Charting the Tissue Industry over the Coming 12 Months

Growth Slowing in China and Western Europe

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Recent global trends
MARKET IS DYNAMIC

• China is approaching the size of North America and is larger than Western Europe in market size.

• Latin America, Asia Far East and Eastern Europe becoming increasingly important regions as well.

• China has been the largest producer country since 2015.

Global consumption: 38.8 million tonnes (2018p)
Growth in the global tissue market

- Relatively stable growth until the Great Recession in 2009, 2015-2017 were strong years, but 2018 weak
The main change in 2018 was that growth in China was only half of that in 2017, Japan contracted, Western European growth slowed further, while Eastern Europe, Asia Far East and Africa showed more positive developments.
Volume growth of tissue consumption, 2008-2018

• China accounted for 43% of growth, followed by North America (12%) and Latin America (11%).
North American outlook
The North American tissue market has been strong recently

- The AfH sector in particular benefitted from the strong economy, low gasoline prices and changing lifestyle of younger generations.
US tissue import growth, 2009-2018

- Canada continues to be the main US import source for tissue, but China has taken second place ahead of Mexico and Indonesia.
- However, imports tariffs will restrict imports from China; the first quarter of 2019 shows a decrease of about 26% in the volume of Chinese tissue shipped to the USA.

Average growth rate, 2009-2018: 5.4% per year
Trade wars will likely change supply patterns

- Canada imposed a 10% duty on imports of certain goods from the USA, including tissue, effective July 1, 2018, as a protest to US taxes for steel and aluminum. However, the US trade statistics do not show any major decrease in tissue exports to Canada since then, but longer-term effects cannot be excluded.

- China has raised import taxes of 20% for all tissue products imported from the USA except for the category 48.18.90 (hospital and diverse tissues), whose rate is 5%. However, this is a rather unimportant issue as US tissue exports to China were not more than about 5,000 tonnes in 2017.
Trade wars will likely change supply patterns

• The trade war between China and the USA escalated in September 2018 when the USA announced a 10% tariff on US$200 billion worth of Chinese goods imported to the USA, including all the main categories of tissue with the exception of 48.18.90. This is a major issue as China is the second-largest import source of tissue after Canada. In 2018, tissue imports from China were about 330,000 tonnes, which corresponds to the capacity of five large tissue machines! The 10% tariff has been partly offset by the weakening of the Chinese exchange rate.

• However, recently the tariffs on China were raised to 25% and may remain at this level if no new agreement in the trade war can be reached. This would certainly cut tissue imports from China, and alternative sources cannot fully replace the whole quantity. Chinese tissue with a 25% tariff is not competitive in the US market.
US tissue imports from China by main category, 2010-2017

- Main categories likely to suffer; however, the other tissue category may grow as there is no duty on that category.
Changes in the retail sector

• There are some important changes in the US retail sector, which mean new challenges to tissue product suppliers.

• One of the most important recent developments is the entry of the German hard discounter Lidl in the US market, with more than 50 outlets opened and more coming, although the target of 100 outlets within one year was not reached.

• Competing retailers, including the two largest US chains, Walmart and Kroger, are carefully watching Lidl’s activity and pricing strategy, and have reacted by lowering their prices of certain daily goods closer to Lidl’s (and Aldi’s). This is good for consumers, but retailer and supplier margins are under pressure. Lidl’s main focus is on private labels, which are expected to gain market share.

• Online sales are growing and this is changing the traditional retail sector logistics and thinking—and some players, such as Amazon, have also entered the brick-and-mortar business.
Expected growth in US tissue consumption by business sector

• At-Home retailer labels will show the strongest growth, while At-Home branded volume growth will remain moderate.

• AfH growth will rise above average At-Home growth.
Major tissue capacity changes in North America, 2018-2021

2018

- Georgia-Pacific, Augusta, GA, USA -31,000 t/a
- Sofidel America, Circleville, OH, USA (2 x NTT) 140,000 t/a
- Kimberly-Clark, Fullerton, CA, USA -60,000 t/a
- First Quality Tissue, Anderson, SC, USA (TAD PM) 64,000 t/a

2019

- Soundview Paper, Elmwood Park, NJ, USA (closure after two fires) -110,000 t/a
- Clearwater Paper, Shelby, NC, USA (NTT PM) 64,000 t/a
- Irving Consumer Products, Macon, GA, USA (TAD PM) 64,000 t/a
- Cascades Tissue Group, Scarborough and Whitby, ON, Canada (mill closures) -61,000 t/a
- Soundview Paper, Elmwood Park, NJ, USA (restart of PM11) 60,000 t/a
- Georgia-Pacific Corp., Palatka, FL, USA (TAD PM) 72,000 t/a
- Sofidel America, Inola, OK, USA 60,000 t/a

2020-2021

- First Quality Tissue, Lock Haven, PA, USA 64,000 t/a
- Sofidel America, Inola, OK, USA 60,000 t/a
- Georgia-Pacific, Naheola, AL, USA (replacement) 8,000 t/a
- Kruger Tissue, Brompton, Sherbrooke, QC, Canada (TAD PM) 70,000 t/a
- 202,000 t/a
Net capacity change* and tissue operating rate in North America

- The outlook is surprisingly good despite the number of projects, but a lot depends on how much tariffs on imports from China change the net trade balance.
- We assume a conservative decline in net imports in this forecast (trend change).

*Based on committed projects only.
Latin American outlook
Main Latin American tissue markets, 2018

- The five largest markets accounted for 77% of total consumption in 2018.

Brazil 31%
Mexico 28%
Argentina 8%
Guatemala 2%
Venezuela 3%
Peru 5%
Colombia 5%
Chile 5%
Costa Rica 2%
Ecuador 2%
All others 9%

Total market size: 4.3 million tonnes
Latin American tissue market shows varying annual growth, change to a more positive trend expected

- Economic turbulence and political instability caused problems and disappointing growth in 2014-2016, mainly due to the Brazilian recession.
- According to our preliminary information, 2017 was more positive but 2018 was again weaker.

Average growth 4.4%/a
Expected volume growth of Latin American tissue demand by main country, 2016-2020

- Brazil is expected to recover strongly and Mexico is also back on a growth track.
Net capacity change* and tissue capacity utilization in Latin America

- Project delays and stronger demand could help a lot, but the current outlook does not suggest any major near-term improvement.

* Based on committed projects only.
Western and Eastern European outlook
Western European tissue market showed positive recovery in 2015, but disappointed in 2016-2018

- Major variations in growth from year to year, and preliminary data for 2018 suggest it was also not a good year, with only marginal growth.
Eastern European tissue market growth negatively affected by political tension but now recovering

• The Russia-Ukraine conflict took a toll on the tissue sector, but 2016-2018 showed recovery.
Growth rate of Western European tissue consumption, 2014-2021

- We expect relatively slow growth to continue for this and the next few years, based on the current economic outlook.
Major capacity changes (>10,000 t/a) in the Western European tissue industry, 2018-2020

2018

- Cartiera die Pietramelara (Paperdi), Pietramelara, Italy 35,000 t/a
- Lucart Tissue & Soaps, Aranguren, Bilbao, Spain (restart) 50,000 t/a
- Essity, Skelmersdale, UK (TAD PM rebuild and restart) 28,000 t/a
- Goma-Camps, Ejeo de Caballeros, Spain, Italy 34,000 t/a
- Essity, Allo and La Riba, Spain -76,000 t/a
- Cartiera della Basilica (Eurovast), Botticino, Italy 10,000 t/a
- The Navigator Company, Cacia, Aveiro, Portugal 70,000 t/a
- Ibertissue (Sofidel), Bunuel, Spain 70,000 t/a
- ICT Iberica, El Burgo del Ebro, Zaragoza, Spain 70,000 t/a
- Lucart, Porcari, Italy 20,000 t/a

311,000 t/a

2019-2020

- Klippans Bruk, Klippan, Sweden 30,000 t/a
- Global Hygiène, Charavines, France 30,000 t/a
- Fourstones Group, Sapphire, Leslie, Scotland, UK 28,000 t/a

88,000 t/a
Net capacity change* and tissue capacity utilization in Western Europe until 2021

- Capacity closures have helped the industry, but new projects thereafter cut the trend.
- Low demand growth lowered capacity utilization in 2018, and continuing weak demand and new projects in 2019-2020 will keep the outlook moderate in the next couple of years.

* Based on committed projects only.
Growth rate of Eastern European tissue consumption, 2014-2020

- The demand outlook is rather optimistic for tissue market growth in the next few years.
Major capacity changes (>5,000 t/a) in the Eastern European tissue industry, 2018-2020

2018

• Velvet Care, Klucze, Poland 70,000 t/a
• Vajda Papir, Dunaföldvar, Hungary 32,000 t/a
• Drenik ND, Belgrade, Serbia 30,000 t/a
• Hayat Kimya Group, Alabuga, Tatarstan, Russia 70,000 t/a

2019-2020

• Higi Papersoft (Drenik), Szolnok, Hungary 30,000 t/a
• Rollpap, Opatovice nad Labem, Czech Republic 7,000 t/a
• Arkhbum Tissue Group, Vorsino, Kaluga, Russia 70,000 t/a
• Paloma (SHP Group), Sladki vrh, Slovenia 20,000 t/a
• Filar, Sadjno, Poland 17,000 t/a

144,000 t/a
Net capacity change* and tissue capacity utilization in Eastern Europe until 2021

- New investments from late 2014 onward and slower demand growth caused capacity utilization to decline.
  - New plans for 2020-2021 partly pending.

* Based on committed projects only.
Asian outlook
Main Asian tissue markets, 2018

- China dominant, Asia Far East now larger than Japan.
- Japanese tissue consumption contracted in 2018 and Chinese growth slowed.

Total market size: 14.6 million tonnes
The Chinese tissue market has been in a very robust growth phase, but in 2018 the growth was suddenly cut to half of the previous year.

Average growth: 7.8% per year
Chinese tissue export growth, 2010-2018

- Chinese tissue exports exploded in 2011-2014 and were shipped to nearly every corner of the world—with Asia Far East, North America and Japan the largest buyers, followed by Oceania.
- Growth waned in 2015, but resumed in 2016-2018 to more than 900,000 tonnes.
- Now that US tariffs on Chinese tissue have been raised to 25%, the growth in exports will likely stop and turn into decline.
- In 2018, export growth had already stabilized. In the first three months of 2019, Chinese tissue exports to China declined by 25%.
Chinese investments exploding, but closures and project delays expected

- There is a real investment peak with too much capacity being built, but currently also a wave of capacity closures in the industry—as much as 1.3 million tonnes in 2017 and more than 700,000 tonnes in 2018.
- But more than 90% of Chinese tissue is today made on modern machines, so closures will likely decline.

![Capacity change chart](chart.png)

* Source: CNHPIA, forecast by Fastmarkets RISI.
Net capacity change* and capacity utilization in the Chinese tissue industry

- The ongoing structural change in the Chinese tissue industry has been very radical and quick, and it is expected to continue in the next couple of years.
- New capacity will replace major parts of the older capacity, and older technologies will have no chance to survive.
- This will help balance the situation to some extent, but it will not totally solve the overcapacity problem.

* Based on committed projects only, learning curves considered.
Net capacity change* and capacity utilization in the Asian tissue industry

- Overcapacity is obvious, although project delays may help.

* Based on committed projects only, learning curves considered.
Global outlook
Anticipated growth in the global tissue market

- Tissue consumption has been benefitting from improving global hygienic standards, but trade wars and other uncertainties about future economic growth shadows the outlook.
Announced tissue capacity expansion clearly exceeds organic market growth.

In some years, such as 2019, new capacity coming on stream is double the consumption growth.

Closures have helped and will continue to do so in the future, but investment activity is overheated.

* Based on committed projects only.
Net capacity change* and capacity utilization in the global tissue industry

- The tissue sector is attracting too many investments.
- Major capacity closures could improve outlook, but only marginally.
- Global overcapacity is the name of the game!

* Based on committed projects only.
Concluding remarks

• China, despite its weak consumption growth in 2018, will continue to be the main driving force of global tissue industry expansion, although overcapacity is a threat in nearly every region. Project delays will be common.

• North American developments are characterized by steady and encouraging growth, but also ongoing battles between brands and private labels.

• Europe had a quiet phase due to the recession, but is picking up, as are investments in Southern and Eastern Europe.

• In Latin America, Brazil is recovering, Venezuela is a catastrophe and Mexico is back on a growth track again.

• The tissue business is becoming increasingly dynamic and global. Cost-competitiveness based on low-cost hardwood pulp and energy through integration seems to be a major benefit.

• Import duties could change the current trends of continuing internationalization in the global tissue business. Chinese exports to the USA are now in decline and current import tariffs of 25%, if in place for a significant time, could be radically cut the volume.

• Tissue prices continue to be under heavy cost pressure from high market pulp prices, only some relief has recently taken place.
Thank you

US Tissue Monthly Data

Year ended with no major surprises in the US tissue business
Production view, shipments at normal levels in December

December showed somewhat contrary developments in the US tissue industry and business. Paper roll production remained at low levels, which is typical in December due to the holiday season and maintenance time taken off by most mills, but converted product shipments continued to increase. In the AHR sector they were even surprisingly strong considering the lower number of working days in the month.

Paper roll production of tissue grew by only 0.9% in December after strong growth of 2.3% in November, indicating that the increase in paper roll stocks carried into November was driven mostly in December but production was still lower in that month. Production grew by 1.4% and approached the benchmark of 10% which is the normal range for the season, but remained slightly below that level. Tissue capacity in December was 15% lower than the previous year, indicating the effect of recent closures such as the K-C Palmetto mill. The average capacity utilization improved slightly in December, up to 92.0% from 91.5% in November (Figure 1).

Unfortunately, the actual foreign trade statistics for November were not yet available at the publication deadline of this issue, so our comments are based on the estimates and data in the first two months of 2019. At the time of this writing, they suggest that paper roll imports by mills grew by almost 15% and paper roll exports by 9% in 2019. Net imports may fall by 50,000 tons but this number could be lower if the decline recorded in October continued in the last two months of the year.

Converted product shipments grew by 1.7% in December, up slightly from 3.6% in November. Anticline shipments continued to move even closer to 50% of the total, with this last five months showing a slightly higher growth rate than the average of 49% for the whole of 2019. 0% grade was slightly weaker than total tissue while the highest grade was slightly stronger than total tissue. The most important grade of tissue to be checked in our report is the No. 1 No. 1, which was up by 5% in December, indicating a recent change in the market that needs to be rather notice, although in recent years it has shown unexpectedly strong growth. Totaling followed with 1.6% growth, while consumer napkins recorded only marginal shipment growth of 0.5% in 2019.

The AHR sector performed well until the end of the year. Shipments were strong in 3.5% in December, driven higher than the average 3.4% growth for the year as a whole. Panty tissue recorded the strongest relative growth in shipments, at more than 1%, but it should noted the segment is

Economic insights

- Year 2019/2020 outlook in positive outcome
- On-demand getting new. Financing or ownership
- Tissue paper roll prices are gradually stabilizing

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