The Recovered Paper Ban in China - implications on the overall fiber balance in China

RISI conference

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February 2018
Ilim Group is the largest pulp and paper producer in Russia with assets both in European and Asian part and large sales to China.

Ilim Group assets

- Corrugated packaging plant
- Pulp and paper mill
- Head office in Saint-Petersburg and Sales office in Beijing

Key facts and figures

- Export oriented company
- Geographically dispersed
- Value chain dispersed
- Production $>3$ Mt
- Sales to China $>1$ Mt
- Personnel $~17k$
- Destination countries $>90$
ILIM products: total Ililim Group production is more than 3.3 mln. tons from round wood and pulp to packaging

**Packaging materials**

- Kraftliner: 0.5 Mt
- Fluting: 0.2 Mt
- Sack Kraft Paper: 0.1 Mt

* Packaging paper and fully bleached liner

**White papers**

- Offset paper: 0.13 Mt
- Coated papers: 0.05 Mt
- Cut-size: 0.13 Mt

* Wallpaper paper base and paper for cash registered type

**Market pulp**

- UKP: 0.2 Mt
- BHKP: 0.5 Mt
- BSKP: 1.3 Mt

**Pine chemicals**

- ~0.1 Mt

**Corrugated packaging**

- ~0.1 Mt

**Round wood**

- ~2.7 Mm³
Peaks of the prices in the late 2017 – early 2018: a temporary spike or a sign of structural shift?

Historical pulp and board prices, $/ t

Sources: historical prices of Bratsk; viscose - McKinsey
Fiber balance in China – need for virgin pulp is increasing

- **China is heavily dependent** on import of resources, incl. fiber – 50%+ consumption

- **Closure of domestic** small and environmentally harmful facilities and **RCP import restrictions** will result in the structural changes in the balance of resources in the economy

- These decisions and actions by Chinese government **affect a global balance of demand and supply**

Sources: RISI
Even more acute low fiber situation is in China’s packaging segment sitting on a very thin 1% virgin base

- US and Russia use more kraftliner due to abundance of virgin softwood
- 1% is most probably unsustainable and artificial. This will be adjusted after growth in packaging stabilizes (pre ban logic)
- OCC cost development is the key to understanding
China’s OCC imports are fed mainly from US and EU

Sources: Poyry
As of 2018 China has introduced new rules on RCP imports which potentially can significantly affect its fiber balance, import flows of other products and OCC costs and pricing though in different ways.

**RCP import to China, Mt**

<table>
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<tr>
<th>Year</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
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<tr>
<td>Mt</td>
<td>28,5</td>
<td>25,7</td>
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*Estimated quotas for 2018*  
*RCP import to China*

- **Drop of RCP import**
- **RPC «ban» in China**

**Sources of replacement of reduced imports**

- **Use of UKP instead of OCC**
- **Import of TL**
- **More KLB use in China**

*All replacements are costly*

**2017 Stricter quality requirements**  
**2018 prohibition of companies with a paper and board (P&B) capacity of less than 50 kt/a importing RCP*

*Sources: RISI*
In the end of 2017 we have already seen TL price spike affecting KLB pricing due to simple substitution effect.

**Fiber balance in China**

<table>
<thead>
<tr>
<th>Year</th>
<th>140 gsm testliner</th>
<th>Domestically collected OCC*</th>
<th>OCC imports from the USA, CIF China</th>
<th>RISI (125 gsm, CIF Hong Kong)</th>
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**Comments**

- Increase price of OCC in China due to RCP ban and more costlier internal OCC.
- Growth of testliner prices is driven by higher OCC risks.
- Lower price spread between testliner and KLB will probably affect KLB prices in China.

*Source: RISI World Pulp and recovery paper forecast Sep2017, RMB amounts are translated into USD at the forecast FX rate of The Economist, RISI Asian Pulp and Paper Monitor for November 2017*