


Latin America Paper Markets



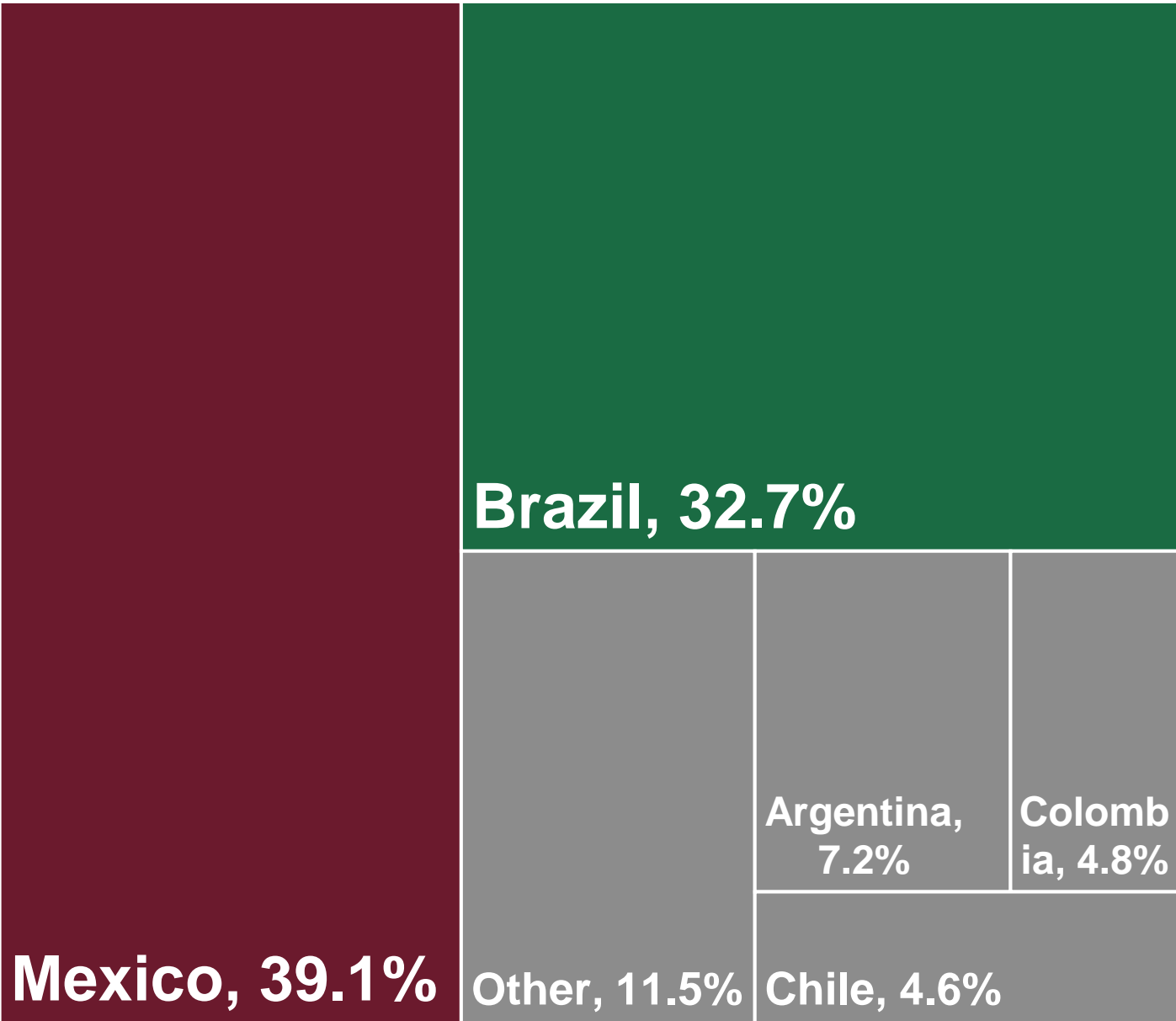
Rafael Barisauskas
Senior Economist, Latin American Pulp and Paper

Packaging paper markets

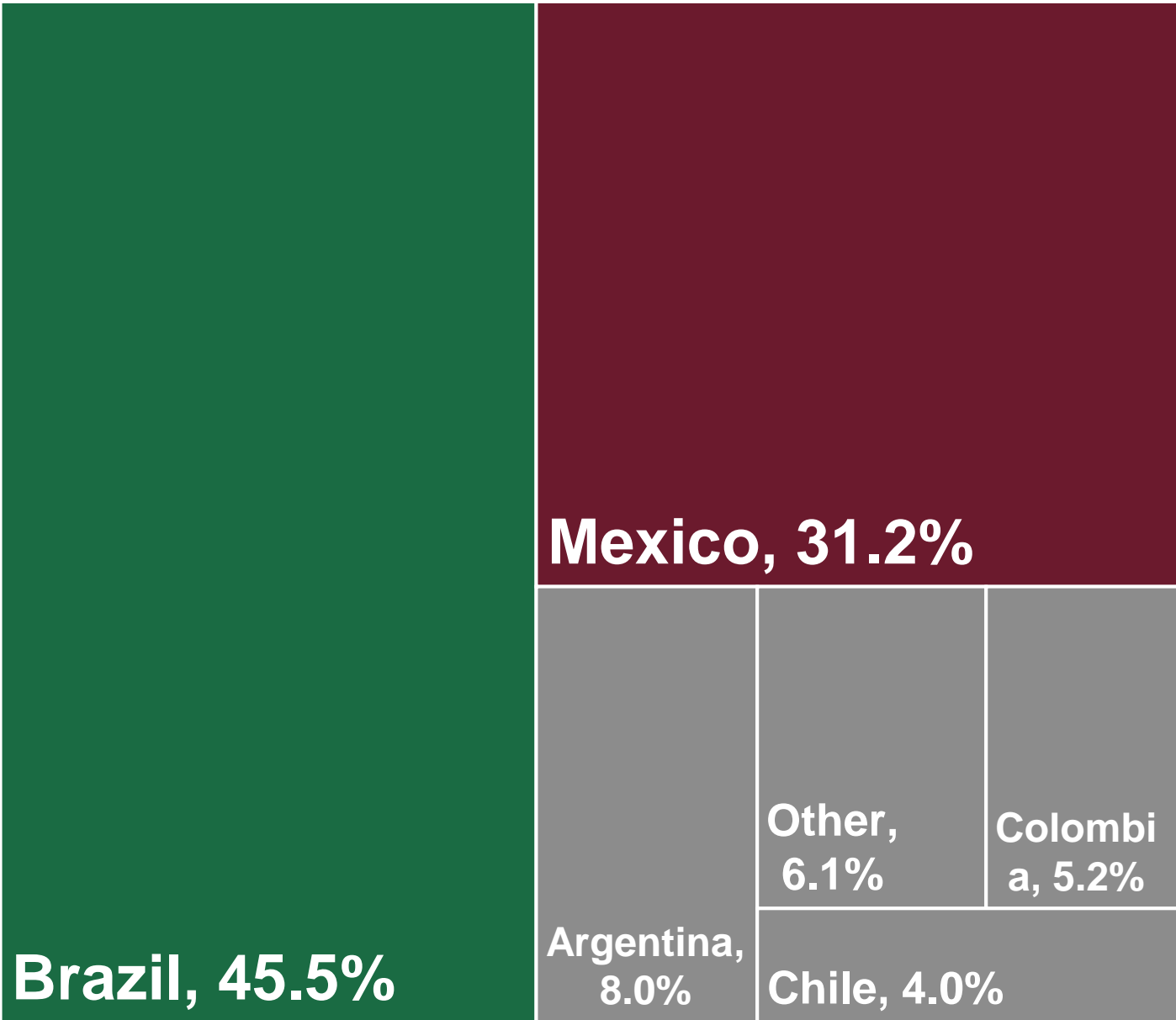
Mexico and Brazil lead demand and production



CONTAINERBOARD DEMAND BY COUNTRY (%)



CONTAINERBOARD CAPACITY BY COUNTRY (%)

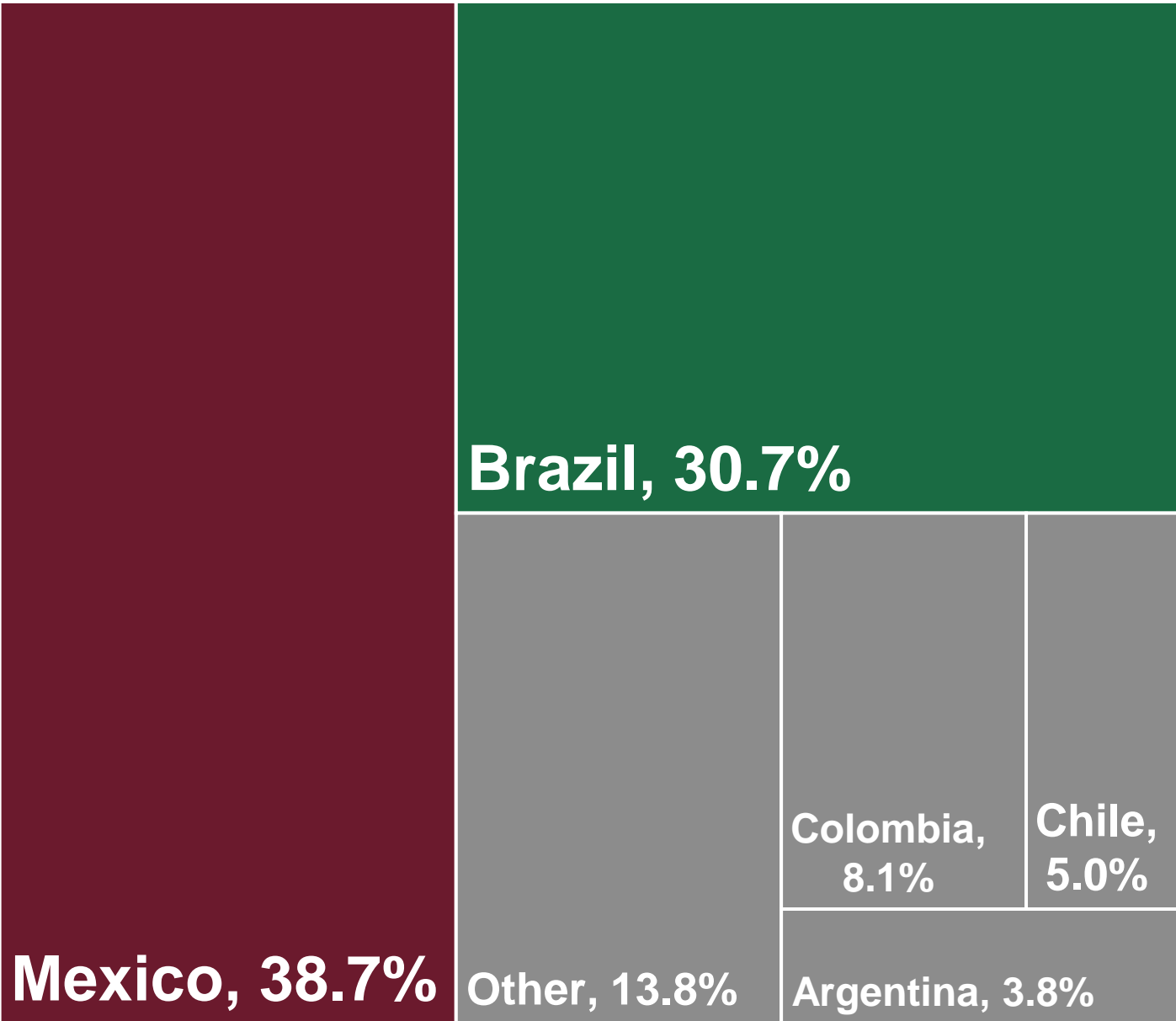


Source: Fastmarkets. * = Forecast.

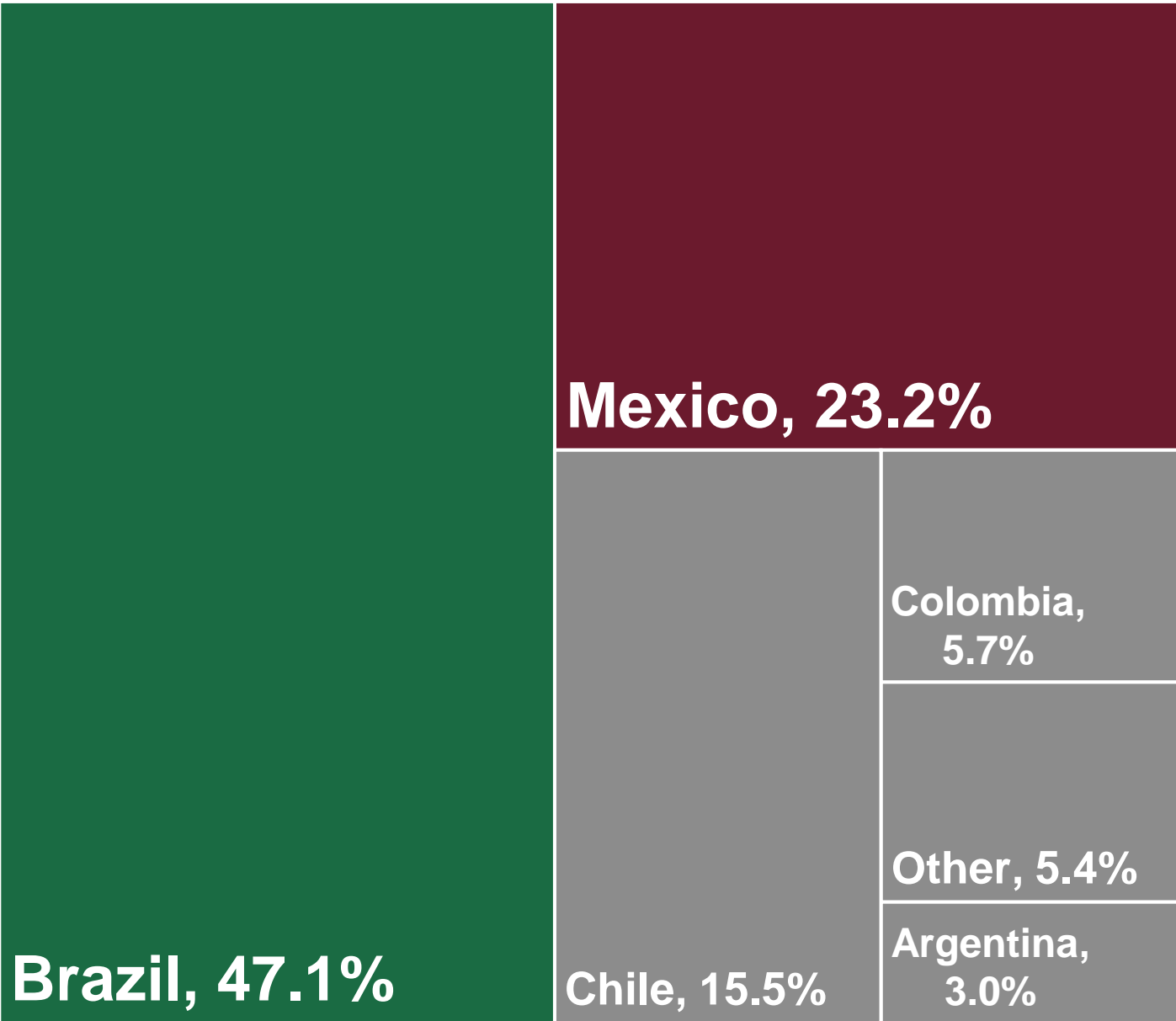
Mexico and Brazil lead demand and production



BOXBOARD DEMAND BY COUNTRY (%)



BOXBOARD CAPACITY BY COUNTRY (%)

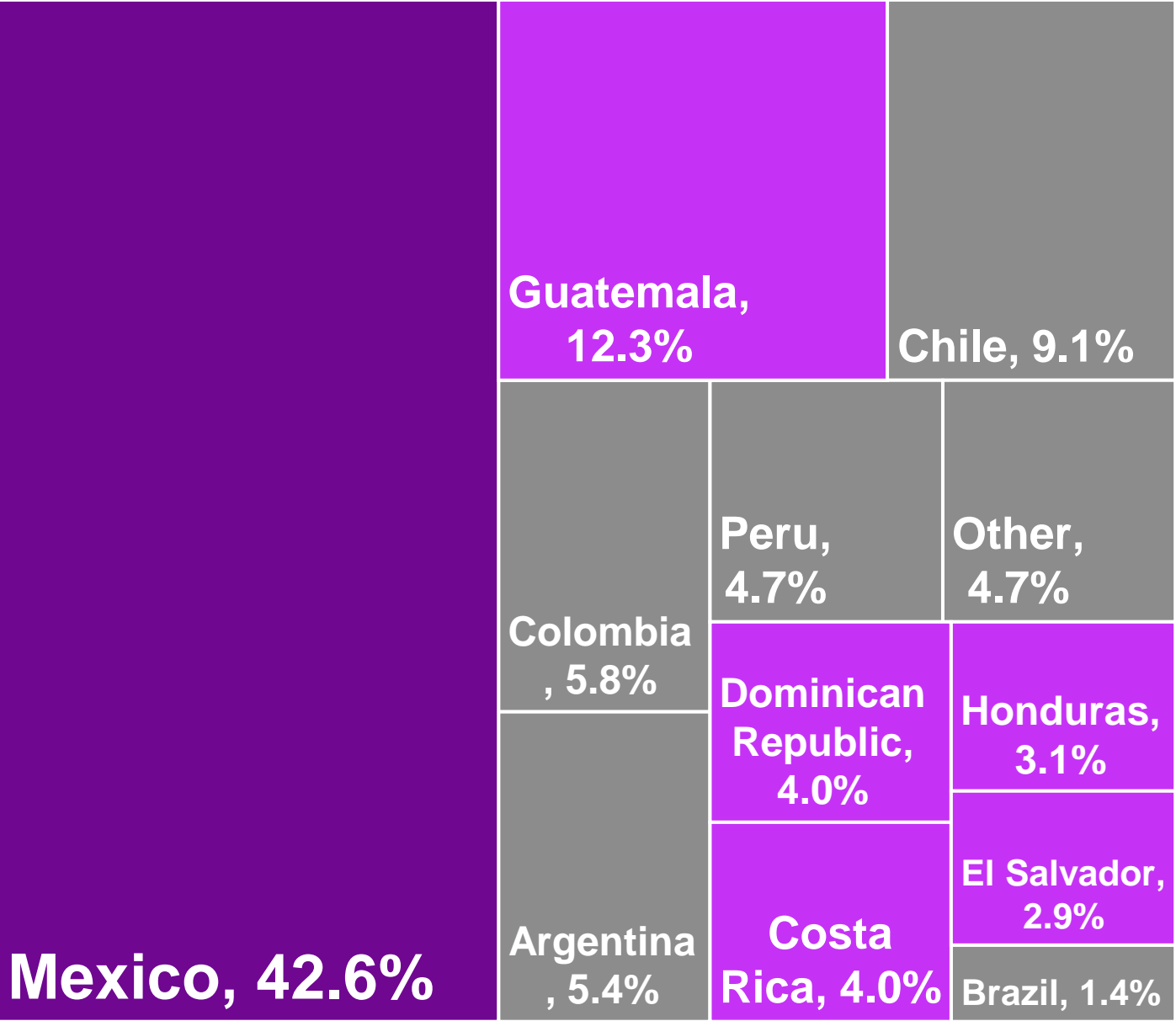


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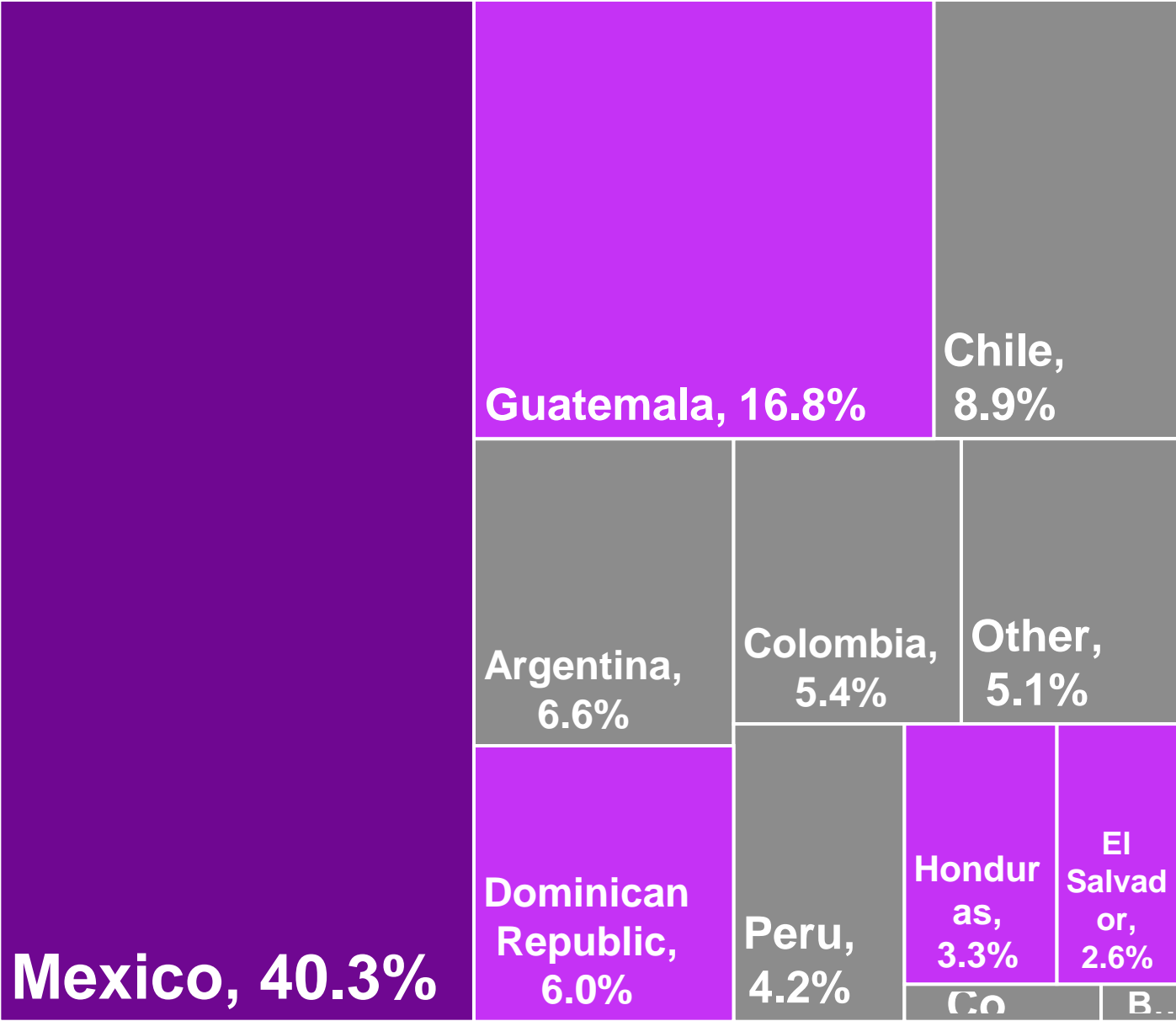
Containerboard imports go mainly to Mexico and Central America...



CONTAINERBOARD IMPORTS BY DESTINATION (%)



KRAFTLINER IMPORTS BY DESTINATION (%)



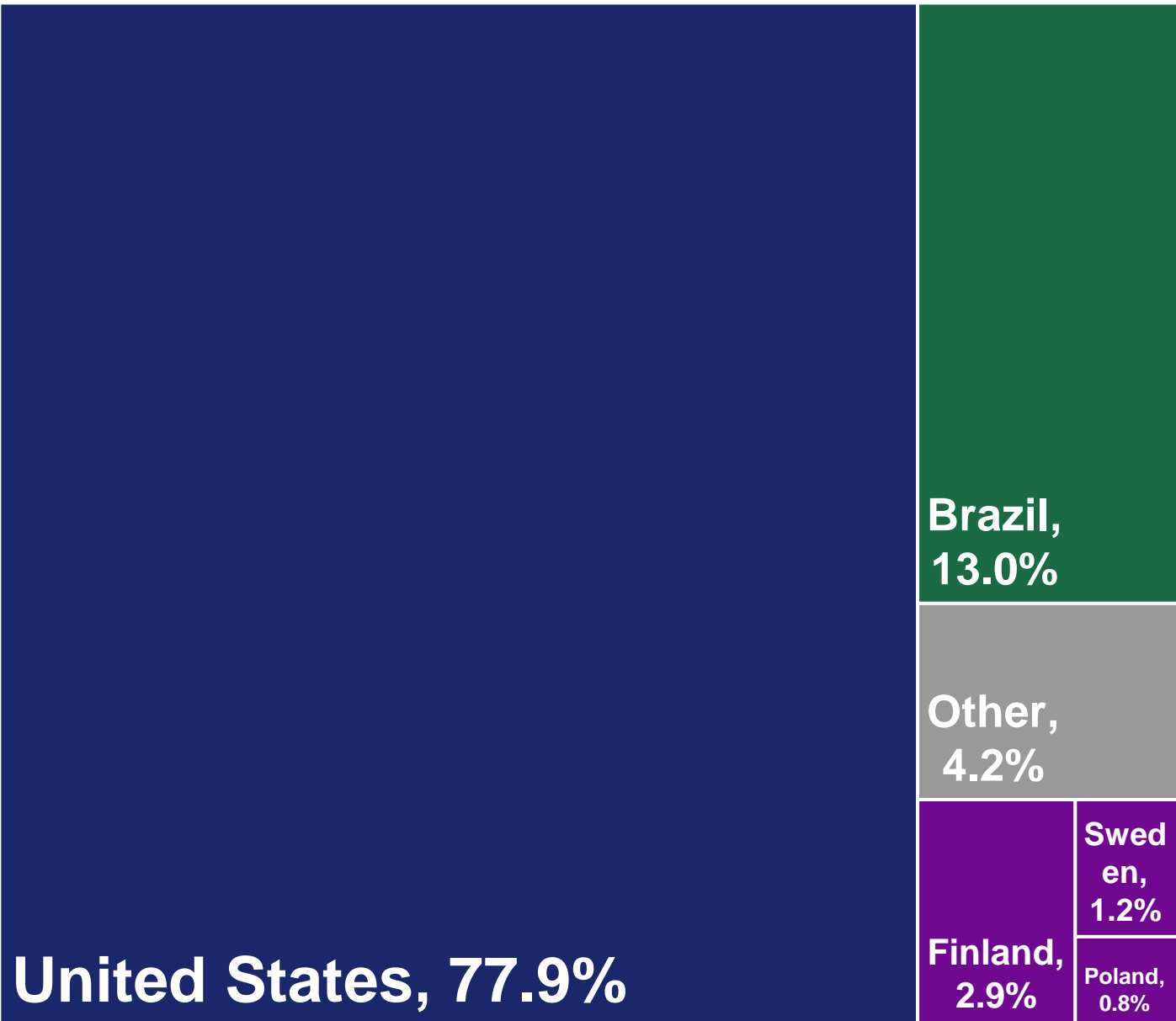
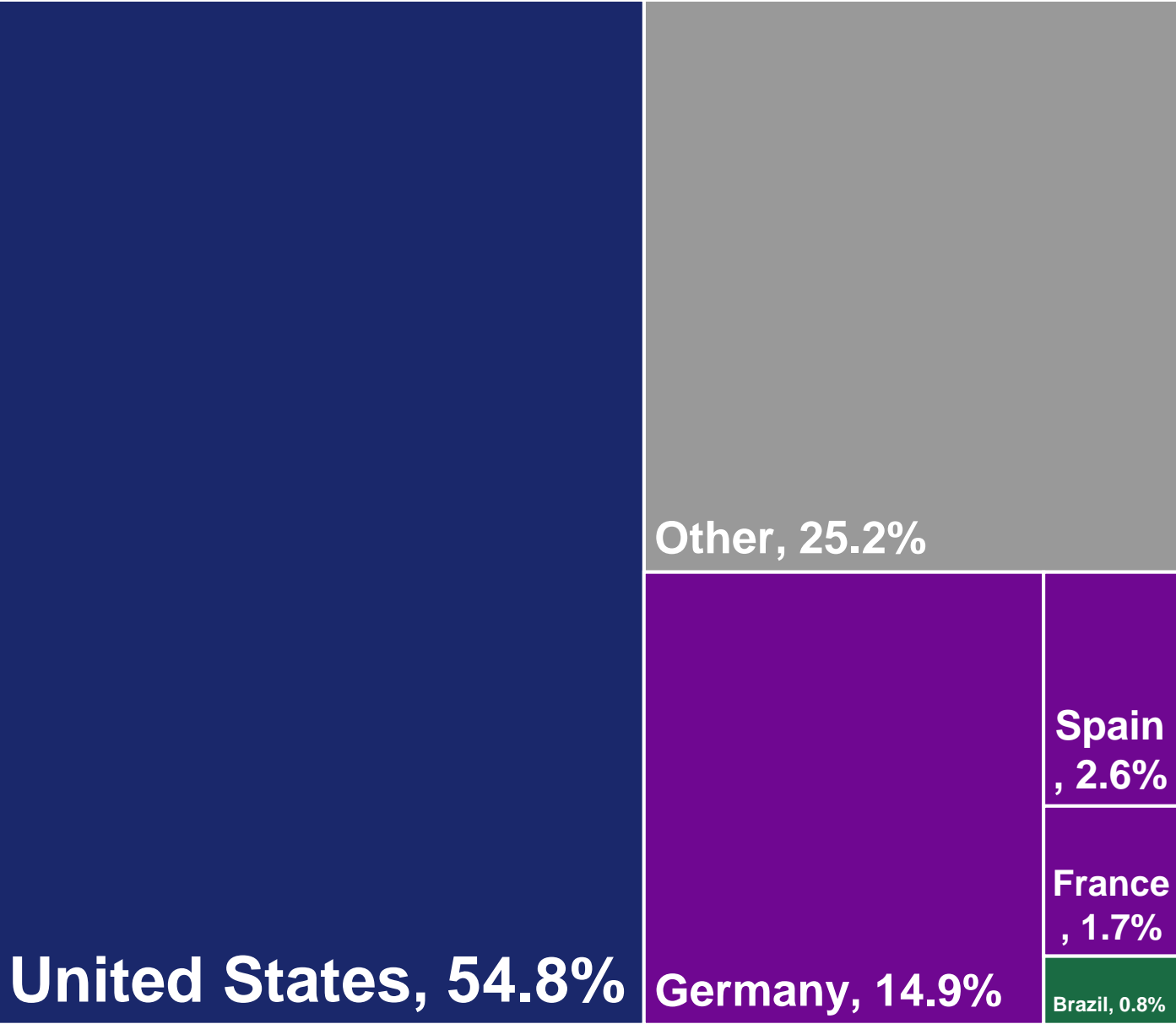
Source: Fastmarkets. * = Forecast.

...and are mainly supplied by the US, Brazil and Europe



RECYCLED CONTAINERBOARD IMPORTS BY ORIGIN (%)

VIRGIN CONTAINERBOARD IMPORTS BY ORIGIN (%)



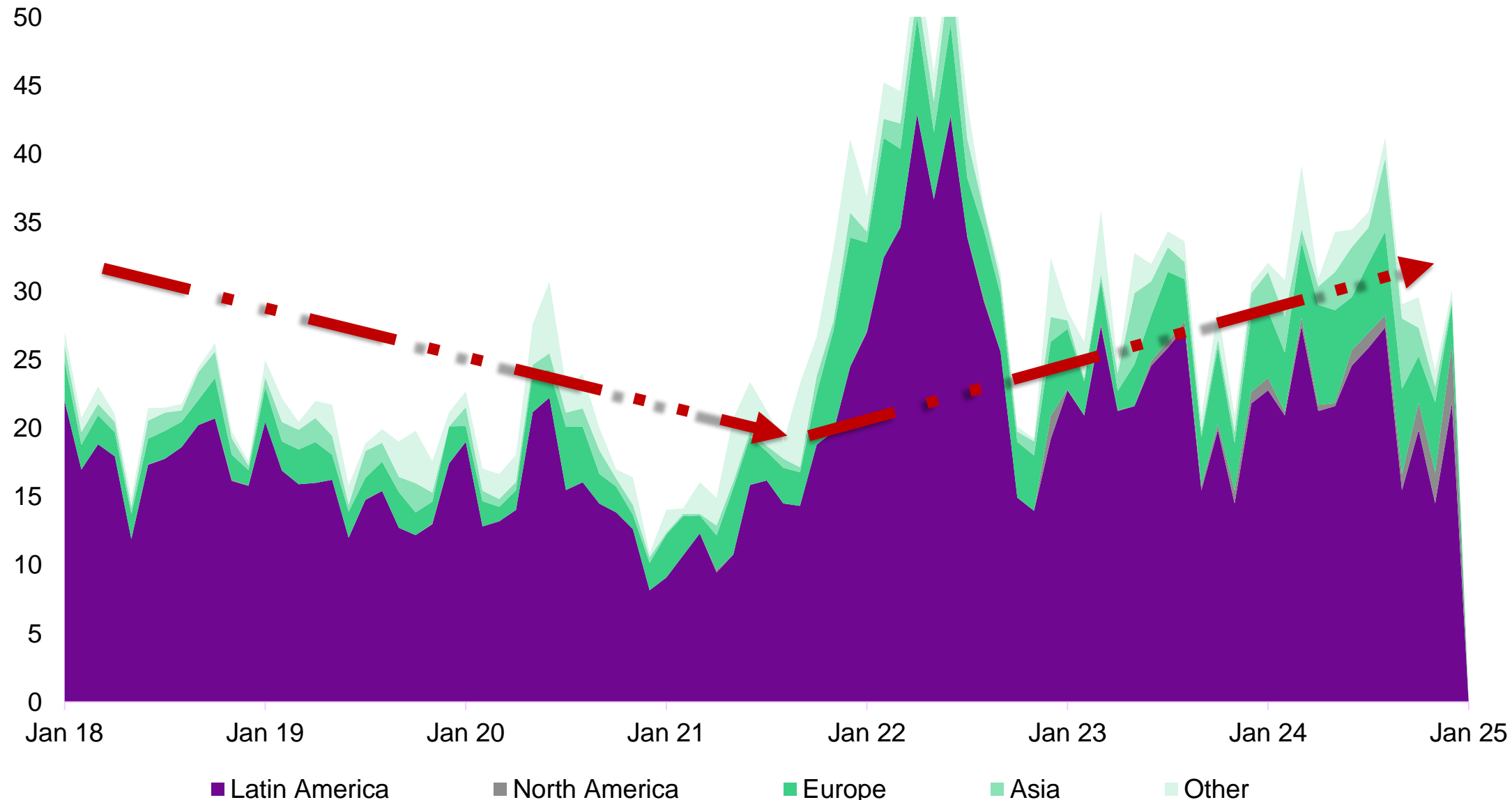
Source: Fastmarkets. * = Forecast.

Kraftliner exports soaring due to new startups



TRADITIONAL EXPORT MARKETS FOR BRAZILIAN KRAFTLINER

Thousand tonnes per month, three-month moving average



*Source: GTA,

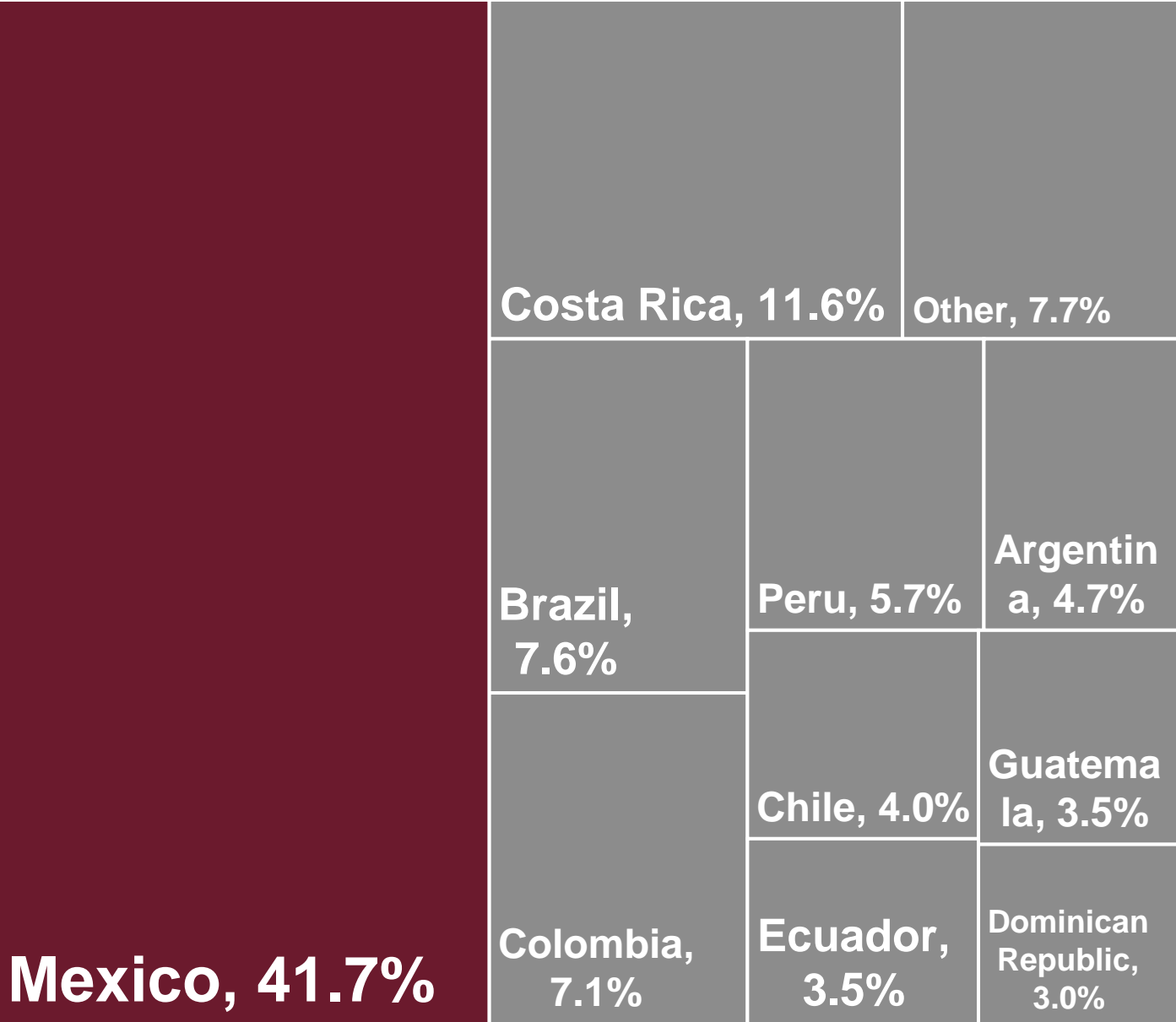
A new (old) story

- **Shift in historical level**
- Globally low fiber costs increase competitiveness of local producers
- Growing demand in **Latin America** boosting intraregional trade
- **Brazilian buyers compete with exports for volumes**
- **Argentina is a key-destination, but Brazil has been able to place production globally**

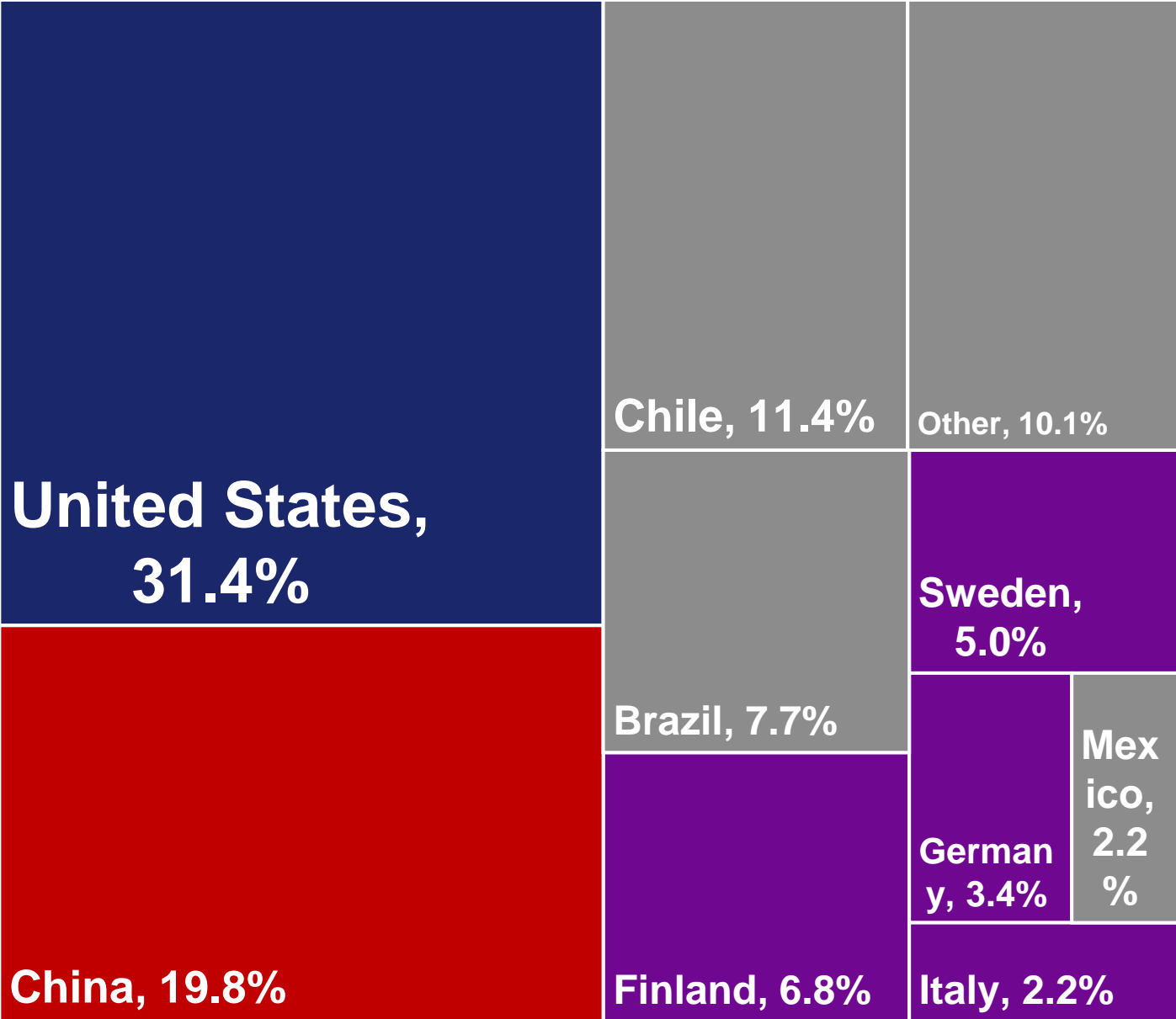
Boxboard imports are more varied



BOXBOARD IMPORTS BY DESTINATION (%)



BOXBOARD IMPORTS BY ORIGIN (%)

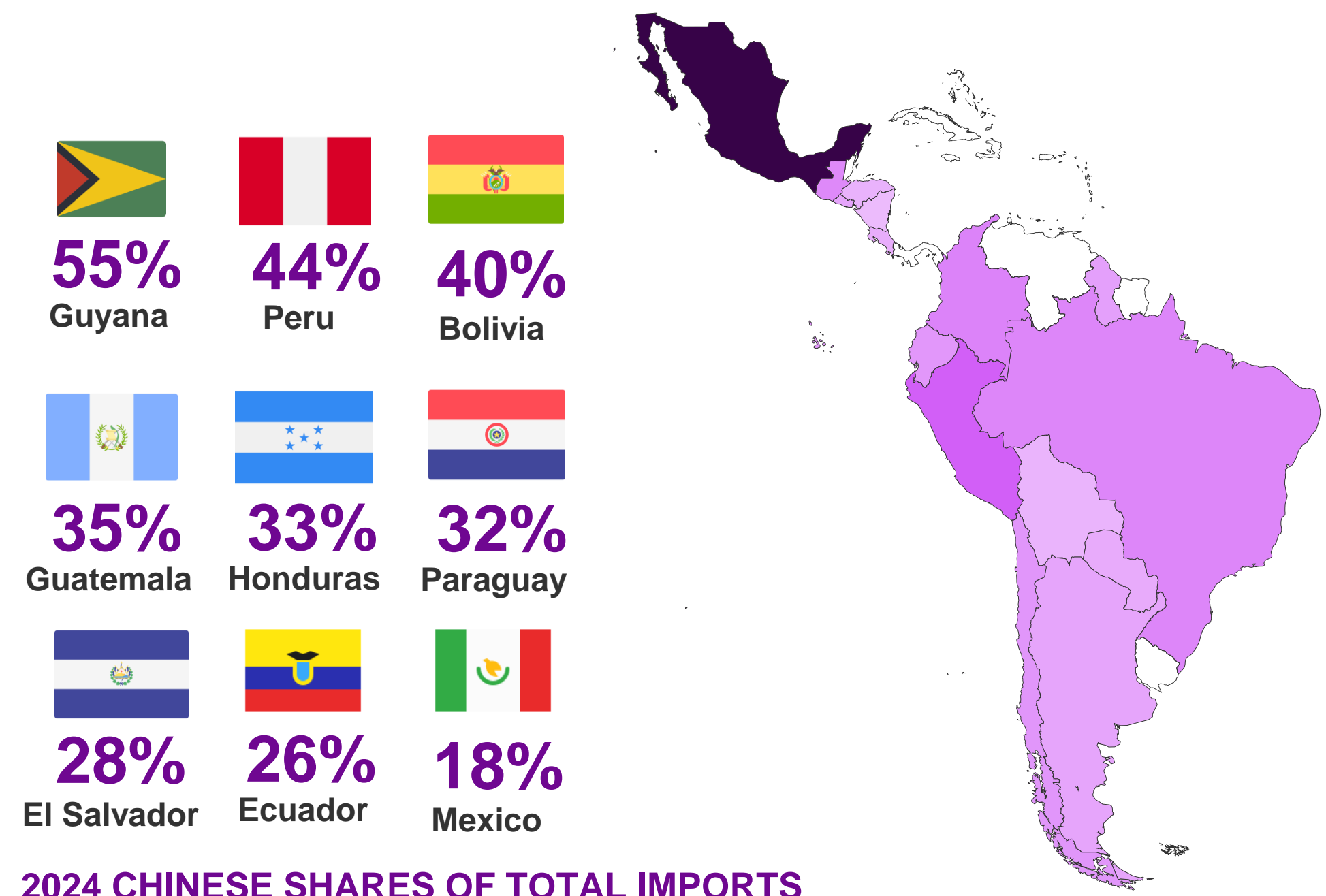


Source: Fastmarkets. * = Forecast.

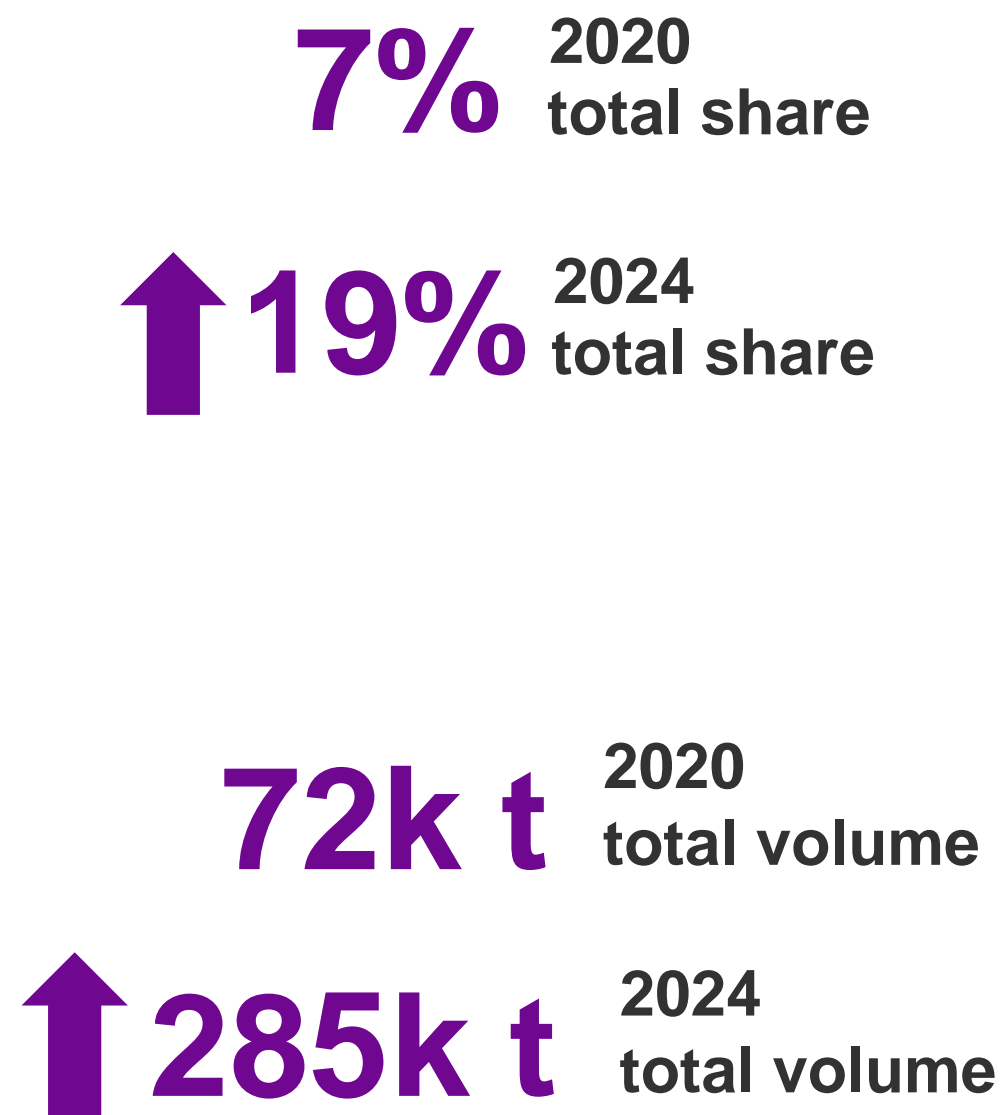
Chinese import penetration in Latin America



BOXBOARD IMPORTS FROM CHINA (THOUSAND TONNES)



2024 CHINESE SHARES OF TOTAL IMPORTS

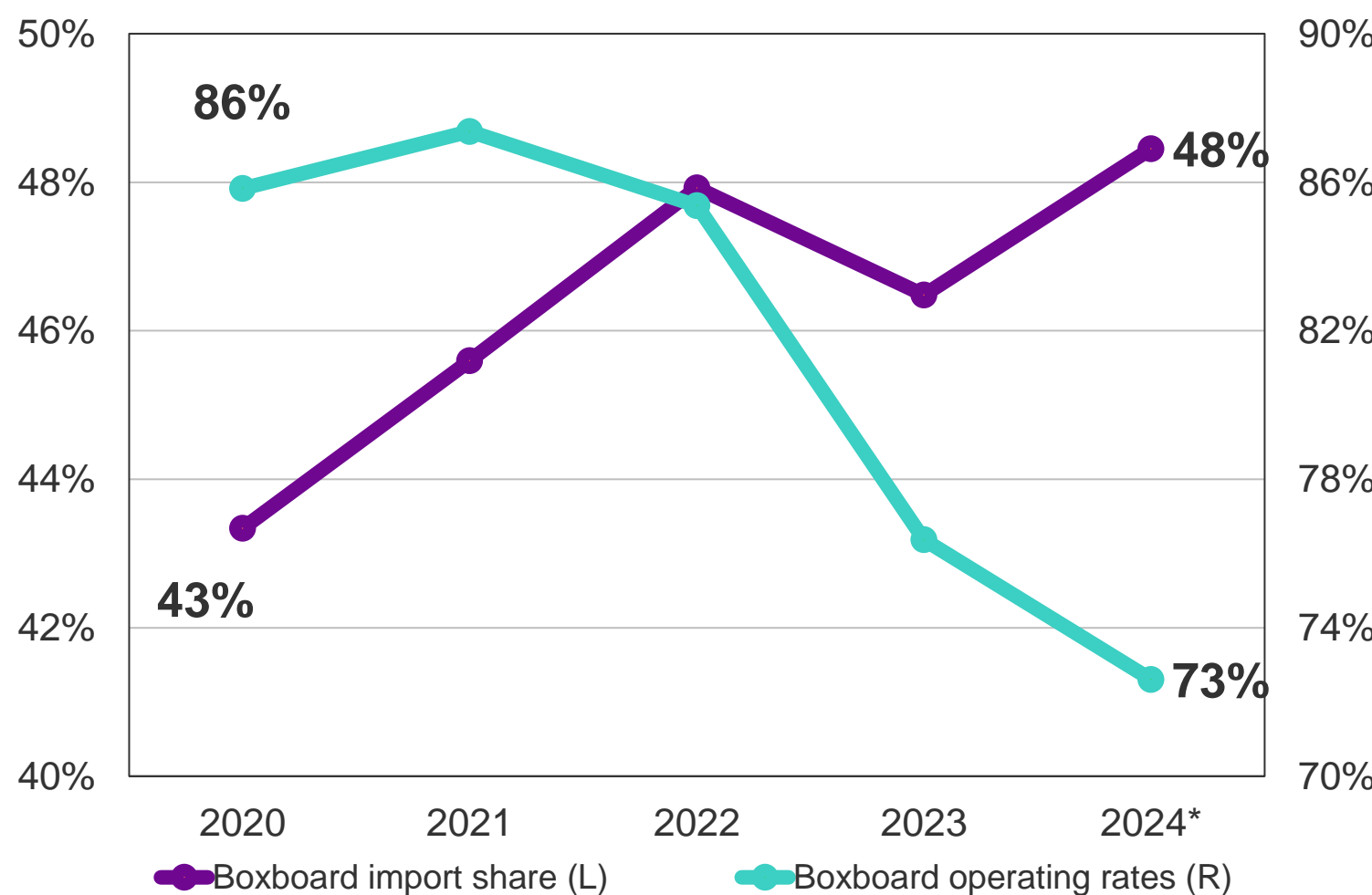


Source and analysis: Fastmarkets. * = Preliminary data

Growing reliance on boxboard imports in Latin America



BOXBOARD OPERATING RATES VERSUS IMPORTS SHARE OF DEMAND



Source and analysis: Fastmarkets. * = Preliminary data.



Imports increased

Total production fell 65k tonnes in 2020-24, while net imports increased 292k tonnes



Cost-competitive imports

Chinese imports jumped +200k tonnes in 2020-24, mainly to Mexico, thanks to competitive costs



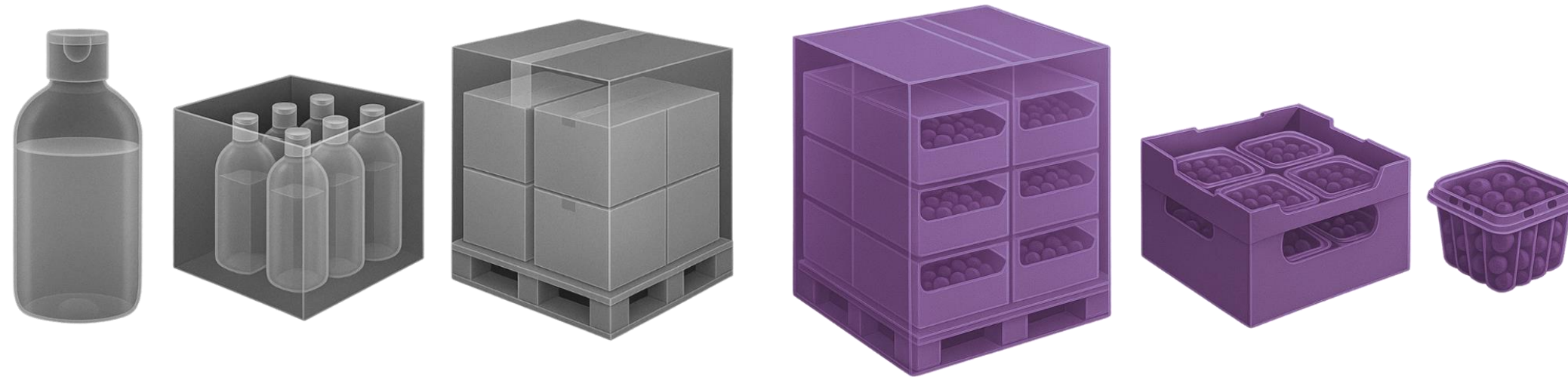
Idle capacity

Total Latin American non-containerboard nameplate capacity increased more than 500k tonnes in 2020-24, also reducing operating rates

Why packaging demand is so resilient in Latin America?



CONTAINERBOARD AND BOXBOARD CONSUMPTION IS CORRELATED TO ESSENTIAL GOODS SECTORS



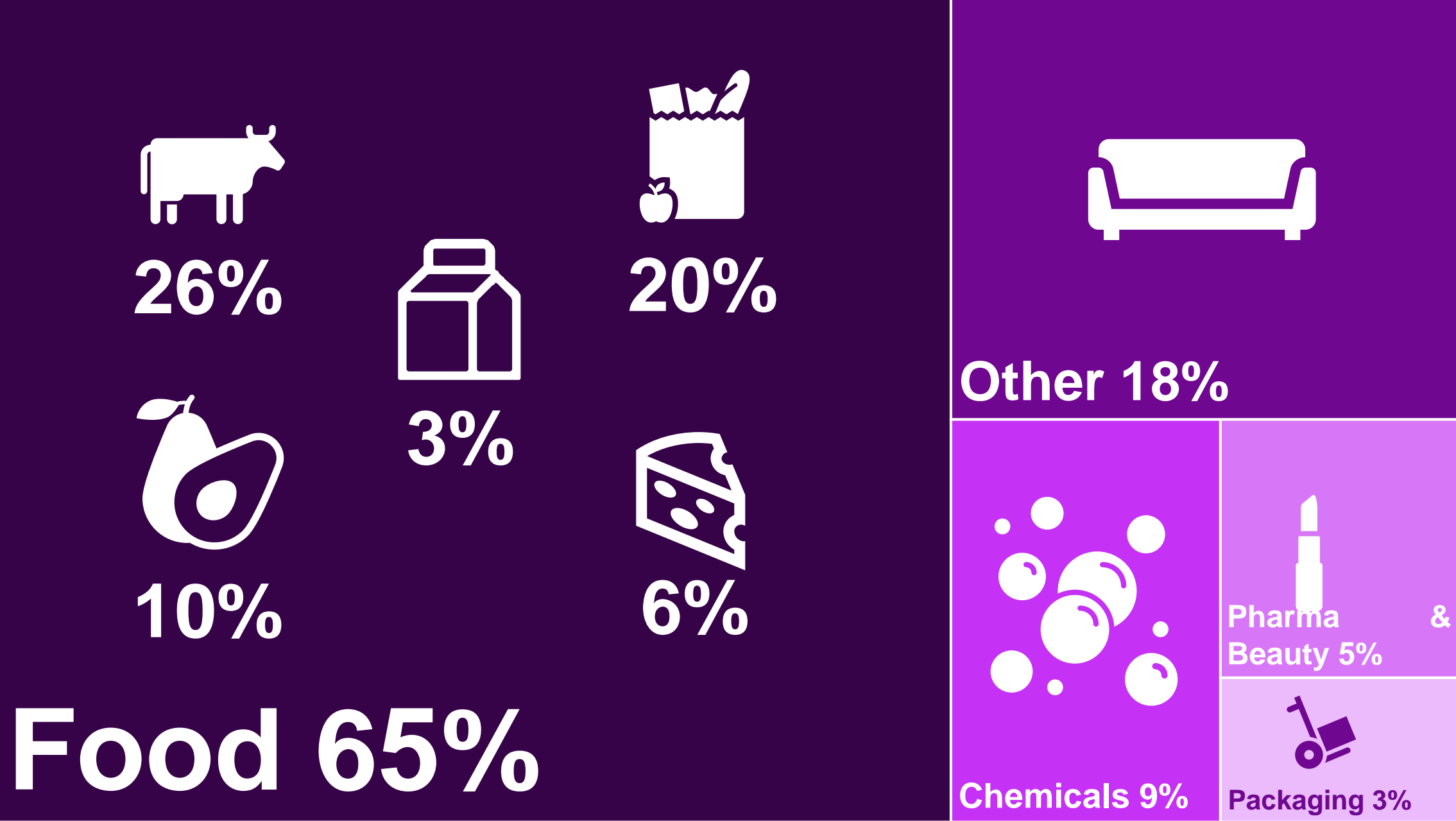
Beverages & Hygiene: Secondary and tertiary packaging are paper, and primary *can eventually be (if processed)* **Fruits & Vegetables:** Secondary and tertiary packaging are paper, and primary *can eventually be (if processed)*



Groceries: primary, secondary and tertiary packaging are paper **Animal Protein:** Secondary and tertiary packaging are paper, and primary *can eventually be (if processed)*

Where is all this containerboard going?

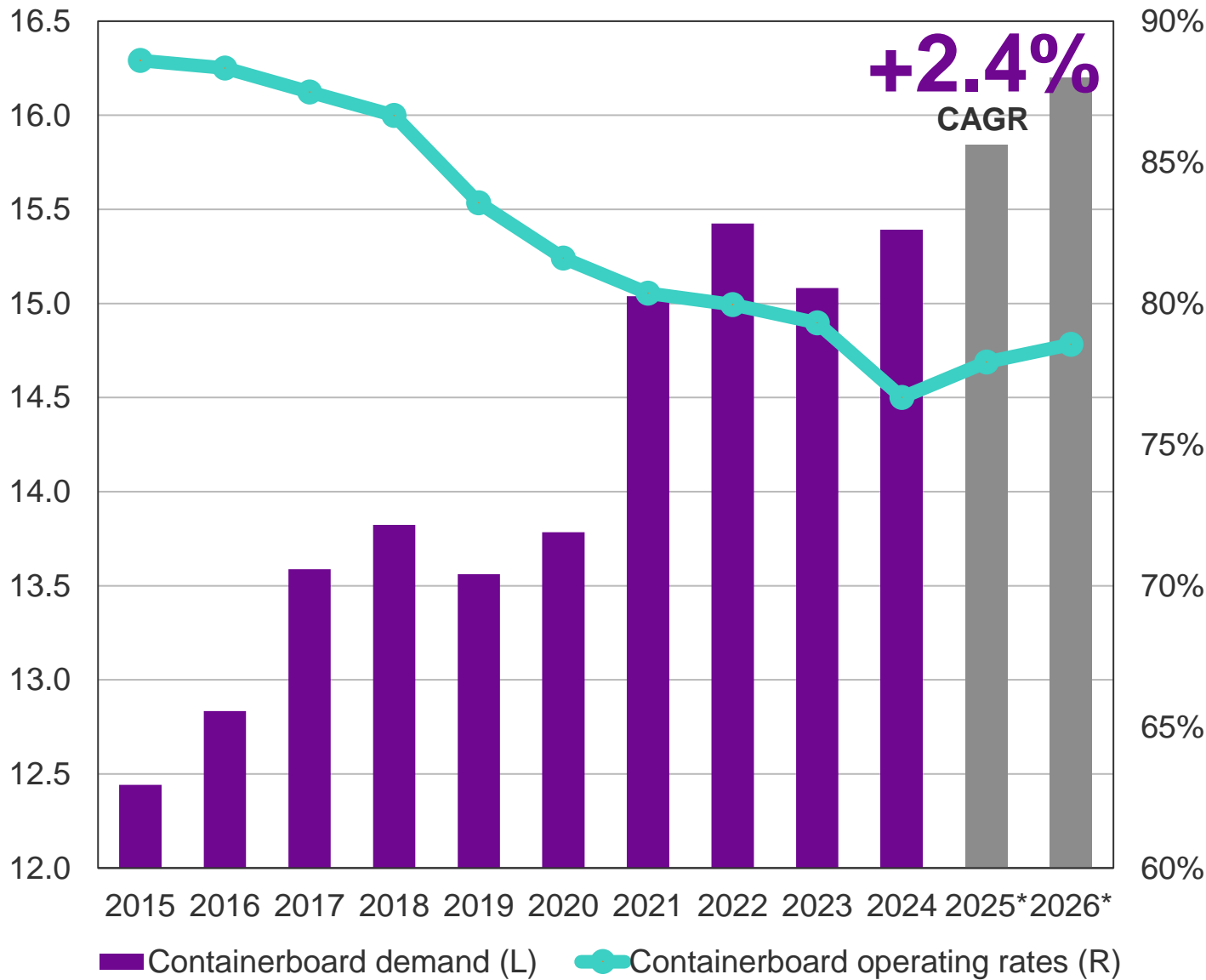
AVERAGE USAGE OF CONTAINERBOARD IN BRAZIL, 2023



Demand and operating rates should recover in 2025-26

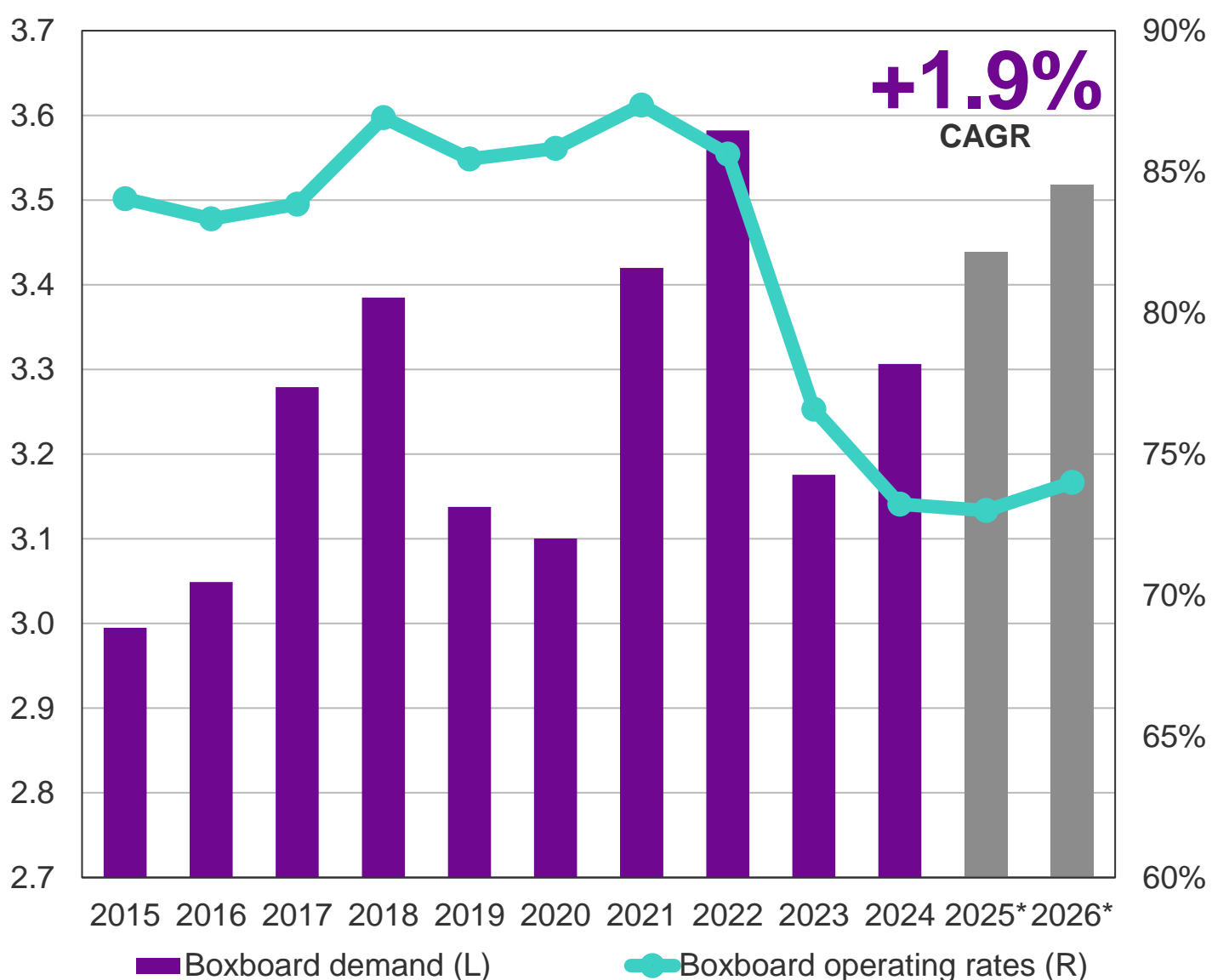


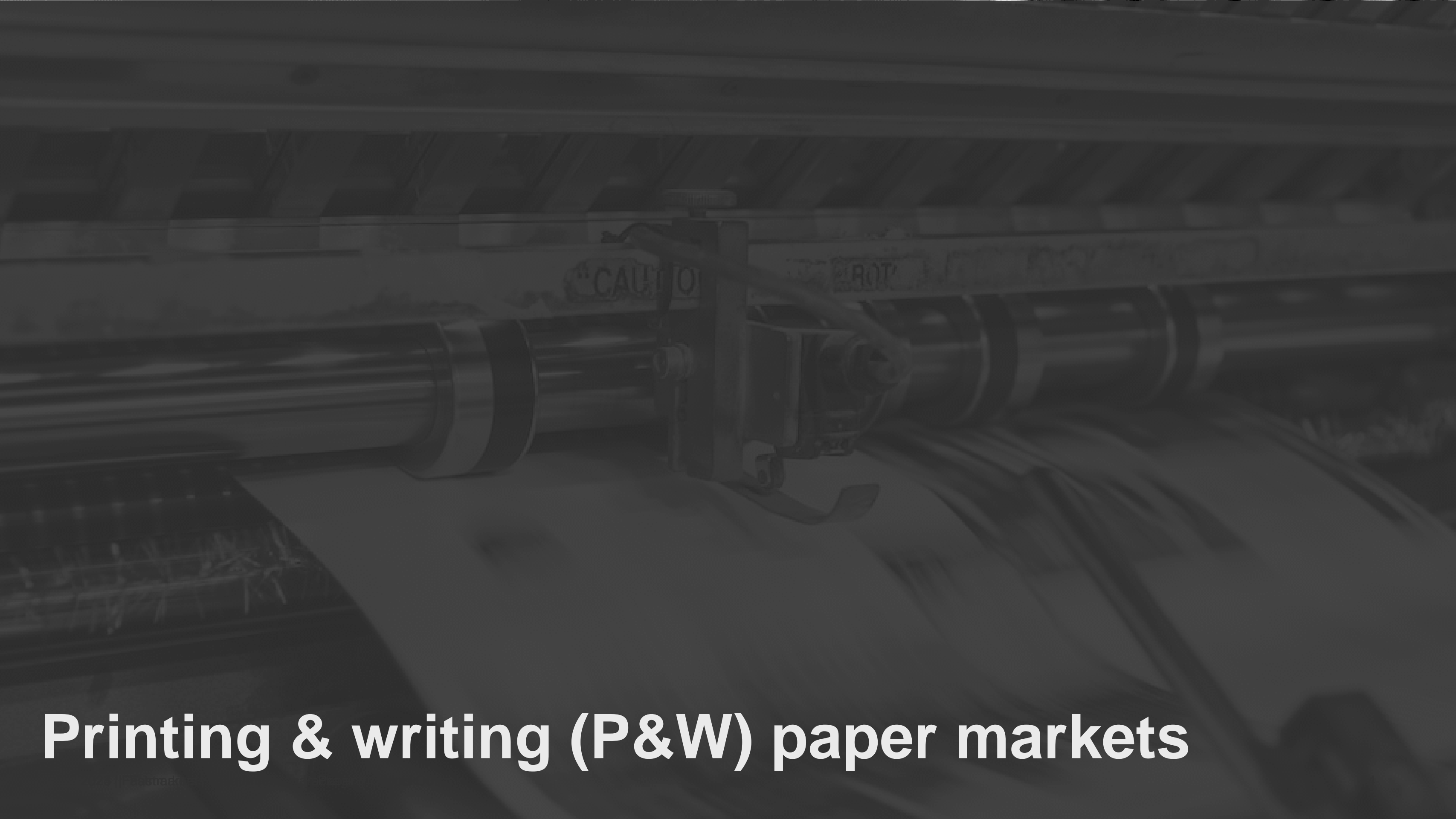
Containerboard packaging paper demand (million tonnes, left), operating rates (% , right)



Source: Fastmarkets. * = Forecast

Boxboard packaging paper demand (million tonnes, left), operating rates (% , right)

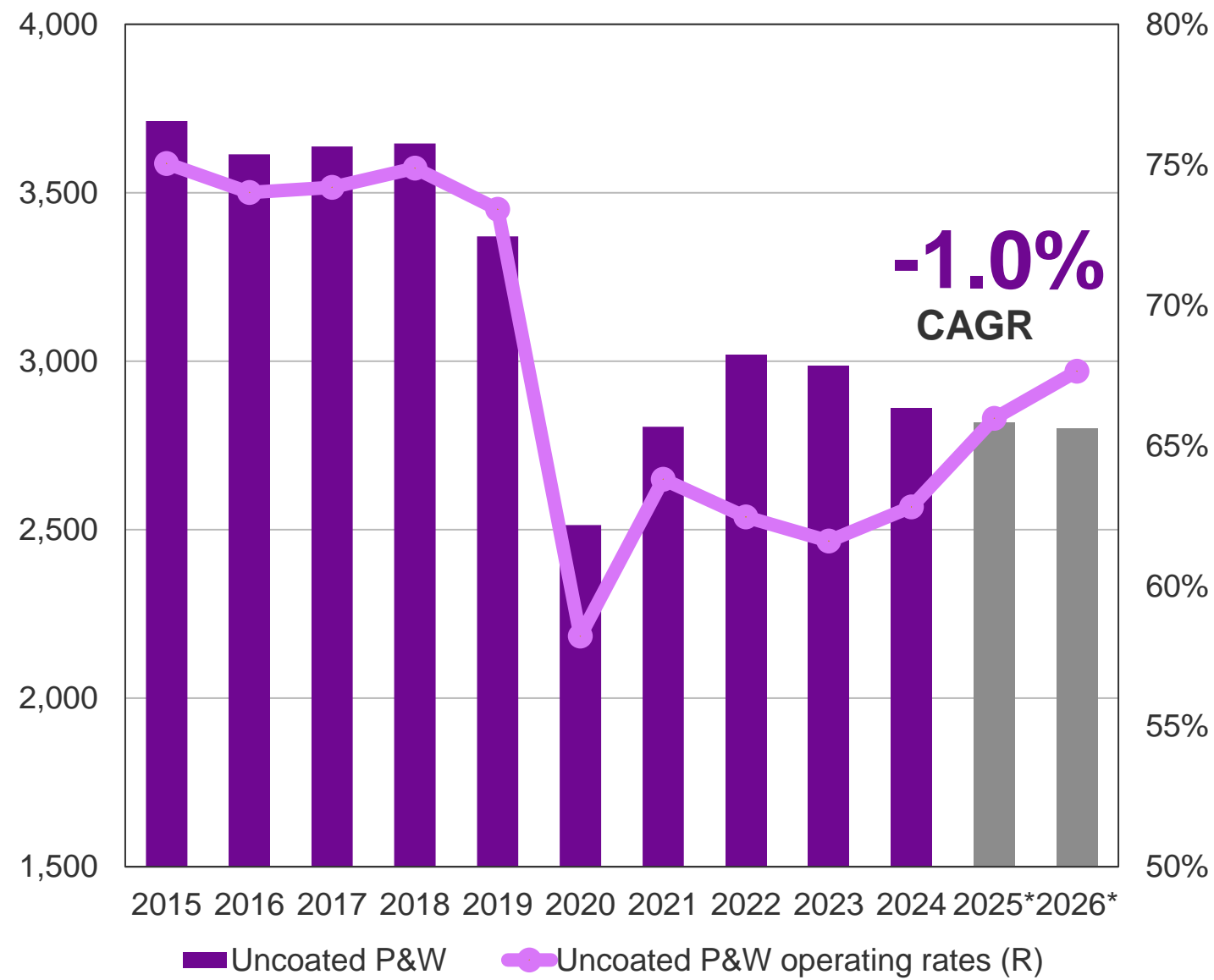




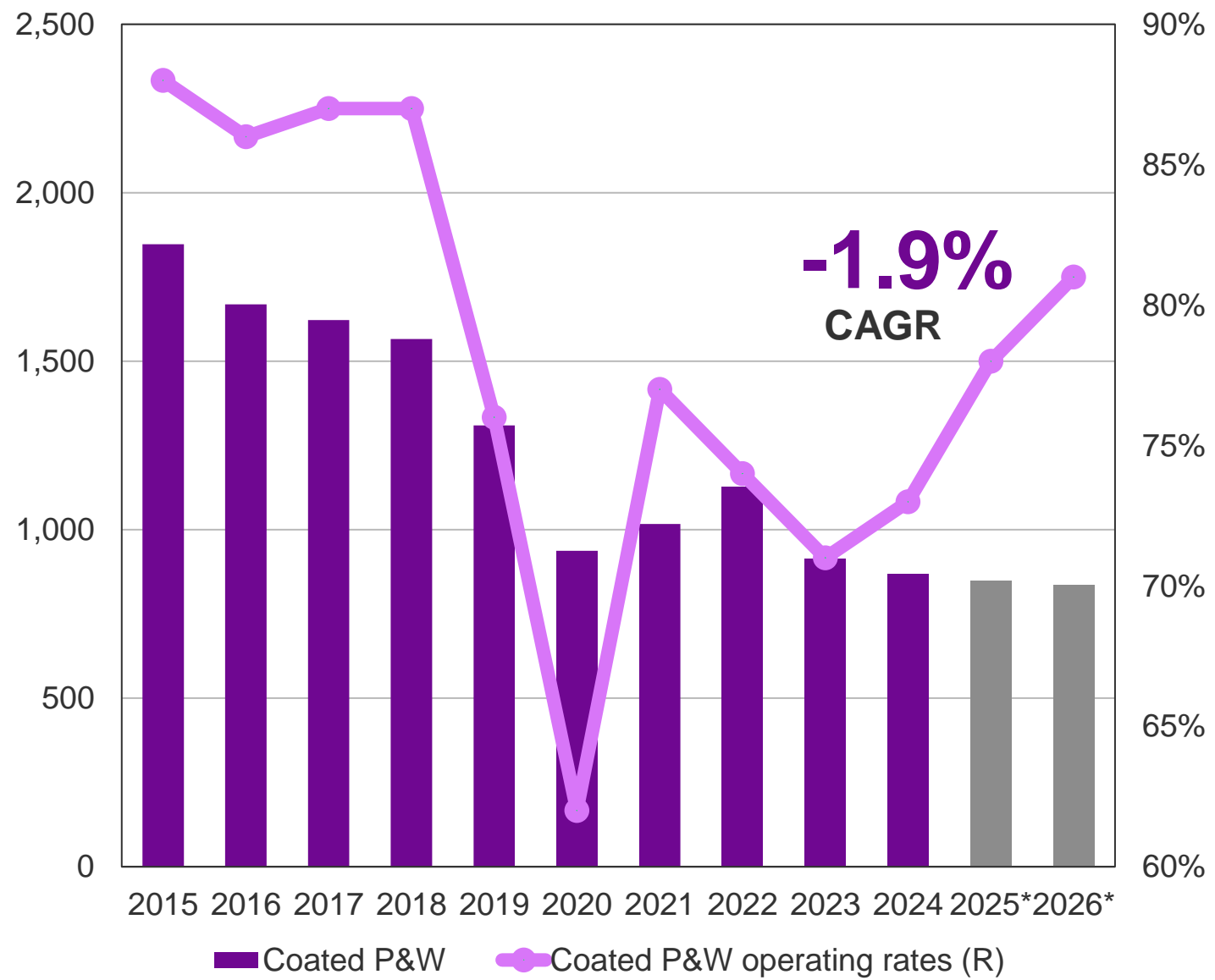
Printing & writing (P&W) paper markets

Demand will fall in 2025-26, operating rates will see some relief

UNCOATED P&W PAPER DEMAND (1,000 TONNES, LEFT), OPERATING RATES (% , RIGHT)



COATED P&W PAPER DEMAND (1,000 TONNES, LEFT), OPERATING RATES (% , RIGHT)



Source: Fastmarkets. * = Forecast

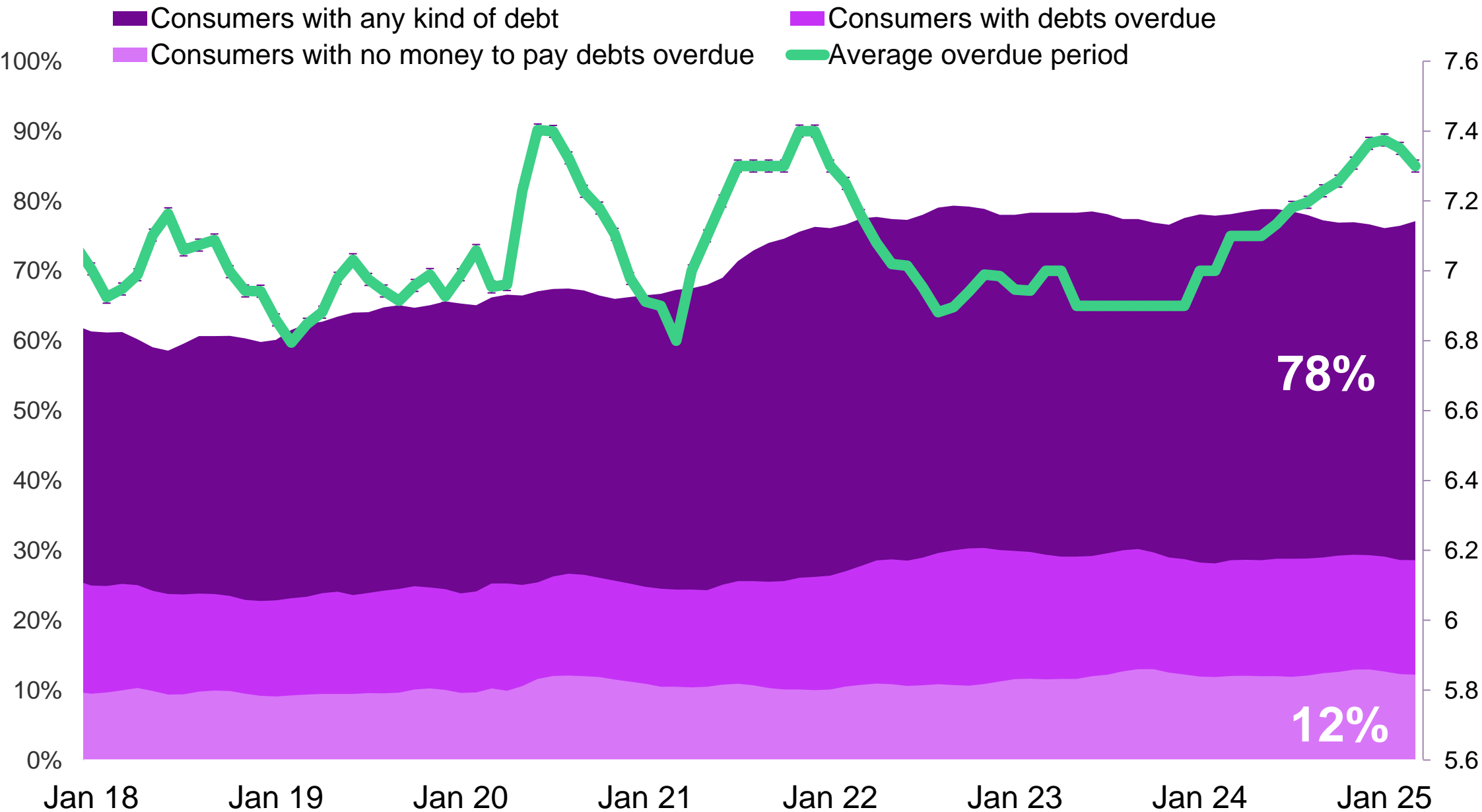


Market challenges

2023 || Fastmarkets Latin America & the Caribbean Outlook

Consumer debt non-stop rising

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



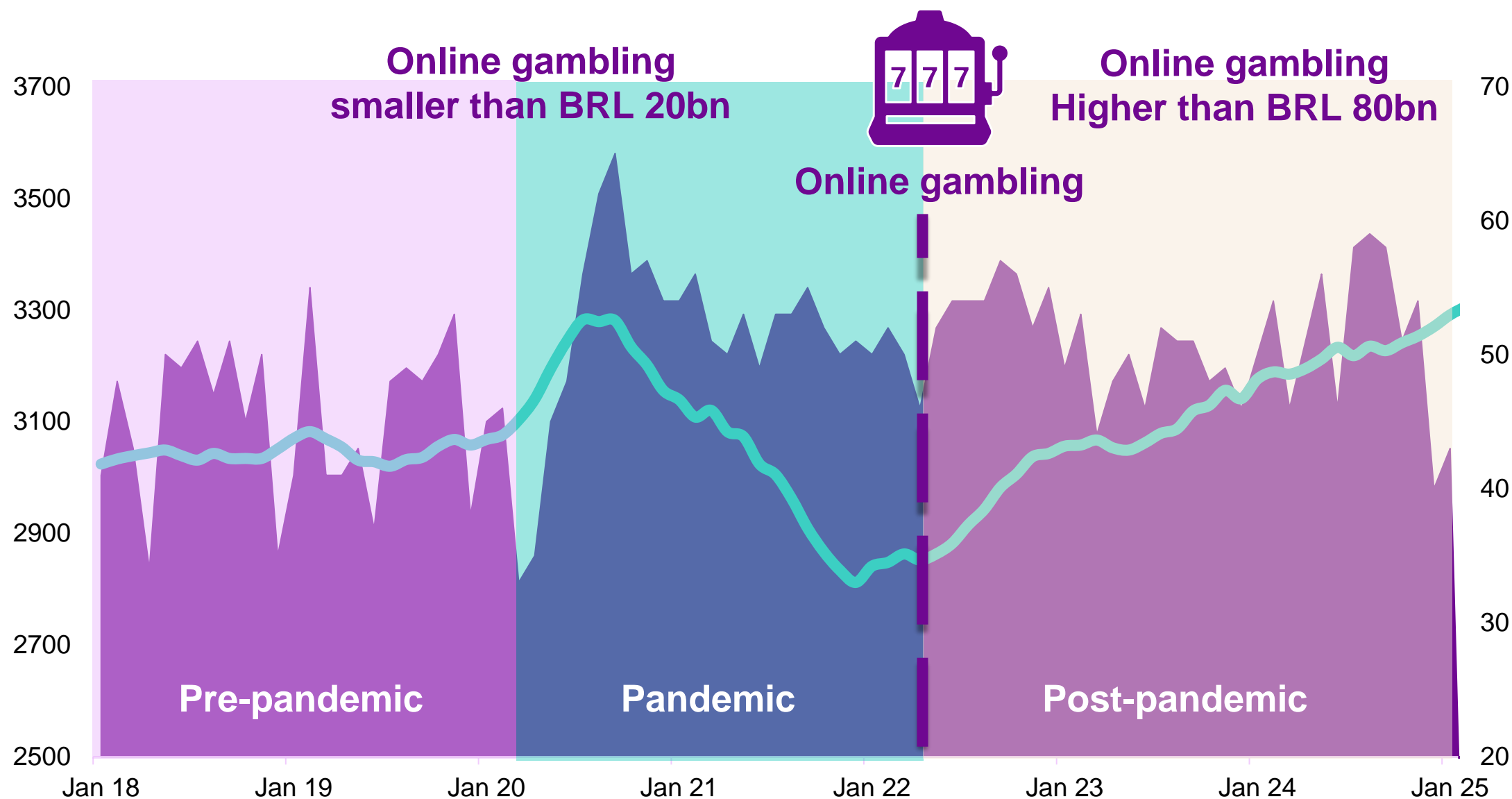
Source: CNC

Problematic addiction

-  **\$35 billion**
Spent on online gambling only in 2024 (+135% yoy)
-  **More than 47%**
Of online gamblers have overdue debts
-  **Betting > Food**
51% of online gamblers used food money to bet
-  **Above 80%**
Default rates of government's loans
-  **Above 50%**
Default rates of credit card users

Brazil: Disposable income leads boxboard demand?

INFLATION-ADJUSTED DISPOSABLE INCOME (L) VERSUS BOXBOARD SALES (-1) (R)
Brazilian Reais (left), thousand tonnes per month (-1)



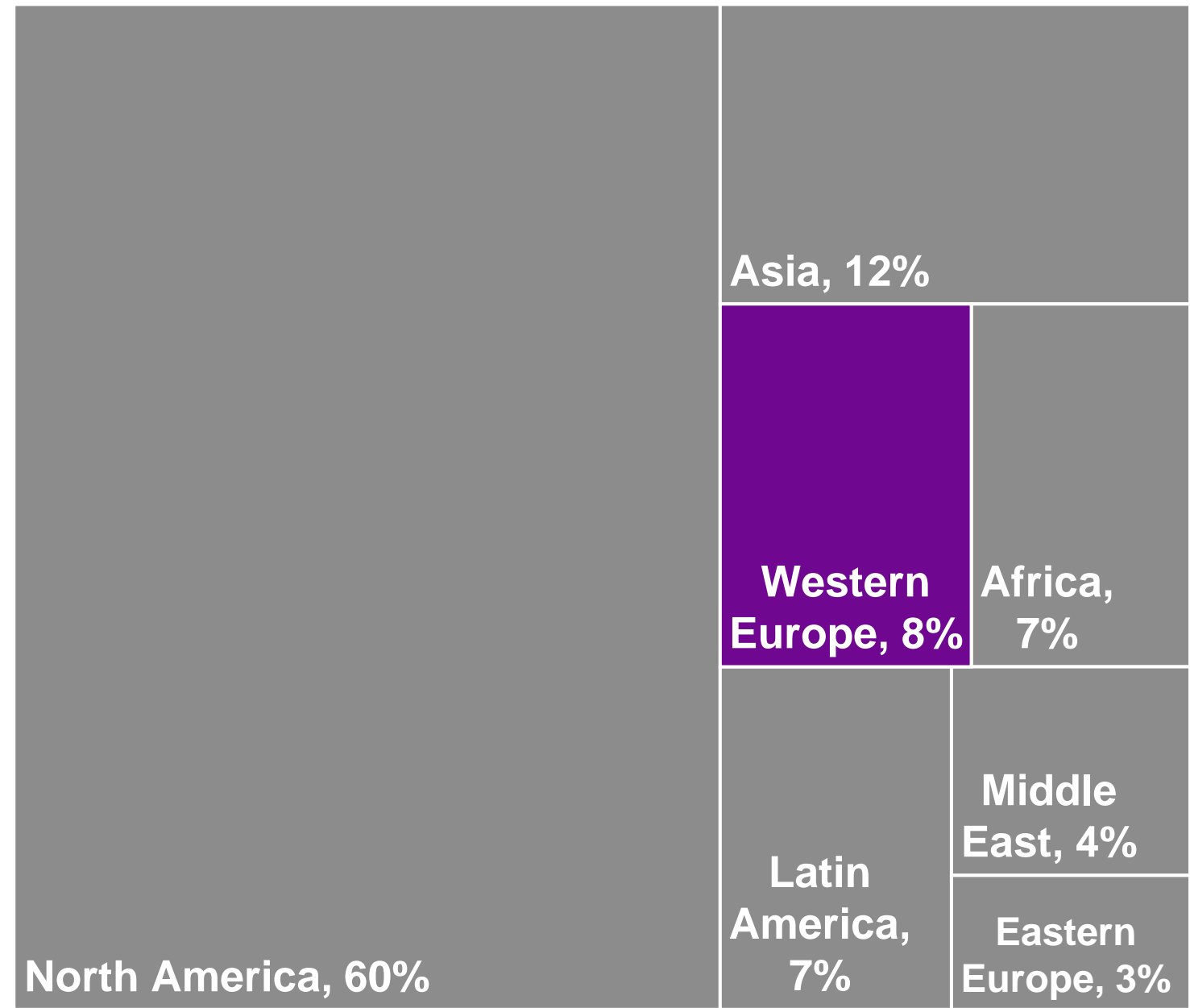
Source: IBGE, Fastmarkets, CNC

Reshaping the market

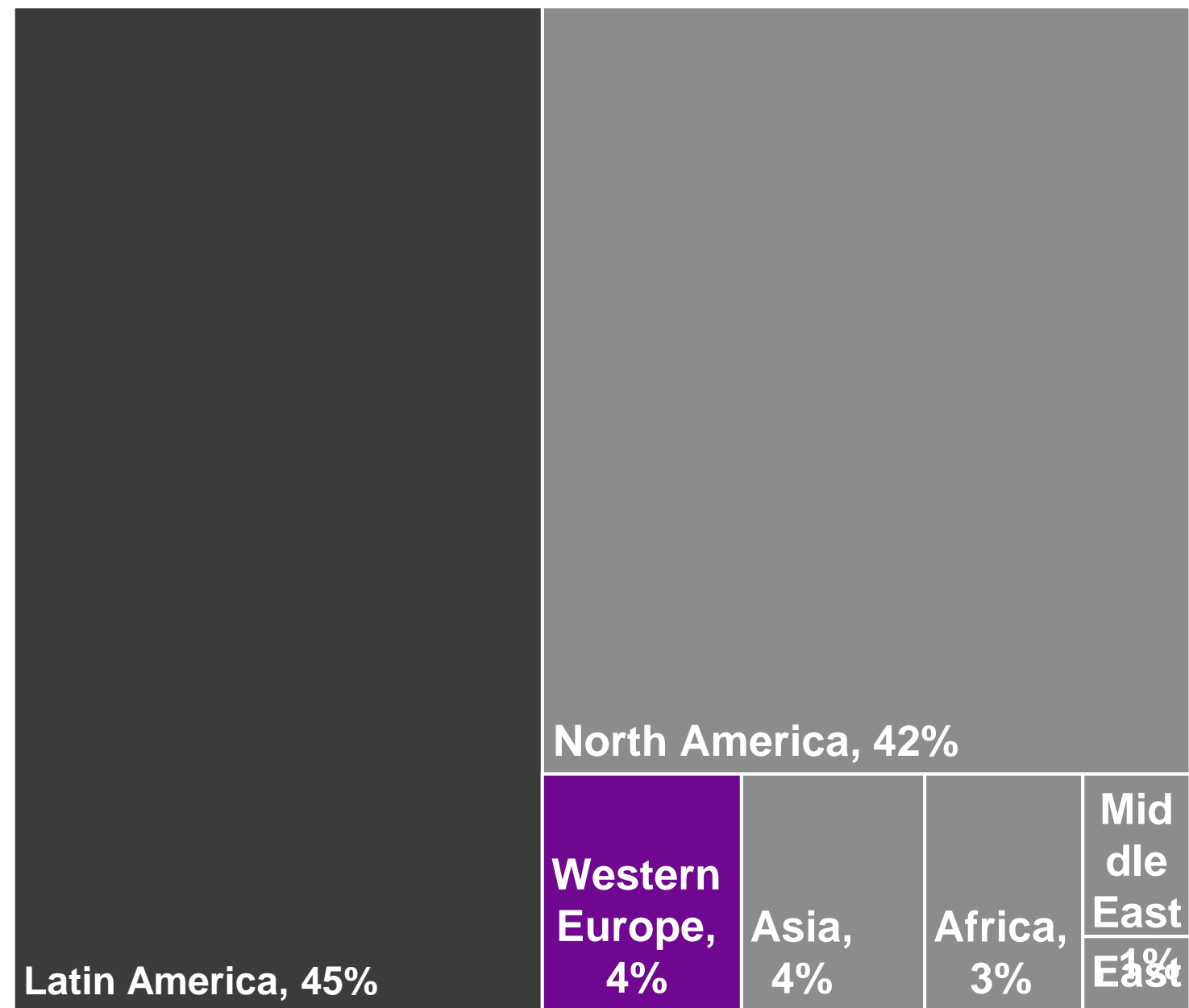
- Boxboard demand is historically correlated with disposable-income levels
- Demand drivers remained stable during the pandemic, despite huge swings in income
- Post-pandemic relationship changed due to new consumer preferences

EUDR will affect food & paper product exports from Latin America

FOOD EXPORTS SHARE BY DESTINATION (2023)



PAPER PRODUCTS EXPORTS SHARE BY DESTINATION (2023)



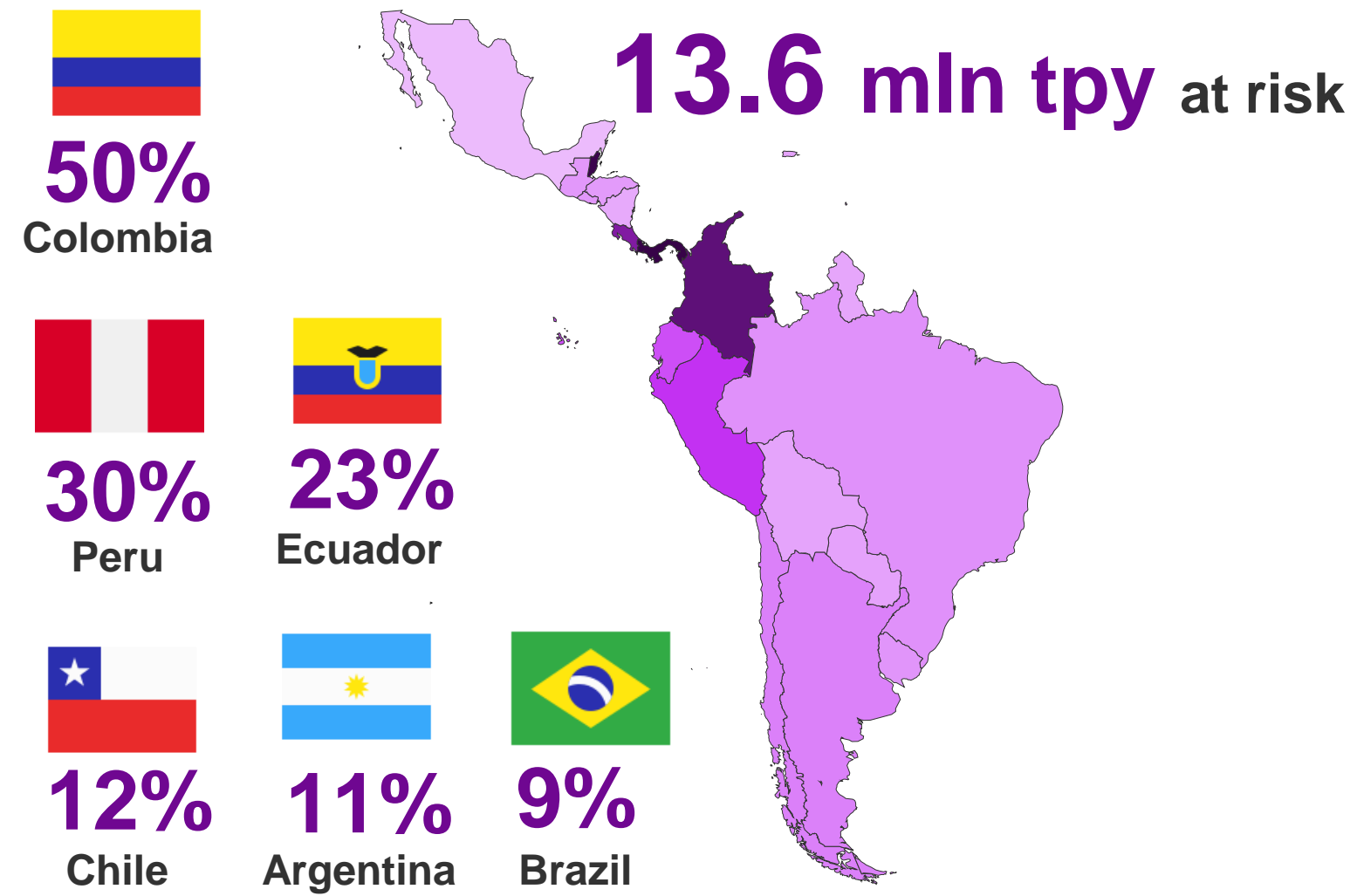
Source and analysis: Fastmarkets. * = Preliminary data.

Direct and indirect exports at risk due to EUDR



FOOD & PAPER PRODUCTS EXPORTS TO EUROPE SHARE OF TOTAL EXPORTS (2023)

FOOD



PAPER PRODUCTS



Exposure of exports 0.1% 58.2%

Exposure of exports 0.0% 23.4%

Source and analysis: Fastmarkets. * = Preliminary data.

Total* 510-780k tpy of paper packaging at risk

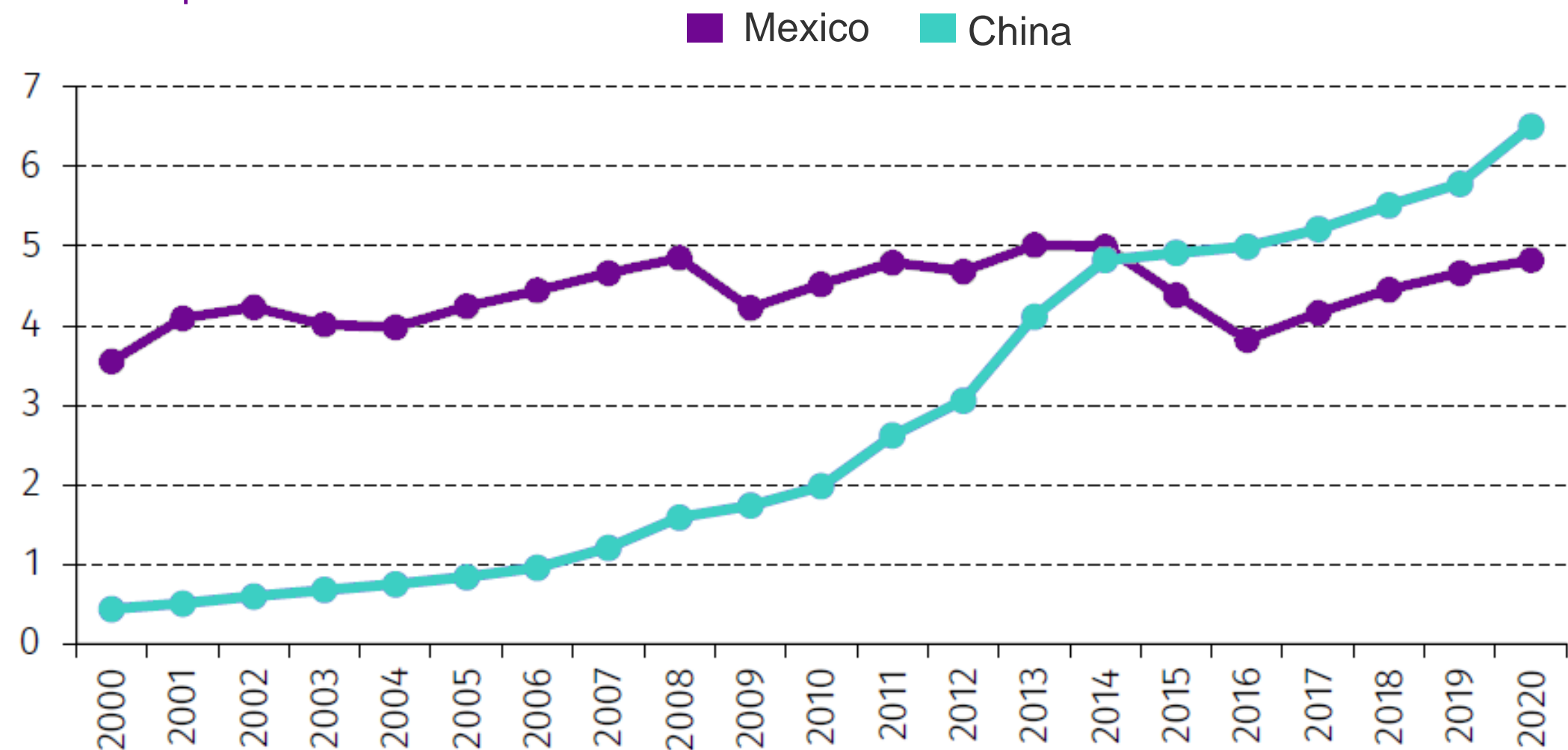
A line of American trucks and vans driving on a dirt road in a desert. The lead vehicle is a red Chevrolet pickup truck with "ARIZONA HONORARIUS" and a star graphic on its side. Behind it is a white pickup truck, followed by a white van with an American flag on its side, and another truck further back. Several tall poles with American flags are positioned along the road. The background shows a vast desert landscape with low mountains under a hazy sky.

Nearshoring in Mexico

Investing in Mexico is profitable for Americans

LABOR COSTS COMPARISON: MEXICO VS CHINA

US dollars per hour



Source: CEPAL, Board of Governors of Federal Reserve.

Why Mexico?



Cheaper labor costs

Labor costs about 12-15% less than China and 40% less than in the US



Proximity to the US

Cheaper transport and smaller network risk than Asia, favoring **just-in-time** chains



Land transportation

90% of goods exported from Mexico are shipped via land routes



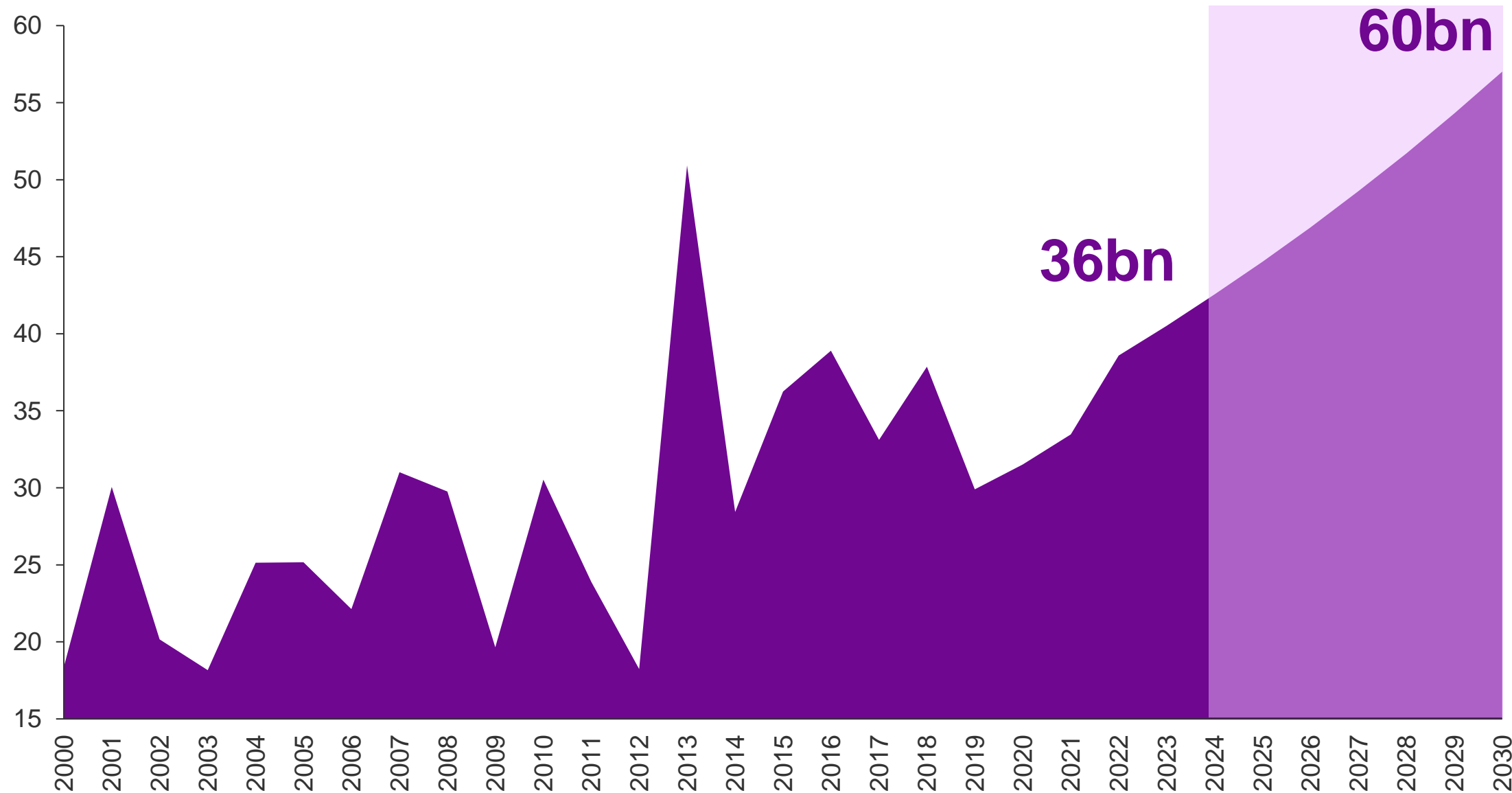
Better governance

Bilateral understanding of the **modus operandi** for the Mexican and US industries favors both countries

Investments will continue growing

TOTAL FOREIGN INVESTMENT IN MEXICO

Billion US dollars



Source: Local bureau of statistics.

Growth factors



Trade deals
USMCA



SEZs and FTZs
Special Economic Zones and Free-Trade Zones created in Mexico to boost exports



US geopolitics
White House Executive order published in 2021



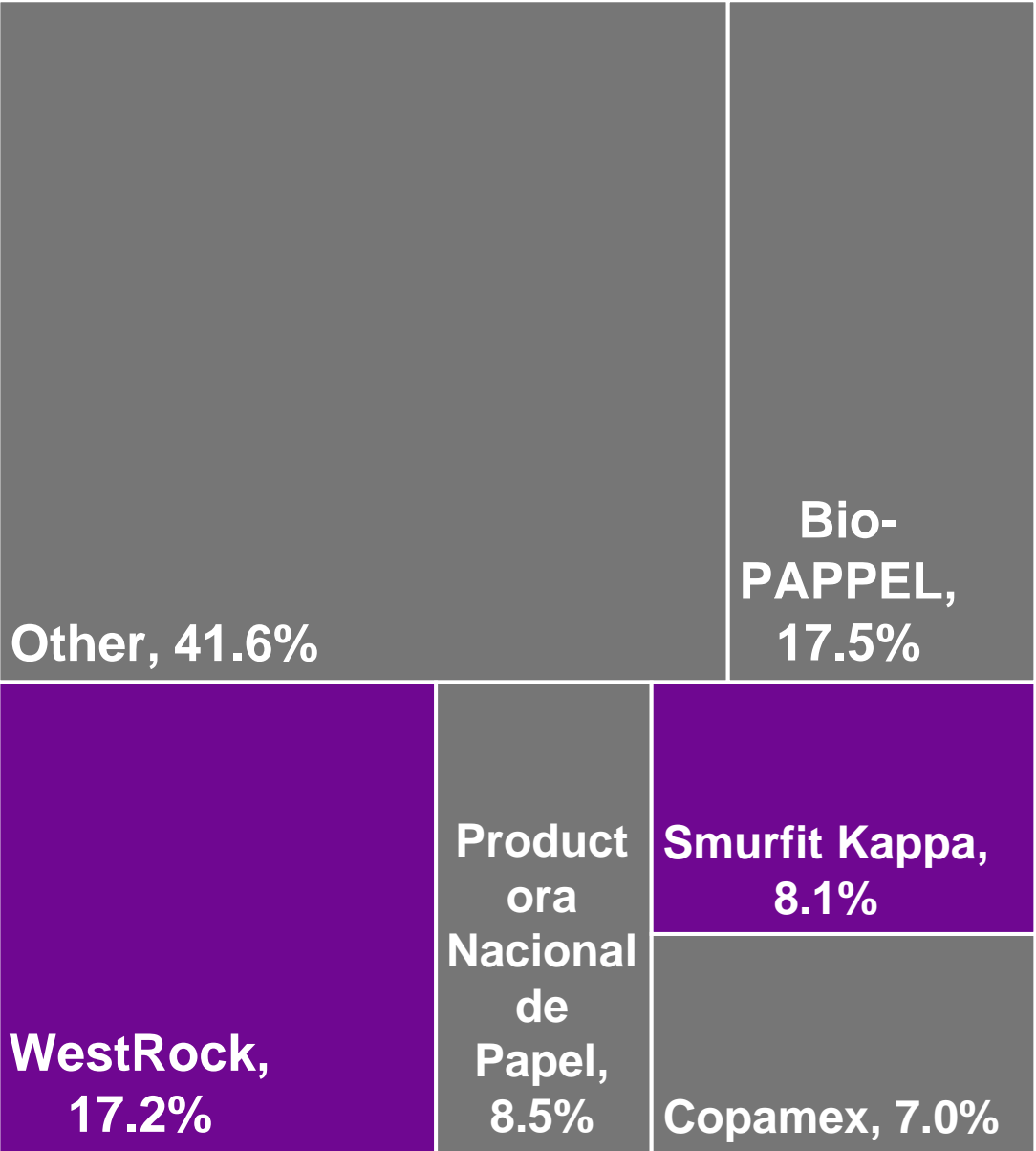
IMMEX Program
Foreign manufacturers can import raw materials and components into Mexico duty-free on condition that they export 100% of the production

Nearshoring: A GVC trend in packaging

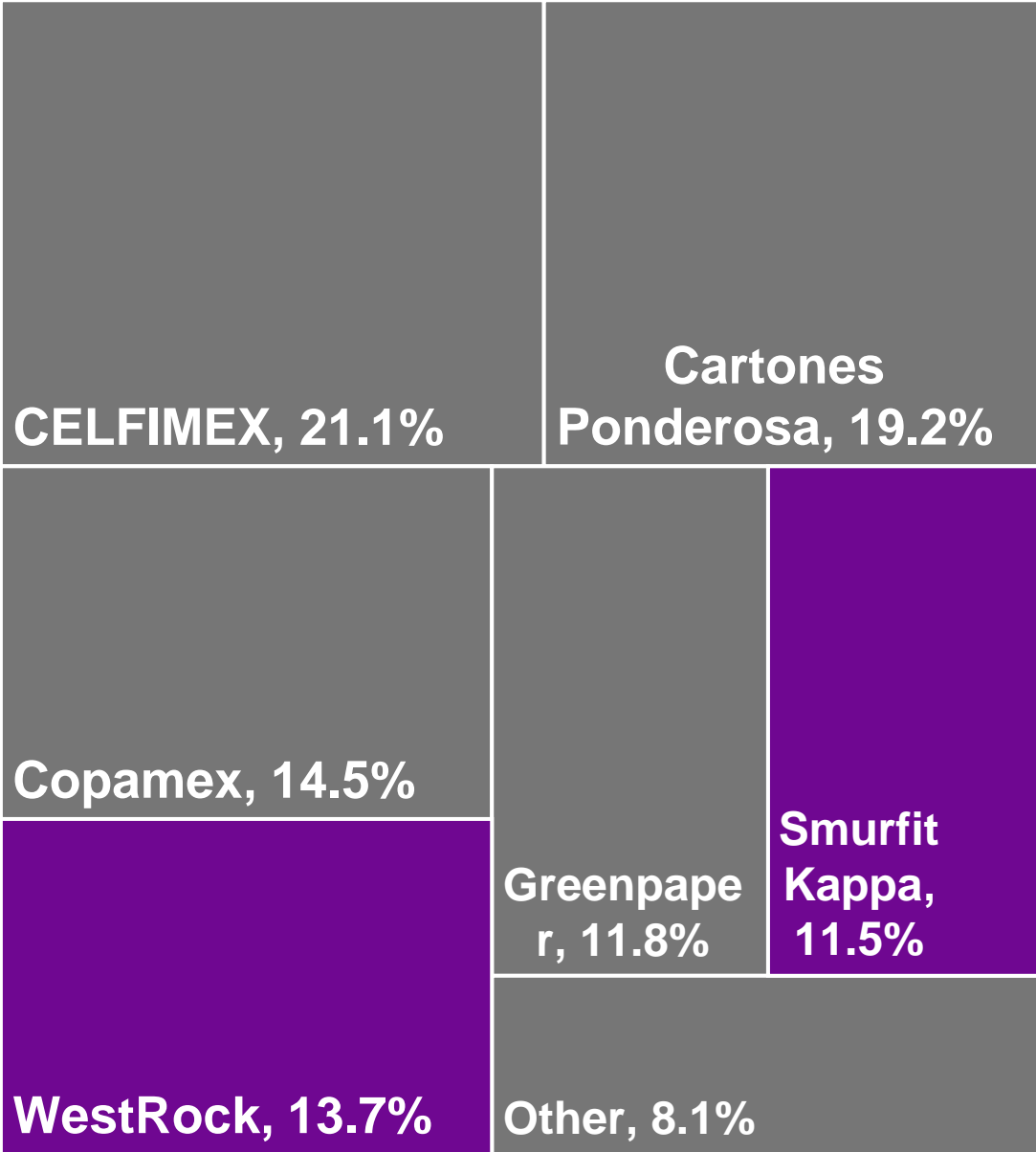


CAPACITY SHARE BY PRODUCER IN MEXICO (%)

CONTAINERBOARD



NON-CONTAINERBOARD PAPER

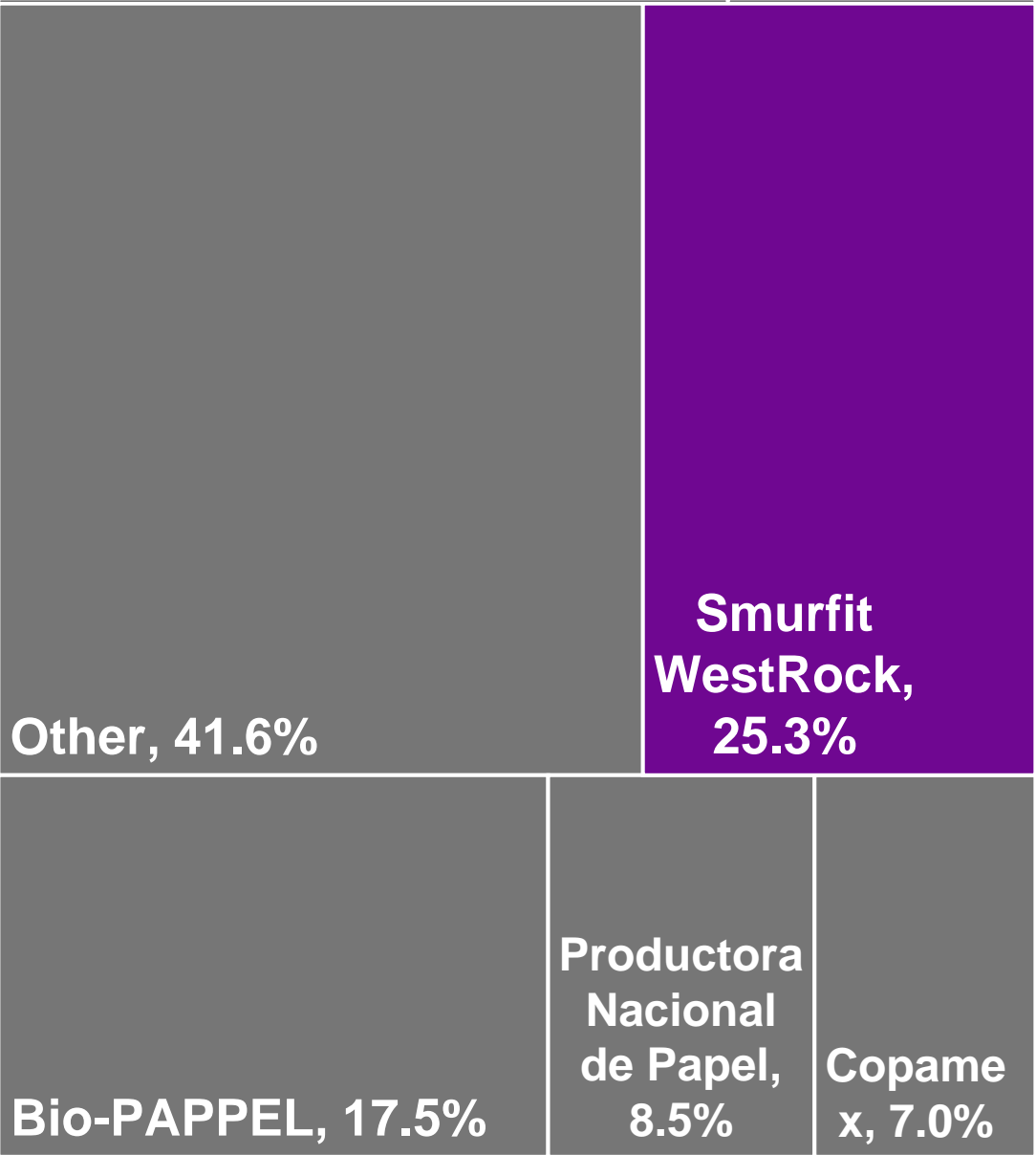


Source: Fastmarkets.

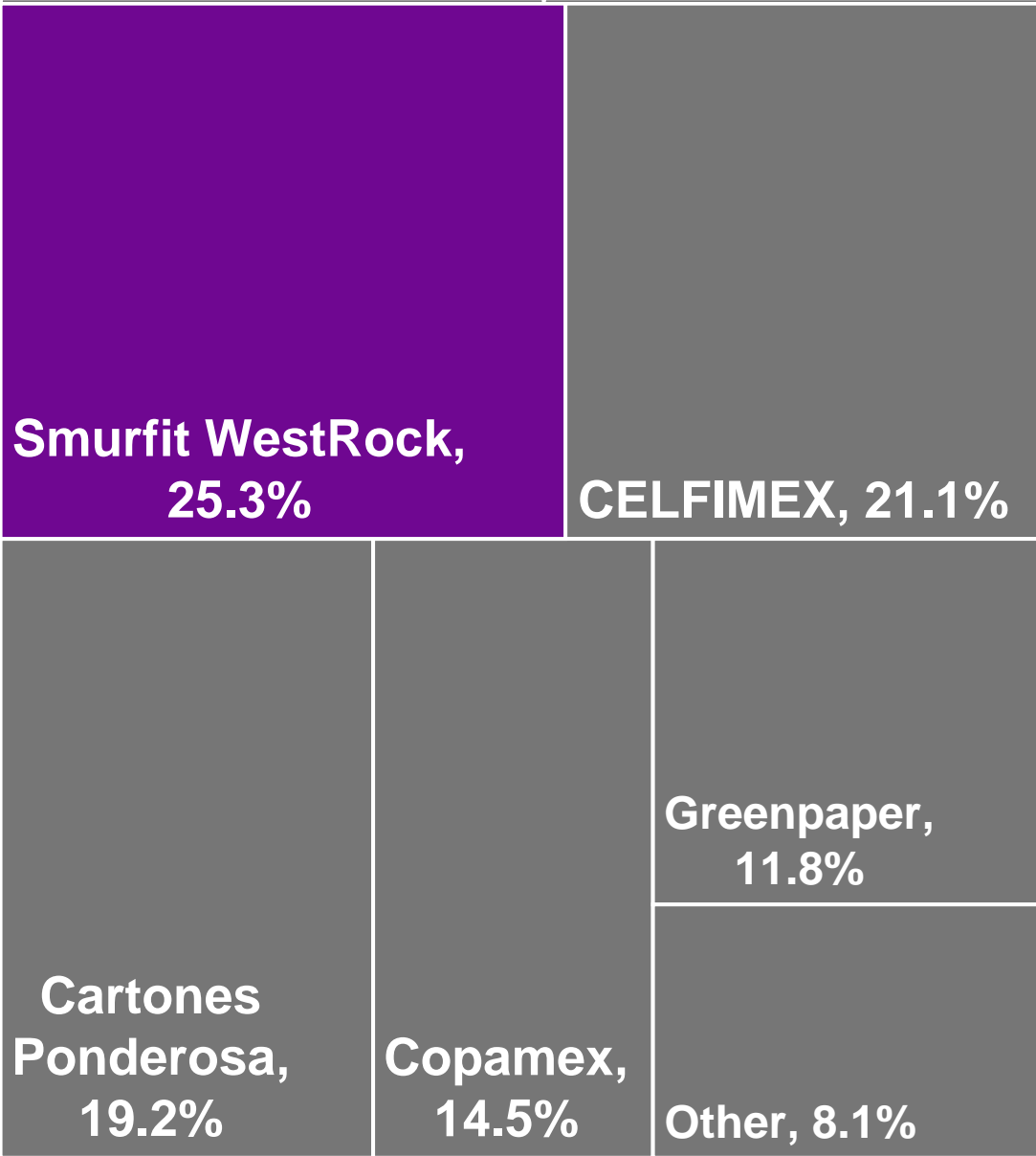
Nearshoring: A GVC trend in packaging

CAPACITY SHARE BY PRODUCER IN MEXICO (%)

CONTAINERBOARD



NON-CONTAINERBOARD PAPER



Source: Fastmarkets.



M&A and FDI as a GVC strategy



US factor advantages

Competitive pulp and containerboard production costs and plant-level scale economies favor feedstock exports to Mexico



Size of markets

Aside from US and Mexico, Central America is one step away and justifies FDI or M&A



Low trade costs

Pulp, OCC and paper trade costs from the US to Mexico are low due to low tariffs and short distances



Trade Friction Insights (TFI) series

How easy is it for this truck to make a U-turn?

GLOBAL VALUE CHAIN RELOCATIONS FOLLOW THE SAME PRINCIPLES



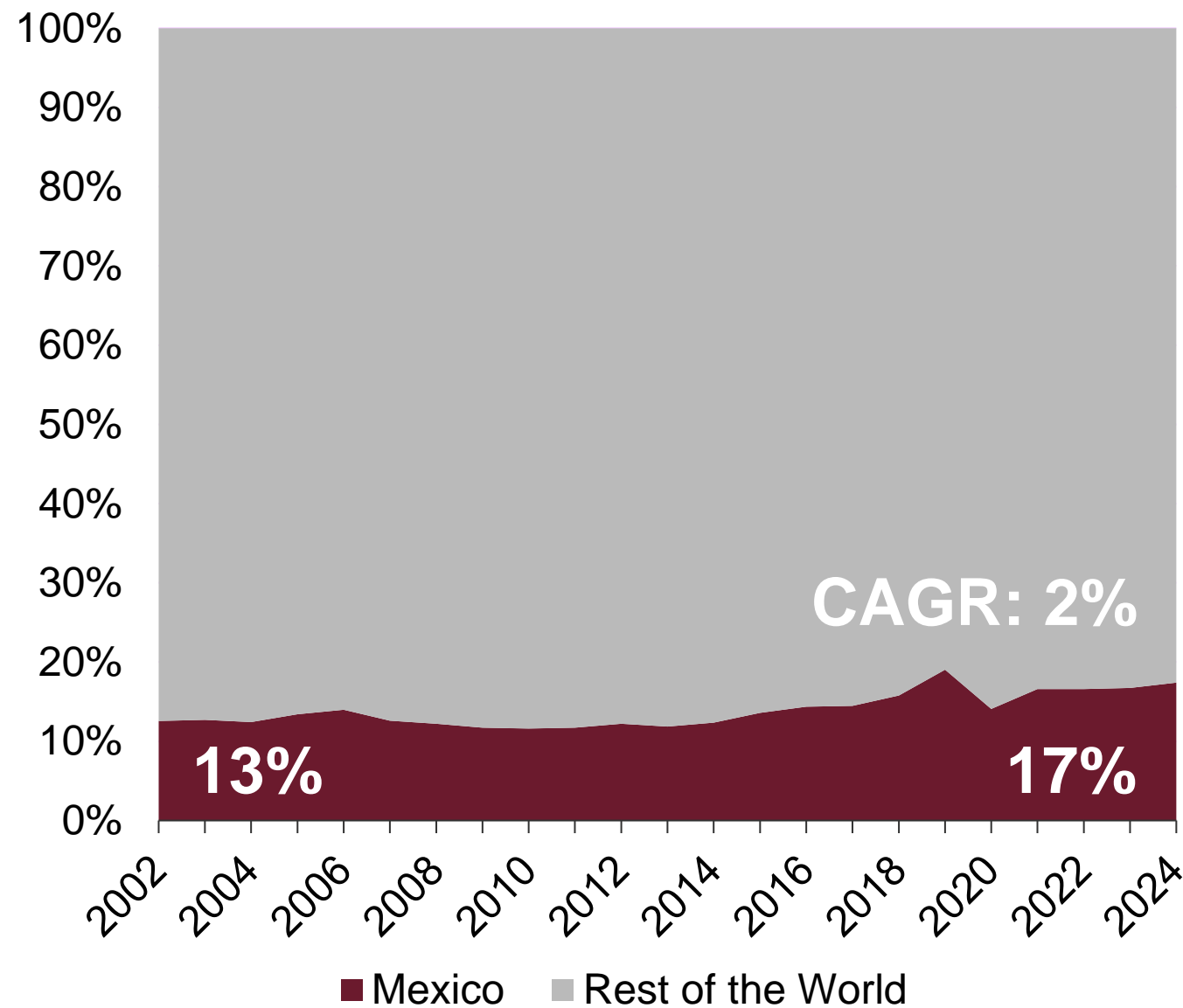


***TFI:* Mexico vs US**

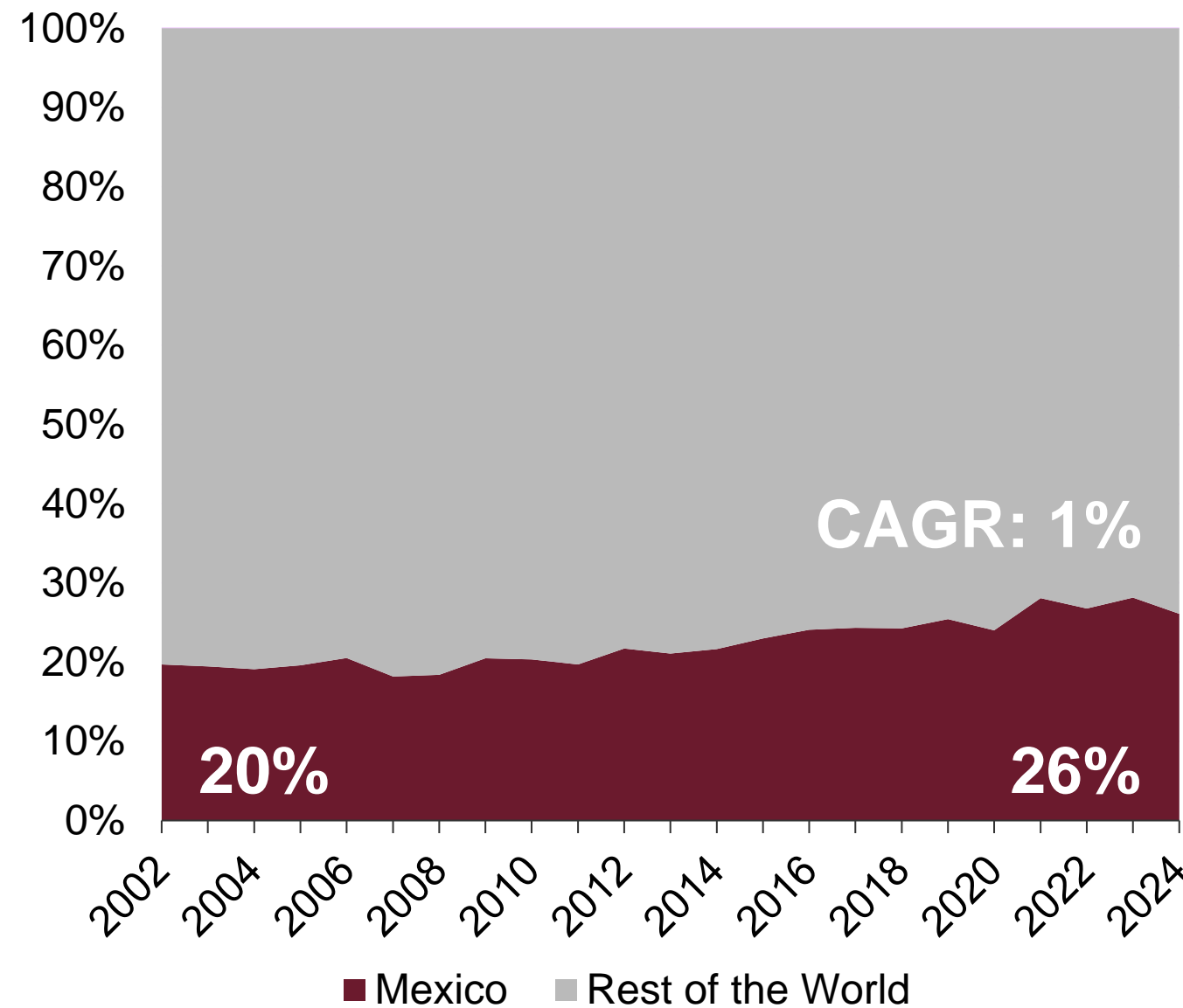
The US economy relies on Mexico as a supplier and consumer



US TOTAL EXPORTS SHARE BY MARKET



US PAPER EXPORTS SHARE BY MARKET



Source and analysis: Fastmarkets.

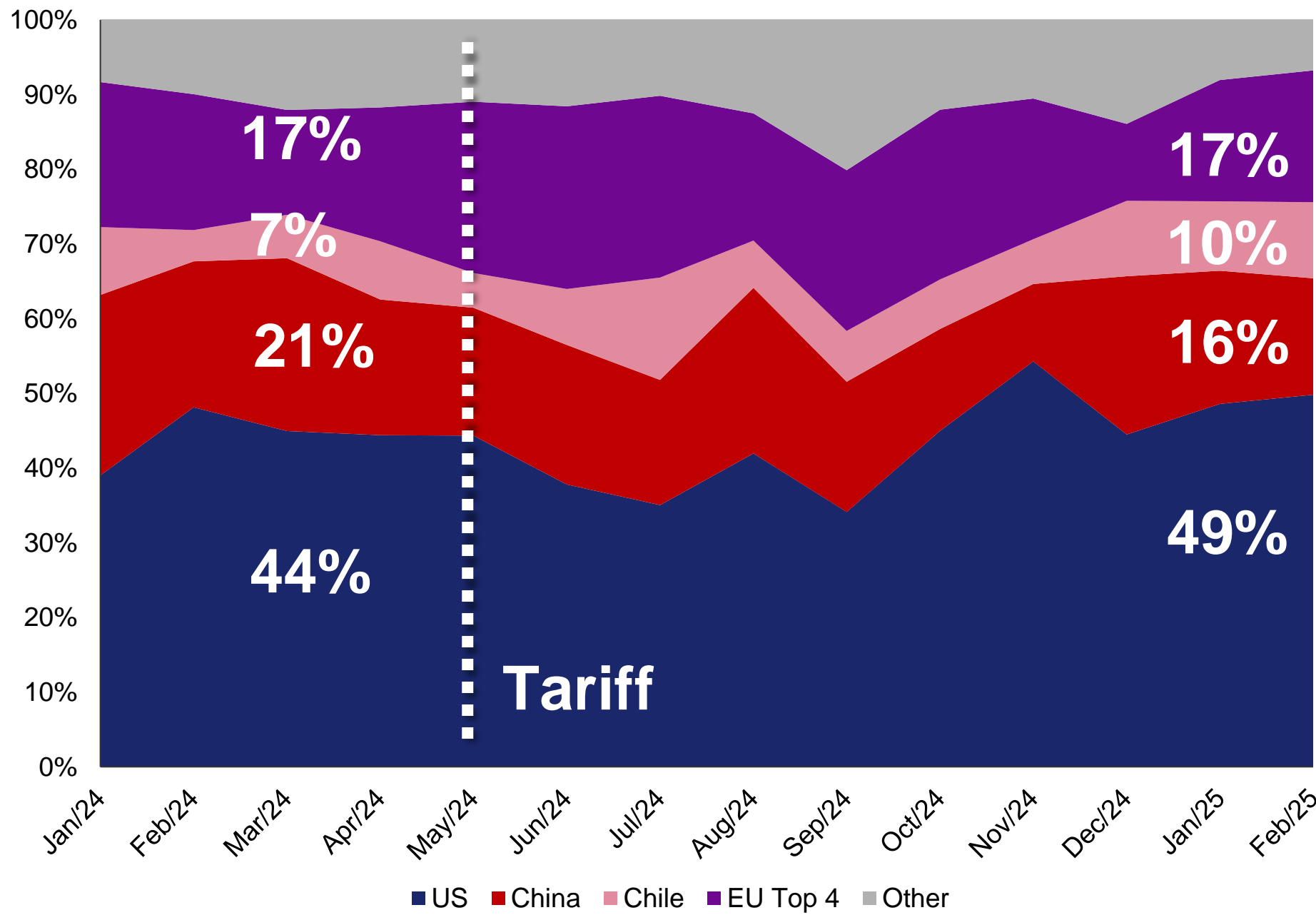


***TFI:* Mexico vs China**

Mexico's new 25-35% trade tariffs: Reshaping trade flows?



BOXBOARD IMPORTS' MARKET SHARE BY COUNTRY OF ORIGIN



Source and analysis: Fastmarkets. * = Preliminary data.

42% Mexico's share of total Chinese boxboard exports to Latin America

4% Mexico's share of total Chinese boxboard exports to the world

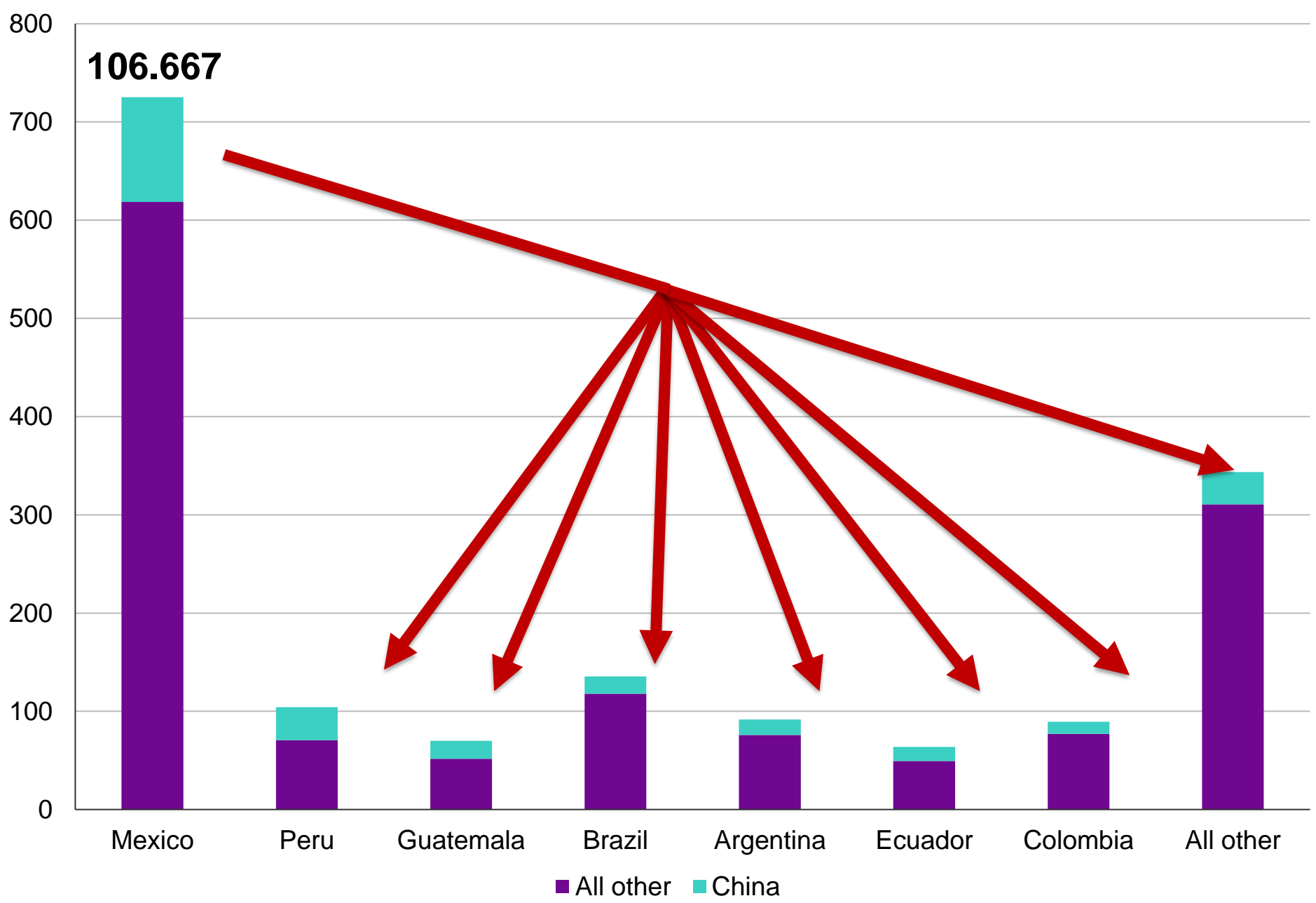
120k t Potential volume that Chinese producers will have ship elsewhere

Spillover The US performed better than Latin America after Trump's election. Right after new Mexican tariffs, Latin America and Europe gained market share

Mexico's new 25-35% trade tariffs: Reshaping trade flows?



NON-CORRUGATED BOARD IMPORTS FROM CHINA (THOUSAND TONNES)



42%

Mexico's share of total Chinese boxboard exports to Latin America

105K t

Potential volume that Chinese producers will have ship elsewhere

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Mexico's share of total Chinese boxboard exports to the world

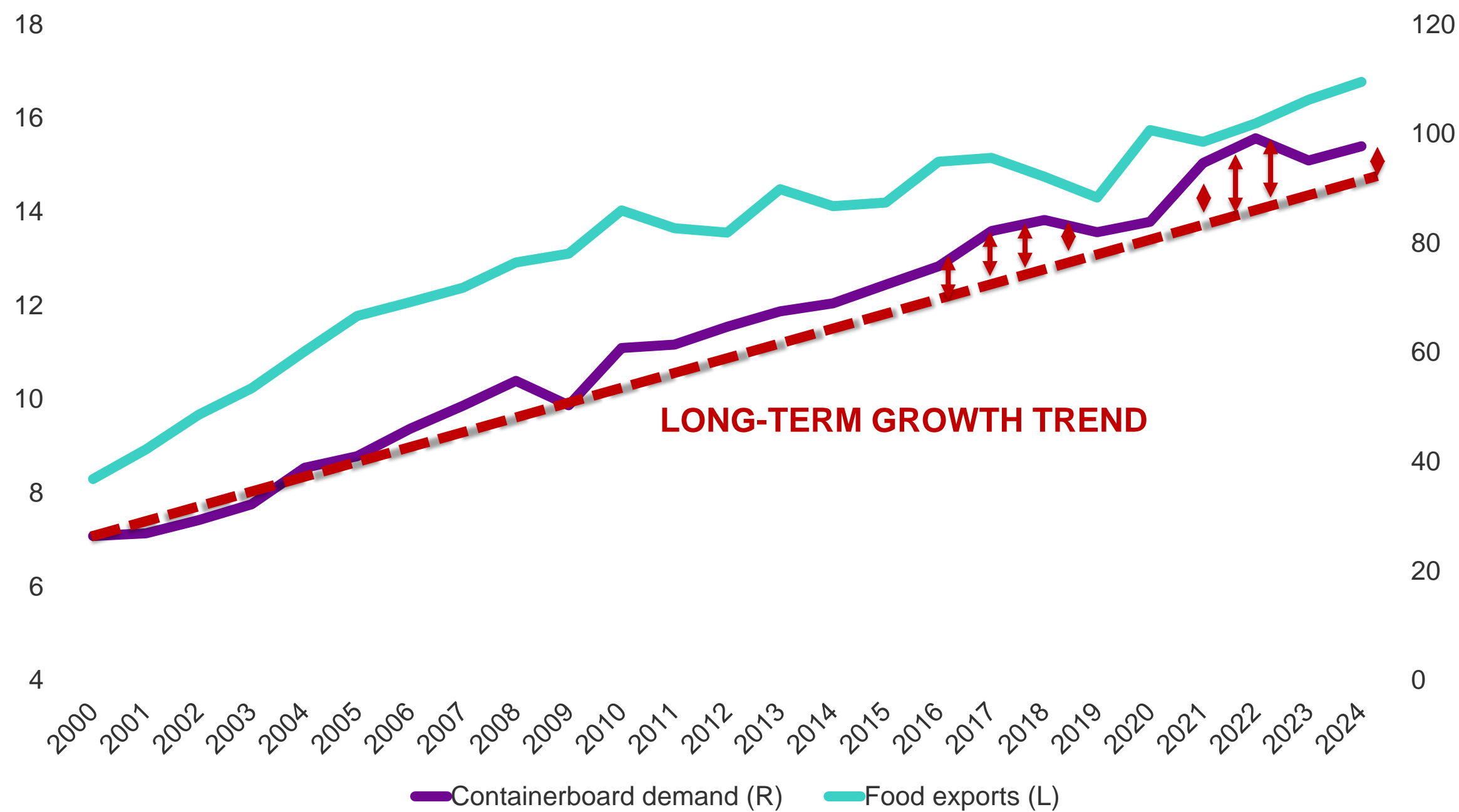
Source and analysis: Fastmarkets. * = Preliminary data.



Megatrends

Food exports are key for resilient containerboard demand growth

Food exports volume (million tonnes, left axis) versus containerboard demand (million tonnes, right axis)

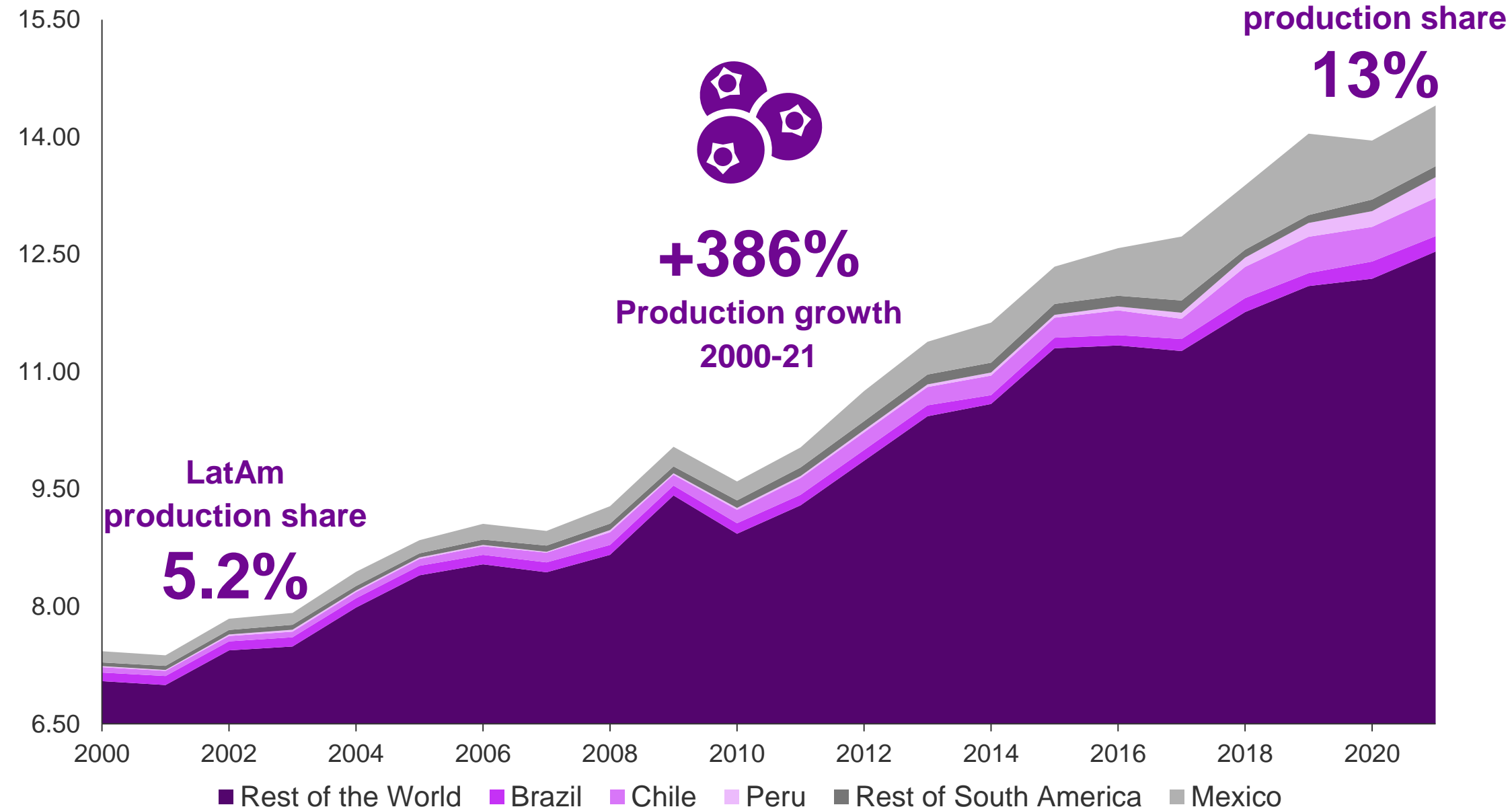


Source and analysis: Fastmarkets. * = Considering paper usage = 5-10% of food weight and paper packaging = 40% of total packaging usage in food industry

Berry revolution supporting packaging demand



Global berry production, million tonnes



Source: FAO (includes cherries, blueberries, cranberries, raspberries and strawberries).

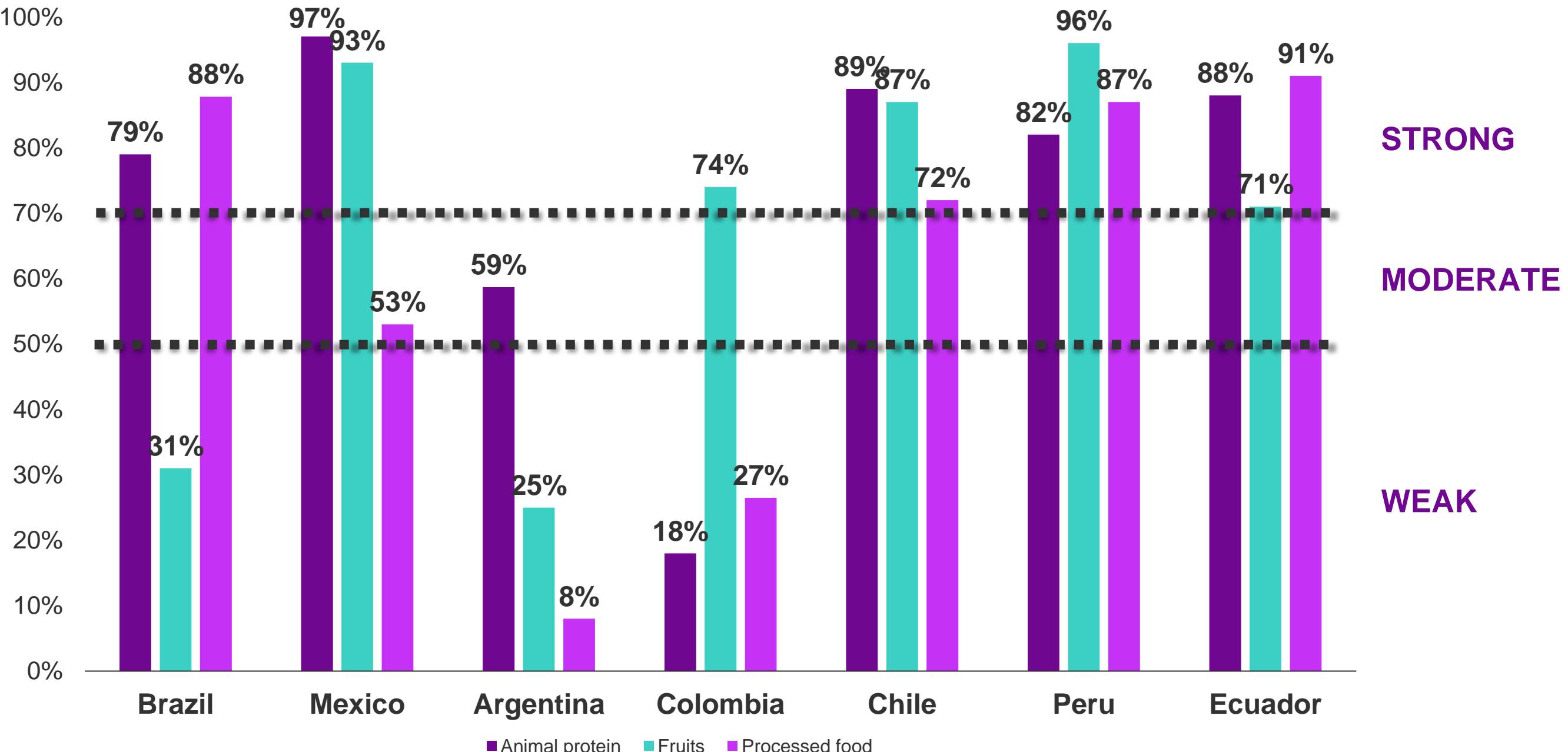
LatAm berries success

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

Source: FAO, Latinometrics, Worldbank.

Food exports are key for resilient containerboard demand growth

FOOD EXPORTS CONTAINERBOARD RELIANCE (CORRELATION)



Source and analysis: Fastmarkets. * = Considering paper usage = 5-10% of food weight and paper packaging = 40% of total packaging usage in food industry

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LA PPM

- Monthly report
- 13 price forecasts
- Monthly forecast
- Demand drivers
- 2-yr forecast horizon



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- Demand & supply
- Annual forecast
- 5-yr forecast horizon
- 250+ economic variables