HAWKINS WRIGHT

Defining the China Market

for pulp, paper & board

A multi-client report

Defining the China market

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China's GDP expanded by 11.7% in Q1 2007, despite the government's efforts to restrain growth. Premier Wen Jiabao has described the economy as 'unstable, unbalanced, unstoppable and unsustainable'. The pace of this economic expansion is exerting huge pressures; politically, economically, and environmentally.

The rapid development of China's paper industry has resulted in high demand for pulp and recycled fibre. China's share of world market pulp demand has more than doubled in the space of five years. Recycled fibre imports have increased from 6 million tonnes to 20 million tonnes over the same period.

Although this presents huge opportunities for raw material suppliers, the wider effects on the paper industries of the more developed regions have been far less benign. Increased competition for raw materials is contributing to higher costs globally. Furthermore, over-investment in China has contributed to global over-capacity and led to a deflation in prices for most paper grades. The resultant pressure on margins has accelerated the process of restructure that is now underway in Europe, North America, and indeed, other parts of Asia.

Although considerable, China's demand for paper and board has frequently been over-estimated and the effects of the resultant over-investment are now clearly visible. With a few exceptions, investment in China's papermaking capacity has been as much the result of excess liquidity in the banking system as the desire to tap into China's future paper and board consumption.

A new phase of development from 2007

In 2006 China emerged as a significant net exporter of newsprint, woodfree, and tissue papers. Imports of packaging grades have fallen significantly and exports are also rising. The US department of commerce has imposed countervailing duties and anti-dumping duties on imports of coated art paper from China. China has responded by re-introducing export incentives for Chinese companies.

Chinese paper and board demand is strongly linked to the export sector. Much of China's 'apparent consumption' is ultimately exported in converted form. In addition to books, magazines, and other commercial printing, a huge amount of packaging and printed material is associated with the $970 billion of goods which China exported in 2006.

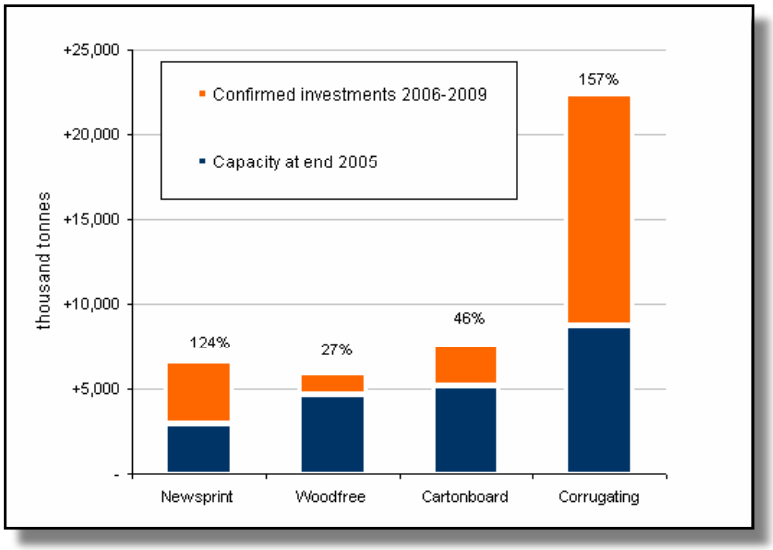
Although China opposes much of the US stance on trade, it recognises the need to slow its economy and the export sector in particular. It is therefore of some concern that investment in paper and board capacity appears to be accelerating at a time when internal and external forces are combining to slow down growth. The chart opposite illustrates only the confirmed projects. A further 6.2 million t/y of woodfree capacity is under review or seeking finance.

Investment is not restricted to paper capacity. Controlling costs is key to survival in the

intensely competitive Chinese market. A secure and sustainable fibre supply is a priority for Chinese companies, and the main source of competitive advantage. As a result, investment in pulp capacity has also increased dramatically over the past twelve months.

Another way in which companies are reducing their exposure to the pulp market is through substitution. Utilisation of recycled fibre is increasing rapidly and there is an equally large list of investment projects based on non-wood pulp; most notably bamboo.

As a result, although they continue to grow, fibre imports may not show such a strong correlation with paper and board production as they have done over the past five years. At the very least, China will remain the most price sensitive market in the world.



Confirmed additions to China's paper & board capacity, 2006-2009

The purpose of this report

Now in its fifth year of publication, the Defining the China Market report continues to be the most comprehensive and relevant analysis of the China market for pulp, paper, and board.

Official statistics of paper production and consumption in China are too general and out of date to be of practical use, and in many cases are contradictory and unreliable. Although the report incorporates all available published information, this is augmented by extensive primary research throughout the year.

By distinguishing New China from Old China we have developed a transparent framework which is a useful and usable model enabling more accurate forecasting. For example, in the first report published in March 2003 we forecast that China would import 7.3 million tonnes of pulp in 2006 and 7.7 million tonnes in 2007. In the event China imported 7.5 million tonnes last year, and this year imports are on course to reach 7.7 million tonnes. The report also describes China's development in the global context. The report is therefore essential reading for those directly involved in this complex and rapidly changing market, and anyone wishing to quantify the global impact of its development.

In addition to the report, subscribers benefit from continuous updates on the Chinese market and individual projects on request, throughout the year.

The contents of the 2007 report

List of tables in the 2007 report

List of charts in the 2007 report

Mill database

The report includes a database of Chinese paper & board companies, including profiles of 167 companies detailing their current production and their expansion plans. Maps show the location of mills and projects in the four key provinces of Shandong, Jiangsu, Zhejiang and Guangdong.

The experience of Hawkins Wright

Hawkins Wright is a business consultancy based in London, UK, specialising in the provision of consultancy and business information services to the international forest products industry. The company was formed in 1982 and over the past twenty-five years has developed an unequalled bank of data, qualitative information and senior contacts throughout the industry.

In addition to this *Defining the China Market* report, our regular multi-client services include *The Outlook for Market Pulp Demand, Supply, Costs and Prices* (a detailed pulp market forecasting service) and *Pulpwatch* (a monthly newsletter.)

In addition to these regular reports we provide single-client consultancy services for individual clients covering the full range of marketing and strategic topics.

Visit ***www.hawkinswright.com*** for more information.

Availability and cost

The report is available immediately at a price of **£5000** (or £2750 to subscribers who purchased the 2006 edition). The price includes two copies of the report as well as a presentation meeting with the authors in London. Additional copies of the report are available at a nominal fee.

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