

PAPER, PACKAGING AND FIBER MARKET NEWS AND PRICES FOR LATIN AMERICA

Domestic OCC prices drop in Mexico following imported grades; sources report oversupply

Slow activity and excessive supply continue to pressure recovered paper prices in Mexico. According to sources, domestic old corrugated container (OCC) prices dropped in June, following the same downward trend seen in imported OCC from the southwestern region of United States. The global impact of China's restrictions on recovered paper imports and falling pulp prices pressured down prices on imported grades, market participants noted.

In this scenario, PPI Latin America's survey detected that domestic OCC declined to the Peso 1,500-2,000/tonne range, compared to Peso 1,600-2,100/tonne in May. Current prices are 14.6% lower than they were a year ago and mills are still holding a considerable amount of inventory, market participants said.

Market sources also commented that prices vary in different regions. In the areas in which negotiations are still happening at the top of the price range, contacts believe there will be discounts in the near future. High inventories, excessive supply and the falling prices of US OCC exported to Mexico tend to continue pressuring domestic prices.

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Brazilian authorities launch plan to expand forest plantations; goal is to add 2 million ha by 2030

Brazil has approved a national plan that aims to increase the area designated for forest plantations by 20% until 2030. The desired expansion represents additional 2 million ha of forests in the next decade. To reach this goal, the plan establishes a series of steps to be taken by authorities, including efforts to attract investments and simplify environmental licensing procedures.

Approved on June 5 by the Brazilian Ministry of Agriculture, the plan presents 12 different areas of focus contemplated in the "National Forest Goals." Those goals aim to orient future actions by governors, legislators and policy makers in general.

"The fact that there is a goal to expand planted forest area in the country could boost interest for investments, as it drives positive expectations," said Juliana Pretto Stangherlin, environmental law specialist from the firm Souto Correa Advogados. "This impact could be relevant if local states' policies are aligned to the national plan, because at the moment there are significant regional differences in legislation regarding environmental licensing."

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OCC imported, domestic prices drop in Mexico

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"Because of the downward trend in OCC prices in (the) US, I got a price reduction for domestic material this month. There are suppliers that resist reducing their prices, but there is still a good volume being negotiated," a buyer said.

"Prices are holding up in the Central area, but excess of supply in other regions (in the) west caused a price drop there in June," another source said.

Imported OCC also suffered a price reduction in June, and is now traded at \$55/ton, compared to \$70/ton in May. Current prices are 50% lower year-over-year. "Mexico's demand [for recovered paper] is still pretty weak. They're not very strong right now," a US source said.

Mexican sources are also paying attention to the impact of volatility in exchange

US recovered paper exports to Mexico (tonnes)

			% chg.
	JanApr. 2019	JanApr. 2018	2019/18
OCC	128,992	151,477	-14.8%
Mixed papers	64,611	43,336	49.1%
ONP	54,632	42,680	28.0%
High grades	315,670	318,116	-0.8%
Total	563,905	555,609	1.5%

Source: GTIS.

rates. The Mexican Peso has depreciated after the announcement of new tariffs in the US for Mexican products, but the trend reversed in the second week of June, following positive news on a agreement reached between Mexican and US governments.

If commercial tensions between both countries restart, sources believe there could be a further reduction on the volume of recovered paper imported from the US. The contacts agree, however, that this should not be an issue in the short term because of the abundant domestic supply.

"We do not see any room for a price increase... there is such a wide domestic supply," a source said.

Imports. US sorted office paper (SOP) exported to Mexico has also seen prices declining from \$165-175/ton in May to \$135-145/ton, down 39.1% vs June 2018. Imported sorted white ledger (SWL) is traded for \$260-270/ton (-18.5%) and coated groundwood sections (CGD) at \$95/ton (-38.7%)

Sources believe that in those grades, inventories in Mexico are high and there is impact of lower pulp prices. "Mexican

PRICE WATCH: RECOVERED PAPER MEXICO

US\$ (unless otherwise noted)

Current months Year-to-year Unit Jun. 2019 May. 2019 Apr. 2019 Jun. 2018 % chg. US SOUTHWEST TO MEXICO1 Special news, deink quality (8) 25-25 25 - 25 40 - 40 -54.5% sh. ton 55 - 55 Corrugated containers (11) 55-55 70 - 70 80-80 110 - 110 -50.0 sh. ton 380 - 380 410 - 410 430 - 430 460 - 460 -17.4 Hard white envelope cuttings (31) sh. ton 135 - 145 165 - 175 185 - 195 225 - 235 -39.1 Sorted office paper (37) sh. ton 260 - 270 285 - 295 320 - 330 Sorted (postconsumer) white ledger (40) sh. ton 305 - 315 -18.5 155 - 155 Coated groundwood sections sh. ton 95-95 115 - 115 135 - 135 -38.7 DOMESTIC PRICES² Corrugated containers tonne 1,500-2,000 1,600-2,100 1,800-2,100 1,500-2,600 -14.6

NOTES

Bleached eucalyptus is from Brazil, Chile, Uruguay. Bleached radiata pine is from Chilean mills.

1. Import prices from Dallas/Houston for mills in Mexico, FOB seller's dock.

2. Delivered at Mexico DF, Monterrey and nearby regions. Domestic prices are net.

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buyers have cut orders in half, some have even gone to zero in groundwood and deinking grades," a source said. "When pulp gets cheaper, mills buy cheaper pulp. Recovered paper drops heavy, quickly down, and (inventories are) piling up."

US hard white envelope cuttings (HWEC) export prices to Mexico also dropped to \$380/ton in June from \$410/ton the month before. Prices are now 17.4% lower than a year ago.

Imported old newsprint (ONP) is at \$25/ton, slumping 54.5% annually.

According to the Global Trade Information System (GTIS), US recovered paper exports to Mexico were 1.5% higher In January to April, at 563,905 tonnes. OCC exports totaled 128,992 tonnes in the period and were down 14.8% year-over-year. Exports of mixed papers to Mexico boomed 49% to 64,611 tonnes, while

high grades were 0.8% lower at 315,670 tonnes.

--By <u>dsousa@fastmarkets.</u> <u>com</u> and <u>mworkman@</u> fastmarkets.com ●

Brazil launches new plan to boost forestry investments

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On the topic of environmental licenses, the national plan states that authorities should no longer consider forest plantations as an activity that "pollutes and uses environmental resources." A change in the way the activity is classified could result in simplifying the process for authorizing new projects.

For this idea of simplifying the licensing process to become a reality, however, Brazil would need a new legislation. Currently, there is a law proposed in the Brazilian Senate that addresses the topic, but it has not been

voted on yet. According to specialists, the discussion is an example of how much the implementation of the national plan also depends on future political agreements.

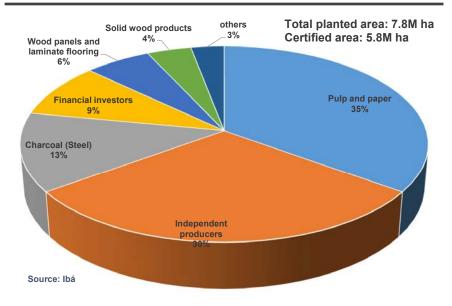
"The Brazilian government is interested in the development of forest plantations and wants to create the necessary juridical conditions so that, whoever wants to start planting or wants to expand plantations, can do it in the best possible way," said João Fagundes Salomão, an officer in the Ministry of Agriculture.

Brazil has over 7.8 million ha of planted forests, according to the most recent data from the Brazilian Tree Industry Assn (Ibá). The pulp and paper industry is the destination of the most part of the wood produced, totaling 35%.

According to RISI's International Timber director, Bob Flynn, if the plan approved by Brazilian authorities succeeds, the additional plantations could result in 60-80 million m³ in harvest, a significant volume of production. "The amount is greater than the total annual harvest in Finland, for example, and close to that in Sweden, two of the biggest forest products countries in the world."

Flynn also commented that one ha of plantations in Brazil is not equal to plantations elsewhere. "If we compare planted pine in Brazil versus planted pine in the US South, the volume produced per hectare per year in Brazil is at least three times greater. Russia also has a huge area of forest, but a hectare of eucalyptus plantation

Planted forests distribution in Brazil (2017)





in Brazil will produce 40 times more growth per year than a Russian forest."

A better alignment between regional regulations and the national plan could attract investments, said lawyer Marcelo Buzaglo Dantas. "I handle licensing processes in different states in Brazil and we see there are significant differences case by case. It generates a lot of uncertainty and is something that is difficult for investors to understand."

Foreigners. The Brazilian plan also addresses current restrictions regarding foreign investment in land in the country. "An efficient alternative to attract investment for the forest sector would be the allowing Brazilian companies with foreign capital to purchase and lease land in the country," says the document from the plan approved by Ministry of Agriculture.

The topic of foreign investment in Brazilian land has been in discussion for at least a

decade. In May 2019, a new law project was presented at the Senate. It states that companies with foreign capital would be able to acquire land, but would need to be granted a permit by Defense authorities in case the land purchased belongs to the Amazon or is located in frontier regions.

"The plan could work as an incentive to drive the legislation changes so that foreign investment in forests and land in Brazil can increase," Stangherlin added.

Other topics in the national plan are considered easier to implement. One is related to a goal of increasing the role of wood biomass energy in the Brazilian electric system. Stangherlin believes this goal could be more easily achieved because it is in line with efforts to diversify the sources of energy in the country. "There is political will in favor of making advances in this area."

With the intent of attracting future forestry investments in Brazil, the plan wants to extend the availability of funding at subsidized interest rates. The Brazilian National Bank of Economic Development (BNDES) already offers funding for activities related to the sustainable management of forests, but the plan wishes to focus the rules on longer-life plantations, such as pinus forests.

--By dsousa@fastmarkets.com •

Klabin to issue new \$257M CRA; to hire local workers for its Puma II project

The board of Brazilian pulp and packaging paper producer Klabin approved the issuing



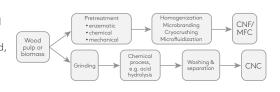


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of a new Real 1 billion (\$257 million) Agribusiness Credit Receivable Certificates (CRAs) on June 10. The company said that resources would be allocated in the "ordinary management of its business, exclusively linked to its activities in agribusiness, forestry and agriculture."

Klabin didn't state when the CRA will be offered to the market.

Meanwhile, the company continues to move ahead with preparations for the installation of its Puma II project in Paraná state, southern Brazil, by 2021. Besides acquiring equipment and working on necessary licensing and infrastructure, the company announced a plan for hiring local workers for the project, in order to stimulate the surrounding communities and qualify people for its industrial operations.

The Puma II project aims to add two krafltiner paper machines (PMs) at the company's Ortigueira mill with combined capacity of 920,000 tonnes/yr. The project is divided in two phases, with the first PM expected to kick off by 2021 and the second by 2024.

Klabin is planning to offer several qualification and training courses to allow professionals from the surrounding municipalities to have access to jobs - both in the implementation phase of the new integrated pulp and paper industrial plant, as well as afterwards, in the operation of the industrial and forest areas.

In a partnership with the technical school SENAI,

Klabin will offer training and aualification courses in the areas of civil construction and industrial assembly. Recently, Klabin has also announced it would form the State School of Professional Forestry and Agricultural Education, which, with the encouragement of the State Government, will offer 300 places for technical courses in Forestry Operations, Heavy Machinery Maintenance Technician and Agribusiness Technician. The school is expected to be operational in the first quarter of 2020.

SKG closes \$91M tender offer for Colombian business

Smurfit Kappa Group (SKG) completed the tender offer to acquire the minority shares of its subsidiary in Colombia, Cartón de Colombia, on June 6. After the move, SKG's share in the company increased from 69.94% to 97.7%.

SKG reported that the acquisition is estimated at €81 million (\$90 million), to be funded from the group's existing resources.

SKG has been in Colombia for more than 30 years. The company doesn't disclose specific figures for its divisional sales, but reported a 3% increase of organic volume growth in the Americas in the first quarter of 2019, with "especially pleasing performances" in the countries it has a largest presence:

Colombia, Mexico and the US. •

Chile's Ultramar reportedly to invest in new pulp and wood port terminal in Brazil

Chilean logistics company Ultramar is reportedly studying a Real 300 million (\$77.2 million) investment to build a new terminal specializing in pulp and wood handling in Rio Grande do Sul state, southern Brazil. According to the state's governor Eduardo Leite, who has been meeting several Chilean executives recently to attract investments, Ultramar should build a "mini-port" inside the port complex of Rio Grande.

The Rio Grande do Sul government released several pictures of the meeting with Ultramar's executives, but the company stated to PPI Latin America that it would not comment about the possible investment. In Rio Grande do Sul, Ultramar already operates through its subsidiary Sagres, which handles logistics for CMPC.

Leite has also met with CMPC's executives, and said that the state of Rio Grande do Sul remains in the company's plans for a possible expansion. CMPC already runs two bleached eucalyptus kraft (BEK) pulp lines in Guaíba city, and sees the state as the potential home for its next expansion cycle in pulp. The company, however, is still waiting for a clear legal environment in Brazil to increase plantations and analyze a project in the region.

Mexico's Convertipap to install new tissue machine

Mexican tissue producer
Convertipap is investing in a new
tissue paper machine (PM) to
be provided by PMP. The supplier
announced it would deliver a
Crescent Former Intelli-Tissue
Advanced 2100 machine, with
a maximum capacity of 41,000
tonnes/yr, reel trim of 2,850
mm and maximum balance





Pulp exports - Chile (000 tonnes)

	JanMar. 2019	JanMar 2018	% chg. 2019/18
Bleached eucalyptus pulp	595	540	10.2%
Bleached radiata pine pulp	467	506	-7.7%
Unbleached radiata pine pulp	119	116	2.4%
Total pulp	1,182	1,163	1.6%

Source: INFOR.

Note: Data is subject to revision.

speed of 2,100 mpm. Start-up is projected for mid-2020.

Convertipap is a 100% Mexican owned company with two production plants, Ixtapaluca and Tlaxcala, with over 50,000 tonnes/yr production capacity.

According to PMP's release, Convertipap has an aggressive development strategy in the country to increase market share. "One of the main goals is to become the preferred tissue supplier in the Mexican region, offering a wide span of premium tissue products," the note said. •

Chilean pulp exports rise 1.6% in the first quarter

Chilean pulp exports increased 1.6% to 1.18 million tonnes in the first quarter of 2019 over the same period last year, according to the latest data released by Chile's Forest Institute (Infor).

Of this total, bleached eucalyptus pulp (BEK) exports accounted for 595,000 tonnes, or 10.2% higher than a year ago. Bleached radiata pine pulp shipments totaled 467,000 tonnes, a 7.7% decrease year-overyear. Meanwhile, unbleached radiata pine pulp exports hit 119,000 tonnes in the period, or 2.4% higher year-over-year.

China is the main destination for Chilean pulp, followed by

the Netherlands and South Korea. According to data provided by the Global Trade Information System (GTIS), exports to China totaled 611,000 tonnes in the first three months of 2019, a 1.8% decrease year-over-year. BEK exports from Chile to China were 0.73% lower, reaching 194,473 tonnes in the first quarter, while softwood exports to the country accounted for 348,000 tonnes, down 2.3% in the annual comparison.

Arauco promotes Pablo Franzini as new head of North American subsidiary

Chilean pulp, timber and panels producer Arauco announced

its international VP Pablo Franzini as the new president for the company's operations in North America, comprising of plants in Canada, the United States and Mexico, effective Aug. 1. Currently, Franzini leads the businesses in Argentina, Brazil and Mexico, and will bring to North America 19 years of experience and deep industry knowledge having held leadership positions in the financial, logistics and commercial areas of the company.

Franzini will succeed Kelly Shotbolt, who was pointed as Arauco's new North American non-executive chairman of the board, in the position. According to Arauco's COO and president, Cristian Infante, Shotbolt's contributions to the panel industry across North America over the past 40 years have been outstanding. "His leadership was instrumental in developing Flakeboard into a very successful enterprise, and continued this momentum following the Arauco acquisition in 2012," remarked Infante.

PPI Latin America

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