TRADE & INDUSTRIAL POLICY STRATEGIES

MANUFACTURING SUBSECTORS

Wood and paper products

May 2021

Industrial policy interventions aim to promote structural transformation and structural change in pursuit of economic growth. The effectiveness of these depends to a crucial extent on the ability of policymakers to tailor interventions to the specific needs of individual manufacturing subsectors.

To support evidence-based policymaking, TIPS has completed a series of notes on the various manufacturing subsectors in South Africa. The aim is to provide synthesised data on the dynamics of the South African manufacturing sub-sectors, specifically in their contribution to GDP, employment, profitability and assets, market structure and major companies and international trade. The main data sources are Statistics South Africa, Quantec, Who Owns Whom, and the International Trade Centre.

This note provides an overview of the South African wood and paper products subsector as of December 2020.

Contact: neva@tips.org.za

Executive summary

South Africa's wood and paper products subsector has seen a degree of recovery from a prolonged slump following the 2008/9 global financial crisis. It contributed 8% of total manufacturing production in 2019, up from 7% in 2008/9. In constant rand, production grew 2.3% a year from 2000 to 2008, then dropped by 4.5% in the wake of the global financial crisis; however, production climbed fairly steadily at 2.5% a year from 2009 to 2016 before flattening out. Still, despite the reported spurt in production, employment declined 2.4% a year from 2008, reaching an estimated 100 000 in 2019, down sharply from 170 000 in 2008 – the earliest available figure.

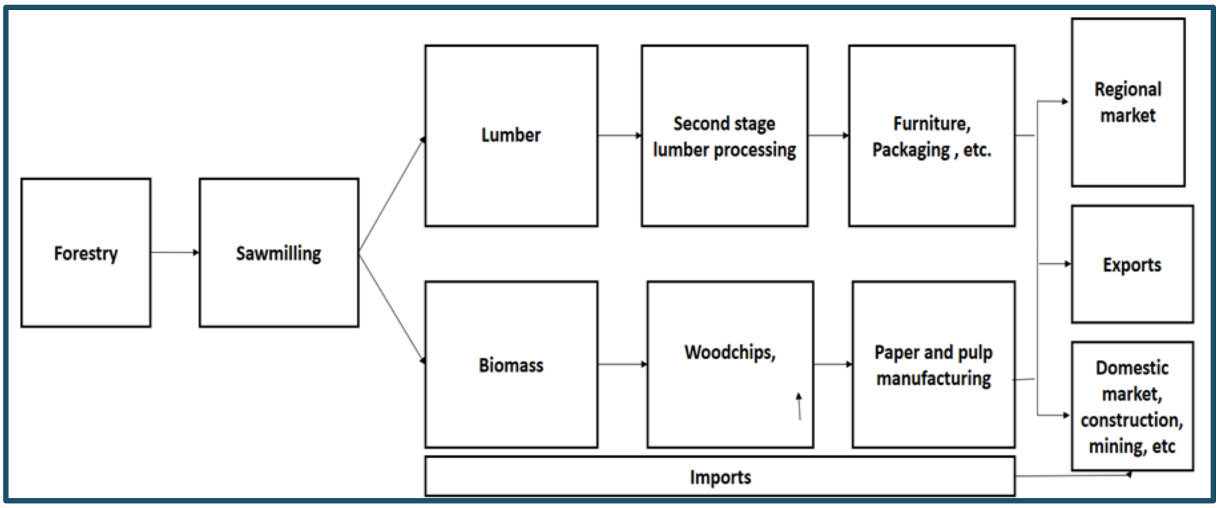
South Africa's wood and paper products exports demonstrated similar trends, declining 9% a year from 2016 to 2018, or from 3% of total exports to just under 2%. The decline appeared to reflect the regional slowdown after the end of the metals boom in 2011/12. South African exports of paper products went primarily to African countries. In 2019 Zimbabwe, Namibia, Botswana, Zambia and Mozambique accounted for two-thirds of the African total. However, it is African and other countries that accounted for the reported slump from 2016.

Meanwhile, imports increased considerably faster over the past decade, with paper imports accounting for a far higher share of total imports than relatively unbeneficiated wood products. Paper accounted for roughly 1.2% of total imports in 2019, whereas wood was roughly 0.15%. South Africa sources its paper imports from a variety of countries, with a disproportionate share accounted for by Europe, specifically Germany and China. Moreover, China's share has grown relatively faster over the past decade. In 2019 it accounted for 15% of South Africa's foreign purchases of paper products, up from 10% in 2010. Wood sources were also quite diverse but were sourced principally from the United States, Brazil, Sweden and Russia.

In 2020, the COVID-19 pandemic-related downturn in wood and paper products was somewhat less severe than in other manufacturing. According to monthly production and sales statistics from Statistics South Africa, seasonally adjusted monthly sales of wood and paper products contracted roughly 36% in April 2020, less than the 51% contraction recorded in the rest of manufacturing. Particular segments of the wood and paper value chain were classified as essential during the lockdown, and these operations remained fully operational. Particular segments that remained operational include companies involved in the manufacture of wood packaging products and those involved in transporting essential goods. Nonetheless, the subsector recovered much quicker, with production reaching January 2020 levels by the end of June 2020.

Wood and paper value chain

Wood and paper refer to the processing of wood, including milling and pulping, and the production of final products such as plywood, furniture and paper. Printing and publishing are dealt with separately because they differ substantially from the wood and paper sections of the value chain. The wood and paper value chain incorporates first-step processing of sawn wood from timber plantations to produce lumber and biomass. Lumber and biomass undergo further processing to produce paper and pulp and high-quality wood that is used in construction and housing, joinery, furniture and industrial applications. The sawmilling sector is dominated by several large vertically integrated groups with interests in the various aspects of the value chain, from forestry to first and second phase processing and transportation. These groups include Sappi, Mondi and Safcol. In addition, several smaller sawmilling groups and a sizable number of informal sector sawmills, usually referred to as "bush mills", play a significant role in meeting domestic market demand.

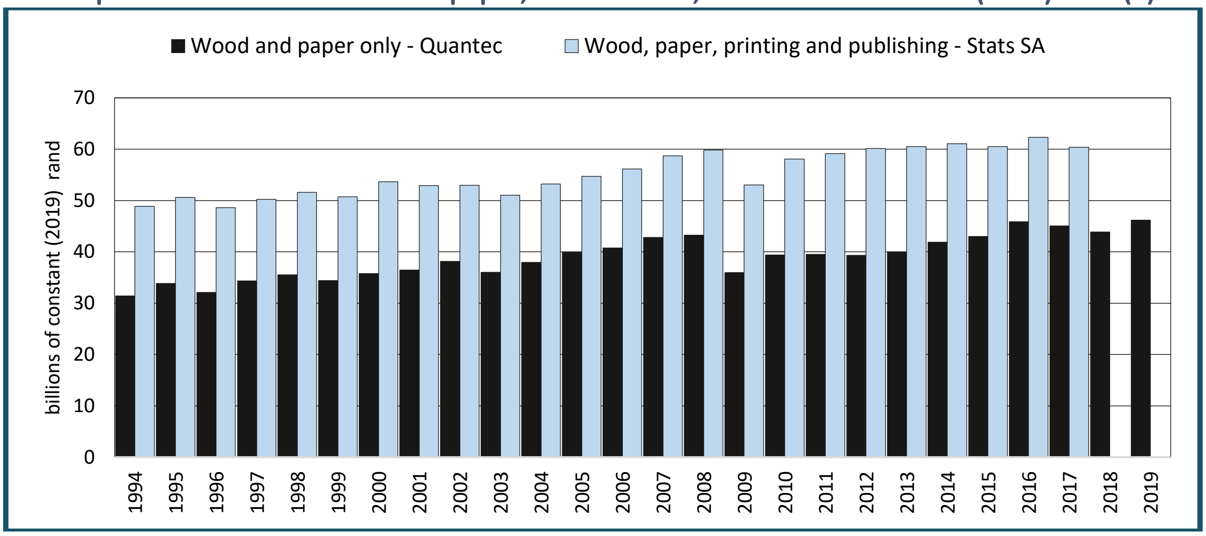


1. Contribution to GDP

Data for the contribution of manufacturing subsectors to the GDP (that is, for value add by subsector) is derived from two sources: the GDP data published by Statistics South Africa (Stats SA), and Quantec, which develops estimates based on the Stats SA figures for sales, production and employment by industry and subindustries. The figures are not identical, although they typically show the same trends. This briefing note provides both.

Wood and paper products grew 2.3% a year from 2000 to 2008, according to Quantec. They dropped by 4.5% during the global financial crisis from 2008 to 2009 but then climbed fairly steadily at 2.5% a year from 2009 to 2016 before flattening out. Stats SA data do not provide separate value add figures for wood and paper, but they show a similar trend for wood, paper, publishing and printing (Graph 1).

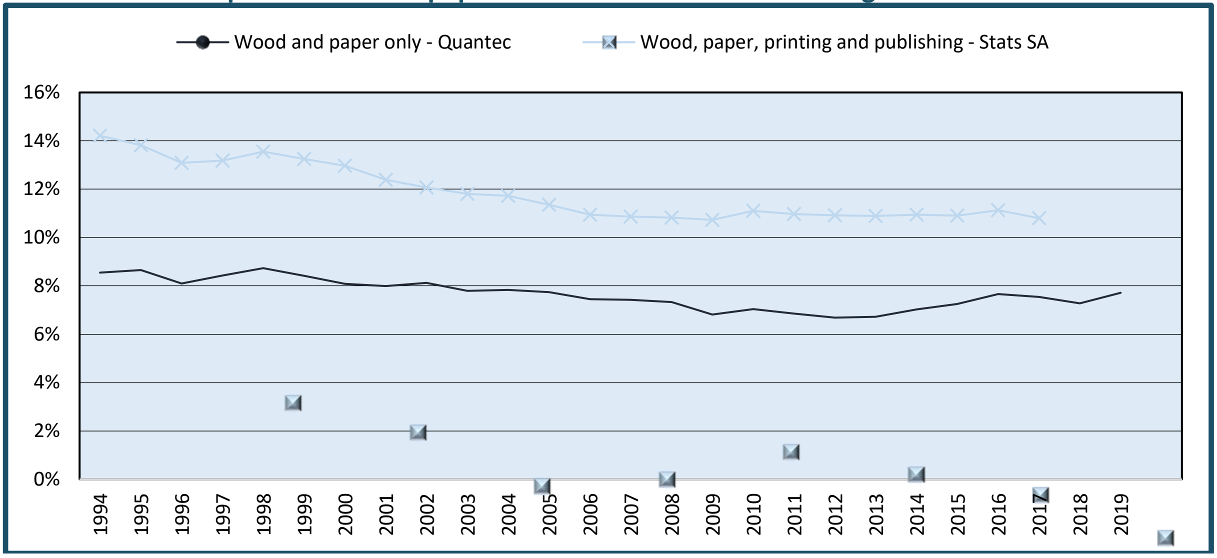
Graph 1. Value add in wood and paper, 1994 to 2019, in billions of constant (2019) rand (a)



Note: (a) Deflated by calculating the deflator used in the sources from current and constant rand figures, and then rebasing to 2019. Source: Statistics South Africa, GDP P0441. Annual quarter and regional revisions. Excel spreadsheet. Series on manufacturing subsectors in current and constant rand. Downloaded from www.statssa.gov.za in January 2021; and Quantec EasyData. Standardised regional data. Database in electronic format. Series on value-added in current and constant rand. Downloaded from www.quanis1.easydata.co.za in January 2021.

According to Quantec estimates, wood and paper's share of total manufacturing value added fell from 9% in 1994 to slightly over 7% in 2009. It gradually increased to 8% in 2016 before flattening off (Graph 2).

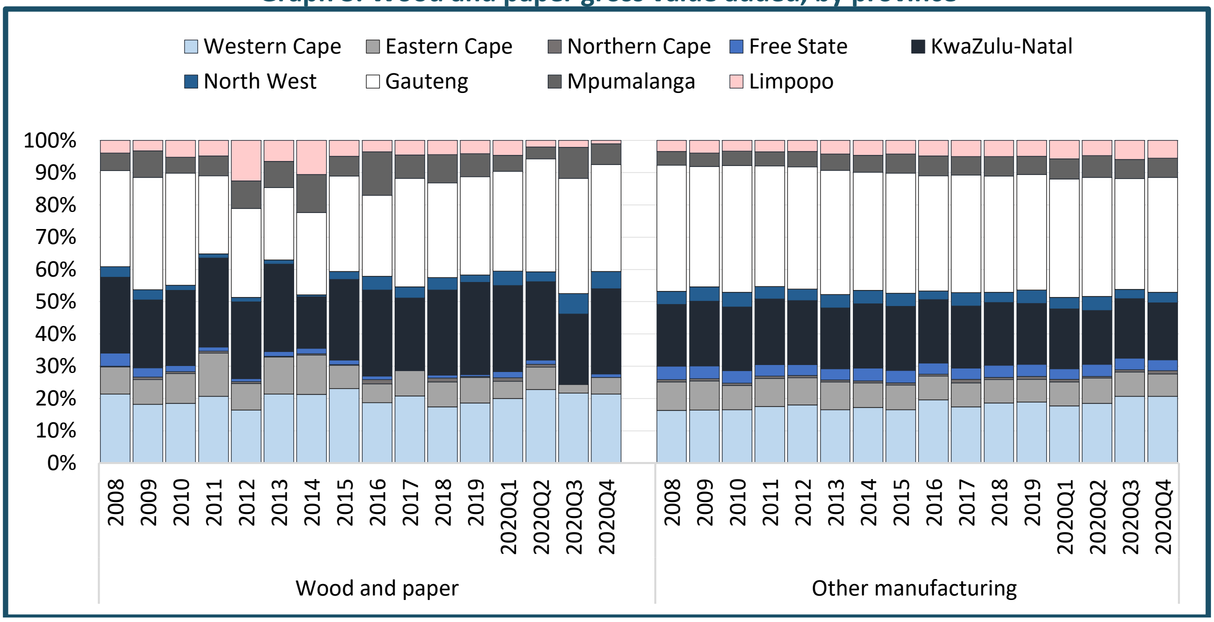
Graph 2. Wood and paper contribution to manufacturing value added



Source: Statistics South Africa, GDP P0441. Annual quarter and regional revisions. Excel spreadsheet. Series on manufacturing subsectors in current and constant rand. Downloaded from www.statssa.gov.za in January 2021; and Quantec EasyData. Standardised regional data. Database in electronic format. Series on value-added in current and constant rand. Downloaded from www.quanis1.easydata.co.za in January 2021.

KwaZulu-Natal dominated the wood and paper products subsector in 2019. Its R8 billion of value added in 2019 was a third of the South African total. KwaZulu-Natal was followed by Gauteng, Western Cape and Mpumalanga provinces. The regional distribution of the wood and paper products value added can be understood in how it is embedded in the location of timber plantations. Sawmills are likely to locate in close proximity to forestries and timber plantations. In South Africa, these are likely to be in rural areas and other in historical labour sending regions. For example, Mpumalanga contains the most timber plantations and sawmills. It accounts for over two-fifths of South Africa's total timber plantations. In 2019, it accounted for a tenth of the total wood and paper products value added.

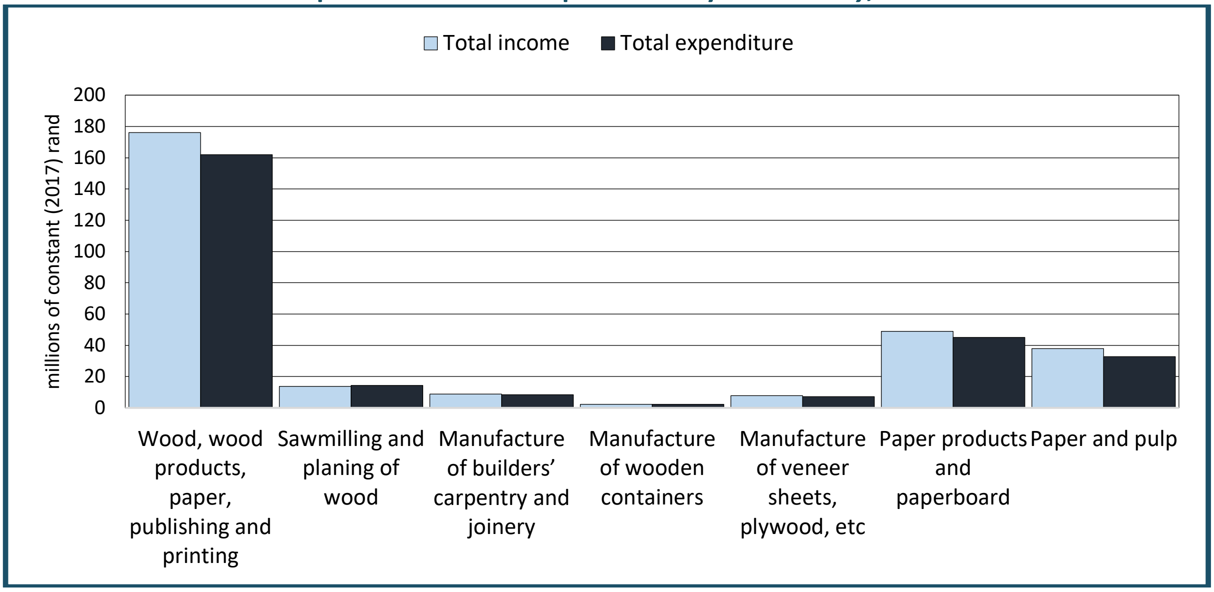
Graph 3. Wood and paper gross value added, by province



Source: Quantec EasyData. Standardised regional data. Database in electronic format. Series on value-added in current and constant rand. Downloaded from https://www.quantec.co.za/easydata/ in January 2021.

Over two-thirds of the total subsectoral income came from relatively beneficiated paper, pulp and paper products (Graph 4). Wood products accounted for the rest.

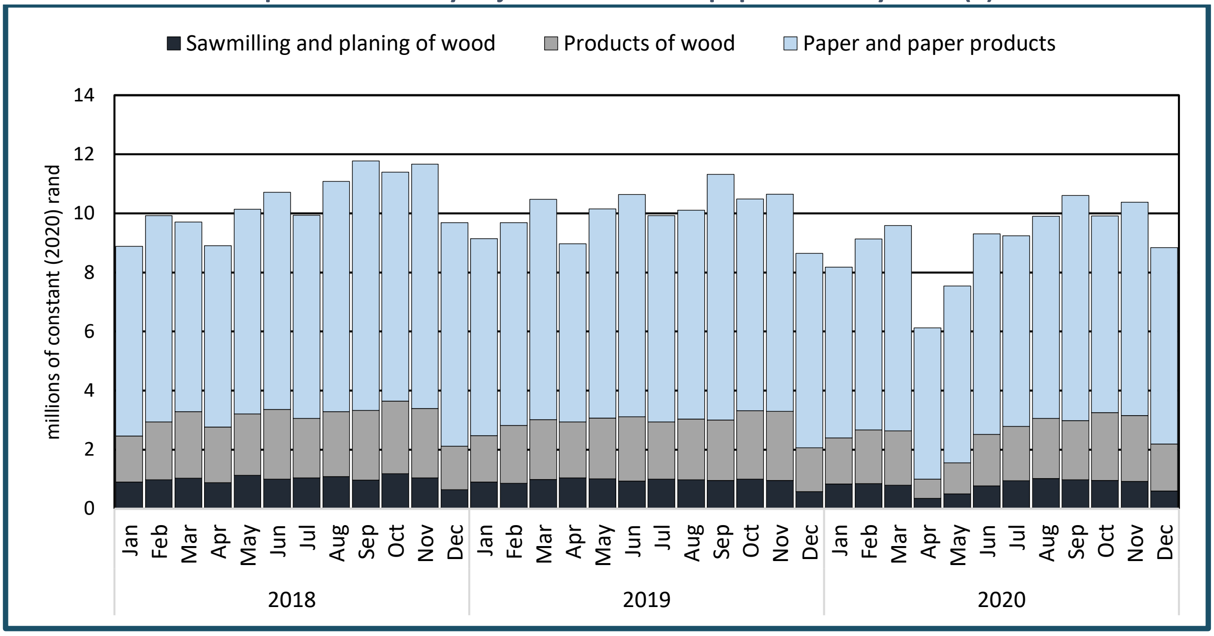
Graph 4. Income and expenditure by subindustry, 2017



Source: Statistics South Africa. 2019. Manufacturing Industry: Financial. Table 3, p.18.

Seasonally adjusted wood and paper products contracted 36% month-to-month in April 2020 from March. This rate was lower than that of other manufacturers, which contracted 51% month-on-month. The most significant decline was recorded in sawmilling and wood products, which dropped by 65% and 56% month-on-month, respectively (see Graph 5). The pandemic's disproportionate effect on wood products is partly due to the banning of non-essential services, especially those linked to the wine value chain.

Graph 5. Seasonally adjusted wood and paper monthly sales (a)



Note: (a) Deflated with CPI rebased to December 2020. Source: Calculated from Statistics South Africa, P3041.2. Excel spreadsheet. Downloaded from www.statssa.gov.za in January 2021.

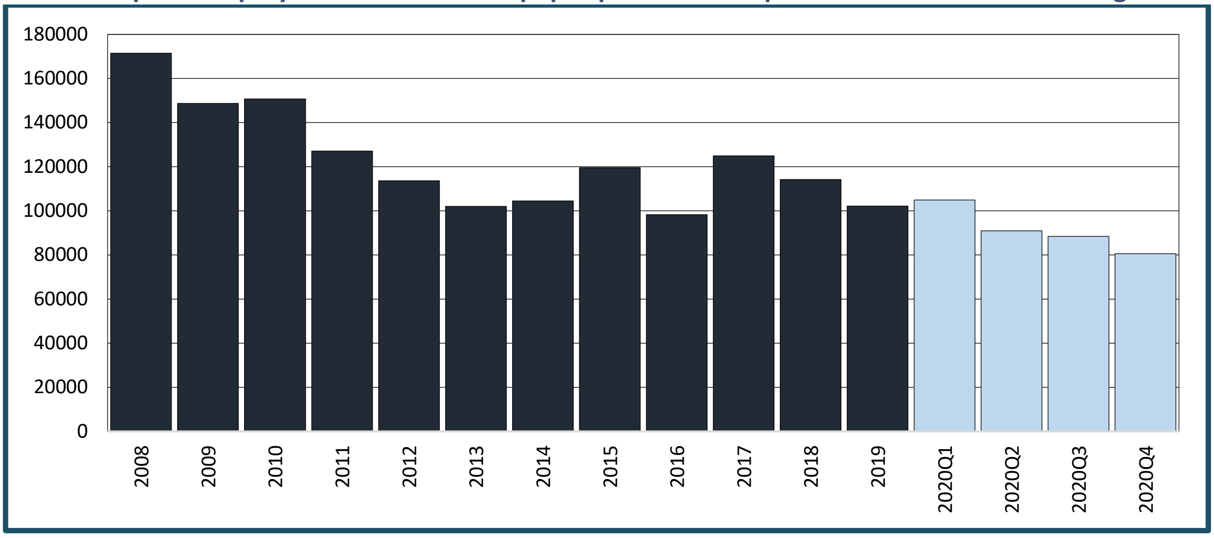
2. Employment

Employment data provided in this review draw on Stats SA's Quarterly Labour Force Survey, which was introduced in 2008. Its annual figures, in the Labour Market Dynamics, are averages of the quarterly findings.

The economic importance of wood and paper products stems from their strategic position as a downstream activity in the broader forestry value chain. Moreover, most paper and sawmilling plants are located close to the source material or sawmills, which are mostly in historical labour sending regions. This makes the sector crucial for employment creation.

Employment in wood and paper fell from 170 000 in 2008 to around 100 000 people in 2019.

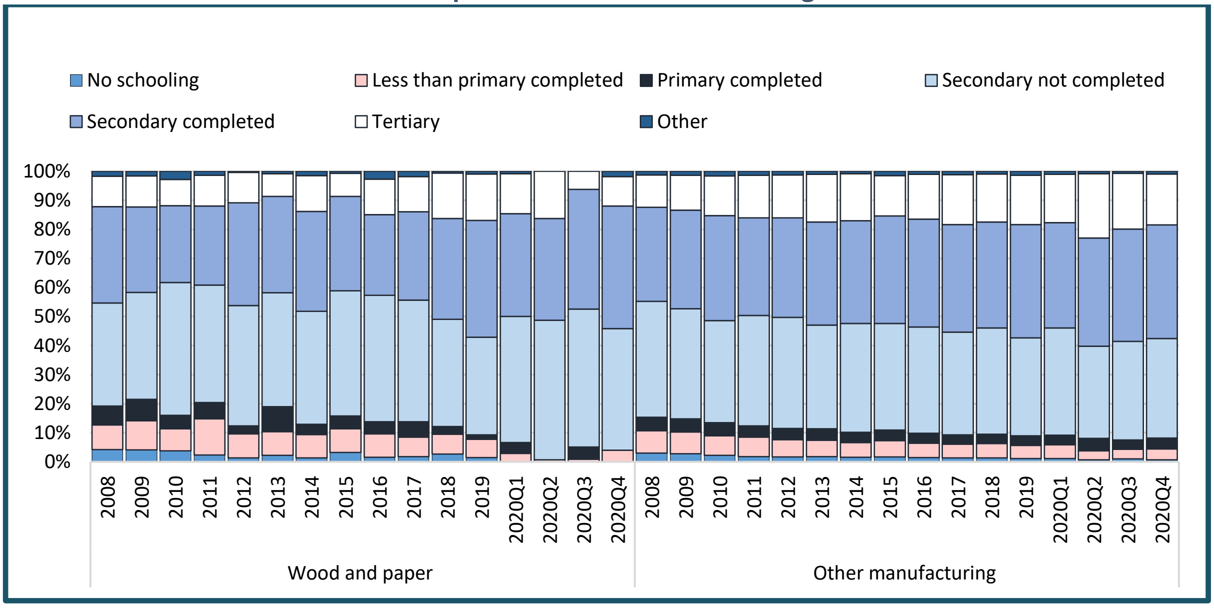
Graph 6. Employment in wood and paper products compared to other manufacturing



Source: Statistics South Africa. Labour Market Dynamics. Relevant years. Series on employment. Electronic databases. Downloaded from www.statssa.gov.za Nesstar facility in January 2021. Calculated from Statistics South Africa. Quarterly Labour Force Survey. Q1 2020 to Q4 2020. Series on employment by industry. Electronic databases. Downloaded from www.statssa.gov.za Nesstar facility in January 2021.

Education levels in wood and paper mirrored that of the average for other manufacturing. In 2019, 56% of workers in the industry had attained an education level equivalent to either a matric or higher—this proportion is the same as other manufacturing (see Graph 7).

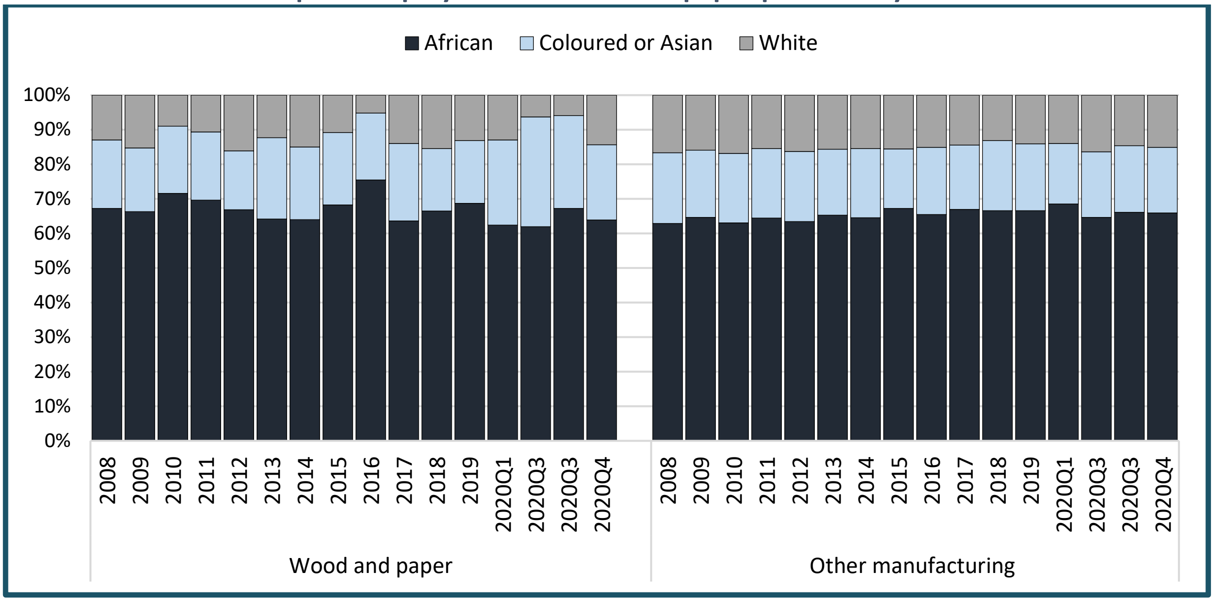
Graph 7. Employment by education level in wood and paper products compared to other manufacturing



Source: Statistics SA. Labour Market Dynamics. Relevant years. Series on employment by industry and education level. Electronic databases. Downloaded from www.statssa.gov.za Nesstar facility in January 2021. Calculated from Statistics South Africa. Quarterly Labour Force Survey. Q1 2020 to Q4 2020. Series on employment by industry. Electronic databases. Downloaded from www.statssa.gov.za Nesstar facility in January 2021.

In 2019, the racial composition of workers in wood and paper was virtually the same as in the rest of manufacturing (see Graph 8).

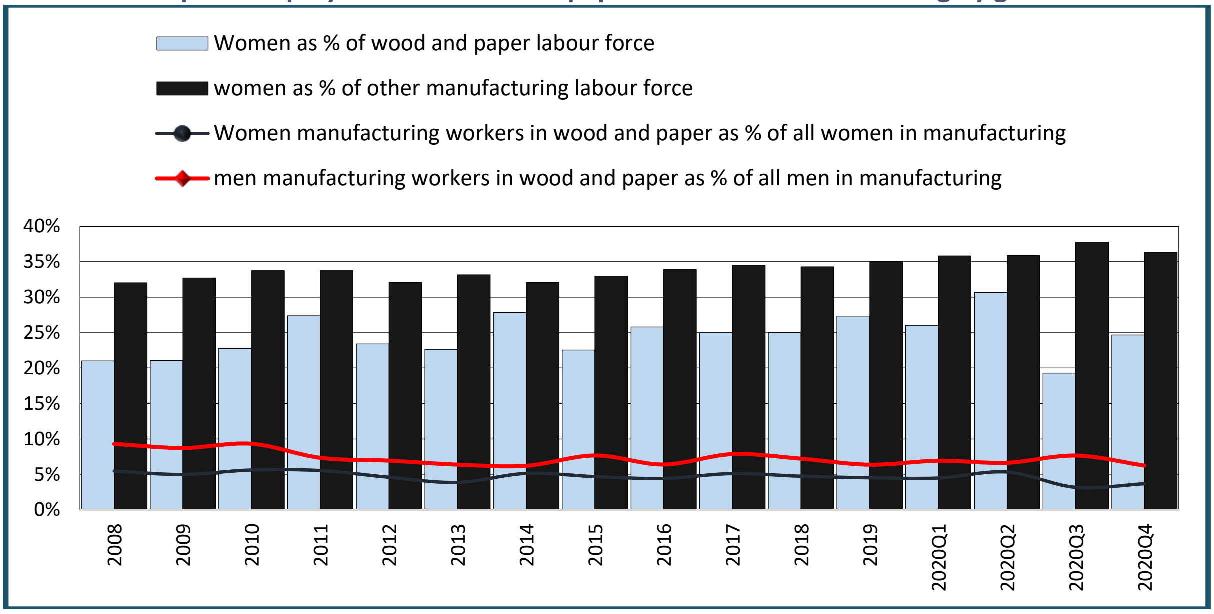
Graph 8. Employment in wood and paper products by race



Source: Statistics South Africa. Labour Market Dynamics. Relevant years. Series on employment by industry and gender. Electronic databases. Downloaded from www.statssa.gov.za Nesstar facility in January 2021. Calculated from Statistics South Africa. Quarterly Labour Force Survey. Q1 2020 to Q4 2020. Series on employment by industry. Electronic databases. Downloaded from www.statssa.gov.za Nesstar facility in January 2021.

Women made up around 27% of the labour force in wood and paper products, 8% less than manufacturing. Wood and paper products employed 6% of all men in manufacturing, but only 5% of women.

Graph 9. Employment in wood and paper and other manufacturing by gender

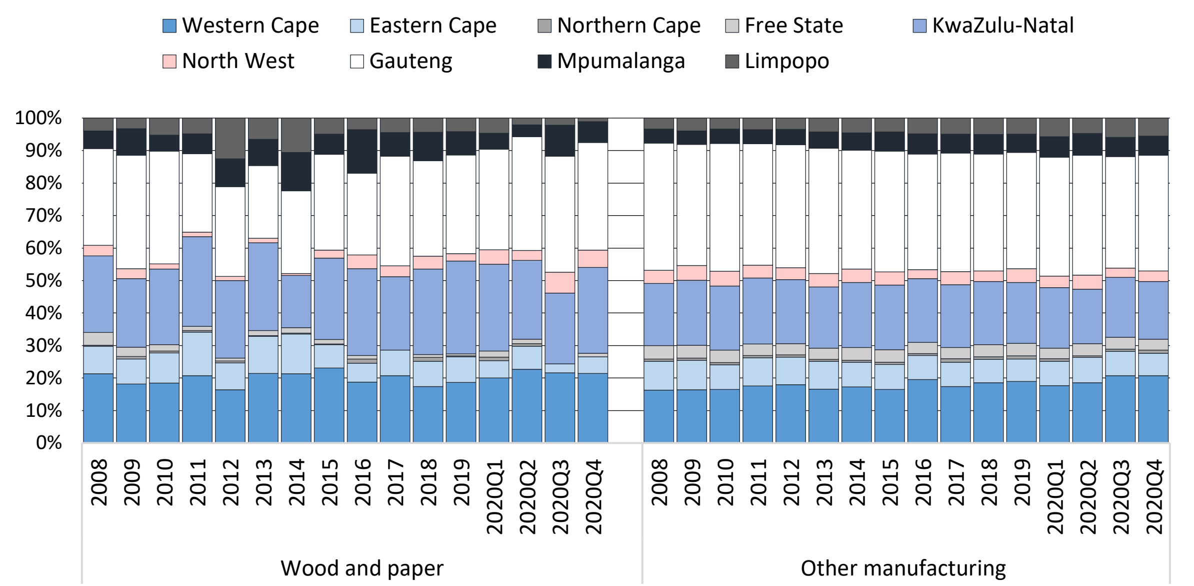


Source: Statistics South Africa. Labour Market Dynamics. Relevant years. Series on employment by industry and gender. Electronic databases. Downloaded from www.statssa.gov.za Nesstar facility in January 2021. Calculated from Statistics South Africa. Quarterly Labour Force Survey. Q1 2020 to Q4 2020. Series on employment by industry. Electronic databases. Downloaded from www.statssa.gov.za Nesstar facility in January 2021.

Gauteng, KwaZulu-Natal and the Western Cape accounted for three-quarters of employees in wood and paper manufacturing, showing a similar trend in the rest of manufacturing. In contrast, of the

61 000 workers in forestry and logging, KwaZulu-Natal had around 50% of employees and Limpopo and Mpumalanga a further 40% (see Graph 10).

Graph 10. Employment by province in wood and paper products compared to other manufacturing

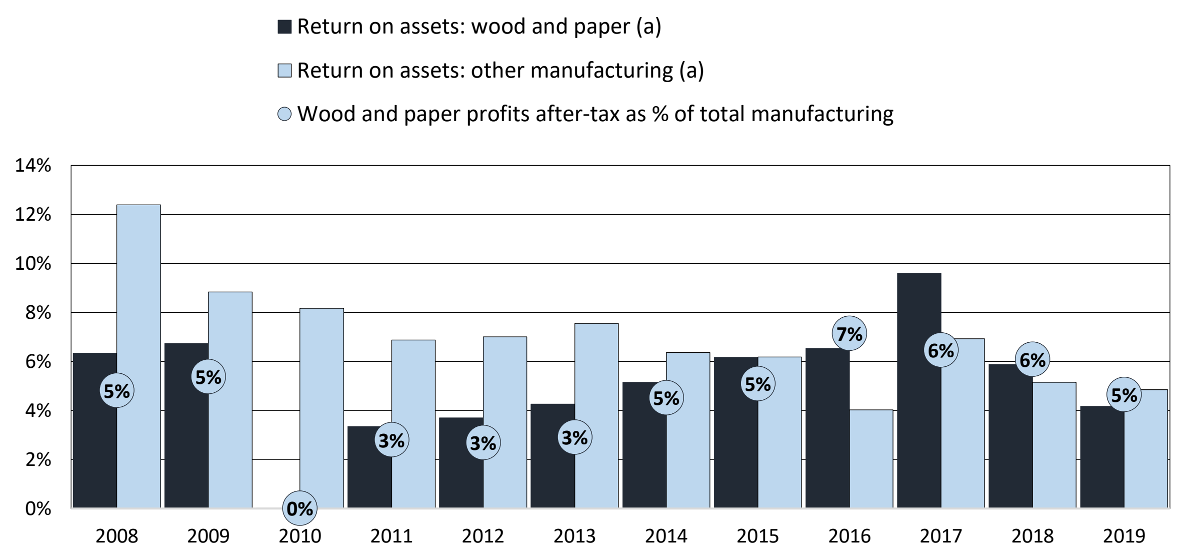


Source: Statistics SA. Labour Market Dynamics. Relevant years. Series on employment by industry and provinces. Electronic databases. Downloaded from www.statssa.gov.za Nesstar facility in January 2021. Calculated from Statistics South Africa. Quarterly Labour Force Survey. Q1 2020 to Q4 2020. Series on employment by industry. Electronic databases. Downloaded from www.statssa.gov.za Nesstar facility in January 2021.

4. Profitability and assets

From 2008, the after-tax return on assets in wood and paper averaged 5% a year. That was a lower rate than in the rest of manufacturing, where returns averaged 8% a year – wood and paper products provided around 5% of all manufacturing profits.

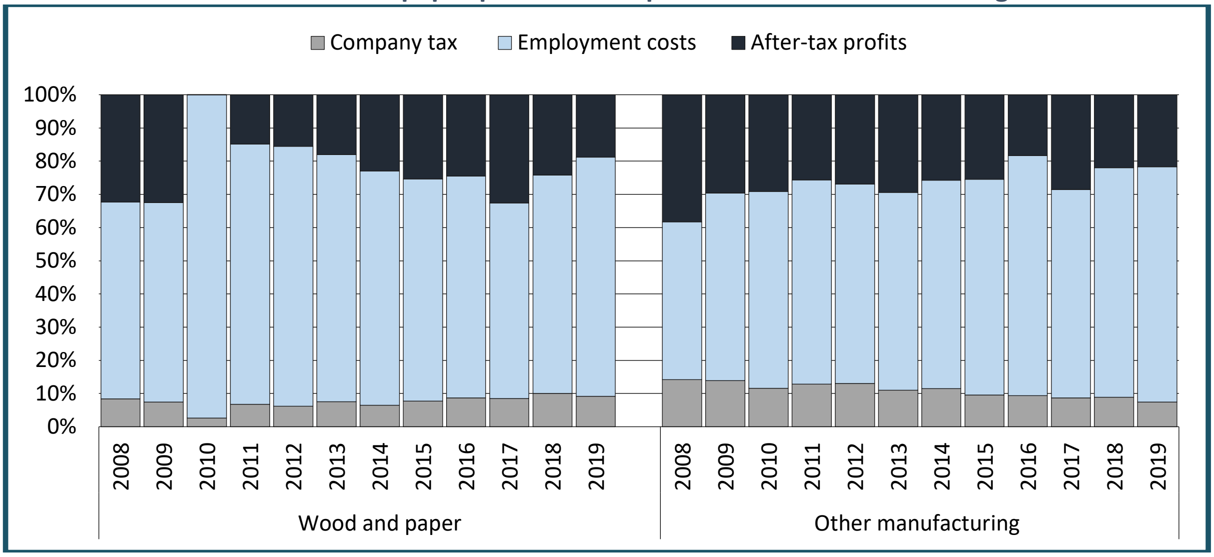
Graph 11. Return on assets (a) in wood and paper products and other manufacturing, and after-tax profits in wood and paper as a percentage of after-tax profits in manufacturing as a whole



Note: (a) Profits before taxes and dividends less company tax as percentage of total assets. Source: Calculated from Statistics South Africa. Annual Financial Statistics. Disaggregated Industry Statistics for relevant year. Excel spreadsheet. Downloaded from www.statssa.gov.za in January 2021. Note the bar for the return on assets in wood and paper in 2010 reflects in part that the after-tax return on assets was 0%.

Based on Statistics SA's estimates, in constant 2019 rand, employment costs in wood and paper increased from 60% in 2008 to 70% in 2019. In the same period, after-tax profits declined 13% from R10.2 billion to R4.5 billion, and company taxes fell by a fifth, to R2.2 billion. In other manufacturing, in contrast, employment costs climbed 21% in this period, after-tax profits fell by 54% and taxes by 57%.

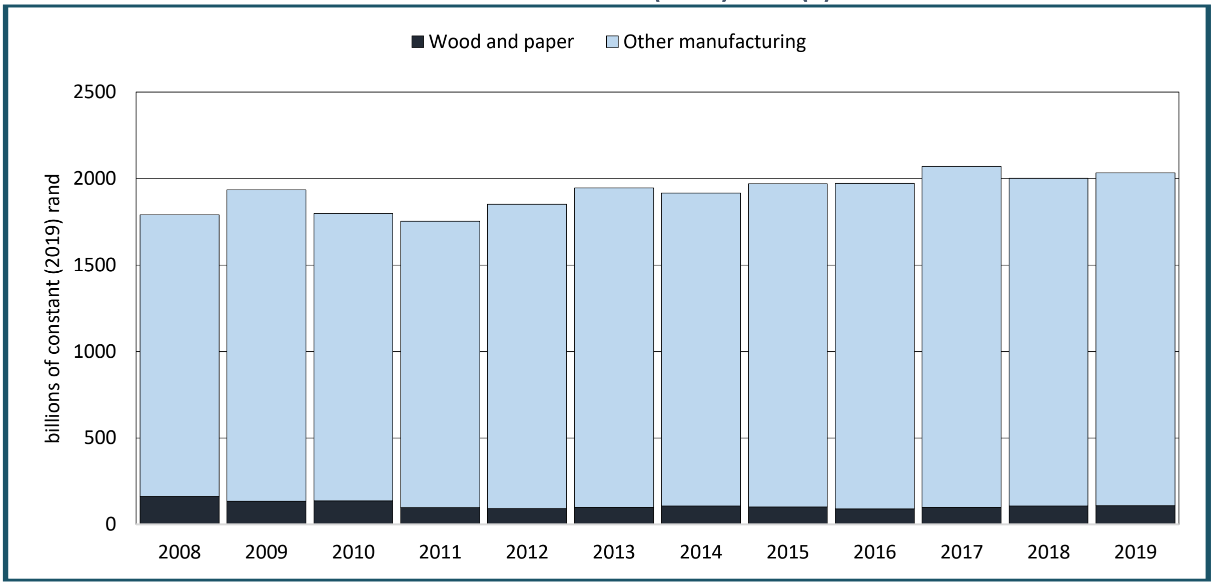
Graph 12. Share of remuneration, profits and taxation in income from wood and paper products compared to other manufacturing



Source: Calculated from Statistics South Africa. Disaggregated Industry Statistics for the relevant year. Excel spreadsheet. Downloaded from www.statssa.gov.za in January 2021.

In constant rand, the value of total assets in wood and paper products dropped by a third from 2008 to 2019, while assets in other manufacturing rose 18%. As a result, the share of wood and paper to total manufacturing assets fell from 9% to 5% over this period.

Graph 13. Value of total assets in wood and paper and other manufacturing in billions of constant (2019) rand (a)

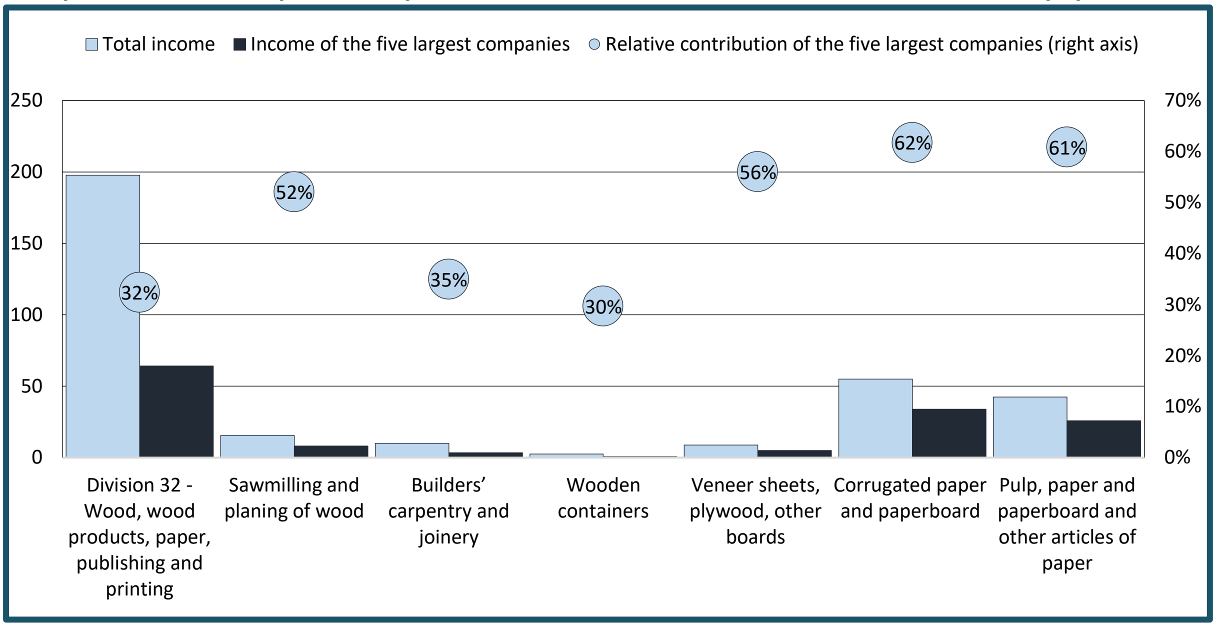


Notes: (a) Deflated with CPI. Source: Calculated from Statistics South Africa. Disaggregated Industry Statistics for the relevant year. Excel spreadsheet. Downloaded from www.statssa.gov.za in January 2021.

5. Market structure and major companies

According to Statistics SA's Manufacturing Financial Statistics, in 2017, the share in the total income of the largest five companies in wood products ranged between 30% and 56%. This was higher than the manufacturing average of 17% and the wood and paper products average of 32%. However, in paper and pulp, the top five companies received 61% of total income, and 62% of the total income in cardboard production.

Graph 14. Share of top five companies in the income of subsectors within wood and paper, 2017



Source: Calculated from Statistics South Africa. Manufacturing Industry: Financial, 2019. Pretoria. Table 9, p 33, ff.

Table 1. Major companies

A. Paper		
Company	**Employees**	**Operations**
Sappi	12 821 (Group) (4750 – South Africa)	Operations and manufacturing facilities on three continents provide dissolving wood pulp, paper-pulp and paper-based products and solutions to a customer base across more than 150 countries.
Bidvest Paperplus (Pty) Ltd	6 543	Manufactures and distributes printed products, multi-channel communications, labelling solutions and packaging products and undertakes general printing, print packaging and finishing.
CTP Ltd	6 197	Involved in the print media industry, publishing several newspapers and magazines and is the largest commercial printer in South Africa. In addition, the company manufactures a range of stationery products, produces packaging and undertakes print packaging through its various subsidiaries and divisions. The company also manufactures specialised plastic extrusion and flexible packaging for the food, beverage, confectionery, industrial and general merchandise industries.
Mpact Ltd	5 062 (Group)	The holding company for group companies that manufacture paper and plastic packaging products.
Novus Holdings	2 003	Manufacturer of paper and tissue products.
Mondi	1 800 (1 400 – South Africa	The company has approximately 154 000 hectares of owned and leased land under afforestation in South Africa. It operates a paper mill in Durban and a pulp and liner board mill in Richards Bay.

Transpaco Ltd	1 499 (Group)	A holding company operates through subsidiaries involved in manufacturing, distributing, and recycling plastic, paper, and board products.
New Era Packaging Bops (Pty) Ltd	1 000	Manufactures boards that are used to produce corrugated boxes.
Neopak	1 000	Involved in the manufacture of corrugated cardboard boxes.
Corruseal Group (Pty) Ltd	800	Holding company for its seven manufacturing subsidiaries, which are involved in converting paper into corrugated packaging. Its services include the advice, design and manufacture of boxes to client specification.
Twinsaver Group	700	Manufactures Twinsaver products such as toilet paper, facial tissues, roller towels, serviettes, insulated cups and paper plates. The company also offers various products suitable for wrapping sandwiches, freezing foods and keeping food fresh such as plastic bags and aluminium foil.
Kimberly-Clark of South Africa (Pty) Ltd	672	Manufactures and distributes disposable tissue and fibre-based products to the consumer trade, commercial and industrial bulk users, medical and pharmaceutical sectors. Personal care, infant care, and paper-based products manufactured include tissue paper, toilet and facial tissue, paper towels, feminine hygiene products, liquid soaps, sanitisers, disposable nappies, non-woven fabric, and other disposable products.
SA Greetings (Pty) Ltd	600	Holding company for a group of companies that design, manufacture and distribute greeting cards, gift wrap, gift bags and social stationery ranges.
Sylko (Pty) Ltd	334	Produces a range of disposable and consumable goods such as gift wrapping, tie-on and self-adhesive tags and labels, gift ribbons, greeting cards, postcards, crepe paper, tissue paper, shelf coverings and adhesive-backed vinyl and paper covering materials. The company also produces aluminium foil, baking cases, greaseproof paper, doilies, serviettes, paper plates and table covers. In addition to these products, the company produces an extensive range of educational products such as brown kraft paper, polythene rolls, polythene book covers and brown kraft book covers.
Huhtamaki South Africa (Pty) Ltd	320	Manufactures plastic and paper containers and packaging, supplying fast food, catering, retail, fruit and egg industries.
Tetra Pak South Africa (Pty) Ltd	240	Imports, manufactures and distributes liquid carton packaging containers supplying to customers such as liquid food-producing companies. The company also undertakes flexographic printing on carton packaging.
Dynamic Fibre Moulding (Pty) Ltd	240	Manufactures moulded fibre packaging, such as natural fibre egg packaging, dairy packaging, thermoformed protective packaging and cushion packaging. Moulded fibre packaging material is used for eggs, fruit, meat and vegetables and protective cushion packaging for electronic goods, cellphones and household wares.
Mogwele Waste (Pty) Ltd t/a New Era Packaging Cape	240	Manufactures packaging materials, including corrugated boxes and corrugated sheets.
B. Forestry and wood		
Company	**Employees**	**Operations**
KAP Industrial Holdings	18 995 (Total group)	A holding company for a group of subsidiaries involved in contractual logistics, passenger transport, timber, chemical, automotive components and bedding. Its subsidiaries include PG Bison (poles and boards); Hosaf (virgin polyethene terephthalate (PET) resin for the beverage industry); and Woodchem (formaldehyde gas for the timber panel industry).
Hans Merensky Holdings	5 647	Supplies pine and eucalyptus timber, mainly to South African markets, with four sawmills and lumber distribution centres in Johannesburg, Cape Town and Durban.

York Timbers	2 700	Vertically integrated plywood manufacturer with operations in the milling of timber and forestry.
SAFCOL	2 152	Forestry in Mpumalanga, Limpopo and KwaZulu-Natal across 18 commercial plantations covering a total area of 187 320 hectares and owns two sawmills.
Singisi Forest Products	2 000	Administers a 58 000-hectare plantation of pine and has three sawmills.
Swartland Investments	1 600	Manufacturer and wholesaler of wooden window frames, doors, door frames and mouldings, supplying to builders' merchants.
Bracken Timbers	1 500	Has forestry operations involved in growing black wattle, pine, soya beans, sugar cane and maize. The company has sawmilling and charcoal plants.
MTO Forestry	1 400	Involved in the production of lumber, mining timber, transmission poles, wood chips, building fencing poles, and pulp from eucalyptus and pine plantations.
UCL Company	855	The company has a sawmill and a wattle bark extract mill. It operates a timber growing estate of around 6 500 hectares. It supplies treated and untreated sawn boards to the building, furniture and industrial markets.
C J Rance (Pty) Ltd	820	Involved in the collection, cutting, milling and moulding of timber from Amathole Forestry.
NCT Forestry Co-Operative	562	Involved in the marketing and international supply of logs used for pulp production. The company has four wood-chipping facilities.
ShinCel	562	ShinCel operates a wood chipping plant for export to Japan.
PG Bison Southern Cape	550	Involved in the production of panels and board products.
Bedrock Mining Support	446	Involved in the treatment and manufacture of wood, including support beams for the mining industry.
Weatherboard (Pty) Ltd	418	Manufactures wooden pallets.
Springbok Box	300	Manufactures timber cable drums, decks and bed bases
Johannesburg Timber and Box CC	260	Manufactures wooden pallets, boxes and crates
Afripallet CC	215	Manufactures and repairs pallets, crates and boxes
Peak Timbers	1 200	Supplies timber for building and furniture.

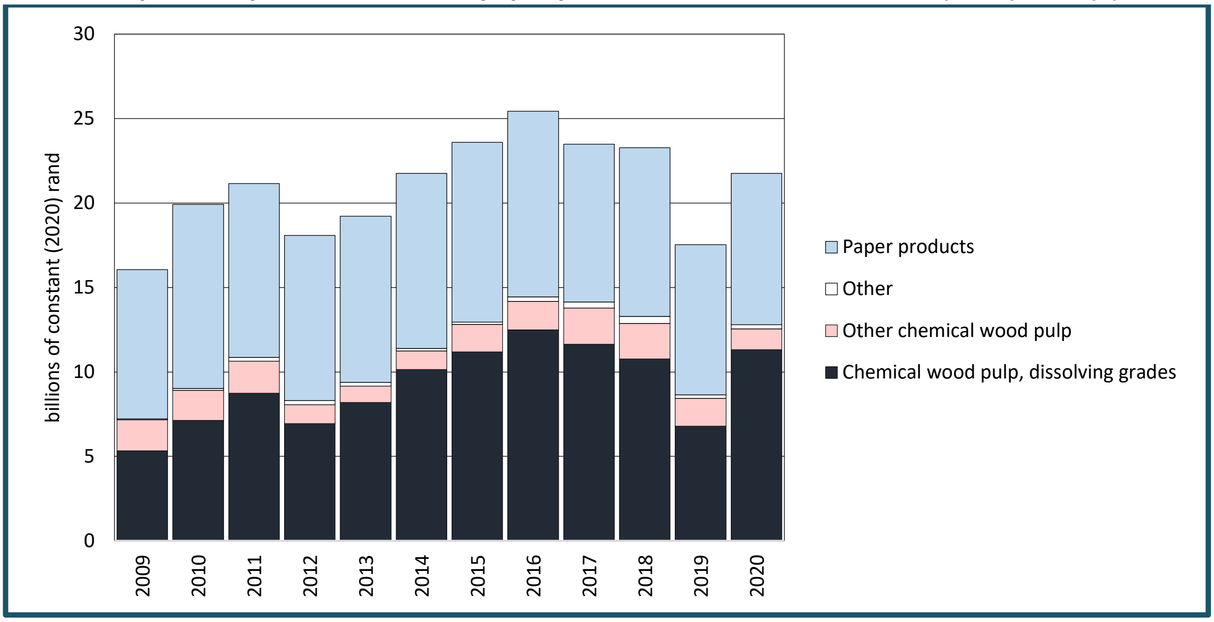
Source: Who owns Whom, downloaded in January 2021.

6. International trade

South Africa ran a trade surplus of close to R11 billion in wood products in 2018 but a deficit of around R4 billion in paper products. South Africa's foreign sales of wood and paper products were almost entirely wood pulp and exceeded R13 billion in 2018, rising by 80% in constant rand from 2009. In 2018, they equalled just over 1.66% of South Africa’s total exports, down from 2.1% in 2009. In 2018, exports of paper came to only around 80% of the value of wood exports. They had risen by a tenth in the same period, rising to R10 billion in 2018.

After four successive years of growth, South Africa’s wood and paper products exports declined 9% from 2016 to 2018, or from 3% of total exports to 2%. The decline appeared to reflect the region’s slowdown after the end of the metals boom in 2012. However, in 2019, South Africa's wood and paper products exports fell an additional 30% from 2018. The decline was driven almost exclusively by chemical wood pulp, which declined by over a quarter in the period. This may be due to the global slump in the price of chemical pulp in 2019. However, these exports recovered in 2020 in response to a resurgence in the global price for chemical wood pulp.

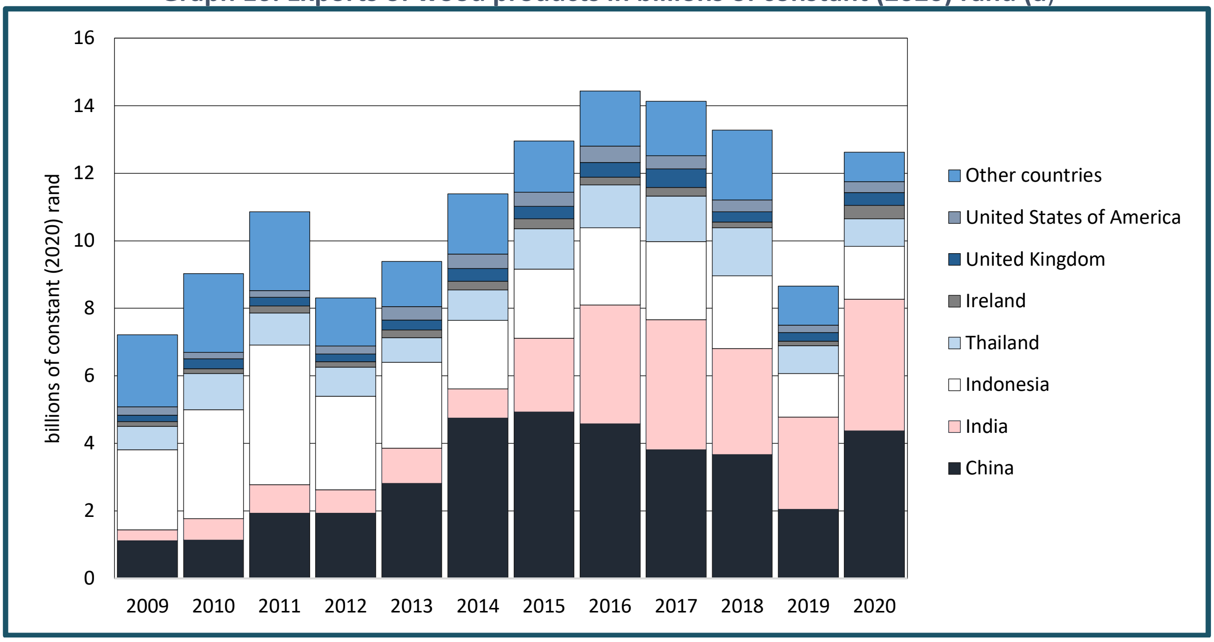
Graph 15. Exports of wood and paper products in billions of constant (2020) rand (a)



Note: Deflated with CPI. Source: Calculated from ICT, TradeMap. Electronic database. Series on exports of HS 47 and 48 by product. Downloaded from www.trademap.org in January 2021.

South Africa supplied its biggest share of exported wood products to China, India, Indonesia and Thailand. India's share of wood products increased steadily from 2014, whereas China, Indonesia and Thailand declined (Graph 16).

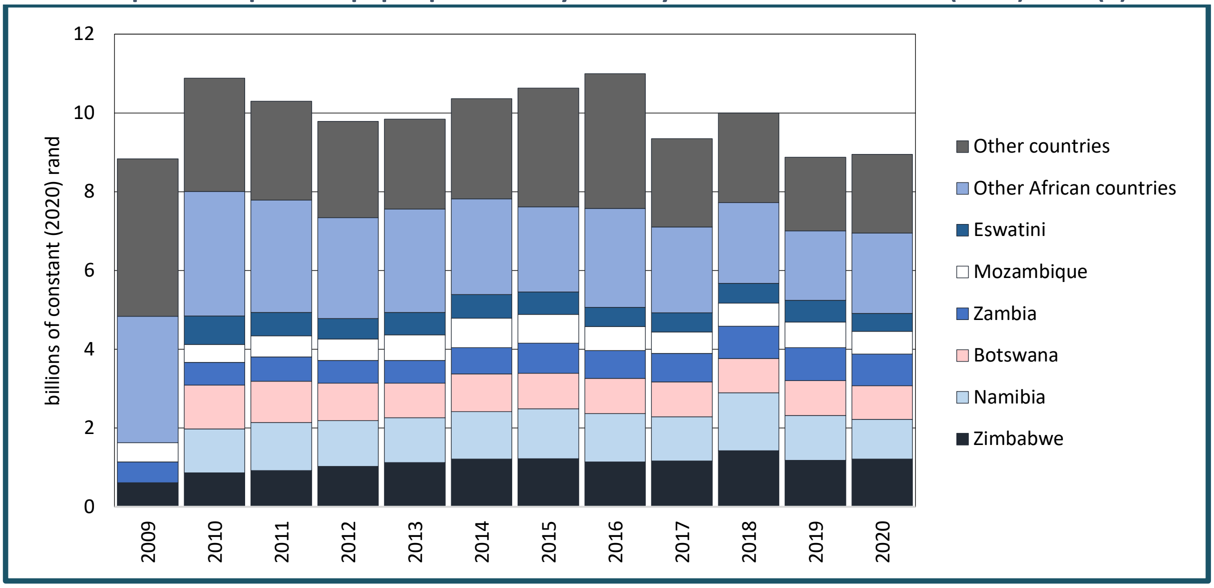
Graph 16. Exports of wood products in billions of constant (2020) rand (a)



Note (a): Deflated with CPI. Source: Calculated from ICT, TradeMap. Electronic database. Series on exports of HS 47 by country. Downloaded from www.trademap.org in January 2021.

South African exports of paper products went primarily to African countries. Zimbabwe, Namibia, Botswana, Zambia and Mozambique accounted for two-thirds of the African total (Graph 17).

Graph 17. Exports of paper products by country in billions of constant (2020) rand (a)

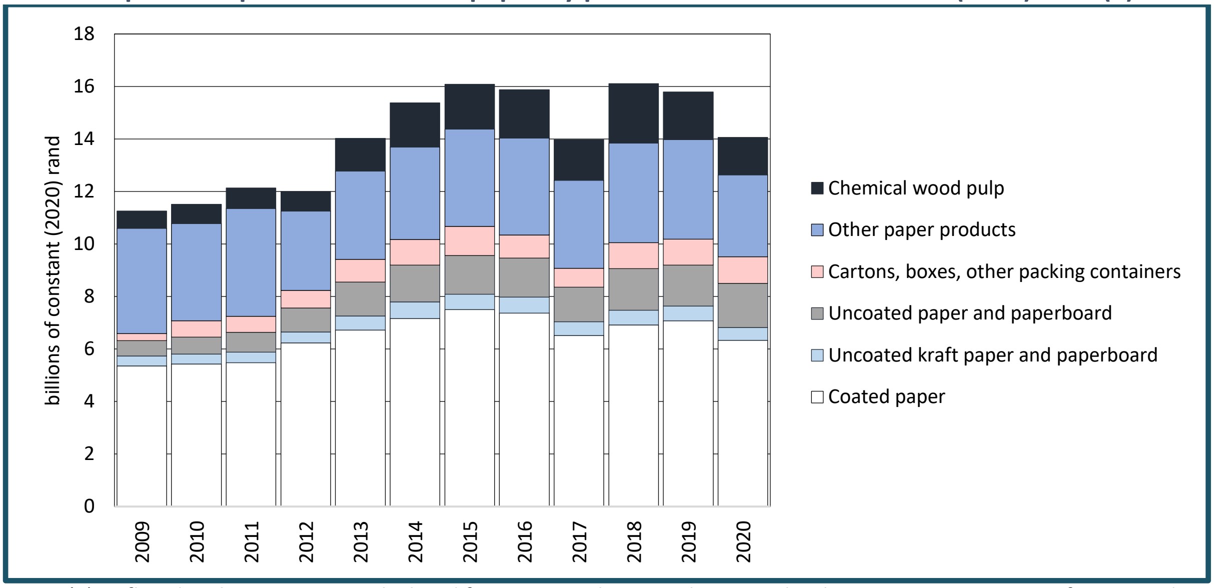


Note (a) Deflated with CPI. Source: Calculated from ICT, Trade Map. Electronic database. Series on exports of HS 48 by country. Downloaded from www.trademap.org in January 2021.

Meanwhile, imports increased considerably faster over the past decade, with paper imports accounting for a far higher share of total imports than wood products, which were relatively unbeneficiated.

In 2019, paper accounted for roughly 1.2% of total imports. By contrast, wood imports made roughly 0.15% of total imports in the same year.

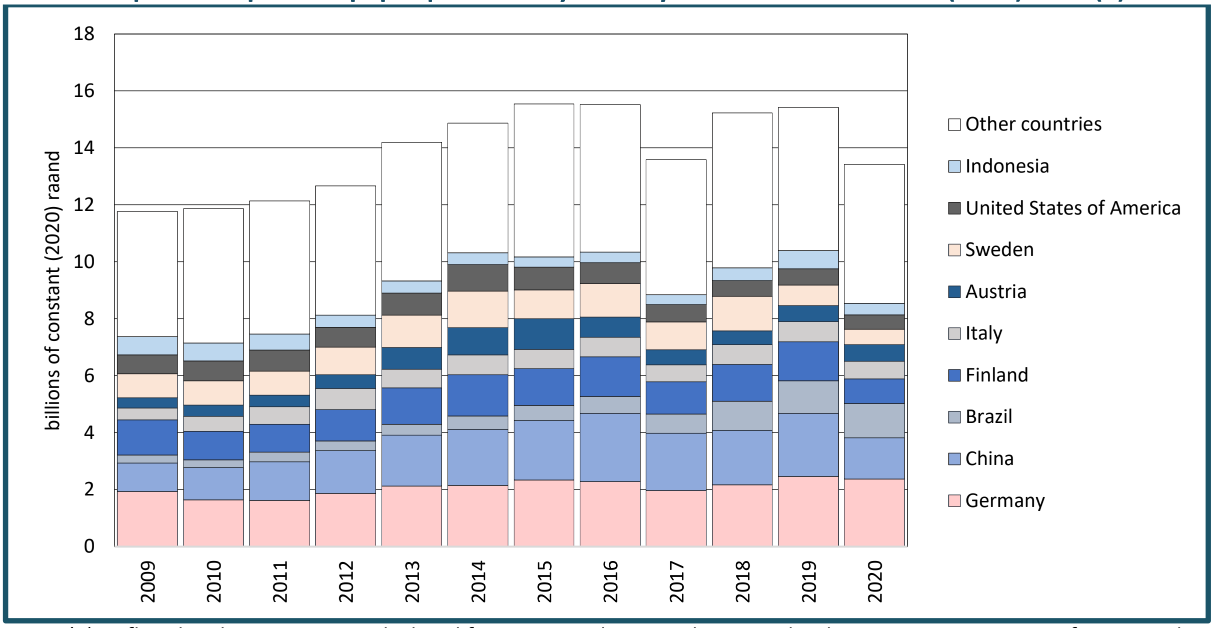
Graph 18. Imports of wood and paper by product in billions of constant (2020) rand (a)



Note: (a) Deflated with CPI. Source: Calculated from ICT, Trade Map. Electronic database. Series on imports of HS 47 and 48. Downloaded from www.trademap.org in January 2021.

South Africa sources its paper imports from a variety of countries, with a disproportionate share accounted for by Europe, specifically Germany and China. Moreover, China's share has grown relatively faster over the past decade. In 2019 it accounted for 15% of South Africa's foreign purchases of paper products, up from 10% in 2010. Wood sources were also quite diverse but were sourced principally from the United States, Brazil, Sweden and Russia.

Graph 19. Imports of paper products by country in billions of constant (2020) rand (a)



Note: (a) Deflated with CPI. Source: Calculated from ICT, Trade Map. Electronic database. Series on imports of HS 47 and 48 by country. Downloaded from www.tradamap.org in January 2021.

Trade & Industrial Policies Strategies (TIPS) is an independent, non-profit, economic research institution established in 1996 to support economic policy development. TIPS undertakes quantitative and qualitative research, project management, dialogue facilitation, capacity building and knowledge sharing. Its areas of focus are: trade and industrial policy, inequality and economic inclusion, and sustainable growth.

info@tips.org.za | +27 12 433 9340 | www.tips.org.za