The Development of China Paper Industry: Current Situation and Outlook

Dr. Cao Zhenlei

Sep 2014, Shanghai
Content

- Status quo and market position of China’s papermaking industry
- China’s papermaking market
- Challenges in the development of the papermaking industry
- Outlook into the near future
- Conclusions
• Status quo of papermaking industry

Average annual growth in output: 8.26%
Average annual growth in consumption: 6.74%
• Status quo of papermaking industry
Global papermaking market landscape 2002

From RISI
Global papermaking market landscape 2012

- China: 37%
- North America: 18%
- Europe: 23%
- Other Asia: 15%
- Latin America: 4%
- Middle East: 1%
- Africa Oceania: 1%

From RISI
• Status quo of papermaking industry

• Proportions of different products stay stable in the Chinese market but are quite different from the global market.
• **Review**
  • Pulp and WP Import for 2002-2013
• Review
  • Pulp Import in 2013
• Review
  • Wood chips and Pellets import reached 8.69mmt in 2013
• Status quo of papermaking industry

• According to 2013 report of CTAPI, only tissue and specialty paper witnessed increase in output and consumption.

• As per 2013 annual report of listed companies, their financial status improved considerably compared with that of 2012.

• The market of communication paper trends downward remarkably, while the coated paper market has picked up impressively.
• China’s papermaking market
  - Paper and board market
    • Supply and demand
    • The market has been sluggish since the beginning of 2012 with operating rate falling to 80% among the enterprises.
    • Output and sales are balanced, while profit margin slumps. Excessive competition pushes profits to the downstream.
    • Many projects under construction and planned projects have been delayed or canceled and the number of project starts is slashed.
China’s papermaking market

- Communication grades
  
  (Newsprint, coated paper and uncoated communication paper)

- Worrying traditional application
  
  - Newspapers, magazines, books, notebooks, office paper

- Stable business application
  
  - Promotional materials such as sales catalogues, classified advertisements, inserts, leaflets and advertisement mails
• Communication grades
  – Changes in output and sales of newsprints (have been shrinking since 2009)
• Communication grades
  – Changes in output and sales of coated paper (declined slightly in 2013)
• Communication grades
  – Changes in output and sales of uncoated paper (demand fell)
China’s papermaking market

- Paper and board market – main products
  - Communication grades
    - Newsprints: high concentration ratio; production capacity not supposed to increase.
    - Coated paper: high concentration ratio; capacity put into production gradually.
    - Uncoated paper: low concentration ratio; mixed quality; backward capacities being eliminated; considerable potential of high-end products.
    - Traditional application is hurt harder by e-media than business application. Products for business enjoy potential.
• China’s papermaking market

- Paper and board market – main products
- Packaging paper and board – classification
  • Packaging paper
    – Kraft paper, yoshire paper, etc.
  • Boxboard
    – Coated, white top liner boards, kraft liner boards, cartonboards, etc.
  • Containerboard
    – Kraft, regular, T-containerboard
  • Corrugated medium
China’s papermaking market
- Packaging paper (stable, import of high-end products)
• China’s papermaking market
  – Boxboard (sliding amid stability)
• China’s papermaking market
  – Containerboard (sliding amid stability)
• China’s papermaking market
  – Corrugated medium (stable)
China’s papermaking market

Packaging paper and cardboards

- Packaging paper: low concentration ratio; many varieties; import of some high-strength fiber products; and a promising prospect of food wrapping paper.

- Boxboard: rising concentration ratio; changing market; a gloomy prospect of CCNB because of the transferring of consumer goods production; a bright future of white cardboard and paperboard for food packaging.

- Containerboard: rising concentration ratio; small-sized machines being eliminated; products to be upgraded.

- Corrugated medium: backward capacity being eliminated; supporting products for cardboard paper to be upgraded; a promising prospect of containerboard and corrugated thanks to strong domestic demand.

- A large number of new projects; low cost domestic equipment.
• China’s papermaking market
  – Tissue

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>Growth YoY (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output (ton)</td>
<td>6,808,000</td>
<td>6,273,000</td>
<td>8.5</td>
</tr>
<tr>
<td>Sales volume (ton)</td>
<td>6,638,000</td>
<td>6,120,000</td>
<td>8.5</td>
</tr>
<tr>
<td>Net export volume (ton)</td>
<td>601,600</td>
<td>492,200</td>
<td>22.2</td>
</tr>
<tr>
<td>Consumption (ton)</td>
<td>6,036,000</td>
<td>5,628,000</td>
<td>7.2</td>
</tr>
<tr>
<td>Annual consumption per capita (kg)</td>
<td>4.4</td>
<td>4.2</td>
<td>4.8</td>
</tr>
<tr>
<td>Turnover in mills (CNY bn)</td>
<td>65.72</td>
<td>62.40</td>
<td>5.3</td>
</tr>
<tr>
<td>Domestic market size (CNY bn)</td>
<td>77.69</td>
<td>74.63</td>
<td>4.1</td>
</tr>
</tbody>
</table>
• China’s papermaking market
  – Tissue
    • Output, consumption and export volume keep growing;
    • Growth in revenue is slightly slower than that in sales volume, indicative of declining price;
    • Operating rate is falling with new capacity put into production; new capacity construction is delayed due to the over growth in capacity;
    • Elimination of backward capacity becomes common;
    • Concentration ratio is rising further.
• China’s papermaking market
  – Tissue

Concentration ratio rises year by year. Four largest paper makers are Heng’an, Gold Hongye, Vinda and C&S.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total capacity of the four papermakers (ton)</td>
<td>1,631,000</td>
<td>1,906,000</td>
<td>2,615,000</td>
<td>2,955,000</td>
</tr>
<tr>
<td>Capacity (%)</td>
<td>26.4</td>
<td>27.8</td>
<td>33.3</td>
<td>34.7</td>
</tr>
<tr>
<td>Output (%)</td>
<td>22.6</td>
<td>24.1</td>
<td>27.8</td>
<td>30.7</td>
</tr>
<tr>
<td>Revenue (%)</td>
<td>27.9</td>
<td>30.0</td>
<td>32.3</td>
<td>35.4</td>
</tr>
</tbody>
</table>
China’s papermaking market

- Tissue

Combined turnover of top 15 papermakers has exceeded 50% of the total.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Output (%)</td>
<td>36.8</td>
<td>40.3</td>
<td>45.0</td>
<td>47.8</td>
</tr>
<tr>
<td>Revenue (%)</td>
<td>41.3</td>
<td>43.5</td>
<td>48.3</td>
<td>51.1</td>
</tr>
</tbody>
</table>
• China’s papermaking market
  – Tissue
    • Global brands have small market shares;
    • Native brands enjoy stably growing market shares;
    • Regional brands enjoy decent growth;
    • Foreign brands with products sold through agents and private brands embrace opportunities;
    • Low-end market shrinks.
China’s papermaking market
  – Paper and board – specialty grade
    • Definition: raw materials for other industrial goods produced by papermaking means. e.g. paper for electric appliances, paper for insulating materials, veneer paper for furniture and heat-resistant and thermal-insulating materials, which usually are not recyclable.
    • Small market size; strong specificity; high technology.
    • Rapid development in recent years.
    • Potential markets
      – Fiber paper
      – Other materials produced by papermaking means
• Challenges in the development of papermaking industry
  – Paper products are biodegradable
• Challenges in the development of papermaking industry
  – Paper is recyclable, how about petroleum products?
• Plantation absorbs more CO2
• Challenges in the development of papermaking industry
  – Paper is recyclable
A green and low-carbon environment is the motivation for the transformation of papermaking industry.

According to statistics from International Energy Agency in 2007, papermaking is responsible for only 2% of the total industrial carbon dioxide emission, much lower than that of the chemical industry, steel industry and cement industry.
• Problems for the Industry

  • The Challenge from the E-Media

  • Global economy with slow growth

  • Consuming goods export going down

  • Domestic consumption could not make it up
• Problems for the Industry

• After long term high speed, down to low

• Have to change from investment leading to consuming

• restrictions from both resources and environment

• Over capacity facing low consumption
Outlooks

Printing and Writing

– Newspaper consumption will decrease steadily
– Coated grade need more time for digest new capacity
– Uncoated facing the most difficult time ever
– Commercial grades still have room for growth
• **Outlooks**
  
  • Packaging grades still growing but in transition
    - Competing with other packaging materials
    - High quality grades replacement
    - New areas of market
Outlooks

Packaging grades still growing but in transition

- Packaging for consuming goods changes from export to domestic market
- Restructuring both in grades and locations
- E-commerce leading the transition of packaging
- High transportation cost and low margin will move the manufacture close to the inland market
Outlooks

The future looks good for tissue

- Per capita consumption still very low (only 4.2kg)
- New areas of products (applications)
- High new capacity comes up in these years
- Branding and market order very important
Outlooks

- Mixed future for specialty paper grads
  - Very good market potential
  - Market moves to China along with other manufactures
  - Good profit margin
  - High investment density but poor convertibility between grades
  - Protection for intellectual property right very important
  - R&D intensive

China Technical Association of the Paper Industry
• Conclusions
  – The industry is into a transition, from an available market to a creative market!
  – The overall operation rate and profit margin still suffering
  – Some growth ahead for packaging and tissue, but also challenging
  – Specialty paper – A direction for transition of the industry remain to be seen!
Thank you!
caozhenlei@sinolight.cn