



Forestry & Paper

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China recovered paper (RCP) ban update

Key message: RCP trade flows already shifted and capital allocation strategies mixed amongst top Chinese containerboard producers. Latest import permit for 711kt and only a further 100kt expected. We are attending a RISI Asian Conference this week for further insights.

Analyst

Sean Ungerer, CFA
+27 82 319 3373

sean.ungerer@chronux.co.za

- **China recovered paper (RCP) ban in a nutshell:** In Q3 17A, China notified the WTO of its ban on mixed paper imports effective 1 Jan 2018. In March 2019, China set a strict 0.5% contaminant rule on all other recovered paper imports. In June 2020, the Chinese Ministry of Ecology and Environment confirmed that no permits for solid waste imports would be issued in 2021 and that all RCP imports will be banned by the end of 2020.
- **China's ban has driven material changes to RCP trade flows:** Global RCP trade declined by 16% between 2016 and 2019. Western Europe was hit the hardest (-3.3mt/-40%), followed by the US (-2.9mt/-15%) and Japan (-1mt/-24%). China's RCP imports declined by 64% (18.1mt) from 28.5mt in 2016 to 10.4mt in 2019. YTD to July, imports are down 47.5% y/y. Depending on the quality of wastepaper used, this means China has "lost" testliner (TL) capacity in the range of at least 15-17mtpa. Other Asia (mainly India, Indonesia, Vietnam, Thailand, Taiwan and Malaysia) has helped fill the RCP demand void, with their share of RCP imports increasing by 124% or 8.9mt.
- **China had to reduce production and find alternatives:** Recycling rates in China after adjusting for exports, were already in line with European standards (>80%). This meant light weighting grades & weaker demand helped ease the pressure initially. Increased virgin pulp demand would not be material given China containerboard averages c.90-95% recycled content furnishes, with a preference for OCC from Europe and Japan (weaker fibre). This leaves four potential strategies: recycled pulp, local expansion (larger players flushing out smaller independents/high cost producers); offshore expansion and TL imports.
- **Brown recycled pulp (BRP) imports into China have increased by 201% to 1.1mt for the period Jan-July 2020:** Fibre shortage supplemented by BRP imports (no contamination limit). Nine Dragons (ND), the largest recycled containerboard producer in China & 2nd largest globally (16.2mtpa of paper & board), acquired four US mills in 2018. ND's Fairmont mill (purchased from Resolute Forest Products) was the first US mill to consistently make BRP & started shipping BRP to China by February 2019. Subsequently, other North American mills produced BRP (combo of OCC & mixed paper or only OCC). BRP imports into China have increased by 201% to 1.1mt for the period Jan-July 2020.
- **Capital allocation strategies mixed:** Shanying International Holdings (China's third largest containerboard producer: 5.5mtpa) continues to expand with their 3rd machine (400ktpa) at its Jinzhou mill currently running production trial. Their other 2 machines (1.05mtpa) started-up last year December and March this year. Their strategy has focussed on alternative recycled fibre sources through a combination of offshore M&A and expansion. Lee & Man Paper (2nd largest recycled containerboard producer in China: 6.34mtpa) has focussed on expansion in Vietnam and Malaysia and cancelled an already approved project to install a 300ktpa TL machine in China, focussing on tissue. Their last new containerboard machine start-up was in Q3 17A. In addition to BRP, ND continues to expand in China. In August, ND started their new 600ktpa TL machine (Guangdong province) and to be furnished with 100% domestic recovered paper. Additionally, ND intend to build a 2.4mtpa of packaging board with 600ktpa of wood pulp capacity (USD 662m: Hebei province). ND is also shifting capacity offshore with land acquisition for a greenfield mill in Selangor, Malaysia and plan to build a 550ktpa testliner unit scheduled to start up in late 2021.
- **2020 China RCP imports down 48% to 3.4mt, latest round (12th) was announced last week Thursday:** This permit allows for 711kt of RCP to be imported into China. With RCP from the US & Europe taking up to 45-60 days to reach China, current orders are likely to drop next month as if not cleared by customs by year end, they will be rejected.

We are attending RISI's Asian Conference this week, with a market outlook focus on: Global Pulp; Global recovered paper; Asian Containerboard and Global boxboard.

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