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# Two Paper Packaging Leaders Join Forces

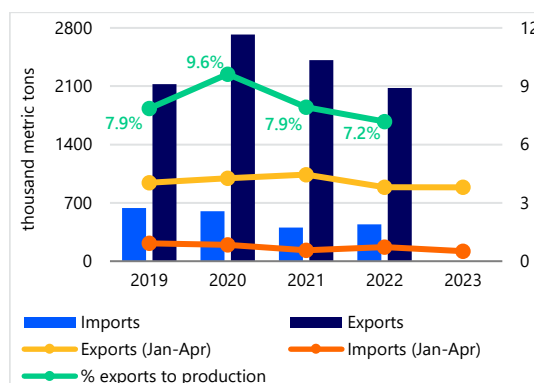
## Sector Implications of the Merger of Smurfit Kappa and WestRock

On September 12, Smurfit Kappa and WestRock announced their agreement to combine to create Smurfit WestRock. The merger of two of the world's largest paper packaging producers – each a leader in its region – would result in a global sustainable packaging powerhouse. This article highlights initial thoughts on the implications of this game-changing move for the sector.

## Global Downturn Is a Likely Trigger

The news of the merger comes at a time when the paper packaging sector is dealing with **weaker demand and lower prices globally**, with most companies reporting declining sales.

**Figure 1: Western European containerboard trade, 2019-2023**



Note: Exports refer to exports outside Europe (excluding Eastern Europe); imports refer to imports from outside Europe

Source: UN Comtrade, Rabobank, 2023

Although the **global downturn** in the sector is a likely trigger for the move by these two global leaders, there might be other drivers behind this merger, besides the more [traditional consolidation drivers in the industry](#).

On the back of a **new situation in European energy markets** – structurally higher energy costs and decarbonization as a priority for regulators – Europe went from being one of the lowest-cost regions to one of the highest-cost regions for paper packaging producers. These developments have **reduced competitiveness** of European containerboard in global trade (see *Figure 1*). The profitability of certain European mills might also be

hampered. These changes in the global competitive landscape might stimulate leading European companies, especially those with a global presence, to look for further growth – including through M&A activities – in other strategic regions. In the current challenging market conditions, more resilient companies can afford to react quickly and with scale in order to outperform competitors, potentially allowing diversified exposure to different market conditions.

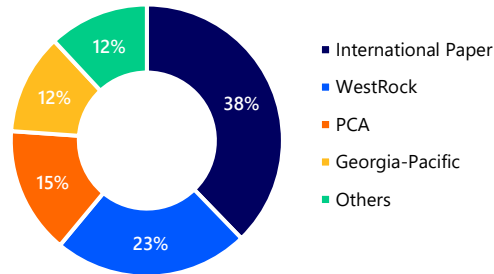
## The Merger Would Change the Corrugated Packaging Competitive Landscape

### Limited Changes in Mature and High-margin North America

The North American market, with its strong demand and healthy margins, has always been attractive to foreign producers. Yet high degrees of consolidation and integration have created a higher barrier to entry, and building up market share in North America can be slow. A number of European players, including Smurfit Kappa, have already taken small steps to build their business

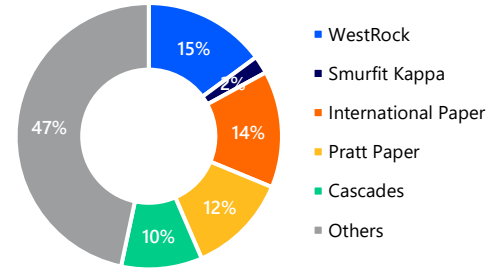
in the region. This sizable deal would bring a totally new level of European presence and sector experience to the North American market.

**Figure 2: Market share of virgin containerboard in North America, 2023**



Source: RISI Fastmarkets, Rabobank, 2023

**Figure 3: Market share of recycled containerboard in North America, 2023**



Source: RISI Fastmarkets, Rabobank, 2023

WestRock is the second-largest containerboard producer in North America and the combination will only add 1% to its total virgin and recycled containerboard market share. Still, it would somewhat further consolidate the local market, with the largest two players (post-deal) controlling over 50% of total containerboard capacities. The merger especially consolidates the recycled containerboard space, leaving the virgin containerboard virtually unchanged (see Figures 2 and 3). Moving forward, this might lead to increased competition in North America, especially with the non-integrated independents, as a bigger combination will likely better integrate recycling plants, pulp mills, containerboard mills, and converters that feed into each other. However, we expect little immediate impact on containerboard prices due to the soft demand in the near term.

## Greater Consolidation in Fast-developing Latin America

Contrary to North America, Latin America's paper packaging space is relatively immature, with fast-growing demand. Global paper packaging producers are proactively positioning their assets in this region.

The merger would create the dominant paper packaging producer in Latin America (see Figure 4). Subject to regulatory approvals for any potential antitrust issues, the merged entity would become the largest containerboard producer in Mexico, with over one-third of the market, and the second-largest in Brazil, with a 17.6% market share. Furthermore, the deal would bring together WestRock's expertise in virgin grades and Smurfit Kappa's specialty in recycled grades. The combined entity would become a sizable competitor to local fiber and paper packaging giant Klabin.

**Figure 4: Containerboard market share of the merged entity in Latin America, 2023**



Source: RISI Fastmarkets, Rabobank 2023

Along with Smurfit Kappa's already significant presence in Argentina and Colombia, the combination would become a one-stop shop for paper packaging, offering both containerboard and boxboard, and in virgin and recycled fiber – something the continent has not seen so far.

## Different Changes for Mature Europe Coping With a New Energy 'Normal'

The combination would not significantly affect the paper packaging landscape in Europe in terms of containerboard market share.<sup>1</sup> The market might, however, see some other implications for its competitive landscape.

The importance of **access to virgin fiber** and packaging paper grades has become more important for the growth of European paper packaging players, both domestically and globally. We recently saw some acquisitions by European players in their hunt for virgin growth opportunities in other regions – such as Billerud and Mondi in the US and Klingele Paper & Packaging Group in Brazil.

The merger would secure the largest European player access to lower-cost virgin fiber and containerboard in other regions. This – especially at a time when the competitiveness of European containerboard production has weakened – might stimulate **exports of more competitive virgin containerboard** to Europe.

## Sustainability and Innovation Also Win

This combination of two sustainability leaders – both with approved net-zero targets under the Science Based Targets initiative (SBTi) – is likely to accelerate paper packaging's **moves in sustainability** globally, both in terms of **circularity-recyclability** and **decarbonization**. Other regions could learn from Europe's experience with quicker **innovative improvements** on these fronts, driven by higher regulatory pressure and the new energy reality in Europe.

The same is true for **product innovations**. Joint efforts from the combination are expected to stimulate innovation in the industry following **market adoptions**, especially in markets that are otherwise moving somewhat slower.

Eventually, such sustainability and innovation leadership will bring commercial opportunities by strengthening the position of the entire paper packaging sector in its **substitution competition** with other packaging materials globally.

## Changes to Competitive Landscape Might Push for More M&A

The M&A market in paper packaging remains active. Even in the challenging market environment, the level of M&A activities – although most of them are relatively small – did not slow down significantly. However, this merger would **change the competitive landscape** globally as we see weaker competitiveness of European producers and a potential increase of competition pressure due to greater regional consolidation. Combined with the sector's global downturn, this might also lead the push for **more M&A activities** in Europe and the Americas.

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<sup>1</sup> WestRock does not have paper mills in Europe.

# Imprint

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