

# Papermaking Industry Market Research (China)

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## Abstracts

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.

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.

## Contents

### **1 ANALYSIS OF MACRO ENVIRONMENT OF CHINA PAPER MAKING INDUSTRY**

#### 1.1. Policies of the industry

##### 1.1.1 Development policy

##### 1.1.2 Influence of energy saving and emission reduction

##### 1.1.3 Influence of export rebate policy

##### 1.1.4 Influence of new merger regulations

##### 1.1.5 America cancels sanctions of anti-dumping and anti-subsidy against China copperplate paper enterprises

##### 1.1.6 China appropriates funds for projects of "water saving in making paper with waste paper" of China National Pulp and Paper Research Institute

#### 1.2 Operation of China paper making industry

##### 1.2.1 Sales

##### 1.2.2 Profits

##### 1.2.3 Import & export data

##### 1.2.4 Investment of fixed assets

##### 1.2.5 Business trend

### **2 DATA INDICATORS OF PAPER MAKING INDUSTRY**

#### 2.1 Industry overview

##### 2.1.1 Overall benefits

##### 2.1.2 Companies

#### 2.2 Operation

##### 2.2.1 month-on-month comparison of operating scale

##### 2.2.2 Profitability

##### 2.2.3 Operating ability

##### 2.2.4 Debt-paying ability

#### 2.3 Regional Comparison

##### 2.3.1 Per capita indicators of enterprises by scale

##### 2.3.2 Profitability

##### 2.3.3 Operating ability

##### 2.3.4 Debt-paying ability

### **3 ANALYSIS OF INDUSTRIAL CHAIN**

- 3.1 Industrial chain
  - 3.1.1 Industrial profile
  - 3.1.2 Target clients
- 3.2 Analysis of upstream and downstream
  - 3.2.1 Raw material market
  - 3.2.2 Trends of sub-industry

## **4 DEEP ANALYSIS OF INDUSTRIAL OPERATION**

- 4.1 Industrial structure
  - 4.1.1 Status quo of regional structure
  - 4.1.2 Characteristics
  - 4.1.3 Prospect of industry shift
- 4.2 Industry development
  - 4.2.1 Status quo
  - 4.2.2 Competitiveness
- 4.3 Financial data of key paper making enterprises
  - 4.3.1 Chenming Paper Co., Ltd.
  - 4.3.2 Shandong Sun Paper Industry Joint Stock Co., Ltd.
  - 4.3.3 Huatai Group Co., Ltd.
  - 4.3.4 Shandong Bohui Paper Co., Ltd.

## **5 TARGET MARKET ORIENTATION OF CHINA PAPER MAKING INDUSTRY**

- 5.1 Industry investment opportunities
  - 5.1.1 Investment opportunities of paper making industry
  - 5.1.2 Investment opportunities of sub-industries
  - 5.1.3 Plasterboard surface paper becomes a new profit increase point
  - 5.1.4 Cost pressure reduces
  - 5.1.5 Leading enterprises benefit from "Main points of Forest Industry Policy"
  - 5.1.6 RMB appreciation increases the value of investment of paper making industry
  - 5.1.7 The industry shows stable development trends
- 5.2 Launch of inter-bank credit funds
  - 5.2.1 Analysis of cases of inter-bank credit
- 5.3 Target sub-industries and key clients
  - 5.3.1 Key clients
  - 5.3.2 Guide to marketing opportunities of projects

## **6 INDUSTRIAL TRENDS AND ANALYSIS, 2008**

## 6.1 Strong policy support, leading enterprises benefit

6.1.1 Exhaust reduction and energy saving: time schedule for elimination of backward production capacity on scale and quantity

6.1.2 "Development Policy of Paper Making Industry" points out Development directions

6.1.3 "Main Points of Forest Industry Policy" promotes Industrial Development

## 6.2 Import and Export: benefiting from RMB appreciation and facing sanction of trade protectionism

6.2.1 Sharp increase of export and decrease of import

6.2.2 Influence of RMB appreciation: raw material cost decreases and advantage on export price of paper product becomes weaker

## 6.3 Cost tends to decrease and Price increases steadily

6.3.1 Price of the wood pulp tends to be stable and will decrease next year

6.3.2 Price of waste paper tends to be stable, still keeping high

6.3.3 Prices of most paper products will increase and the market will have an upturn

## LIST OF TABLES AND FIGURES

Increase of sales income of China paper making industry

Increase of profit of China paper making industry

Import & export Statistics of newsprint, July 2007

Analysis of companies of paper making industry, Q3 2007

Comparison of profitability of China paper making industry, Jan.-Aug. 2007

Operating indicator comparison of China paper making industry, Jan.-Aug. 2007

Comparison of per capita index of companies by scale, Jan.-Aug. 2007

Profitability of companies by scale, Q3 2007

Operating ability of companies by scale, Jan.-Aug. 2007

Debt-paying ability of companies by scale, Jan.-Aug. 2007

Main source countries of waste paper in China, Q3 2007

Basic financial indicators of Chenming Paper Co., Ltd

Profitability of Shandong Sun Paper Industry Joint Stock Co., Ltd

Debt-paying ability of Shandong Bohui Paper Co., Ltd

Influence of "Regulations" on investors

Analysis of increase of sales income

Comparison of newsprint import and export volume, June-July 2007

Comparison of top ten provinces and municipalities on the number of money-losing paper making companies, Q3 2007

Complete industrial chain of paper making industry

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