

## **Year in Review: Top News in Chinese Tissue Paper Industry in 2017**

China National Household Paper Industry Association

In 2017, China tissue paper market continued steady growth with the highest growth rate in the world. However, the market became more competitive. The new investments were dominated by the production expansion of leading enterprises and the equipment upgrading of the existing small and medium enterprises, which further enhanced the concentration rate and overall equipment level of the industry. Due to the relative overcapacity, the price increase of the main raw material - market pulp, and the stricter environmental requirements, the enterprises are faced with greater operating pressure and forced to save energy, reduce consumption, and enhance the marketing through various channels. The product innovations are centered on the changes of consumer demands, in order to keep pace with the high-end trend of consumption.

**I. The industry continues to maintain growth momentum with favorable operation performance achieved on the whole, and steps up the high-end development.**

**1. Tissue paper market grows the fastest among all the paper categories in China.**

**2. China tissue paper market has the highest growth rate in the world.** As shown by the data of RISI, from 2011 to 2016, the annual growth rate of the global tissue consumption never exceeded 4%. However, the annual growth rate of tissue consumption in China was never lower than 6.6%.

**3. The leading enterprises continued to expand capacity, while the small and medium enterprises accelerated equipment upgrading.**

The tissue machines newly put into operation in 2017 were dominated by the new crescent or vacuum cylinder tissue machines. The leading enterprises mainly chose imported tissue machines for their new projects, while the homemade tissue machines were chosen by most small and medium enterprises. The enterprises in Baoding tissue paper base in northern China accelerated the equipment upgrading

process. While putting the new tissue machines into operation, they also eliminate more backward tissue machines with high energy consumption and low efficiency. According to the statistics by CNHPA, by the end of December, 2017:

- Hengan, Vinda, Lee & Man and other leading enterprises continued to expand capacity. As a result, the total tissue paper production capacity of Hengan Group, Vinda Group, and Lee & Man Group reached 1.31 million tpy, 1.1 million tpy, and 0.625 million tpy respectively.
- The small and medium enterprises accelerated equipment upgrading process.

In 2017, Baoding Gangxing, Hebei Yihoucheng, Hebei Golden Doctor, Guangdong Shaoneng, Sichuan Vanov, Yunnan Jincheng, Guizhou Chitianhua and other small and medium enterprises put 10 sets of imported tissue machines into operation, with about 300,000 tons of production capacity.

In 2017, about 80 sets of homemade tissue machines were put into operation. The equipment suppliers mainly included Foshan Baotuo, Shandong Weifang Hicredit, Shandong Xinhe, Shanghai Qingliang and Guizhou Hengruichen. Almost half of these tissue machines (about 40 sets) were provided to the tissue paper manufacturers in Baoding Hebei.

**4. Vinda, C&S and other listed companies realized satisfactory performance in the first three quarters of 2017, with both sales revenue and profit achieving year-on-year growth.**

## **II. Relative overcapacity and more rational investment**

**1. Relative overcapacity:** Currently, China tissue paper industry is still in the stage of overcapacity with higher competitive pressure. In addition, as the national environmental requirements become increasingly strict, the operation of tissue paper plants in Hebei, Sichuan, Shandong and other regions are affected adversely. It's expected that the average operating rate of the whole industry was less than 80% in 2017. Besides some projects planned to be put into operation in 2017 are still delayed.

### **2. More rational investment**

- In 2017, the newly signed projects were mainly related to the existing tissue paper enterprises to increase capacity or construct new production base.
- Only one large enterprise - Sichuan Yibin Paper announced to enter tissue paper industry in 2017.

### **III. Rising price of main raw material wood pulp put greater pressure on enterprise operation**

Since the fourth quarter of 2016, the price of market wood pulp started to rise, which also continued in 2017. Especially since the Chinese government tightened controls on the import of waste paper from August 2017, the price of imported and homemade market pulp skyrocketed, which put more pressure on tissue paper manufacturers. The producer price of tissue parent roll and finished products increased by RMB 1,000 -2,000 Yuan/t.

The increased price of raw materials has already affected the retail market. As a result, the product retail price has risen sharply. Even so, the impact of raw materials price increase cannot be balanced. Therefore, the manufacturers have been striving for reasonable profit margins by introducing high value-added new products and reducing promotional activities.

### **IV. Product innovation focused more on the consumer market to meet the consumer demands**

- The new products with “differentiated specifications and package designs” were launched on the market. The "mini" facial tissues were launched.
- The new products were developed by keeping track of the consumers’ demand for health and eco-friendliness.

In 2017, the unbleached tissue paper experienced explosive development. Hengan, C&S, Orient Champion, Yingge, Chenming, Taison, Gangxing and other industry-leading enterprises launched their unbleached tissue paper products.

The manufacturers and converters of unbleached bamboo pulp tissue paper in Sichuan and Chongqing area, including Lee & Man and the converters settled down in Lee & Man Industrial Park, Vanov, Yashi and enterprises settled down in Shifang Bamboo Fiber Processing Industrial Park, have witnessed rapid development.

- Shanghai Welfare launched silk-like tissue paper by adopting imported moisturizing formula and natural antibacterial ingredients. Feeling fine and smooth, the new product can be used for moisturizing and smoothing even in dry environment, especially suitable for the sensitive and tender skin and for the customers with pollinosis, comedo and rhinitis.

## **V. Market shares of e-commerce channel grow rapidly**

Currently, the traditional distributors and modern supermarkets are still the main marketing channels for tissue paper industry. Although the share of e-commerce is still relatively small, it is growing rapidly. As shown in the annual reports of listed companies, in the first half of 2017, the share of e-commerce channel turnover of Vinda was 20%, which increased by 3 percentage points than that in the first half of 2016. The turnover from e-commerce channel of Hengan reached about RMB 840 million which increased by 160% than that in the first half of 2016, and the e-commerce channel accounted for 8.8% of the overall sales revenue (first half of 2016: 3.3%).

## **VI. The export market recovered**

In 2017, the export market of tissue paper industry recovered as both the export volume and value increased. The total export volume of tissue paper in the first three quarters was 560,000 tons, up 6.83% than that in 2016. The export value was 1.31 billion USD, up 11.11% than that in 2016. The average export price generally remained the same as that in the same period of 2016. Most of the exports were still the finished products which accounted for 72.9% of the total export volume.

## **VII. Progress of domestic equipment**

- The homemade tissue machines have achieved great progress in terms of large width and high speed, with continuously improving capacity.
- The full turnkey service of tissue machine and converting machine sharpens the competitiveness of machinery supplies.
- The localization of steel drying cylinder has stepped up.

## **VIII. Popularization and application of new technique and equipment from foreign suppliers**

As the related machinery and technologies of tissue paper are relatively mature, the development of new technique and machine mainly focuses on the improvement of energy utilization efficiency and the tissue machine operating efficiency, as well as the reduction of the energy consumption per unit product, so as to reduce the cost of production and improve the market competitiveness.

In 2017, the following new techniques and equipment from foreign suppliers were popularized and utilized in China: ABC energy saving and efficiency improvement system of Valmet, steam hood and hood filter system of Voith, the new generation of shoe press technology of Toscotec, gas turbine of Solar Turbines used in heat and power combined generation of tissue paper plants, and ceramic creping doctor, efficient roller double-doctor system and white water fiber recovery equipment of Kadant, etc.