

Year in Review: Top News in Chinese Tissue Paper

Industry in 2018

China National Household Paper Industry Association (CNHPIA)

In 2018, Chinese tissue paper market continued steady growth with the highest growth rate in the world. The market competition was extremely fierce. 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 sharp price increase of the main raw material - market pulp, and the stricter environmental requirements, the enterprises were faced with greater operating pressure and forced to save energy, reduce consumption, and enhance the marketing through various channels. The product innovations were centered on the changes of consumer demands, in order to keep pace with the high-end trend of consumption.

I. The industry continued to maintain growth momentum with more fierce competition, and stepped up the high-end development.

1. Chinese tissue paper industry still led the development of all the paper categories in China and the global tissue paper market.

CNHPIA predicts that in 2018, the consumption volume of tissue paper in China continued to grow at an annual rate higher than the global average rate of less than 4% in 2017 (RISI's data).

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

The tissue machines newly put into operation in 2018 were dominated by the new crescent or vacuum cylinder tissue machines. The leading enterprises mainly chose imported tissue machines for their new projects. The small and medium

enterprises continued equipment upgrading and mainly chose homemade tissue machines.

The enterprises in Baoding tissue paper base in northern China almost eliminated all the backward tissue machines with high energy consumption and low efficiency, while upgrading equipment and putting new tissue machines into operation. According to CNHPIA, by the end of November, 2018, the new projects are listed as follows.

·The leading enterprises continued to expand capacity.

In 2018, Hengan, Gold Hongye, Vinda, C&S and other leading enterprises steadily expanded capacity. Lee & Man and Taison continued their rapid capacity expansion.

The total tissue paper production capacity of Hengan Group, Gold Hongye Group, Vinda Group, C&S Group, Lee & Man and Taison Group reached 1.454 million tpy, 1.72 million tpy, 1.22 million tpy, 0.66 million tpy, 0.865 million tpy, and 0.41 million tpy respectively.

·The small and medium enterprises continued equipment upgrading process.

In 2018, Baoding Gangxing, Shaoxing Welfare, Sichuan Yibin and other small and medium enterprises put 5 sets of imported tissue machines into operation, with about 103,000 tpy of production capacity.

In 2018, more than 60 sets of medium and high speed homemade tissue machines were put into operation by the fast developing small and medium enterprises, such as Vanov, Yusen and Chengxin. The equipment suppliers mainly included Foshan Baotuo, Shandong Xinhe, Guizhou Hengruichen, Shandong Weifang Hicredit, Shandong Hualin, Zhucheng Dazheng, Shaanxi Bingzhi, Xian Weiya, Shanghai Qingliang, Mianyang Mutual Success, Tianjin Tianqing, etc. Almost half of these tissue machines (more than 30 sets) were provided to the tissue paper manufacturers in Baoding Hebei.

3. Hengan, Vinda, C&S and other listed companies maintained growth and actively responded to cost pressures.

4. Dongshun Group completed backdoor listing in Hong Kong.

II. Relative overcapacity and continuous investment. Small and Medium Enterprises Faced Shuffling.

1. Relative overcapacity

Currently, Chinese tissue paper industry is still in the stage of overcapacity. It's expected that the average operating rate of the whole industry in 2018 was lower than that of 2017. Besides, some projects planned to be put into operation in 2018 were delayed.

Overcapacity also affected machinery suppliers. With the investment peak period of eliminating backward production capacity coming to an end, the future market demand will fall sharply. The risk of being eliminated for small and medium machinery suppliers will increase.

2. Continuous investment

The projects to be launched in 2019 and after are mainly related to the existing tissue paper enterprises to increase capacity or construct new production base.

In addition to the expansion of leading enterprises, Baoding is a relatively concentrated area of capacity expansion. In 2019, more than 10 enterprises plan to put new projects into operation in Baoding, including Xuesong, Dongsheng, Yusen, Golden Doctor, Xingrong, Lifa, Mingyue, Changshan, Chensong, Shuguang and Fumin. In 2019, more than 20 enterprises plan to put new projects into operation in northwest, southwest, central and south China, including Fangfeida, Jiamei, Vanov, Fengsheng, Yibin Paper, Family Life, Zhongqiao, Huijing, Yunjing and Jintong.

In 2018, Japanese paper enterprises accelerated the development of Chinese market in order to expand overseas business. Oji Paper has started the 360,000 tpy tissue parent roll expansion project of Jiangsu Oji Paper in Nantong Economic and Technological Development Zone. Japan Daio Paper began to test-sell elleair tissue paper, the best selling toilet roll tissue brand in Japan, in the Chinese market from January 2018.

III. Hengan expanded to upstream pulp business and enhanced its competitiveness

On April 23, 2018, Hengan Group officially subscribed for 36.46% of Finnpulp's stake with 11.66 million Euros, which represented Hengan's entry into the upstream pulp industry to ensure a long-term stable pulp supply and purchase price.

IV. Rising price of main raw material market pulp put greater pressure on enterprise operation

1. High market pulp price

In the second half of 2018, market pulp price in the Asian market declined, mainly due to weakening market demand in China, China-US trade war, and still high stock level of pulp importers. However, in the whole year of 2018, the price of imported wood pulp in the Chinese market was still substantially higher than that in the previous year.

2. Paper price increase driven by pulp price

As the price of raw material wood pulp rose sharply, tissue paper manufacturers had to increase their ex-factory prices. They raised prices one after another around March 2018, mostly by about 200 Yuan per ton. In August 2018, the price increase was also about 200 Yuan per ton.

In the retail market, the price increase of raw materials has been transmitted to the terminal market. The retail price of finished products has risen. But the increase is limited and still not enough to balance the impact of raw materials price increase. The manufacturers have been striving for reasonable profit margins by introducing high value-added new products and reducing promotional activities.

3. Pulp futures officially listed

At 9 a.m. on November 27, 2018, the pulp futures were formally listed and traded on the Shanghai Futures Exchange. This will help the formation of an open and transparent pricing mechanism in the pulp market, and promote the rational use of financial instruments for hedging and resolving operational risks by real enterprises, with a view to effectively reducing costs and increasing efficiency by combination of futures and cash.

V. Product innovation focused more on the functions

In 2018, the market of functional products such as lotion tissue, cotton soft towel and easy-to-disperse toilet tissue increased. In addition, new products such as unbleached tissue paper, which catered to consumers' concerns about their health and natural environmental protection, continued to emerge.

VI. Market shares of e-commerce channel grew 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, which can be shown in the annual reports of listed companies.

VII. Import and export market: export volume remained stable. Although the import volume increased, the total volume remained small.

In 2018, the export volume of tissue paper remained stable, while the price increased over last year, mainly due to the 26.00% increase in the average export price of toilet tissue.

In 2018, the import volume of tissue paper increased substantially, but the total amount was still small, showing a trend of rising volume and falling price. The main reason was that the import volume of tissue parent roll increased by 108.89% while the average price decreased by 17.98%.

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

As the machinery and technologies of tissue paper production 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.

Foreign suppliers of converting machinery have strengthened their promotion in Chinese market. They are promoting the intelligent development of converting machinery while increasing the production speed.

IX. Revision of product standards and standards newly formulated and implemented further promote the sound development of the industry.

1. Revised standards

Bathroom Tissue (including bathroom tissue base paper) (GB 20810—2018) will be implemented from Jul. 1, 2019, replacing the GB 20810—2006.

2. Standards newly formulated and implemented

Safety Evaluation and Management System of Tissue Paper and Paper Products Chemicals and Raw Materials (GB/T 36420—2018) will be implemented from Jan. 1, 2019.

Green Products Evaluation Paper and Paper Products (GB/T 35613—2017) was implemented from Jul. 1, 2018.

Measuring of Formaldehyde in Tissue Paper and Paper Products (GB/T 34448—2017) was implemented from May 1, 2018.

Measuring of AOX in Tissue Paper (GB/T 34845—2017) was implemented from May 1, 2018.

3. Standards under revision

Facial Tissue (GB/T 20808—2011)

4. Standards under formulation

Technical Specification for Basic Safety of Paper Products for Children