

## China Papermaking Industry Report, 2007-2008



- The papermaking industry is still acknowledged as a sunrise industry in China and has massive potential market. Since 2007, with the continuous and rapid increase of macro economy, the demand for paper and the paper price both show a continuous rise and the demand in Shandong paper market also increases steadily. From January to August of 2007, China papermaking industry achieved the sales revenue of RMB 380.35 billion, up 36.20% year on year; the increase rate of the sales profit kept above 30% and the profitability of the industry increased sharply.

## Growth of Sales Revenue of China Papermaking Industry, Jan. 2006-Aug. 2007

Time	Sales Revenue (RMB 1,000)	YOY growth
Jan.-Feb.,2006	61,695,061.00	30.86%
Jan.-Mar.,2006	99,976,651.00	73.64%
Jan.-Apr.,2006	139,594,824.00	41.13%
Jan.-May,2006	180,172,703.00	29.18%
Jan.-June,2006	225,124,863.00	28.92%
Jan.-July,2006	266,511,201.00	18.20%
Jan.-Aug.,2006	308,871,007.00	15.32%
Jan.-Sep.,2006	352,484,901.00	16.04%
Jan.-Oct.,2006	395,819,904.00	10.59%
Jan.-Nov.,2006	439,173,053.00	8.78%
Jan.-Dec.,2006	489,091,750.00	9.22%
Jan.-Feb.,2007	76,441,388.00	33.42%
Jan.-May,2007	22441502	30.97%
Jan.-Aug.,2007	380349244	26.84%

Source: ResearchInChina

- 1. Advantages: National Development and Reform Commission issued "the Development Policy of Paper Making Industry" so as to build fair market order and favorable development environment as well as solve the problems in the development and guide the healthy development of the industry. The policy made detailed requirements about production capacity plan, environment protection, industrial layout, fiber raw materials as well as entry barriers. This policy helps increase the market concentration and make the paper making industry to realize sustainable development. Doubtless, it is a favorable factor to the paper making industry.
- 2. Disadvantages: With the fast growth on the export of the paper products of China, the export competitiveness of the paper industry frequently faces threat from the international trade protectionism. In 2007, China advocates and attaches great importance to the environment protection once again and requires to shut down those environmentally unqualified enterprises. But the paper industry cannot solve the awkward situation immediately. Currently, the pollution problems of large enterprises are almost solved. However, the serious pollution is usually caused by some small paper mills. The large number of medium and small enterprises will face stricter macro control and punishment. The enterprises are facing a large industrial integration.

- Because of the price raise of the paper pulp, the downstream is affected. The production capacity is gradually digested under the precondition of the demand increasing slowly. In the future, the price of the paper product is expected to have an upturn and the industry prosperity will rebound. Between January and September of 2007, the output of the paper pulp was 15.79 million tons, down 15% year on year; 1562 small paper pulp enterprises were under rectification or have been closed. It is expected that the closed enterprises would be nearly 1700 in the whole year of 2007. Consequently, the supply of the paper pulp is in short supply at home and abroad. This must lead to the further price raise of the paper pulp and it would cause the price raise in the downstream definitely.
- Under the precondition of the basic balance of the supply and demand of the paper products, the expanded production capacity has gradually been absorbed and it is estimated that the price of the paper products will rise in both 2007 and 2008.

- Currently, there are 3406 export companies about cardboard and paper in China, 60.7% export value concentrates on the top 10 enterprises on export value. Although the current advantage of the foreign-funded enterprises is not obvious yet, their ratio in the capital structure of China paper making industry has already surpassed the alarm line. Furthermore, their market share has already occupied one third of China's total. The market share of many domestic small and medium enterprises has been grabbed. The industrial development encounters crisis.
- Comprehensively, the paper making industry is the third biggest foreign exchange use industry, so it will benefit a lot from the long-term RMB appreciation in the future. The RMB appreciation can cut the cost of the raw materials of the paper making industry and increase the industrial profitability. Besides, as the paper making equipment, especially the high-grade paper production facility, is almost imported from abroad, the RMB appreciation can reduce the cost of papermaking equipment, consequently, decrease the production cost and financial expenses and increase the profitability of the enterprises. With the increasing demand for high-grade paper products, the production structure and the raw material structure in paper making industry have some changes accordingly and the proportions of the waste paper pulp and wood pulp to the raw materials increase higher and higher.

- In 2008, the price of the raw materials will show different trends. The wood pulp price will fall because of the releasing of newly-increased production capacity; the waste paper price will rise because the growth as the supply slows down but the demand is still strong; most of the paper markets would have an upturn; the market of culture paper and ivory board is still bright; though the supply for newsprint and copperplate paper exceeds the demand, the situation will ease a little; as for the box board base paper, due to the releasing of the production capacity, its supply exceeds its demand and a new round of industry shuffling probably will begin.
- We deem that, under the current economic background, the paper making industry will grow to be a rapidly growing industry. The investors are suggested to pay much attention to those leading enterprises which have the project of "forest & paper integration", good market performance and the expansion of the production capacity.

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