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LA paper and board suppliers expand capacity to meet demand; RISI gathers 150 people in Miami

SAO PAULO, Nov. 26, 2013 (PPI Latin America) - "Central America is the place to be if you are a paper or packaging supplier," said Mike Harwood, president and CEO of World Containerboard Organization and Deputy CEO of Pratt Industries, during his presentation at RISI's first[†] Latin American Packaging Conference in Miami, USA. The event gathered about 150 people especially from North, Central and South America, as well as Europeans.

Harwood showed that current Central America containerboard capacity is 322,000 tonnes while demand is 1.23 million tonnes - and the region is a major exporter of fruit/food worldwide using a lot of corrugated packaging. According to Harwood, the global containerboard demand is currently 148 million tonnes and Latin/Central America accounts for almost 8% or 11,600 tonnes of this total.

Harwood also mentioned that Latin America is investing in capacity expansion. "Most of the new capacity in Latin America is going to be destined to domestic markets. The good news for Latin American paper packaging demand involves the World Cup and the Olympics, which are taking place in Brazil, as well as the enlarged Panama Canal which is going to open in June 2015 and is going to be a big boom for the region with big ships coming in."

LatAm Papers director Patricio Segovia commented that "all new containerboard capacity is recycled paper" and "there is no significant kraftliner capacity expansion on the horizon," which brings concerns to non-integrated packaging producers that need to buy paper in the market. "Seventy-two percent of the kraftliner production is consumed internally. There are no non-integrated kraftliner producers. So, the question is: how much kraftliner will remain available to non-integrated producers? We are going to see lack of virgin based containerboard in the market and this is going to affect the quality of the other containerboard grades," Segovia pointed out. "By 2018 Latin America will need 500 thousand extra tons of kraftliner," he added.

Currently, Latin America - with the exception of Brazil - is a net importer of packaging papers. "Brazil is the only Latin American country that exports containerboard. The Mexican market is more volatile than Brazil because it is influenced by the US market," said Ken Waghorne, RISI VP of Packaging. "Mexico imports 25% of its total paper consumption. There is an overcapacity of 30% in the packaging segment, but a deficit

of 40% of the raw material required by the Mexican paper industry (pulp and recycled fiber)," said Miguel Rincon Barraza, Bio-PAPPEL Packaging director. The executive mentioned that the country's packaging paper apparent consumption in 2012 was about 4 million tonnes or 57% of its total paper consumption last year. Practically 100% of the containerboard produced in Mexico is recycled. "Virgin paper would account for 2% of Mexican production/consumption," Rincon stated.

In Mexico, Bio-PAPPEL is the largest paper packaging producer with production of 1.2 million tonnes of paper in 2012 and a 35% market share in paper packaging. The company has recently announced a \$1 billion investment in the installation of 10 "mega plants" in the next 5-10 years. "We'll see how it goes; there is no specific date for the investment to be completed. It includes expanding converting capacity and also paper production, as well as green energy co-generation," Rincon said. According to the executive, the new greenfield corrugated packaging converting plants will have a capacity of 120,000-130,000 tonnes/yr each or three times higher than a conventional plant.

So far Bio-PAPPEL has built three "mega" plants, the first in Monterrey, Nuevo León, then Guadalajara, Jalisco, and Tizayuca, Hidalgo in north central Mexico. "Currently, we are installing the fourth mega plant in Silao, Guanajuato, and in a few months we will start the construction of the fifth mega plant in northwestern Mexico," Rincon stated.

According to Rincon, there are many negative factors in Mexico that impact investments, such as the country's GDP growth rate, a disappointing tax reform recently approved by the government, increasing organized crime presence, high energy and logistics costs, among others. Regarding the tax reform, the executive mentioned that the income tax for the maquiladora sector will increase from 17% to 30%, discouraging the creation of jobs. Rincon also pointed out positive factors, such as sound macroeconomic conditions, demographic bonus, a solid banking system and structural reforms on track.

Another major paper and packaging producer in Mexico, Grupo Gondi is also expanding capacity in the country. The company built an 8,500 m² complex at its Papel, Cartón y Derivados plant, located in Celaya (Guanajuato) to house a new wide Bobst F&K 90SIX CI preprint flexo press, which is expected to start running in February 2014. Grupo Gondi is also expanding the Papel, Cartón y Derivados' corrugated box plant and recently announced plans to build a large new greenfield corrugated packaging plant in Nava (Piedras Negras) in Coahuila, with capacity to produce 9,000 tonnes/month of mainly boxes.

In Ecuador, Surpapel built a 200,000 tonnes/yr containerboard paper machine last year in the province of Guayas. According to the company's CEO Pedro Huerta, the next

investment will probably be made in Colombia. Huerta also told PPI Latin America that the new paper machine launched in 2012 is currently producing around 100,000 tonnes/yr, but will soon reach 140,000 tonnes/yr with the installation of two new drying systems that are expected to start operating in December. "We expect to reach the full machine's capacity of 200,000 tonnes/yr in 2015," Huerta said.

Currently, according to Huerta, Ecuador produces 317,000 tonnes/yr of containerboard and has an apparent consumption of 648,000 tonnes. "Ecuador makes more than 250 million banana boxes per year and is the largest kraftliner importer in all over Latin America (supplied especially by the USA). Ecuador is also a large consumer of white top liner due to its large fruit industry," Huerta commented.

Analyzing the Latin American conditions for foreign investors to enter the region, Nicholas Mockett from Moorgate Capital pointed some macro obstacles, such as political issues, legislation, culture, foreign exchange controls, corruption, tax issues (especially in Brazil) and regulatory framework. He also pointed to positive factors, such as Latin American companies' share price performance, especially in Chile, Colombia, Peru, Mexico and Brazil. "I really like the Brazilian opportunities for investments, but there are some issues, such as corruption and concerns over bankruptcy law," Mockett stated. In his opinion, the most attractive country in Latin America for investments is Chile while Argentina, Ecuador, Venezuela and Bolivia are the ones with more negative points, particularly due to political issues.

Mockett also analyzed the strategies for investors to enter the Latin American market: greenfield projects, strategic alliances, joint ventures and acquisitions (direct or indirect). According to him, the easiest and safest one is through acquisitions as the investor can influence or control up to 100% of the company, as well as because it offers potential for value creation, limited conflicts of interest, quick access to growth markets and leveraging core competencies such as R&D.

According to Mark Wilde, managing director of Deutsche Bank, the main challenges for investors in Latin America are economic volatility (economic growth rates, exchange rates, financing risks); country-specific challenges (labor issues, raw material supply/costs, tariffs/duties, land ownership issues, inter-governmental disputes, good local management, regional market structure, getting cash out); political risk (especially in Venezuela and Argentina); valuation discipline; sizing the investment to the local market (businesses with a high percentage of exports carry significant risks); building businesses and market knowledge in small steps (few large potential acquisitions in the region, hard to find international synergies).

Wilde mentioned significant recent investments in the region, such as International Paper's expansion in Mexico, through the acquisition of Weyerhaeuser and Temple

Inland, and in Brazil through the acquisition of 75% of Orsa; Smurfit Kappa acquiring Orange County Container in the USA and Mexico, also doing upgrades in Mexico, Venezuela and Colombia; MeadWestvaco investing \$480 million at Brazilian Rigesa. "CMPC is investing a lot as well. Also, Klabin has been a dramatic performance improvement under Fabio Schvartsman. Companies like Klabin are growing very aggressively," Wilde concluded.

By Renata Mercante, Editor, PPI Latin America, rmercante@risi.com

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