Outlook for Woodchip Imports in China

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As recently as 2003, China was the fourth largest supplier of hardwood chips to Japan; but since 2006 China has been a net woodchip importer, and is now the 2\textsuperscript{nd} largest chip importer.
Agenda

• Why does China need to import woodchips?
  – World’s biggest producer of paper and paperboard
  – Growing domestic pulp production
  – Shortage of domestic timber resources

• Historical trend in woodchip imports in China
  – Hardwood
  – Softwood

• Outlook for woodchip imports in China
China has become the world’s largest paper and paperboard producer; 70% of furnish is recovered paper, but consumption of wood pulp has also been increasing rapidly.
What’s ahead for China’s paper industry?

• China’s 12th Five-year Plan provides “strong guidance” for the paper industry:
  – Primary focus on domestic market, rather than producing for export.
  – “Forest-Paper” integration includes acquiring forest resources outside of China.
  – Recovered paper collection and consumption is encouraged.
  – Industry consolidation to increase.
  – Effluent reduction, energy conservation and mill closures.
China’s growth in per capita income will mean rising consumption of paper---although electronic media will have an impact.

Source: RISI, China Pulp Market: A Comprehensive Analysis and Outlook, 2012
RISI projects that newsprint production and demand in China will decrease over the next decade.
P&W paper production will increase, but net exports will decline as domestic consumption increases.

China's Printing & Writing Paper Forecast, Million tonnes

Source: RISI, *China Pulp Market: A Comprehensive Analysis and Outlook, 2012*
Containerboard will be one of the fastest growing segments of the industry, with consumption keeping pace with production.

![Chinese Total Containerboard Consumption and Production](chart)

Source: RISI, *China Pulp Market: A Comprehensive Analysis and Outlook, 2012*
Boxboard production seems set to expand faster than domestic consumption, so net exports will increase.

Source: RISI, China Pulp Market: A Comprehensive Analysis and Outlook, 2012
Tissue is a smaller segment, but rapidly growing in China - which will become the world’s leading consumer.

China Becomes the Leading Consumer of Tissue

Source: RISI, *China Pulp Market: A Comprehensive Analysis and Outlook, 2012*
China’s imports of wood pulp have been growing rapidly, but domestic production has also been increasing, with output growing 8% annually since 2004, to more than 9 million tonnes.
But imports of woodchips have been growing much faster than pulp imports, increasing 49% annually since 2004.
China’s area of eucalyptus plantations doubled between 2006 and 2012 – but will it be enough to meet demand?
Some eucalyptus plantations in China are relatively high quality. Stora Enso has helped to introduce high-quality eucalyptus forestry to China, using modern technology from the first step.

While most harvesting in China is still done by hand, Stora is developing some plantations for mechanical harvesting.
But other plantations are more difficult…

Plantations are often located on steep slopes, with poor road connections to markets.

Agriculture still has priority in China, with forest plantations stuck with less productive sites.
And some plantations are really bad…

Many Chinese companies think "cheaper is better", but with eucalyptus this can be a problem.

Even some flat ground may not be well suited for growing trees, due to very infertile soils, lack of rainfall, etc.
Eucalyptus in China has a problem with frost, and may also have future problems with pests and disease due to very narrow genetic base.
Pulpwood is expensive in China, as even very small (8cm+) eucalyptus logs like these are used for veneer, and can cost US$100/cubic meter or more
The vast majority of China’s woodchip imports have been hardwood, not softwood.

In January-April 2013,
- Imports of hardwood chips are 17% higher than in 2012.
- Imports of softwood chips are 122% higher than in 2012.
Nearly 90% of China’s hardwood chips are from Southeast Asia

Change in imports by source in January-April 2013 vs. 2012:
- Vietnam + 42%
- Thailand - 17%
- Indonesia + 8%
- Australia + 70%
- Other - 36%
In some months, China’s imports of hardwood chips have already exceeded the volume imported in Japan.

Hardwood Chip Imports in Japan and China, 2008 - April 2013

- China
- Japan

Thousand BDMT

Jan-08, Apr-08, Jul-08, Oct-08, Jan-09, Apr-09, Jul-09, Oct-09, Jan-10, Apr-10, Jul-10, Oct-10, Jan-11, Apr-11, Jul-11, Oct-11, Jan-12, Apr-12, Jul-12, Oct-12, Jan-13, Apr-13
Australia has been the primary supplier of softwood chips to China, although the USA would also like to sell a lot more to China.

China's Softwood Chip Imports, 2008-2012

Thousand BDMT

Market shares in January-April 2013:
- Australia 72%
- Fiji 10%
- USA 9%
- Russia 8%
China’s imports of softwood chips have been higher in 2013, but will likely level out in second half.
75% of China’s hardwood chip imports in 2012 went to just two mills: APRIL at Rizhao and APP on Hainan Island
But other hardwood chip importers have been increasing volumes also. In January-March 2013, market share of “Others” = 30%, up from 25% in 2012.
Softwood chip imports have gone to just a few mills, with little change over time
China’s Hardwood Chip Import Price: Prices higher in eastern China (Shandong province) due mostly to higher freight

Source: RISI International Pulpwood Trade Review 2013
Hardwood Chip Price in Rizhao

Australian suppliers tried hard to keep their price down, but still higher than SE Asian suppliers.

Source: RISI
International Pulpwood Trade Review 2013
<table>
<thead>
<tr>
<th>Paper Grade Pulp Project</th>
<th>Allocation</th>
<th>Type</th>
<th>New Capacity</th>
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China is expected to maintain a balance between domestic pulp production and imports.
Even our relatively conservative forecast indicates that China’s market for hardwood chip imports will exceed Japan’s by 2015.
RISI’s 14th Annual Asian Pulp and Paper Outlook Conference

- June 17-19, 2013, Four Seasons Hotel, Shanghai – see http://www.risiinfo.com/events/asia_conf/
- June 19, 2013 – RISI seminar on Global Timberland Investment Trends and Opportunities for Chinese Investors, see http://www.risiinfo.com/events/asia_conf/timberland_investments_program.html
7th International Woodfibre Resources and Trade Conference

• Focus on international trade in woodchips and biomass.
• To be held first week in November, 2014, in Chile.
• Aimed at providing networking opportunities for both suppliers and buyers of woodchips and biomass.
• Conference web site www.woodfibreconference.com
RISI’s International Pulpwood Trade Review (also known as “the woodchip bible”) has provided information on international trade in woodchips and biomass for the past 20 years.

See
www.risi.com/pulpwood

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