

## A MESSAGE ABOUT THE NORTH AMERICA PAPER BAG SHORTAGE

Dear Duro Customer,

February 2020

As you are likely aware, there is a growing imbalance between the demand for paper bags and sacks and the industry's ability to meet that demand. The gap is due in large part to state and local legislation across the country that restricts the use of plastic bags. The shortage will become even more acute starting March 1, 2020 when new legislation in New York State banning most carryout plastic bags goes into effect.

According to recent research (attached) by Freedonia Custom Research, paper bag manufacturing capacity in North America is about 7.7 billion bags per year and was near maximum production capacity at the end of 2019. The New York ban is projected by Freedonia to increase demand for paper from between 0.7 billion and 3.4 billion additional paper bags across the U.S. Even a conservative, mid-point projection in demand would require production of some 2.1 billion more paper bags, an increase that is 30% more than the manufacturing current manufacturing capacity not only at Novolex but across the entire North American paper bag industry. The shortage will only increase if additional states such as Vermont, Maine, Washington and locations in Canada restrict the use of plastic bags.

Novolex has already begun to invest in increased capacity to produce paper bags with the purchase of additional equipment. However, it can typically take approximately 16 months to install new machines and ensure customer specifications are met. In tandem with our capital commitments we will strive to increase efficiencies at existing production sites and prepare additional workforce. As a temporary measure, we will also explore importing bags to meet demand, although we prefer to use US facilities. Furthermore, imports require significant changes in the supply chain and cannot happen overnight.

Unless New York modifies its current regulations, following the scheduled March 1, 2020 implementation, this shortage will likely continue. Freedonia has forecasted an imbalance of supply and demand for paper bags that could last between three and five years. Novolex is engaging with political leaders around the country to communicate these dynamics.

We will continue to update you if we identify any changes in the situation. In the meantime, if you have any questions, please do not hesitate to contact your Duro Sales Manager.

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Brands

