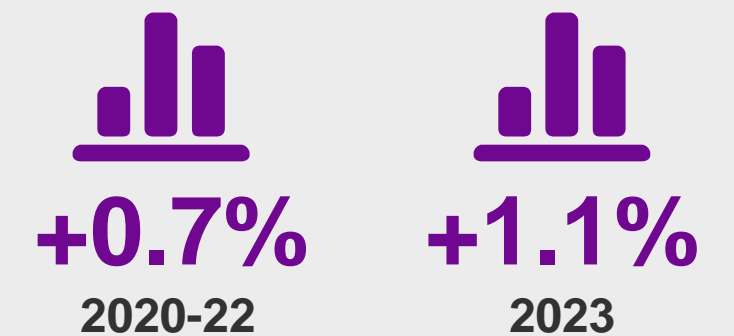


Source: Fastmarkets, 2023.

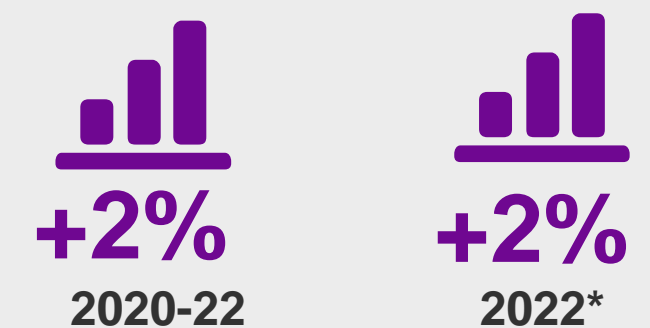


Latin America is lagging behind

Annual GDP Latin America



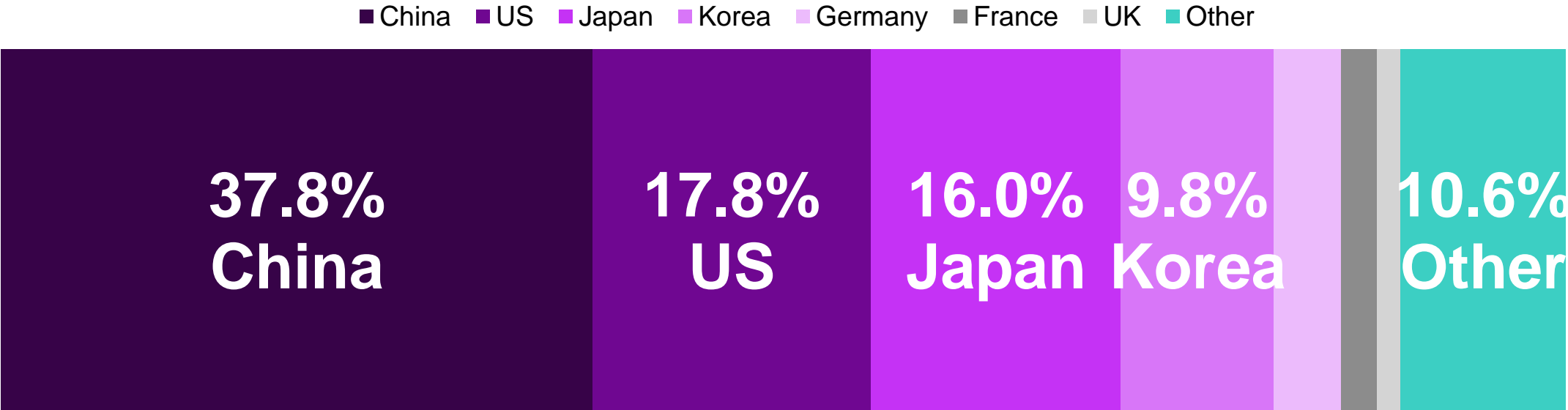
World



Source and *forecast: Fastmarkets.

Low R&D investments limits Latin America long-term growth

PATENT GRANTS (2021)



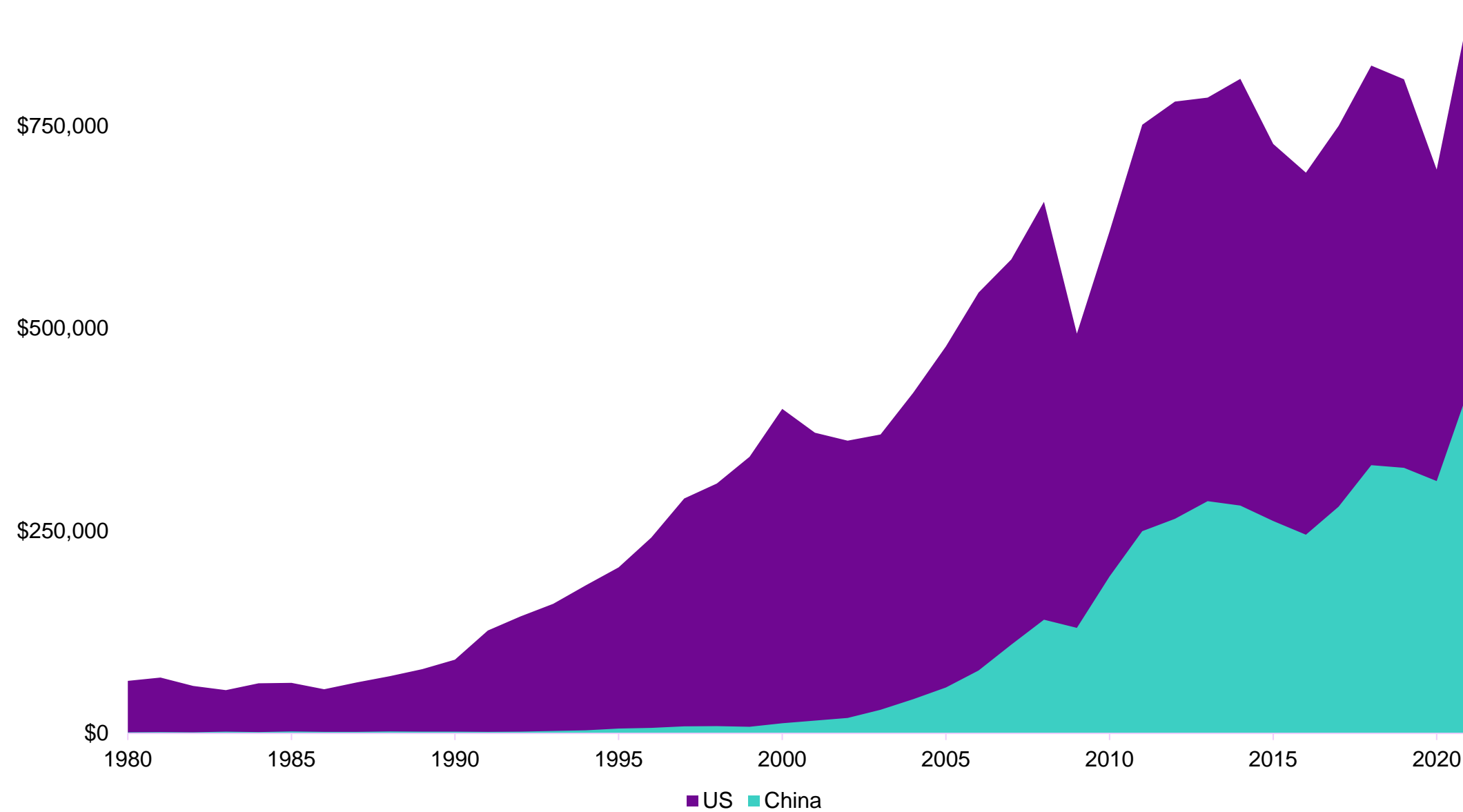
Global Value Chain problem

- No Latin American country lead top patents in any segment
- Local companies oftenly purchased & acquired by global MNEs, causing investments in R&D and thus, royalties and profits to flow to headquarters oftenly in developed countries

China vs US = Commodities vs Manufactures

TOTAL TRADE (IMPORTS + EXPORTS) BETWEEN LATIN AMERICA AND US, CHINA

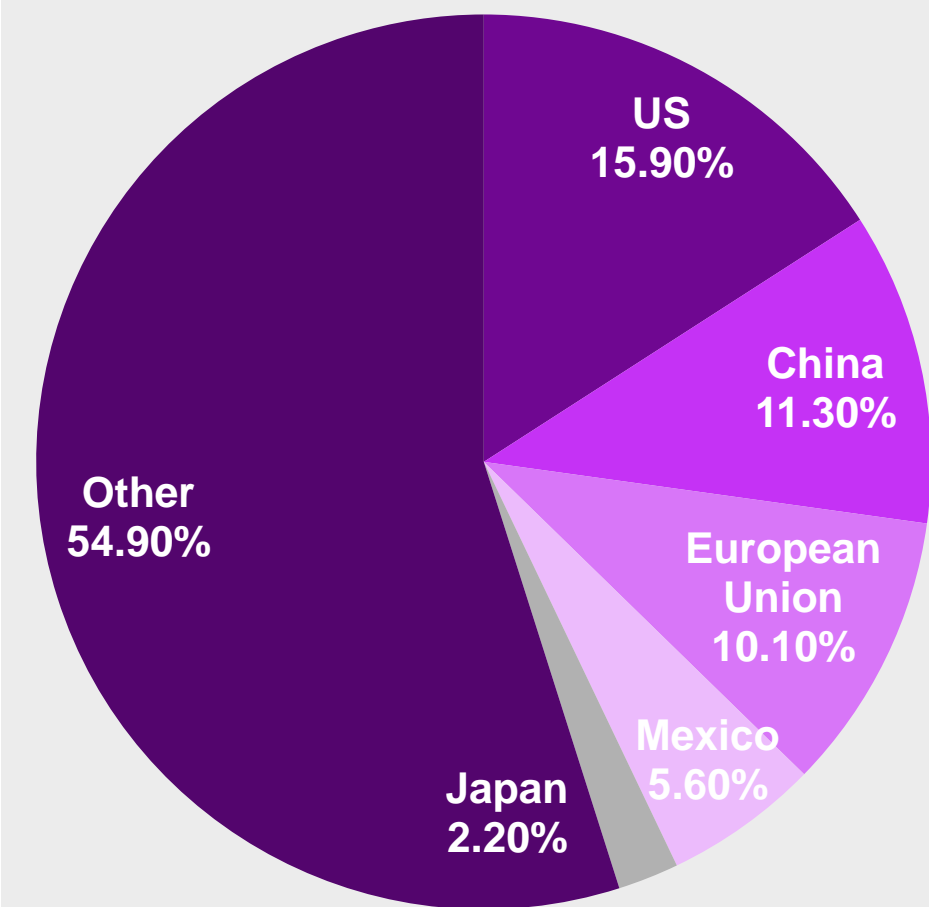
\$1,000,000



Source: IMF Dots
2023 | Fastmarkets | Latin American Markets Outlook



Developed countries lead LatAm exports



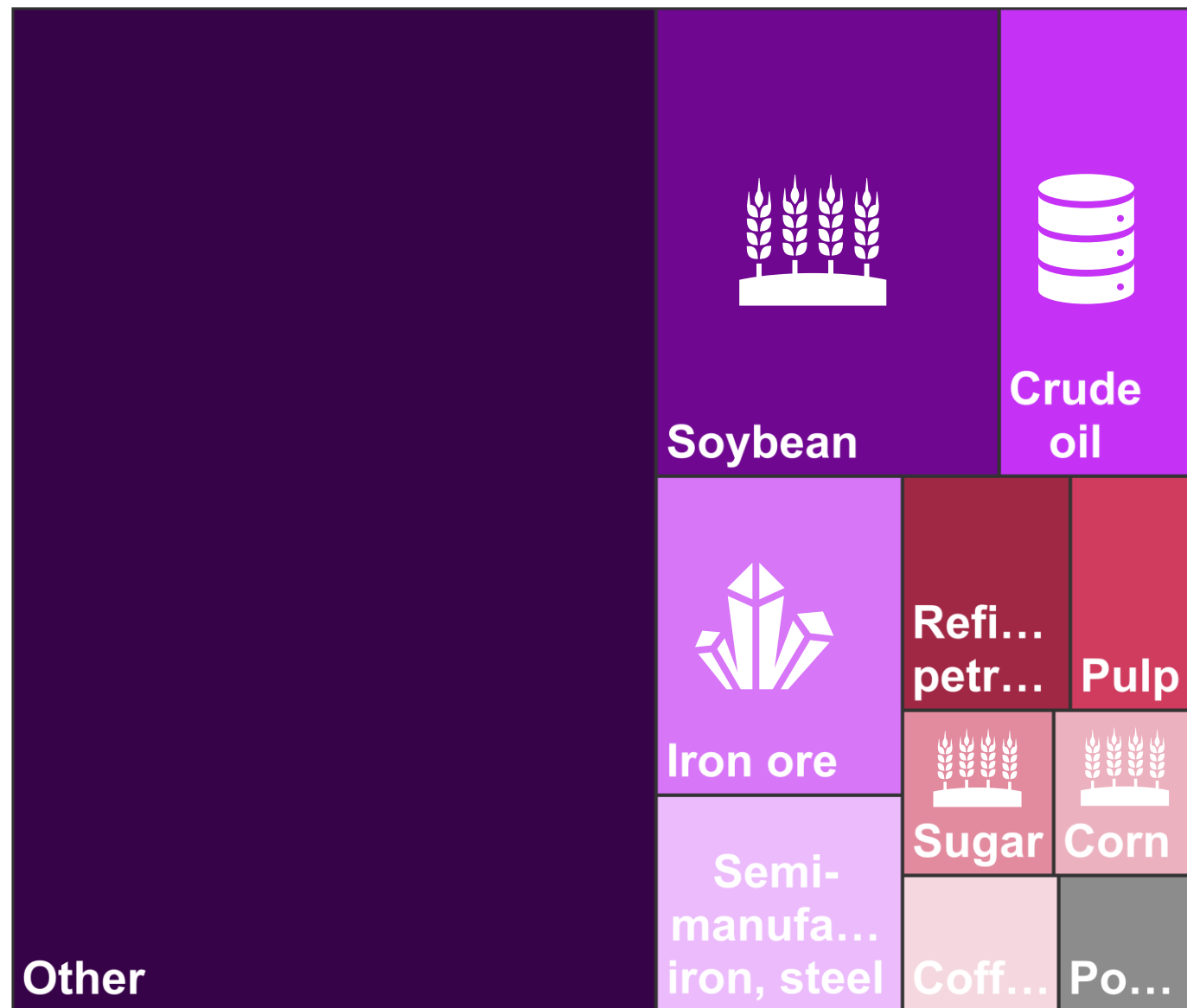
Sources: Key Statistics and Trends in International Trade 2021" by UNCTAD

Brazil vs Mexico: Different paths?

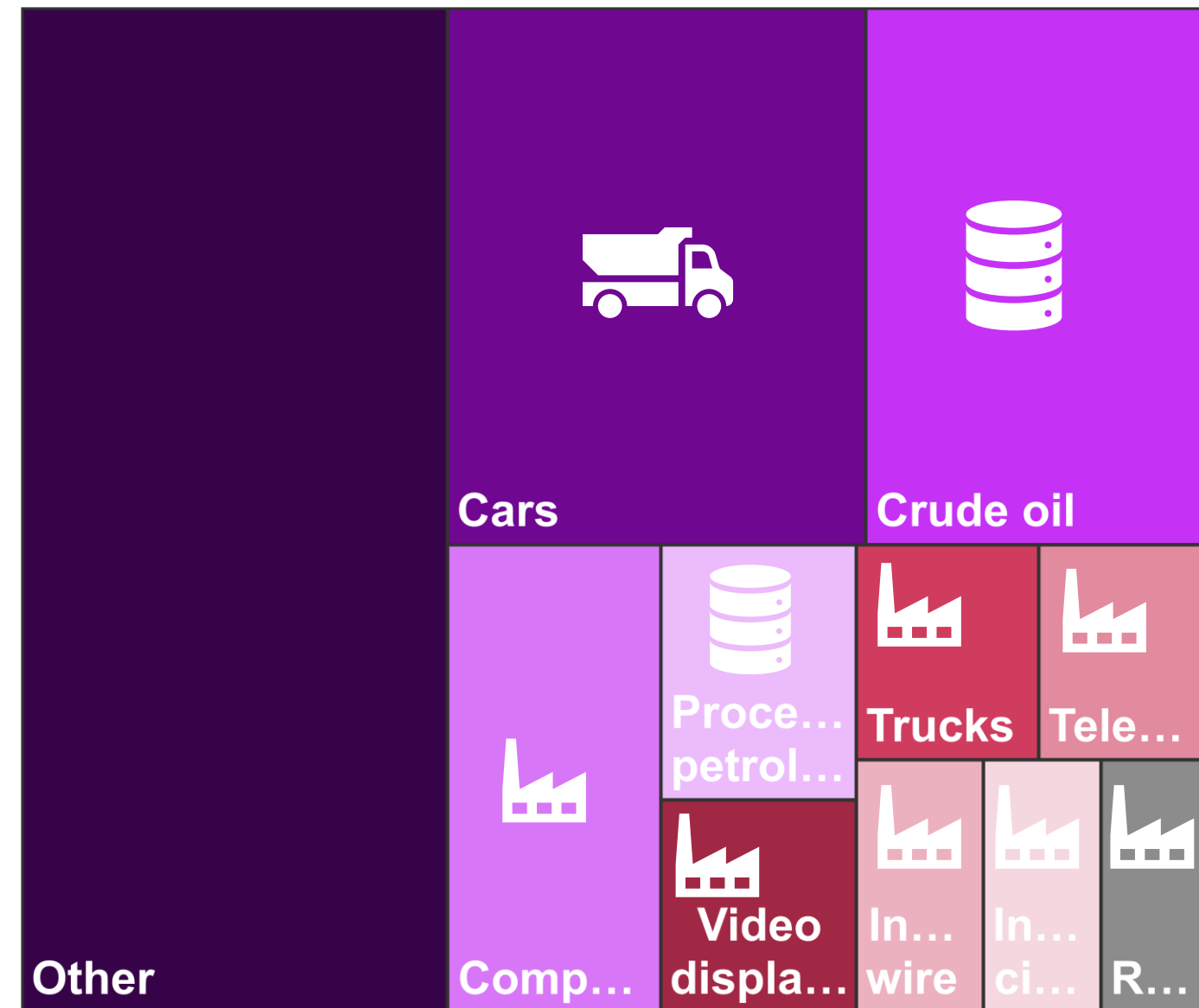
TOP 10 EXPORT PRODUCTS, 2020-21



BRAZIL

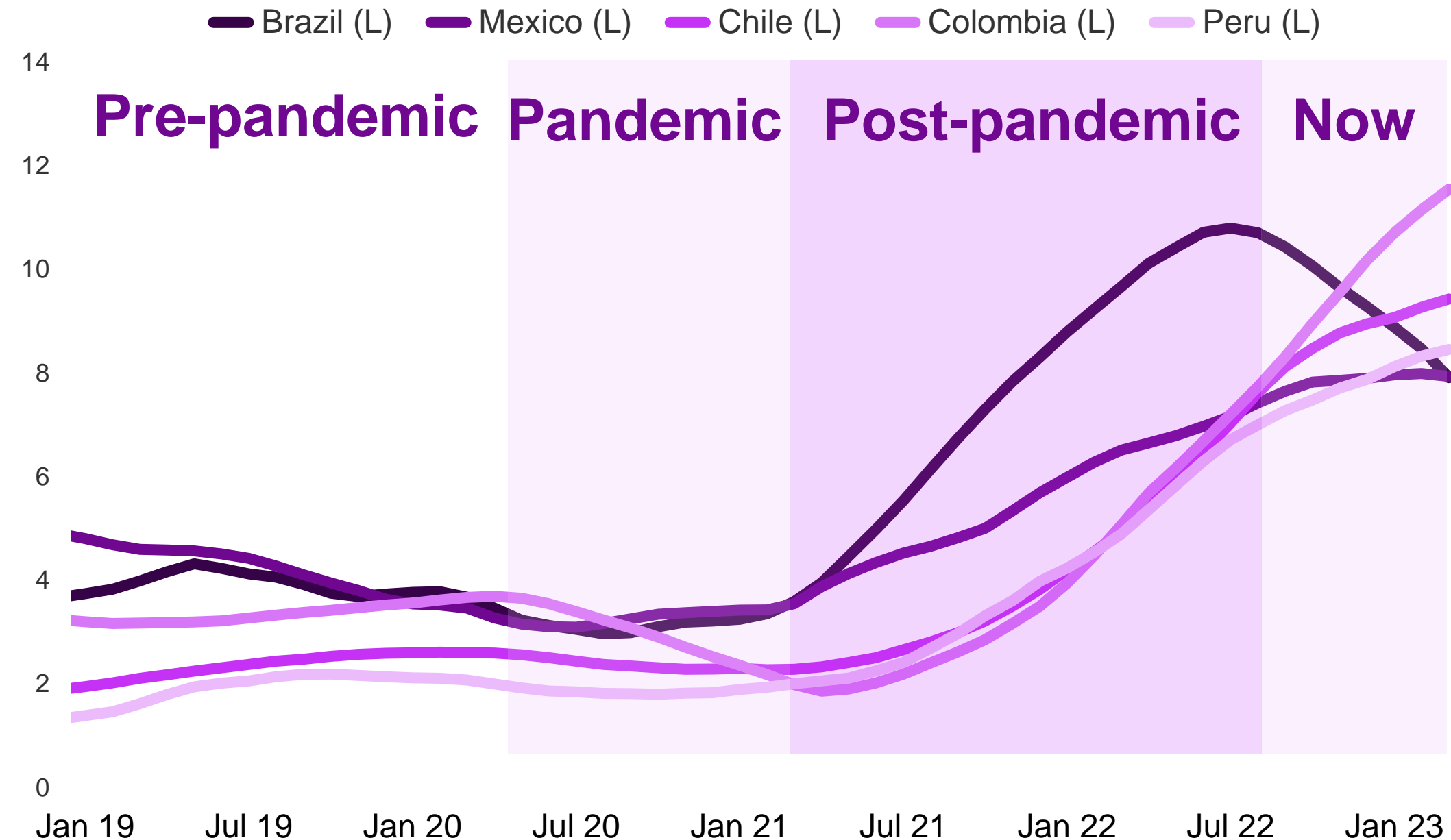


MEXICO



Inflation have been eroding budgets

12-MONTH AVERAGE INFLATION CHANGES (%)



Source: Local bureau of statistics



Echoes from the vault

- Structurally high inflation
- Heavy toll on the poor
- Global logistics problems + currency shocks
- Exports vs domestic market trade-off

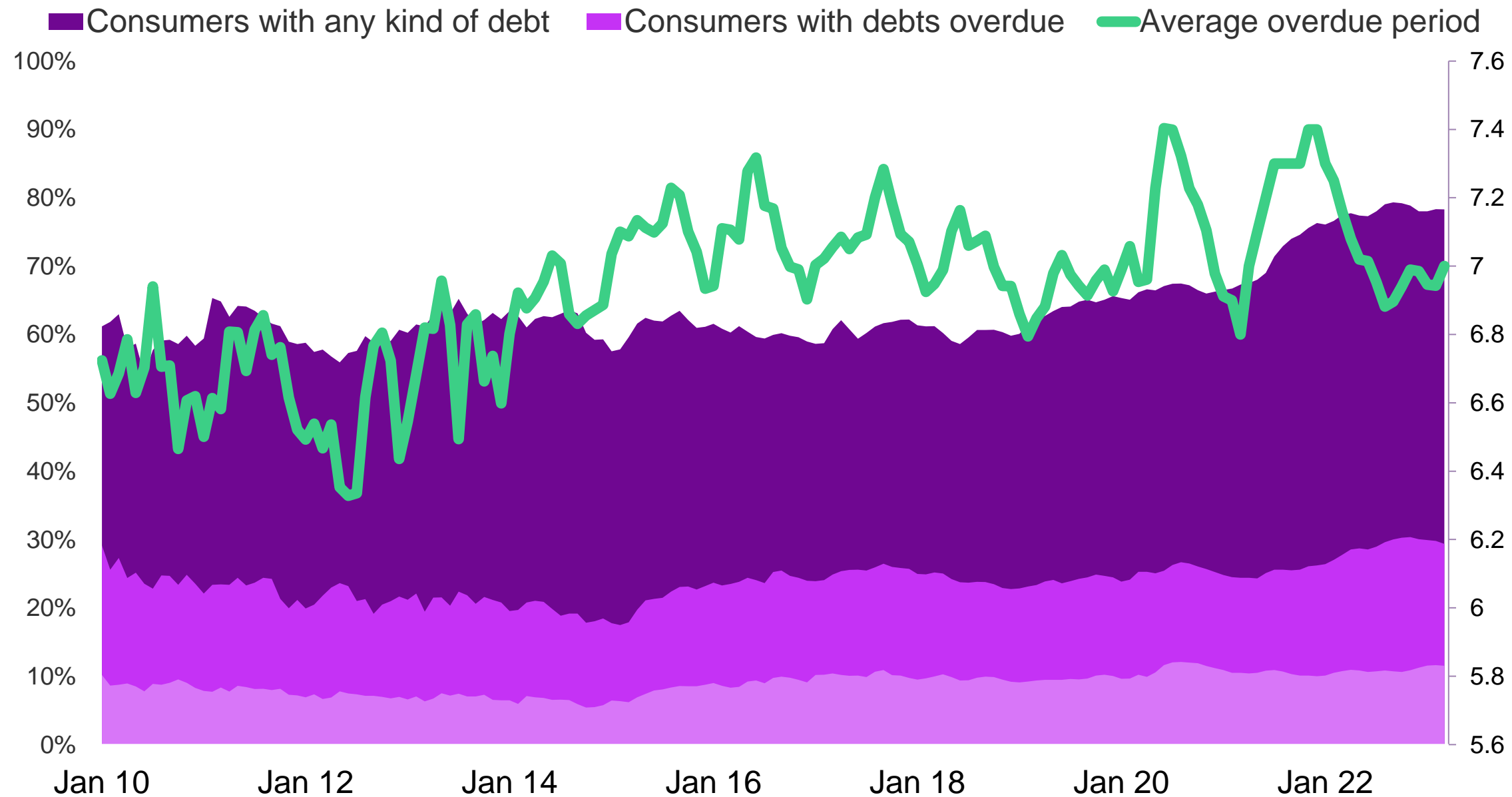
Turning point ahead

- Anti-inflation policies
- Financial market is **more attractive** than the “real economy”
- Eroded consumption power limiting demand

Consumer debt is rising non-stop



SHARE OF HOUSEHOLDS IN DEBT (BRAZIL) (L, %), AVERAGE OVERDUE PERIOD (R)



Source: Local bureau of statistics

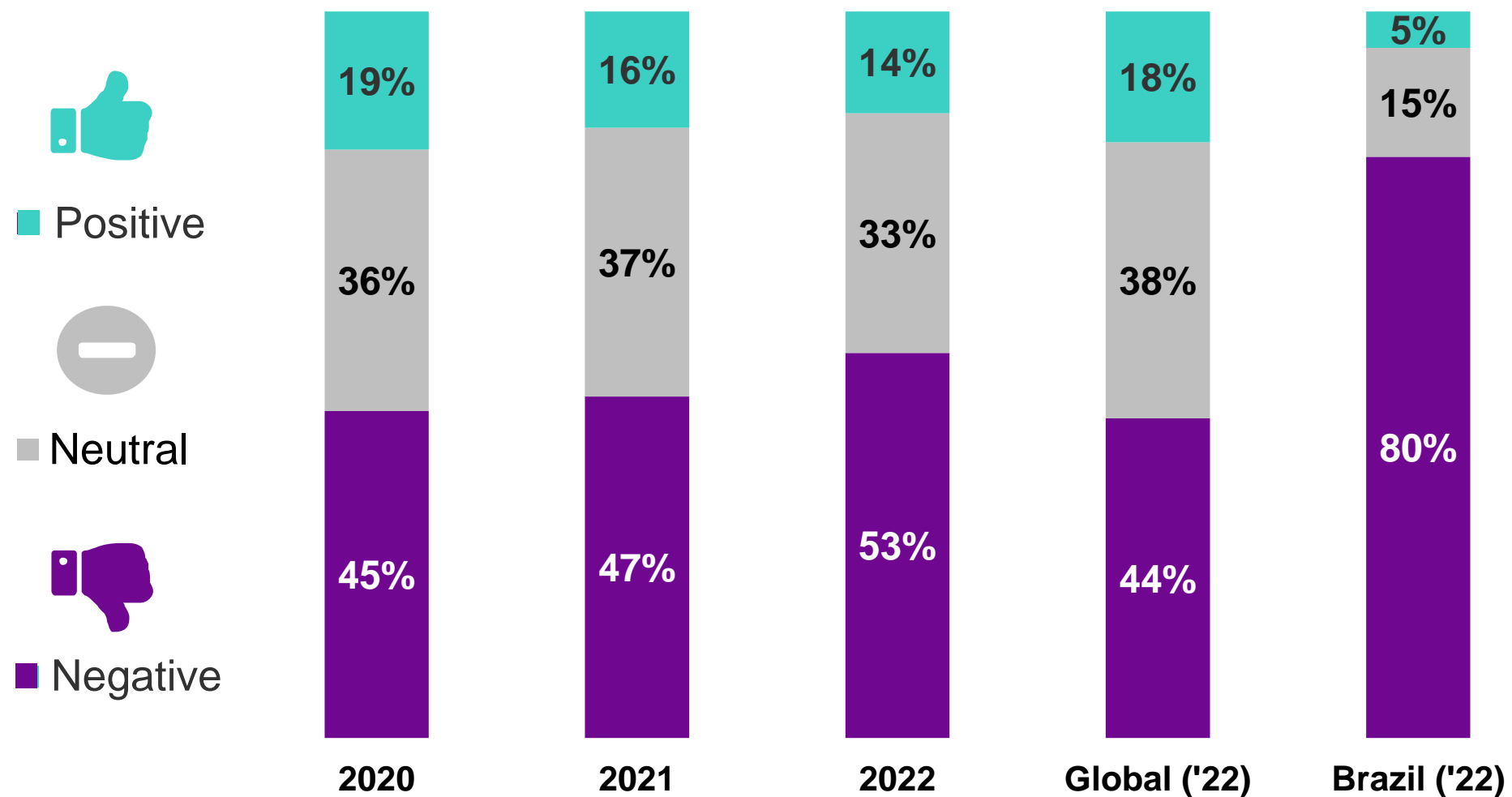
Peniless

- Income growth **behind inflation** marks in the past years
- **Lack of real economic growth limiting purchasing power**
- **Post-pandemic situation is worse than pre-pandemic crisis**
- Credit is now more expensive
- Stagflation, shrinking inflation

Households' budget versus sustainability

LATIN AMERICAN CONSUMERS ATTITUDE TOWARD PAYING MORE FOR SUSTAINABLE PRODUCTS FOR DOMESTIC CONSUMPTION

Share of households



Source: Kantar "Who Cares, Who Does?" via ABRE
Adaptation of data for "Actives, Considerers and Dismissers for Positive, Neutral and Negative, respectively by Fastmarkets.



Making ends meet far more important

Risks

- High inflation eroding purchasing power
- **Most households (68%) believe that paper packaging is not sustainable***

Opportunities

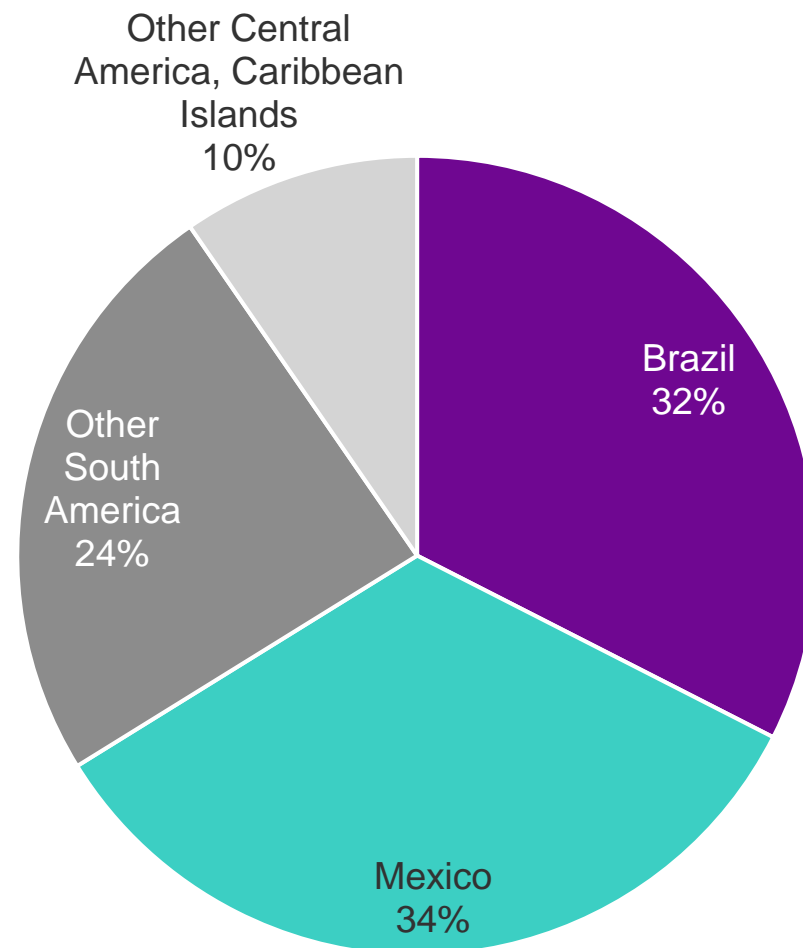
- **Most households (54%) consider paper as the best option for packaging***
- Multinational companies complying to global ESG standards will increase their sustainable products portfolio



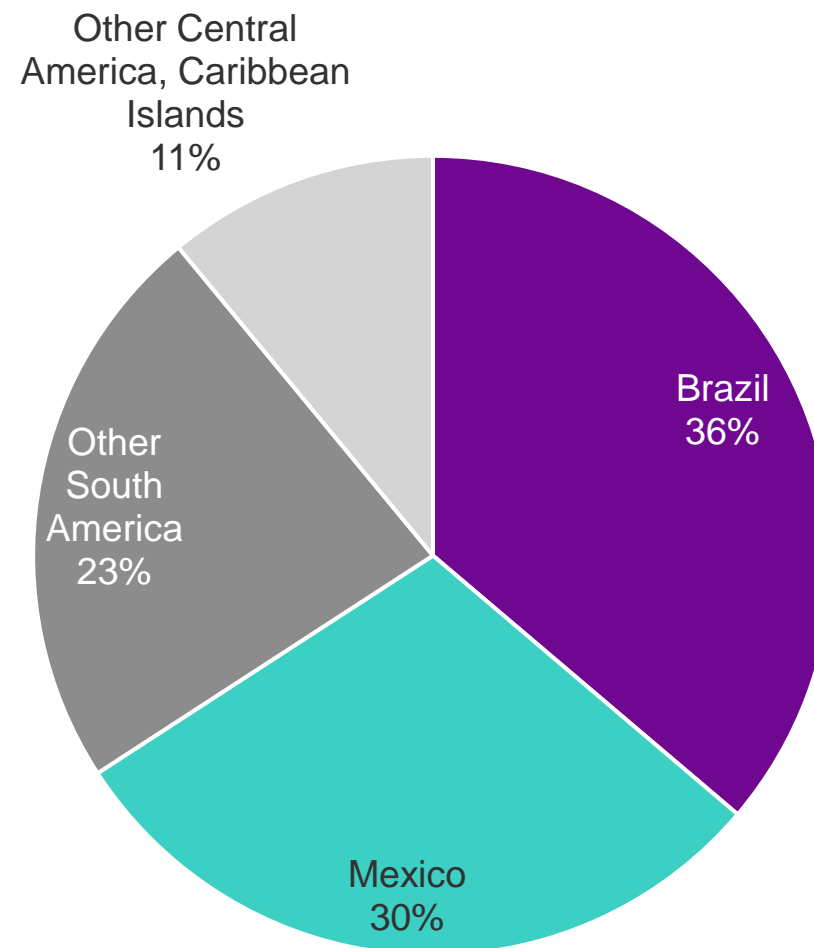
Containerboard

Mexico & Brazil drive more than 65% of demand

DEMAND SPLIT, 2021



CONTAINERBOARD



OTHER PAPER PACKAGING

Source: Fastmarkets.

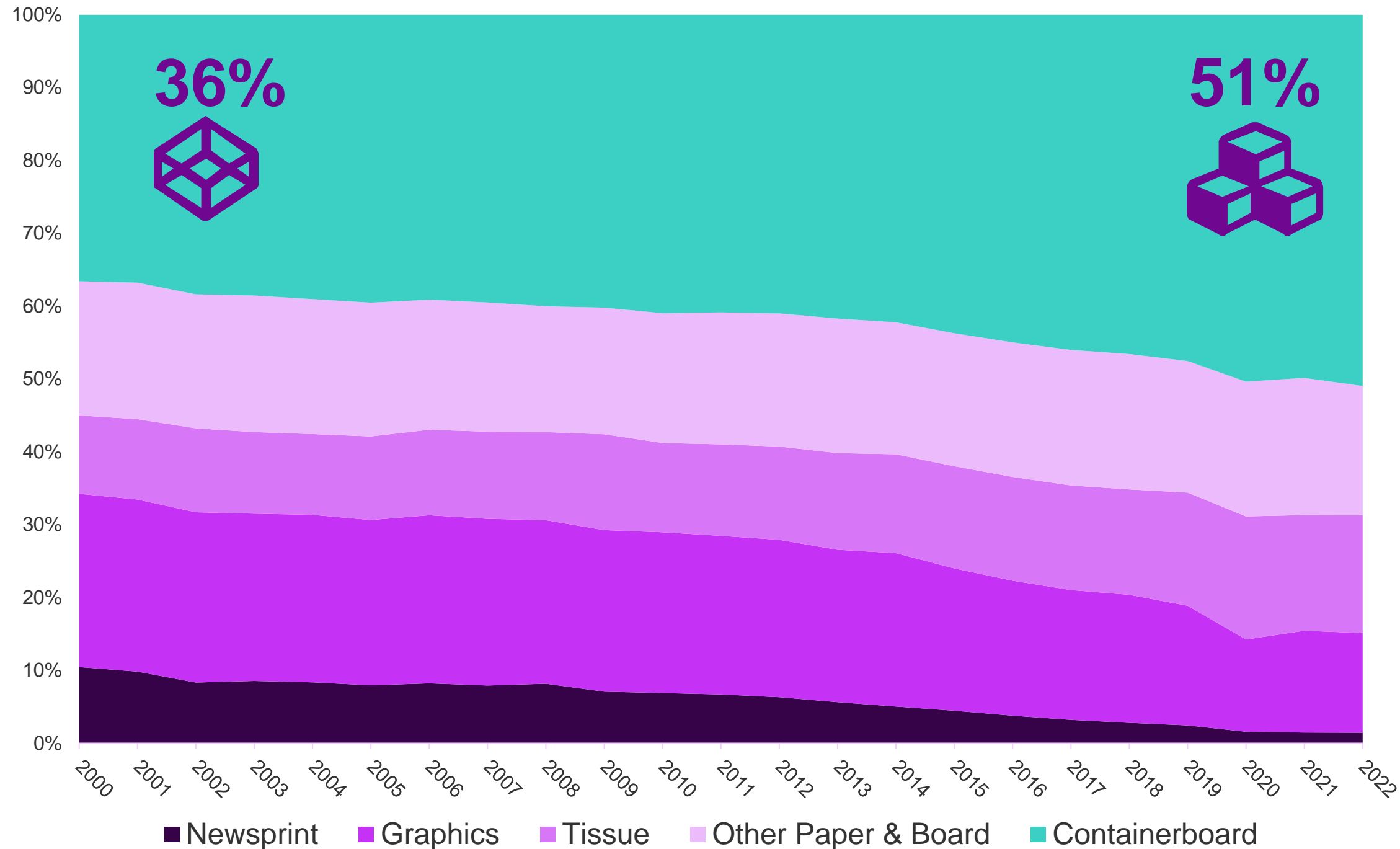


Regional differences

- Mexico relies **on paper imports from** the US and **goods exports to** the US
- Brazil is **self-sufficient: demand comes from agribusiness & high-income population**
- **Chile and Argentina** have *some* domestic production of virgin grades
- **Limited capacity** in the rest of Latin America, heavy reliance on imports

Packaging is becoming more relevant

LATIN AMERICA: GRADE SHARE OF TOTAL PAPER PRODUCTS DEMAND



Containerboard share of total paper demand is growing and should continue rising

Graphics and Newsprint demand is structurally declining

Specialty papers demand is slowly growing at very timid rates.

Growth at risk in the short term

CONTAINERBOARD DEMAND AND CAPACITY GROWTH, THOUSAND TONNES



Source: Fastmarkets.



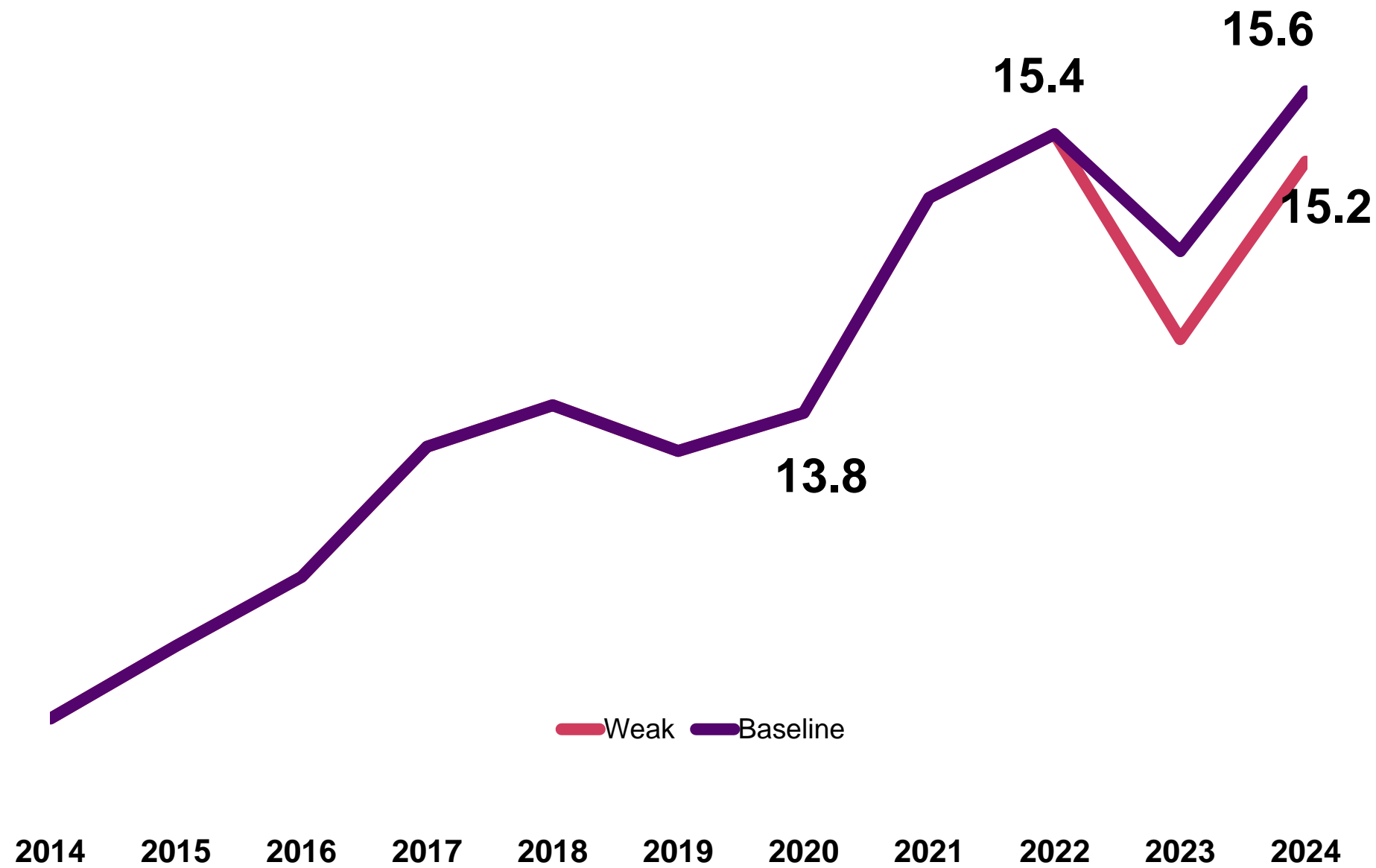
Loose supply and demand balance

- **New capacity** in Mexico and Brazil ramping up since 2021-22
- **Additional capacity in 2023-2024**
- Demand growth behind capacity additions
- **Agricultural exports will be main driver of containerboard demand growth**
- Closures and stoppages in Brazil still to be assessed

Latin American containerboard demand outlook

CONTAINERBOARD

Total demand, million tonnes



Source: Fastmarkets.



Two paths

Baseline

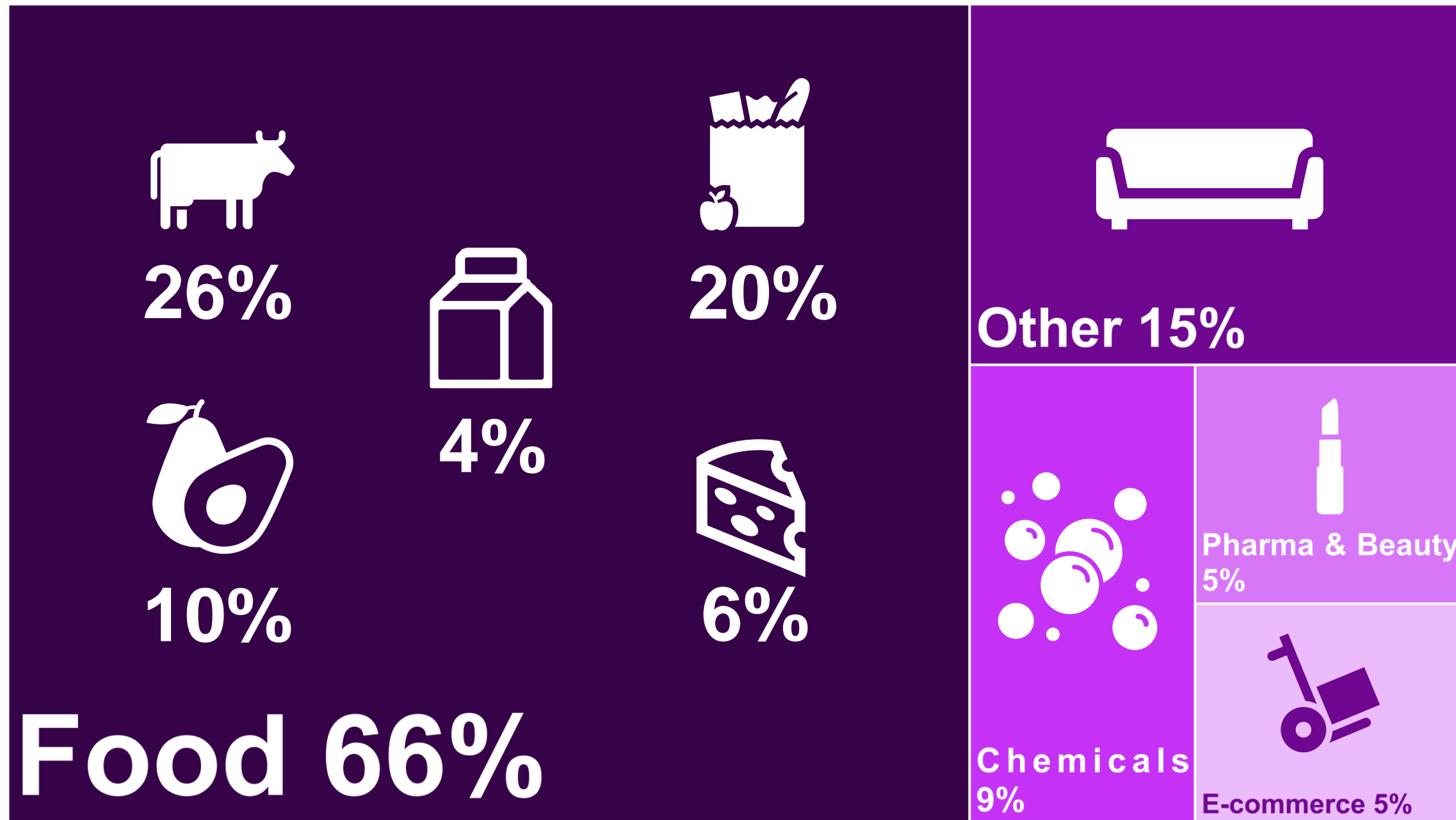
- Agri-business exports supporting most of the demand
- Smaller manufacture exports to US and EU, specially from Mexico and Caribbean
- Moderated inflation, **no political instability**

Weak

- Decline on agri-business exports
- Weaker than expected domestic demand due to high debt-levels
- 2-Digit inflation for 2023, political turmoil

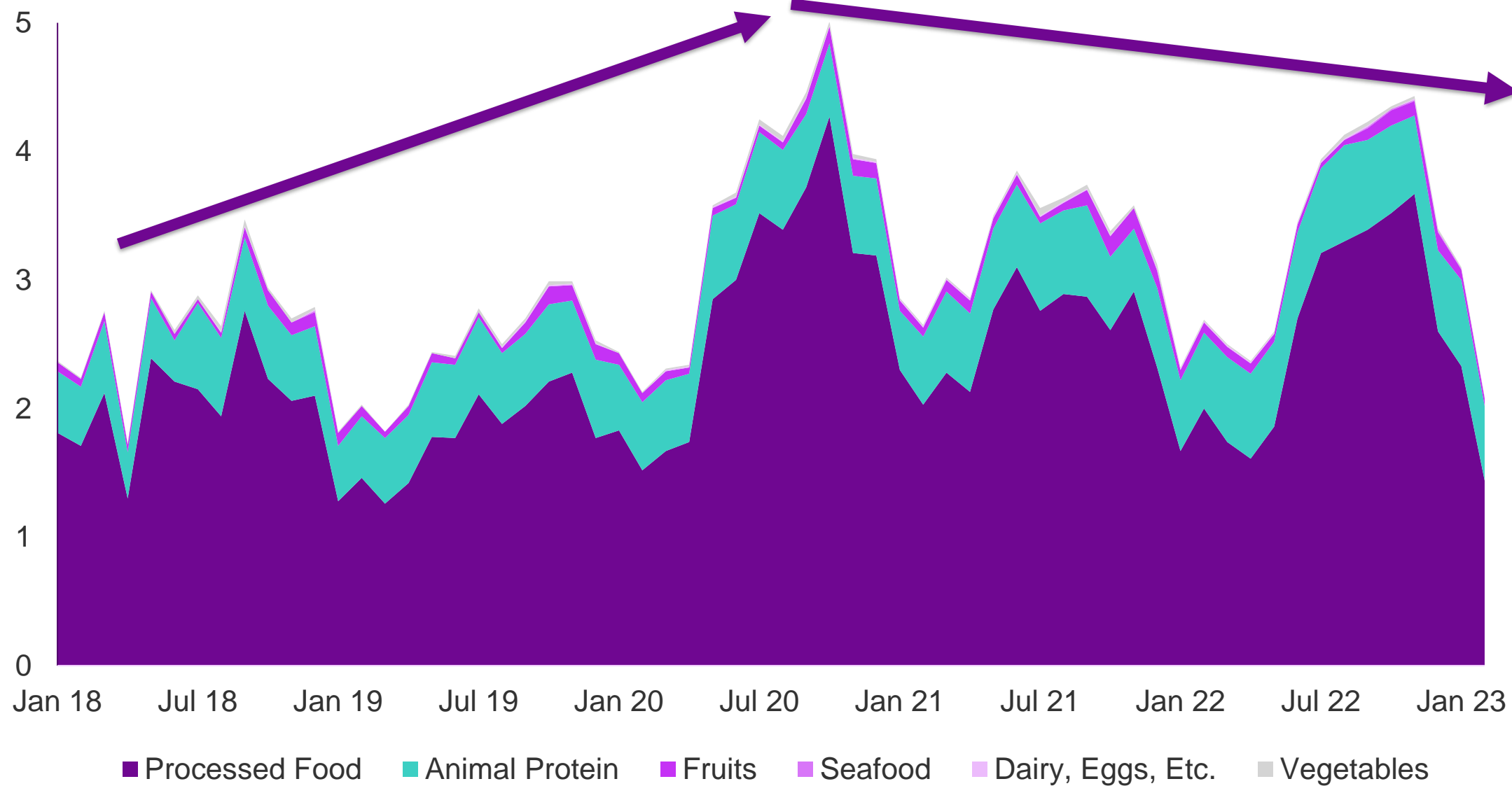
Where is all this containerboard going?

AVERAGE USAGE OF CONTAINERBOARD IN LATIN AMERICA



Brazil: food exports behind pandemic levels

EXPORTS VOLUME: MILLION OF TONNES



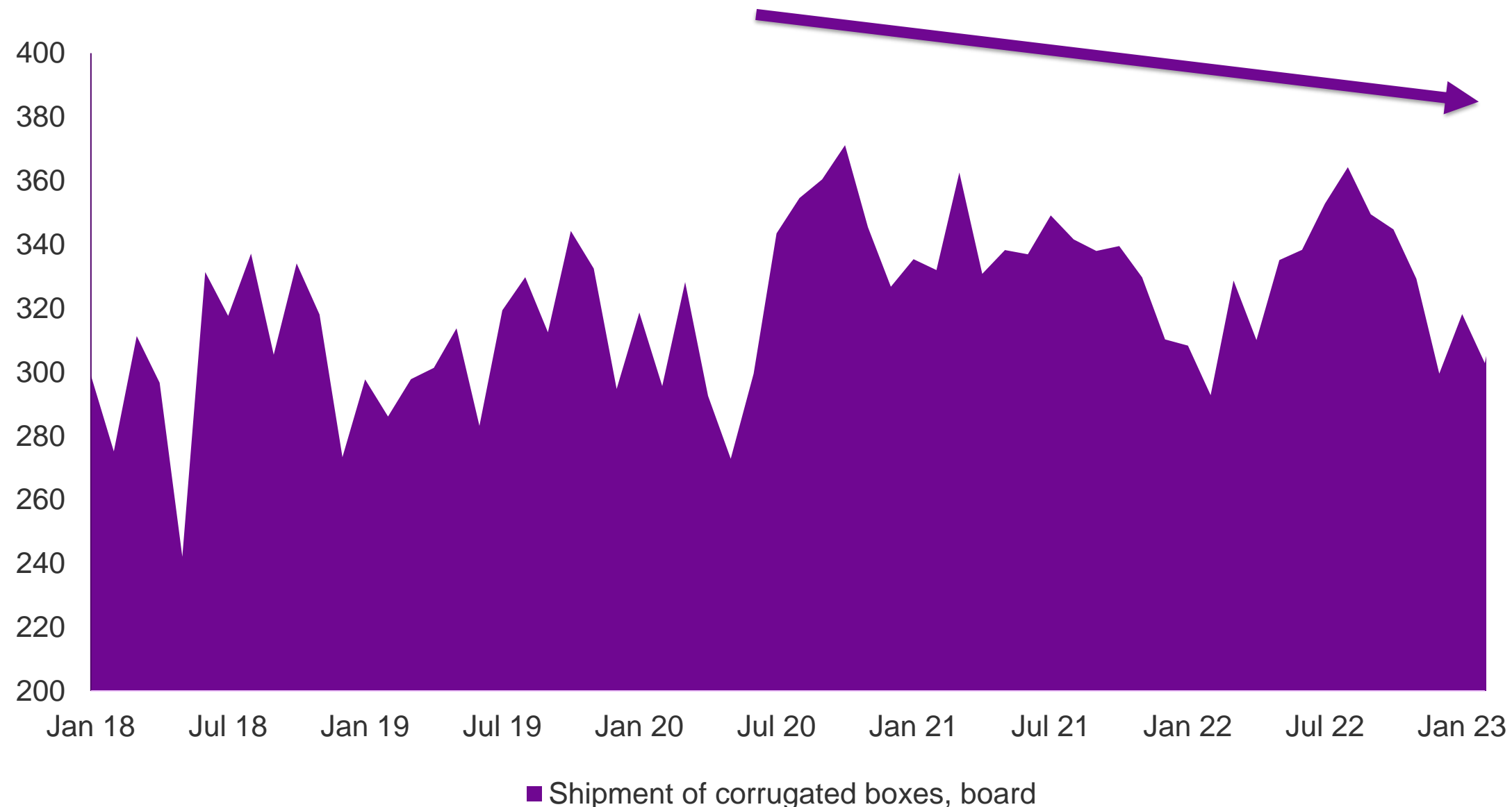
Source: GTA.

High, but behind peak

- Currency appreciation limiting exports opportunities
- Weaker global demand for food as US and EU economies slowdown
- “Mad cow” disease limiting exports to China and Russia in 1Q23

Declining shipment of corrugated board

SHIPMENT VOLUME: THOUSAND TONNES



Source: ABPO, Empapel.



High levels, but lower than peak

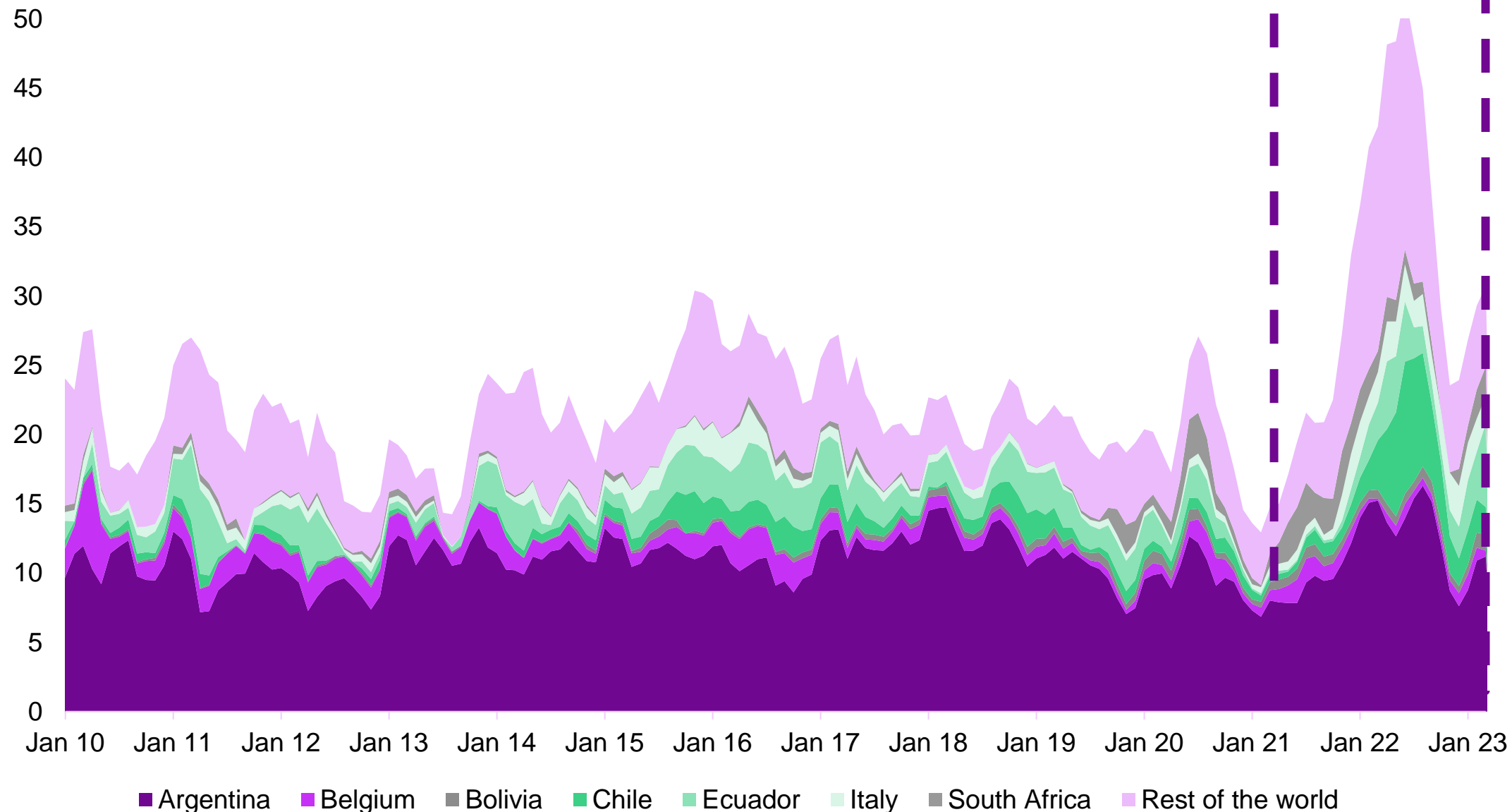
- **Lower food exports**
- **Weaker domestic demand** coming from consumers (credit shrinking) and industry
- “Americanas” retail filing chapter 11 **triggering a domino effect effect**
- **High-debt level of households** limiting overall consumption
- **Shutdown of units amid weaker demand**

Kraftliner exports soaring due to new startups



TRADITIONAL EXPORT MARKETS FOR BRAZILIAN KRAFTLINER

Thousand tonnes per month, three-month moving average



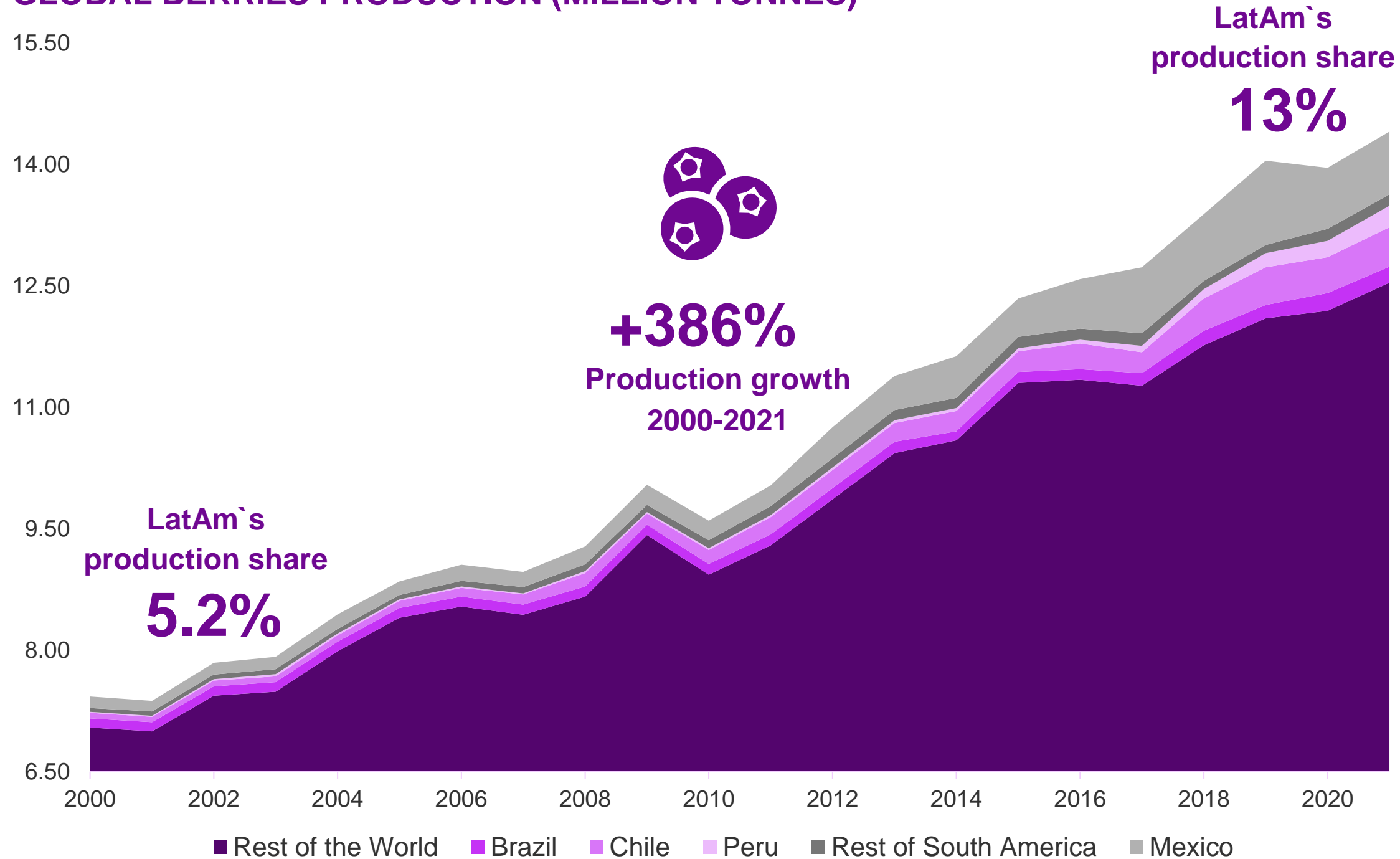
*Source: GTA,

A new (old) story

- **Shift in historical trend**
- Globally low fiber costs increase competitiveness of local producers
- Growing demand in **Latin America** boosting intraregional trade
- **Local buyers compete with exports for volumes**

Berries revolution supports packaging demand

GLOBAL BERRIES PRODUCTION (MILLION TONNES)



Source: FAO (Includes Cherries, Blueberries, Cranberries, Raspberries and Strawberries)

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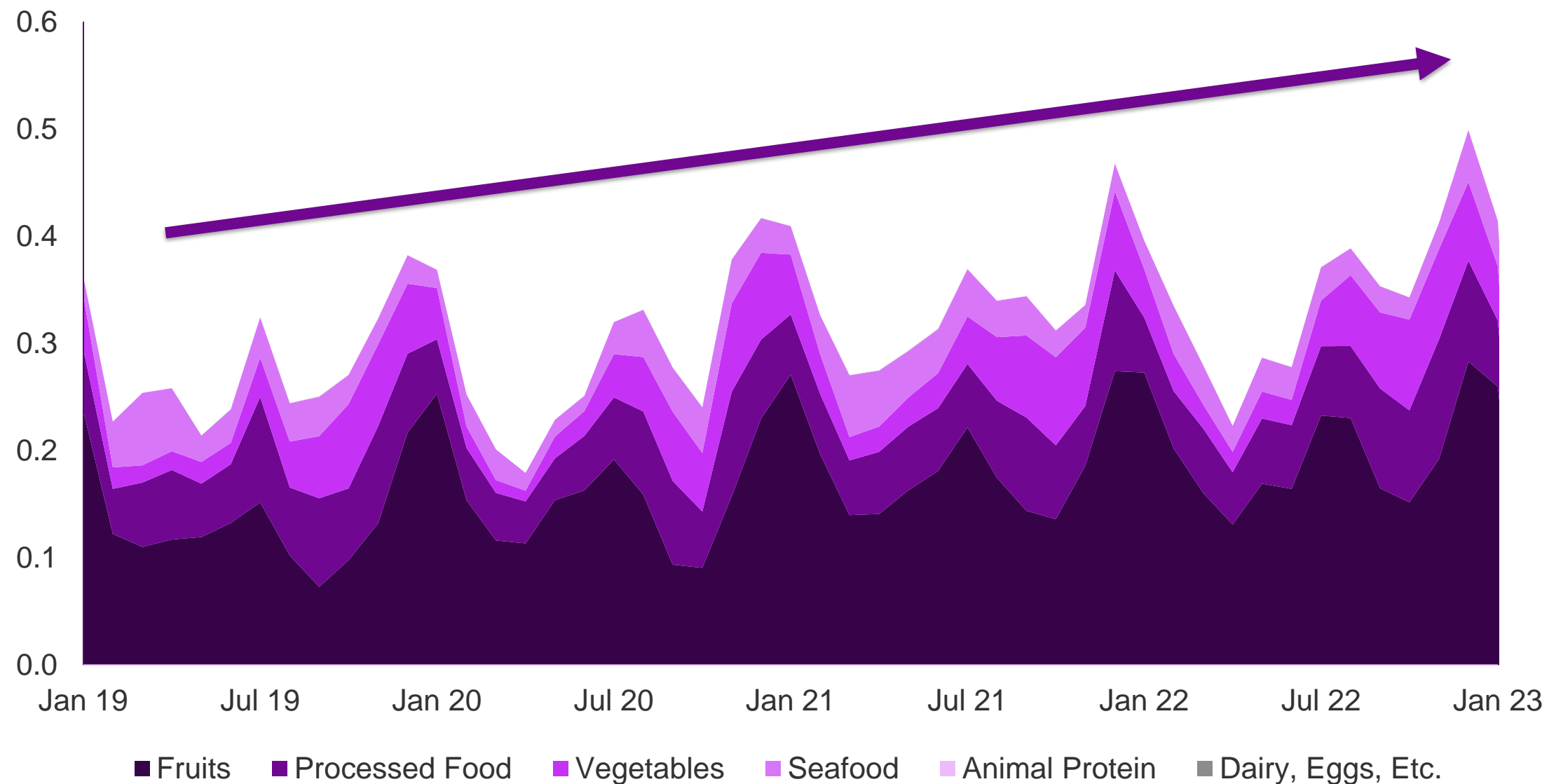
LatAm berries success

- Structural factors: **low wages, improved technology, currency advantages and global population growth**
- **Chile, Mexico and Peru** driving the region's growth.
- Peru lead global exports of Blueberries by 2021, an industry of \$1 billion
- Mexico is the #2 global producer of raspberries and strawberries

Source: FAO, Latinometrics, Worldbank

Peru: “fruit boom” supporting packaging demand

EXPORTS VOLUME: MILLION OF TONNES



Source: GTA.

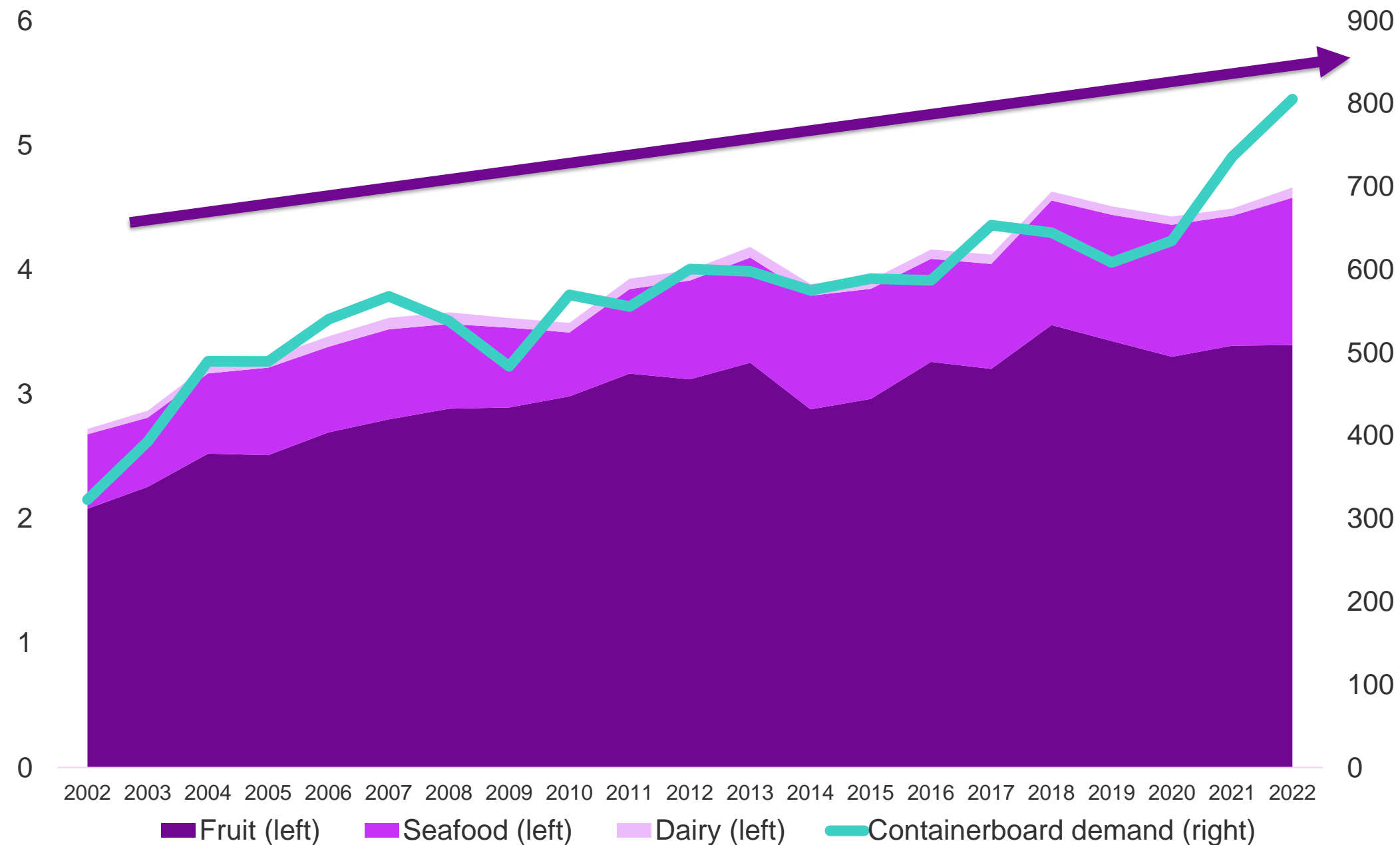


Fruit production revolution

- Exports are preferred by local agents instead of selling domestically
- New technologies allowing the fast-growing of new, non-native crops in the past 10 years
- The local economy struggles to post growth amid both economic and social uncertainty

Chile: Fruit exports supports packaging demand

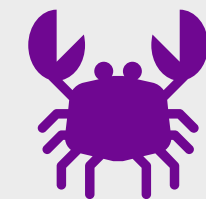
FOOD EXPORTS VOLUME (MILLION TONNES) VS CONTAINERBOARD DEMAND ('000 TONNES)



Source: Chilean customs.

Interseason & Restocking

2022 X 2021



+14%
Seafood



+0.2%
Fruits



+38%
Dairy



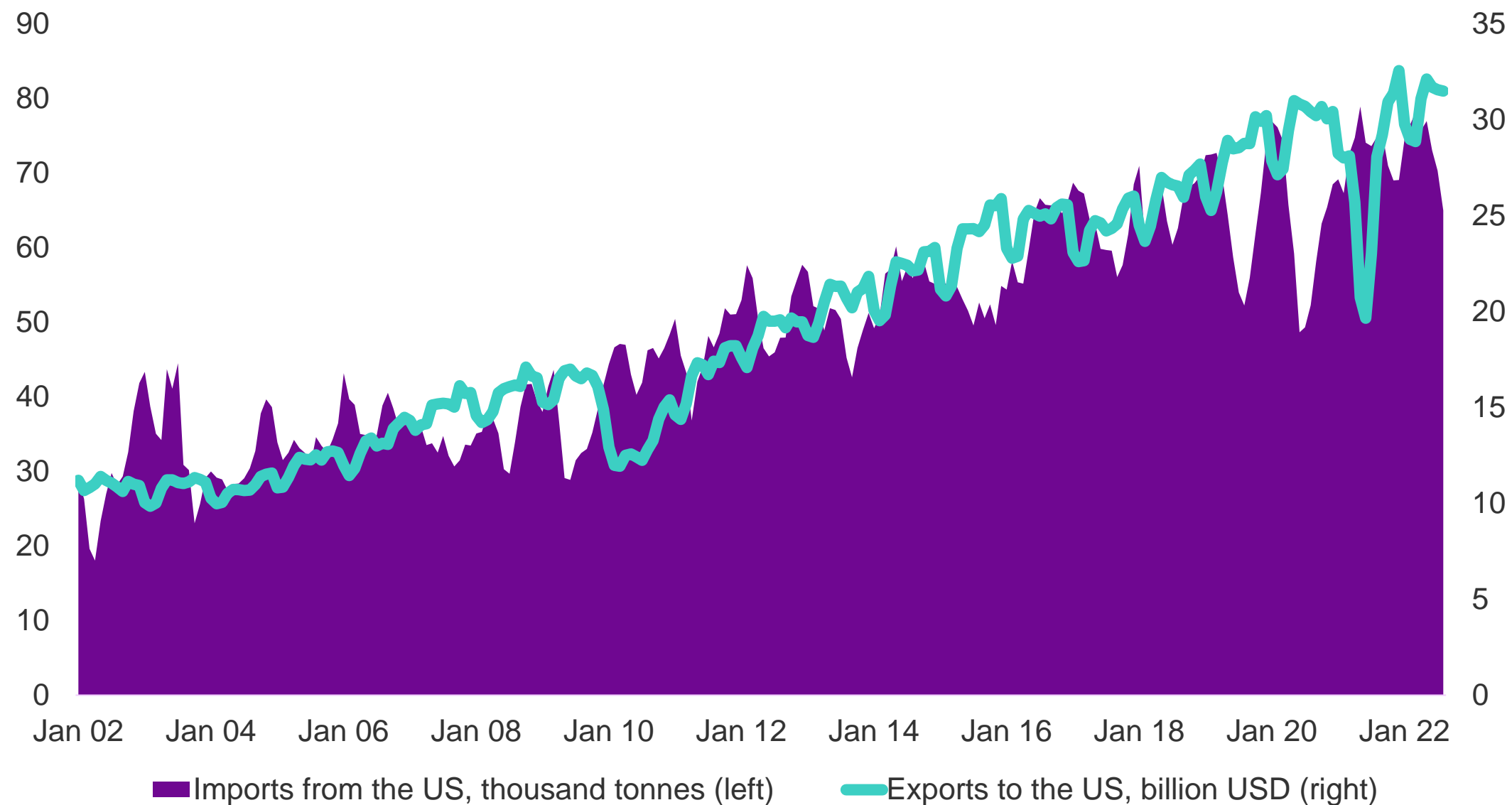
+9%
Containerboard demand

Source: Chilean customs

Mexico containerboard industry relies on the US



MEXICAN KRAFTLINER IMPORTS AND MANUFACTURE EXPORTS, THREE-MONTH MOVING AVERAGE



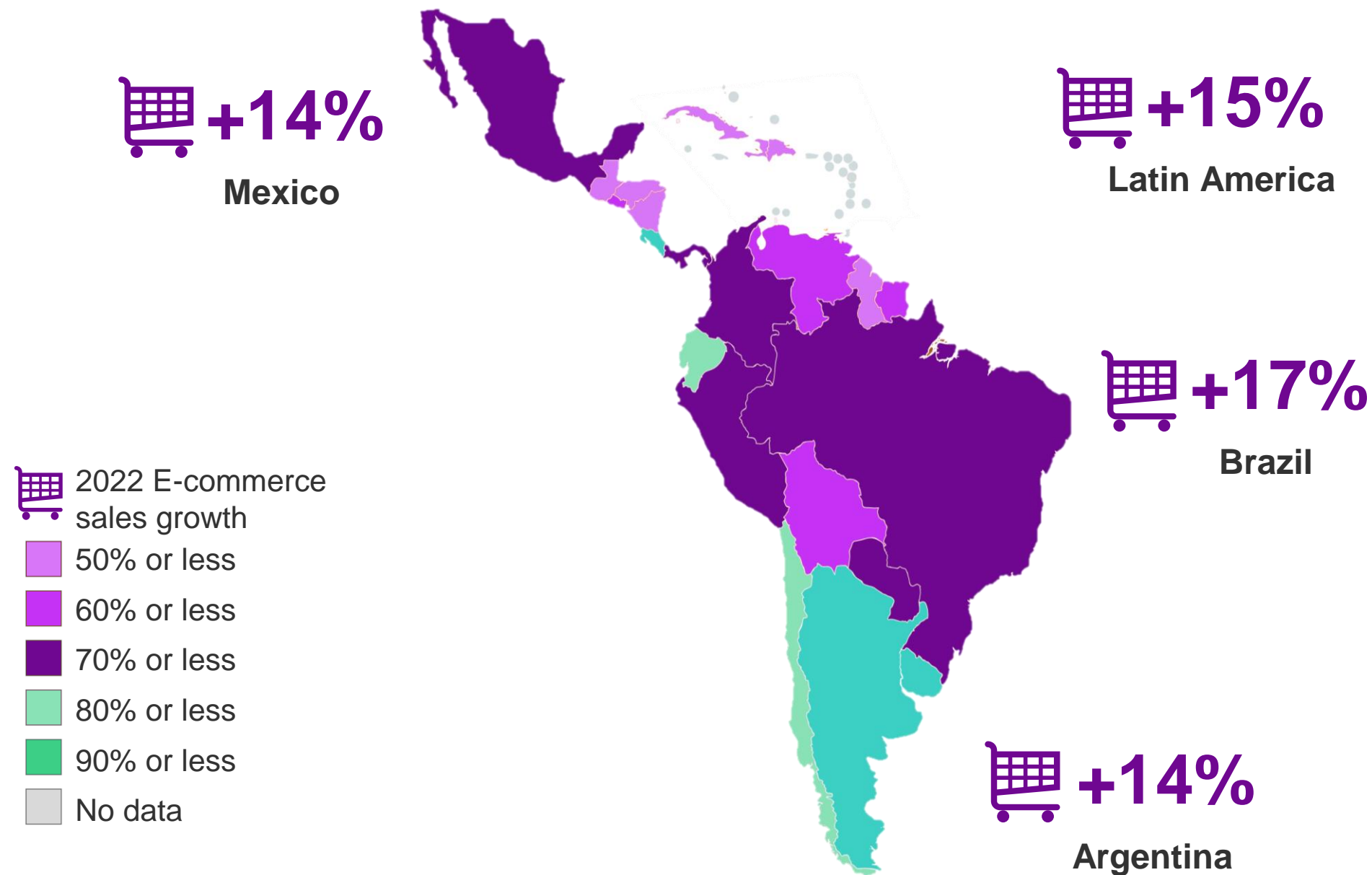
*Source: GTA, INEGI

It takes two to tango

- **Historically high correlation: above 85%**
- Historical lag of 2-3 months between **kraftliner imports and manufacturing exports**
- Containerboard supply-demand shocks in the US market affect Mexico, but not the other way around
- Mexican OCC supply also relies on imports from the US

E-commerce growth was huge, but it is limited

INTERNET PENETRATION AT HOME AS A SHARE OF TOTAL HOMES (%)

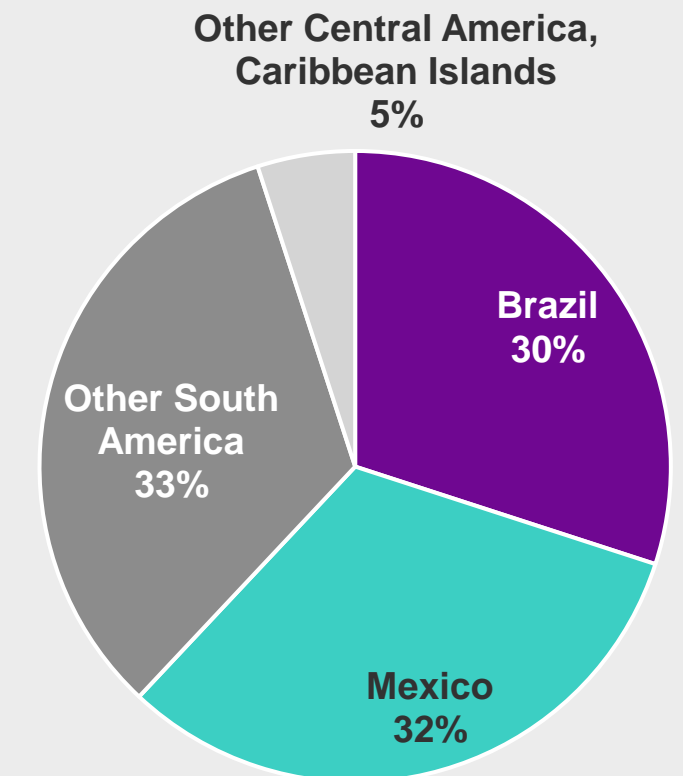


Map source: E-commerce Institute, IBGE. Fastmarkets estimates. Created using mapchart.net.
 Source: E-commerce sales: NeoTrust, IBGE; Fastmarkets Estimates (Brazil); Camara de comércio de Santiago (Chile); Asociación Mexicana de Ventas Online AMVO (Mexico); Fastmarkets (Argentina); E-marketer (Latin America). E-commerce DB.



Richest in the lead

Latin American market share



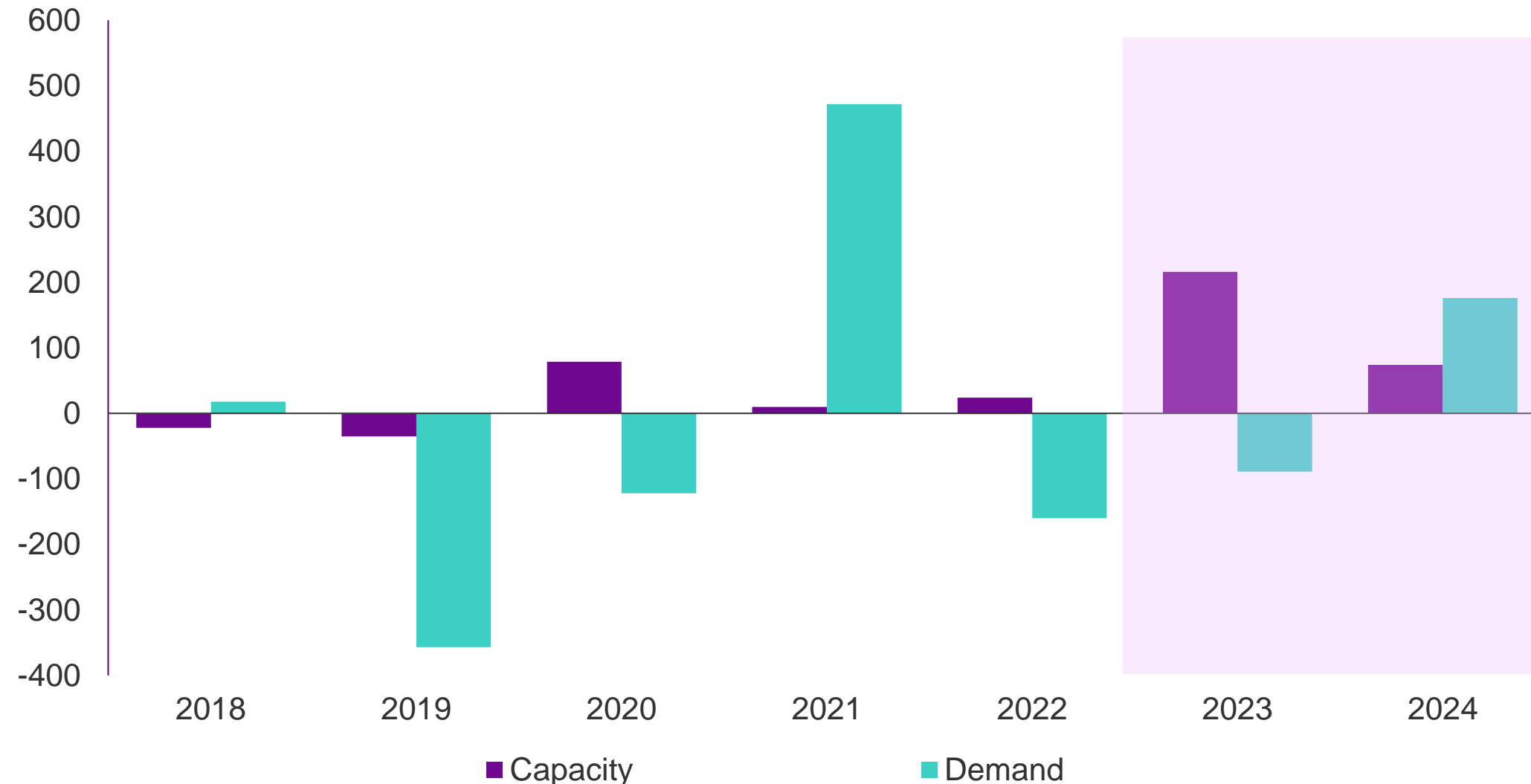
Source: Statista, E-commerce DB, NeoTrust.



Boxboard

Demand historically struggling to post growth

Boxboard demand and capacity growth, thousand tonnes



Source: Fastmarkets RISI.



Capacity additions

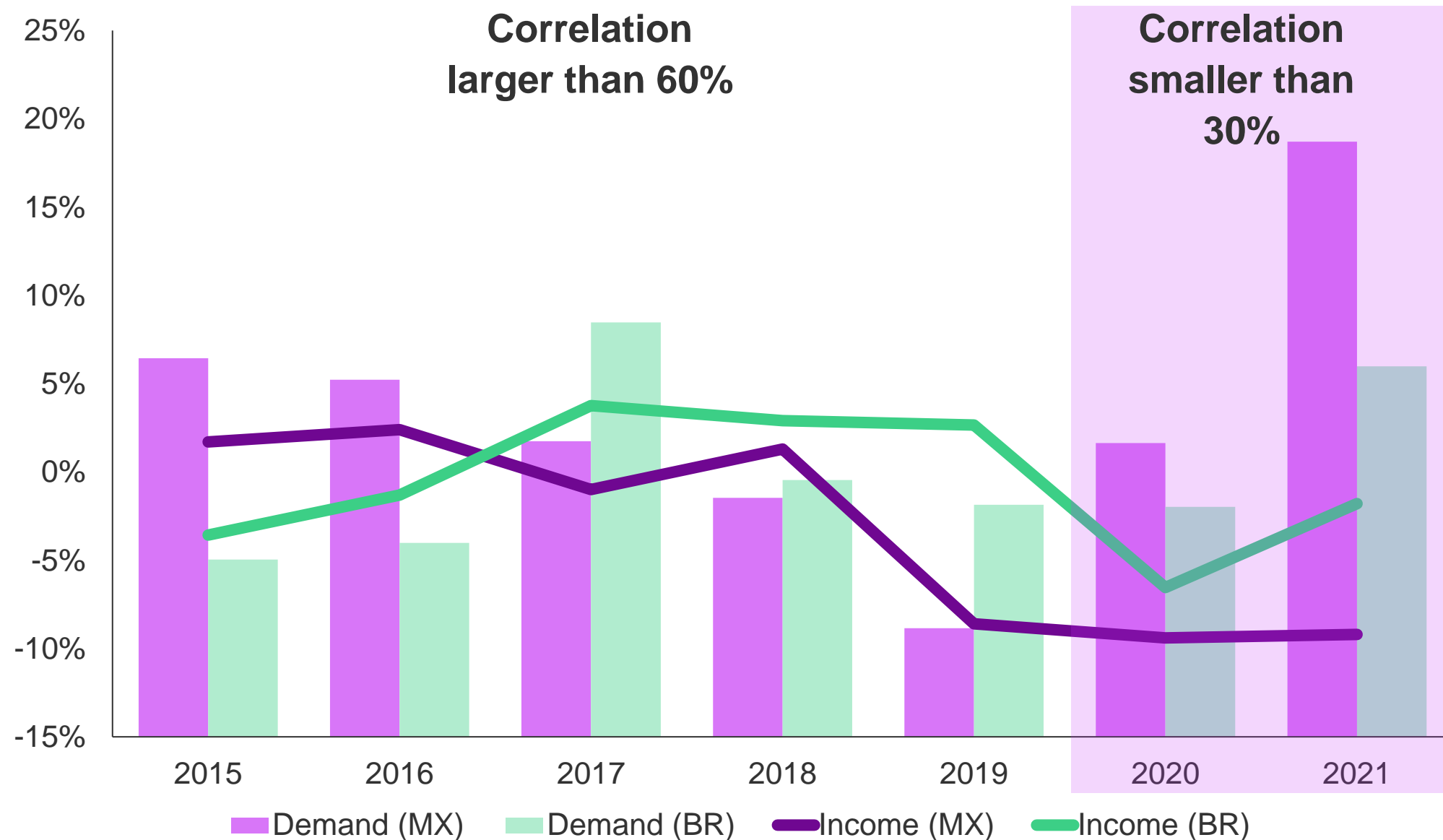
- **Klabin** will start a new swing machine in 2023, focusing on the production of virgin duplex
- Non-profitable paper mills from other grades (i.e. graphic papers) conversions to boxboard

Income risks

- **Overall demand historically correlated to income changes**
- **New habits from medium and high-income society levels should continue driving food delivery demand**
- Lower inflation in 2023-24 could lead to a recovery in household demand

High-income people partially leading demand

MEXICAN, BRAZILIAN INFLATION-ADJUSTED INCOME, BOXBOARD APPARENT CONSUMPTION ANNUAL CHANGE (%)



Source: Fastmarkets, INEGI.



New consumption habits

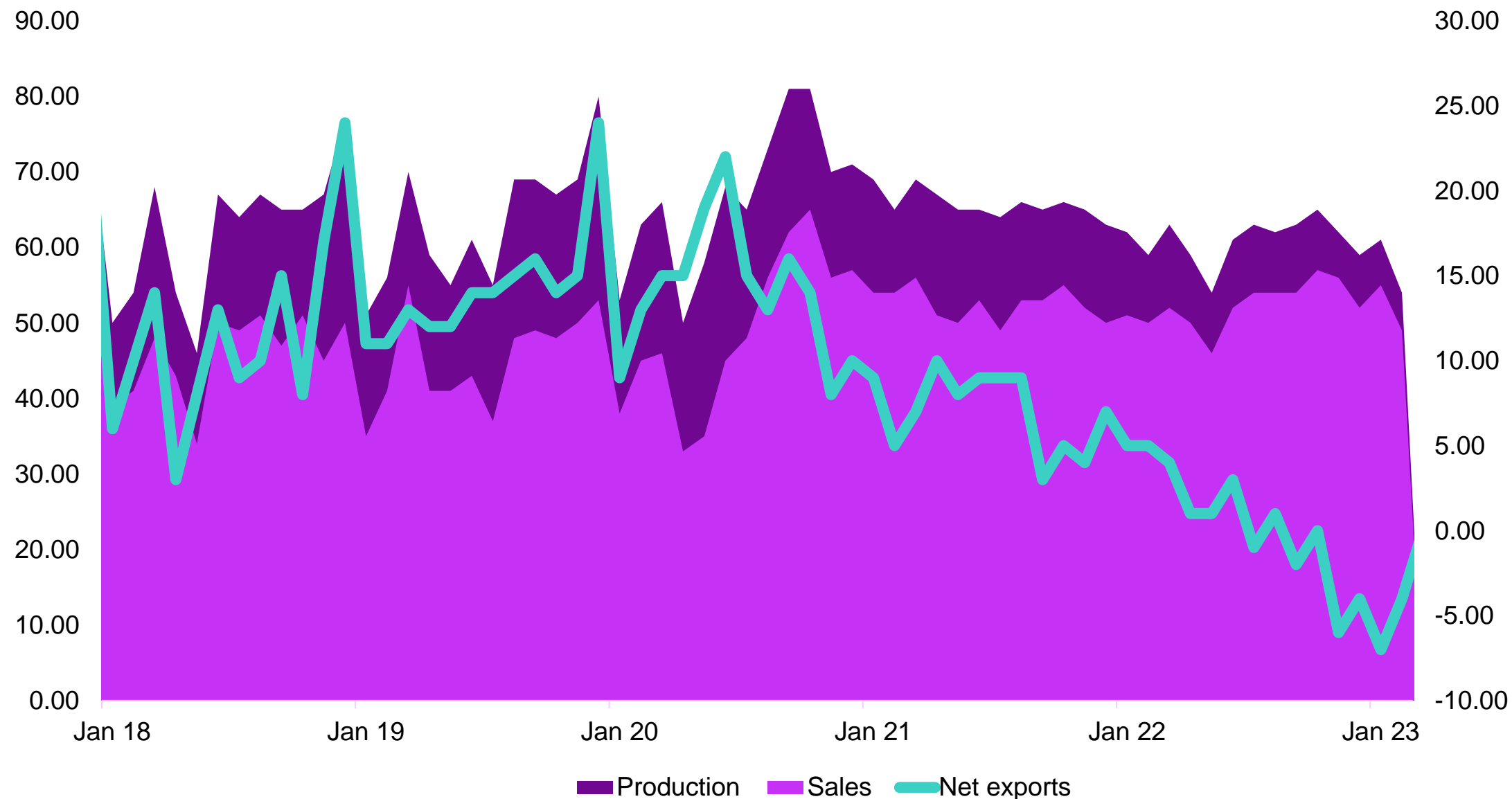
- **Medium- and high-income** people **working from home** in the long run and keeping their pandemic-era purchasing habits
- **Online shopping** increased during the pandemic and afterward
- **No guarantee** of higher consumer demand **for low-income segments**
- Historical correlation **was broken**

Demand tied to high-income segments



BRAZILIAN CARTONBOARD MARKET

Thousand tonnes per month



Tight balance

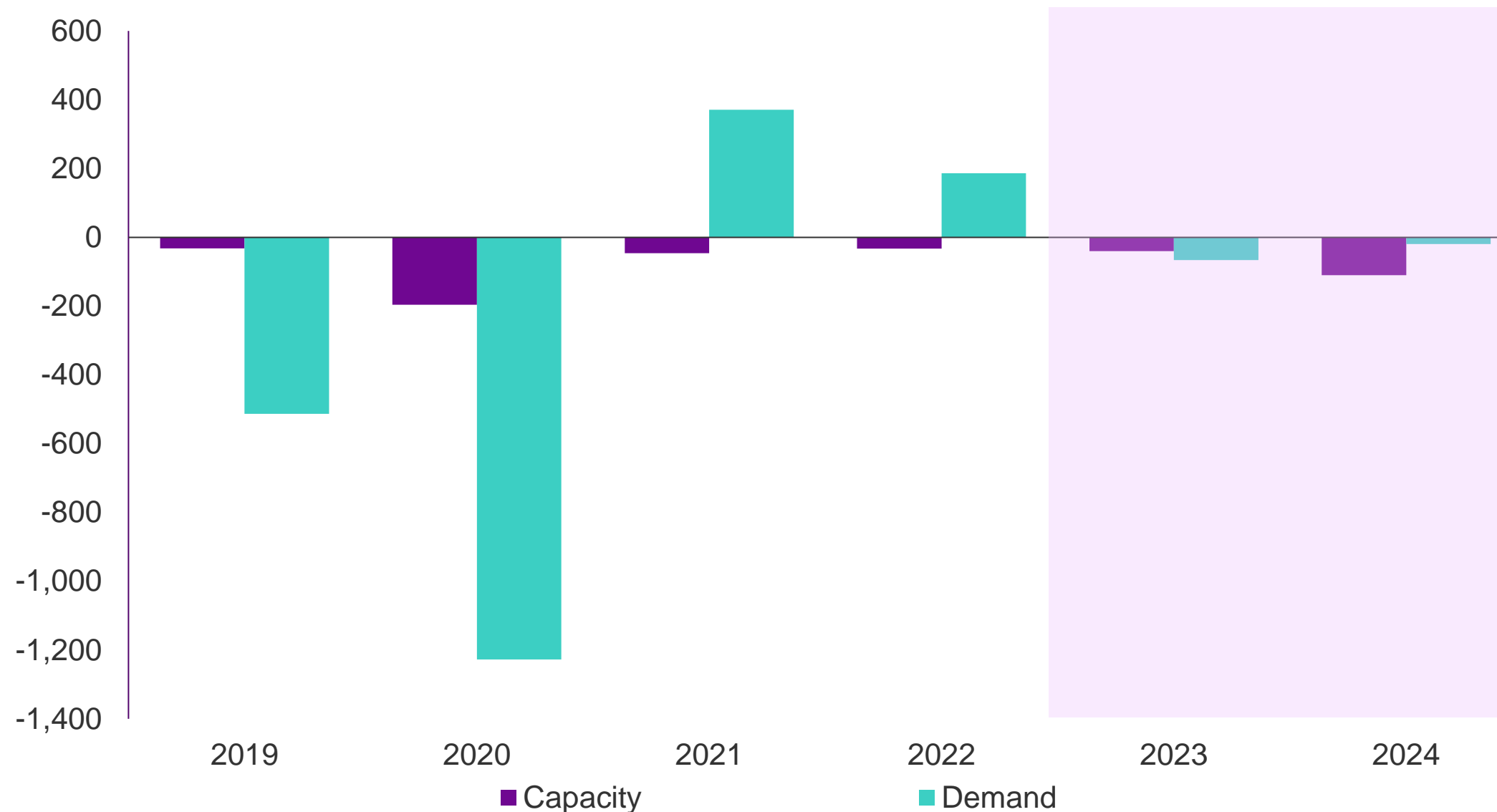
- Consumption coming from food delivery and high-income segments
- Demand resilient to income fluctuations
- Net exports decreased since 2020 as local demand outpaces exports
- Virtually no capacity additions in the past years
- Growing demand in **Latin America** boosting intraregional trade



Graphic papers

Structurally declining demand, capacity closures

P&W PAPERS DEMAND AND CAPACITY GROWTH, THOUSAND TONNES



Source: Fastmarkets.

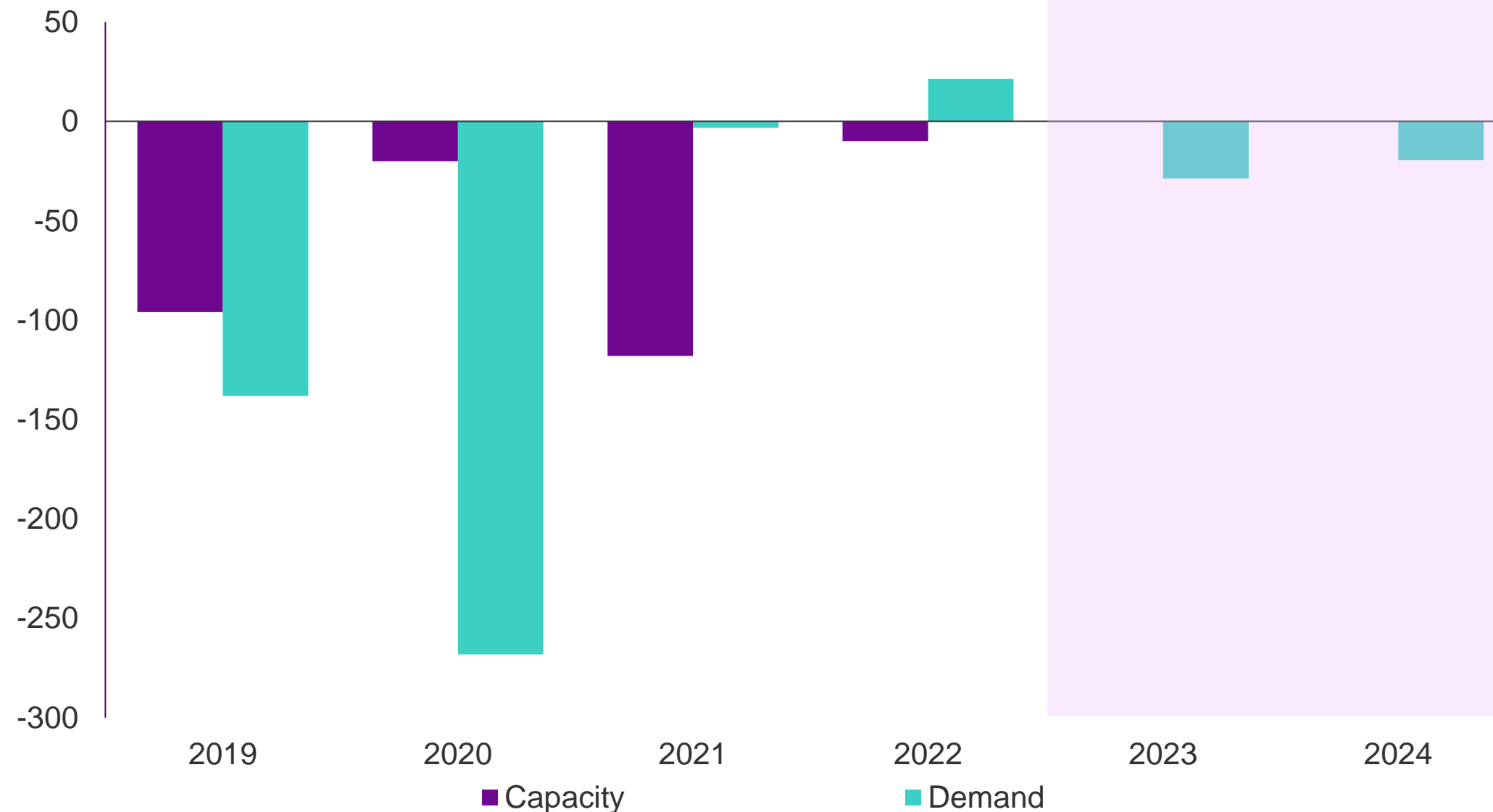


Shift to digital

- Partial recovery between 2021-22 still not enough to revert the “pandemic effect”
- Recurring capacity closures due to the lack of demand or to convert to more profitable markets, i.e., containerboard
- Latin America bureaucracy “helps” to keep part of the demand
- Lack of reading habits in general (but in Argentina)

Non-stop freefalling

NEWSPRINT DEMAND AND CAPACITY GROWTH, THOUSAND TONNES



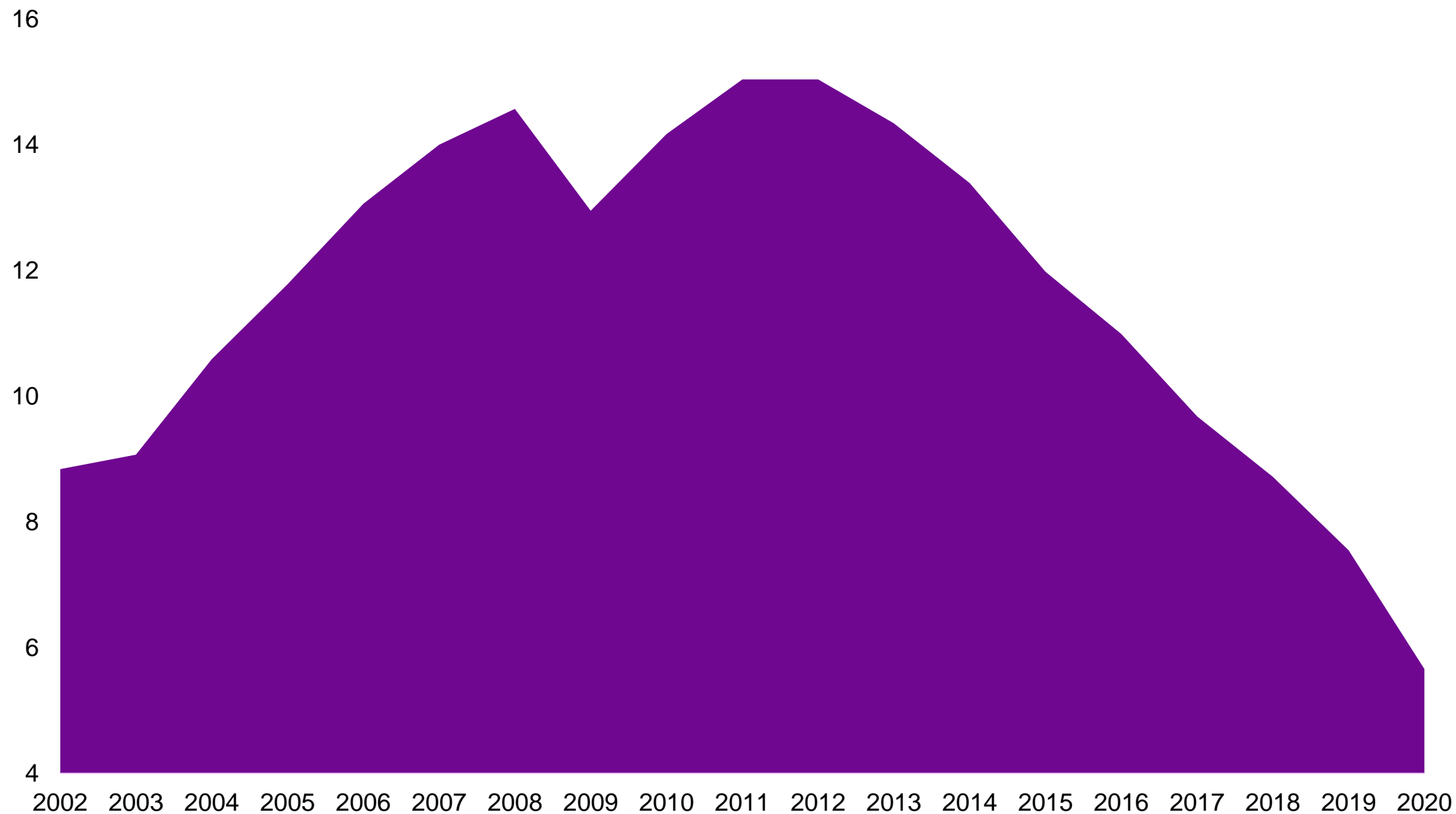
Source: Fastmarkets.

It's better to move on

- Partial recovery in 2022 still not enough to revert the “pandemic effect”
- Recurring capacity closures due to the lack of demand or to convert to more profitable markets, i.e., containerboard
- Lack of reading habits in general (but in Argentina)

Money talks: No cash, no printing

INVESTMENTS IN ADVERTISEMENT ON PRINTED MEDIA, BRAZIL (BILLION BRL)



Source: Projeto Inter-meios.



Shift to digital, priorities first

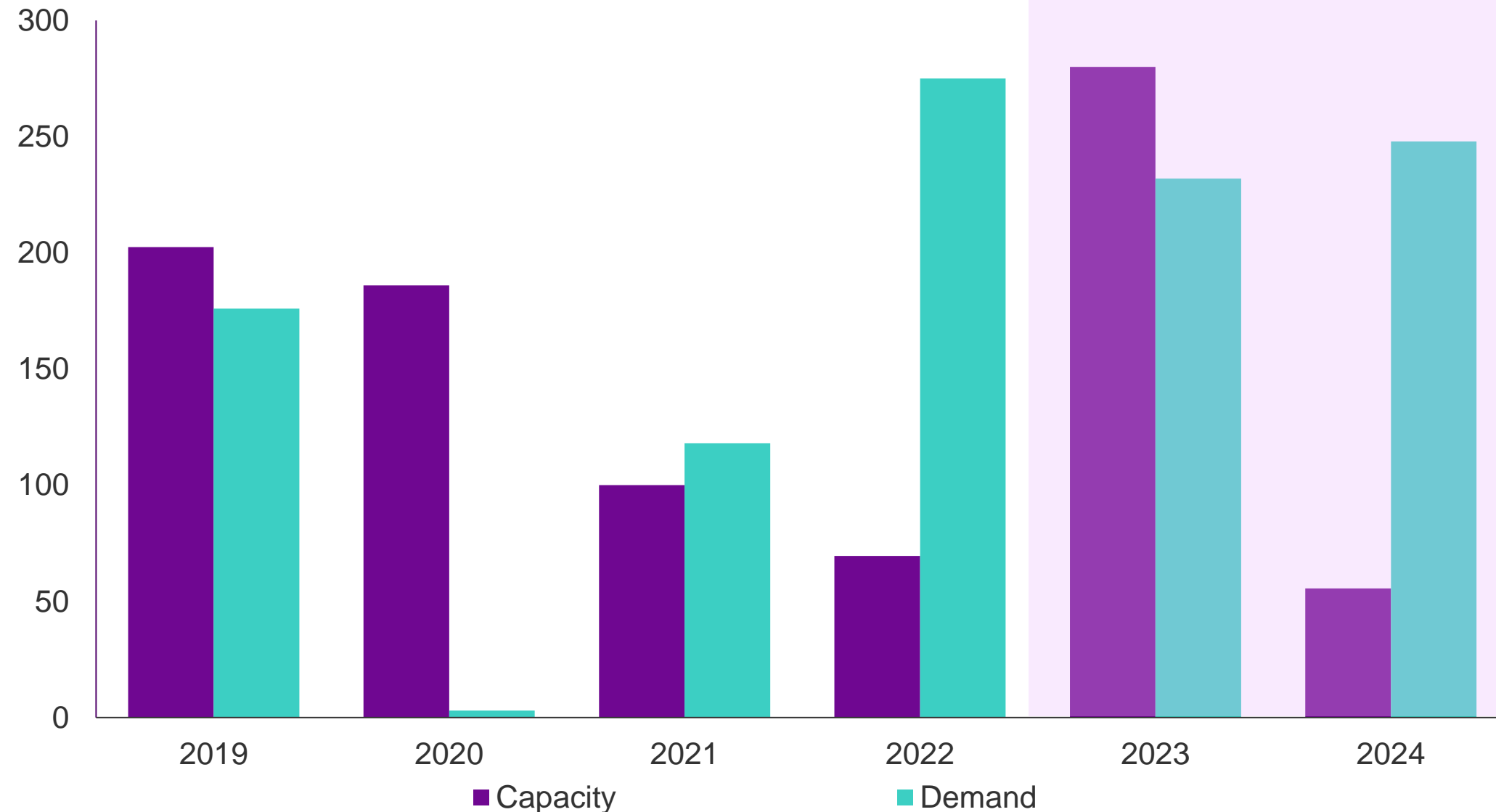
- **Wider use of mobile devices to access news feeds, i.e., cellphones, tablets, etc.**
- **E-books (and piracy) caused online titles cheaper than printed ones**
- **Public (governmental) demand in Brazil, Mexico etc., helps to offset the overall decline.**



Tissue

Capacity & demand pairing growth

TISSUE DEMAND AND CAPACITY GROWTH, THOUSAND TONNES



Source: Fastmarkets.



Squeezed margins

- **Low-value final product vis-à-vis transport, production costs and other paper grades**
- **Capacity tend to be place closer to consumer markets to limit further margin erosion**
- **Global value chains issue: global producers tend to integrate production to reduce costs and place their brands closer to clients**

More intelligence on the Latin American markets

LATIN AMERICAN PULP AND PAPER 5-YEAR FORECAST

- Tri-annual report with **+250 economic variables** forecasted for next five years
- **Breakdown** of country and subregion totals
- **Supply/demand balance, capacity, production and operating rates**
- **Price forecasts**
- Complete commentary on the region
- **Containerboard, other industrial packaging, tissue, graphic papers and newsprint**



Fastmarkets
RISI

Latin American Pulp & Paper Forecast

5-year
Volume 21, number 3 | 2021

Latin American Pulp & Paper Forecast | 5-year

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iv | Fastmarkets RISI

Figure 3
Brazil: Goods production versus corrugated items demand
Thousand tonnes, index (2014 = 100)

Figure 6
Latin America: Boxboard and other packaging paper capacity growth and operating rates
Thousand tonnes, percent

Risks for this outlook are tied to the pace of the demand growth and scheduled projects. If economic growth in the region is faster or slower than expected, demand – and thus production – will be affected in the same way. A more rapid demand recovery will lead to a quicker production increase between 2022 and 2026, while a slower demand recovery will force Latin American producers, mainly Brazil and Chile, either to divert more production to exports to support the current output levels, or to cut output.

Prices
We project that domestic prices in Brazilian Reals terms should continue to rise in 2022, tracking the increase in internal demand while supply remains stagnant and no new projects come on line. Also, the higher inflation in the country expected in 2022 and residual carry-overs from 2021 are likely to continue pushing up cartonboard-grade prices in Brazil next year, after a huge increase recorded this year. Virgin duplex prices should increase by

Table 1
Latin American other paper packaging capacity expansions, 2018-26
Thousand tonnes

Company	Location	Country	Capacity	Date	Grade
MD Papers	Limeira mill	Brazil	20	n/a	Recycled duplex
CUPC	Mauve mill	Chile	93	2018	Virgin duplex
GreenPaper	San Nicolas de los Garza mill	Mexico	22	10/17	Recycled boxboard
Grupo Gondl	Guadalajara mill	Mexico	37	10/18	Recycled containerboard
Celulose Irani	Vargem Bonita mill	Brazil	135	2019-20	Packaging paper
Celulose Irani	Vargem Bonita mill	Brazil	24	2022	Wrapping paper expansion
Papirus	Limeira mill	Brazil	30	2022-23	Boxboard
Klabin	Puma mill	Brazil	460	2023	Virgin duplex

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Thank you!

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