Asian Containerboard Markets
An Update on China: The Changes Keep Coming

International Containerboard Conference
November 2018

Beth Lis
Vice President, Asian Paper & Packaging

© Copyright 2018 RISI, Inc. | Proprietary Information
Beth Lis
VP Asian Paper & Packaging

- Covers Asian graphic and packaging paper markets
- With RISI more than 20 years
- Helped develop RISI’s Asian models and databases
- Author/co-author of the *Asian Pulp & Paper Monitor* and *Asian Graphic Paper and Paper Packaging Forecasts*
- Oversees and contributes to single- and multi-client studies on Asian markets

blis@risi.com

© Copyright 2018 RISI, Inc. | Proprietary Information
Points of Discussion

• Is demand in China’s containerboard market slowing?
• How are the latest government policies on recovered paper impacting domestic containerboard mills?
• How will Chinese mills meet their future fiber needs?
• How are the changes in China impacting the rest of Asia?
Snapshot of 2018 Asian Containerboard Demand

• Chinese demand is weak
  ▪ Economic growth is decelerating faster than many anticipated
  ▪ Substitution from paper to plastics due to high prices
  ▪ E-commerce trying to reduce its packaging footprint
  ▪ Lots of uncertainty on level of decline in 2018
    • Showing 4% drop ... could be greater?

• For the rest of Asia, demand growth projected to be steady at 3-4% in 2018
China’s Economy Is Decelerating in 2018

- Economic growth is slowing faster than many anticipated
  - Government policies to address high debt levels having an effect
  - Trade war with USA
  - Retail sales data showing slower growth
  - PMIs moving lower
Containerboard Prices in East China Soared in 2017, But Lost Momentum in 2018

- 2017 driven by tighter markets and costs
  - Solid demand growth
  - Supply disruptions due to government RCP and environmental policies
- 2018 held back by
  - Weak demand
  - Already high prices
  - Better import planning
China’s Linerboard Imports Keep Rising in 2018

April-August 2018 data are RISI estimates based on source country data.
Chinese Imports of Corrugated Medium Are Strong

April-August 2018 data are RISI estimates based on source country data.
China’s Market Has Shifted Gears in 2018

Year-to-Year Change

- Demand growth turns negative at estimated -4%
- Plenty of capacity but output constrained by fiber
  - Mills taking downtime for fiber and market reasons
- Another increase in net imports
- Operating rates plunge
  - Uncertainty over capacity growth
Government RCP Policies Are Affecting the Way Chinese Companies Are Operating

• Constrained fiber supplies driving up trade and reducing production
  ▪ RCP imports expected to total 15 million tonnes in 2018, down from 25.7 million tonnes in 2017

• Potential ban on all RCP imports in near future
  ▪ Current scenario assumes 10 million tonnes in 2019, 5 million tonnes in 2020 and no imports in 2021
  ▪ Adapt thru combination of more local collection, less production, more imports, less demand and more recycled paper pulp

• Large players in the market are now making investments based on expected new RCP policies
  ▪ Import permits for the big three Chinese containerboard producers is 11.3 million tonnes in 2018
  ▪ Total RCP use by the current three largest Chinese PMs estimated at 26.3 million tonnes
What Investments Are Being Made?

- **Nine Dragons** (2018: 15.1 million tonnes of PPB capacity in China, 14.8 million tonnes RCP consumed, 6.1 million tonnes RCP permits)
  - Biron, Wisconsin: convert PM25 to containerboard and build two recycled pulp lines with 650,000 tonnes per year of capacity in fourth quarter 2019 or first quarter 2020
  - Rumford, Maine: add 410,000 tonne per year air-dried pulp machine
  - Old Town Pulp Mill, Maine: convert PM to 275,000 tonnes of UKP to start first quarter 2019
  - Fairmont, West Virginia: Acquiring 218,000 tonne per year recycled pulp mill from Resolute
  - Vietnam: greenfield mill in Haiphong with 1.2 tonnes of containerboard/boxboard capacity; possible start-up in late 2019 (?), still needs environmental permits
What Investments Are Being Made?

• **Lee & Man** (2018: 6.8 million tonnes PPB capacity in China, 6.8 million tonnes RCP consumed, 2.7 million tonnes RCP permits)
  - Vietnam: 500,000 tonne per year recycled containerboard machine at existing mill to start in 2019

• **Shanying International** (2018: 4.1 million tonnes PPB capacity, 4.7 million tonnes RCP consumed, 2.5 million tonnes RCP permits)
  - Wycliffe, Kentucky: Acquired idled Verso mill with 254,000 tonnes per year of coated paper and 30,000 tonnes per year of air-dried pulp

• **Sun Paper** (2018: 5.6 million tonnes PPB capacity, just 800,000 tonnes of containerboard, 952,000 tonnes of RCP consumed, 0 permits)
  - Laos: 800,000 tonnes per year of recycled containerboard (machines ordered) and 400,000 tonnes per year of recycled pulp at its existing mill
  - Arkansas?: Ongoing discussion of construction of kraftliner mill
What Happens to Capacity in China?

• List of new projects in China remains long in spite of current and potential future fiber shortages
  ▪ There were 19 projects in 2017 with 4.3 million tonnes of capacity
  ▪ We show 28 projects with 8.6 million tonnes of capacity in 2018
  ▪ There are an additional 16 projects announced for 2019 with 6.9 million tonnes of capacity

• Lots of potential for closure or supply disruption
  ▪ Required conversion from coal to natural gas for mills in Dongguan
    • Current information suggests plans are in place to address this without disrupting operations
  ▪ Fiber constraints and higher costs due to changes in RCP policies
  ▪ Margins at Chinese containerboard mills have declined in recent months
Chinese Capacity Rising, But How Much Closure/Delay?
Change in Million Tonnes

![Graph showing the change in Chinese capacity from 2013 to 2020. The y-axis represents the change in million tonnes, ranging from -4.0 to 12.0. The x-axis represents the years 2013 to 2020. The graph shows a trend of increasing closure/delay from 2013 to 2015, with a peak in 2017, followed by a decline in 2018 and 2019, and an increase in 2020. The data points indicate a change from 0.9 to 6.7 million tonnes.]
Fiber Constraints Drive Up Chinese Net Imports

Year-to-Year Change

- Where will the imports come from?
- Concerns for the forecast
  - Will demand growth be even weaker?
    - Strength of China’s economy?
    - Will fiber shortages and price levels cause more use reduction?
  - Will imports really grow that much?
In Asia (Excl. China), Demand Growth Fairly Steady in 2018-2020

- Growth supported by continued strength in the global economy
  - Supports export-oriented economies
  - Better conditions in India
- Annual gain averages 3.3% or 1.1 million tonnes
- Risks
  - More pronounced slowing in China
  - Global trade wars

Southeast Asia includes Indonesia, Malaysia, Philippines, Singapore, Thailand and Vietnam.
Operating Rates in Asia (Excl. China) Rising as Both Demand and Exports Grow

Change in Million Tonnes
What We Need to Watch

• What policies are pursued by the Chinese government?
  ▪ Ban on solid waste imports including all recycled paper?
  ▪ Other environmental polices such as requiring reductions in coal use?
  ▪ Policies on eco-packaging and whether they encourage paper or plastics?
• E-commerce in China
  ▪ How rapidly will it grow?
  ▪ What steps will the industry take to reduce its packaging footprint?
• What policies are being pursued by other Asian countries?
  ▪ RCP controls/bans?
  ▪ Paper versus plastic?
Thank you!

For more information:

World Containerboard 5-Year Forecast
www.risi.com/forecasts

Asian Paper Packaging 5- and 15-Year Forecasts
www.risi.com/forecasts

Asian Pulp and Paper Monitor
www.risi.com/appm