



## The outlook for pulpwood supply & demand in the Asian Pacific Rim

June 2022





# Asian woodchip trade summary

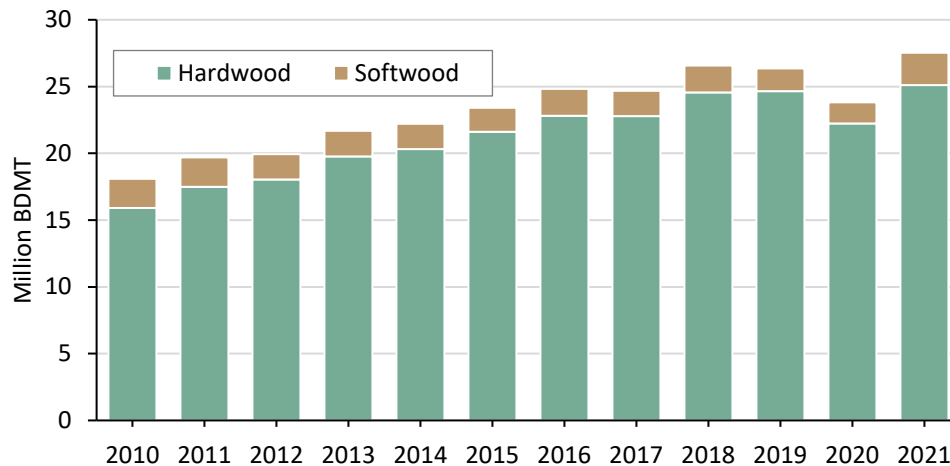
Global seaborne chip trade was 27.5 million BDMT in 2021, of which 25.1 million was hardwood species and 2.4 million was softwood.

Around 92% of hardwood chips are used to make BHKP and HYP which is used in the manufacture of paper, board, and tissue products. Around 6% goes into DWP, which is used to make viscose staple fibre for textiles, whilst around 2% is consumed by biomass power generators in Japan.

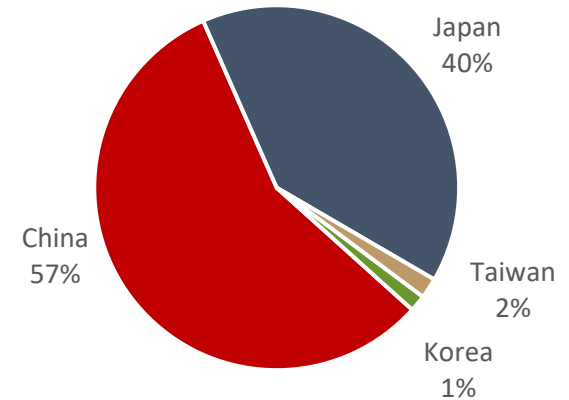
Softwood chips are shipped to Japan and China where they are used to make UKP and semi-chemical pulp for packaging board.

There is only one dedicated market pulp supplier in China using imported woodchips (Asia Symbol in Rizhao, Shandong). Most imported chips are consumed in integrated operations, although some mills sell their surplus volumes locally.

## Chip imports to Asia, 2010-2021



## Chip imports to Asia, by country, 2021



### Data sources

Data is sourced mostly from trade statistics, cross-referencing import and export data. Trade data also provides a guide to price trends, which we validate through primary research and discussions with our industry contacts.



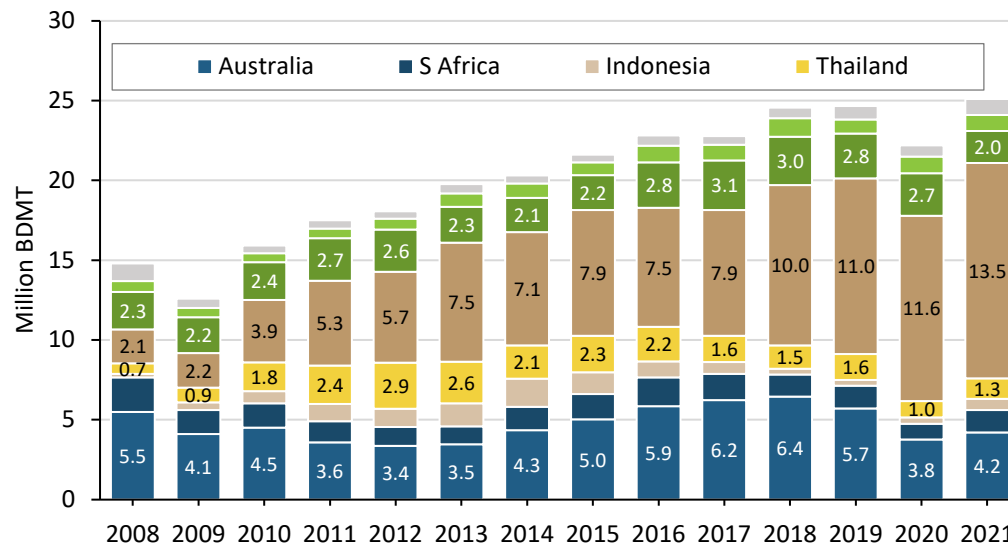
# Background and need for this report

Although there are around 5 million ha of plantation areas in China, the majority are owned by individual tree farmers or state owned tree farms. This structure of ownership combined with complex forest policies have prevented pulp and paper companies from developing viable local pulpwood supplies, even where growing conditions and yields are good. As a result, hardwood chip imports to China have grown more or less in line with pulp production over the past fifteen years.

Since 2020 Chinese paper companies have announced very ambitious plans to install more chemical and high yield pulp lines which will be integrated with both existing - and new - paper and tissue capacity. The investments are supported by the Chinese government, and partly motivated by the desire to replace recycled fibre imports since the full implementation of National Sword policy by 2021. However, they are not in response to Chinese paper and board demand, which is maturing along with many other sectors of the economy.

Vietnam has been able to satisfy most of the growth in imported chip demand, steadily growing its market share in both China, Japan, and Korea. However, Vietnam is now reaching it's maximum export potential just when Chinese demand for wood is accelerating. Chip supplies from more distant locations such as Australia, South Africa, and Latin America are less competitive and peaked some years ago.

Asian hardwood chip supply, by country of origin 2008-2021



Although Chinese paper companies seek to increase self-sufficiency in raw materials, they also operate in a competitive global industry, and continue to prioritise profitability and cashflow in the short-term.

The looming deficit in pulpwood is becoming increasingly evident, and chip prices are rising as a result, impacting the competitive position of both Chinese and Japanese paper producers.



# Report scope

The 60 page report is now in its fifth year of publication. It is structured as follows:

- **Market overview** and trading matrices for softwood and hardwood.
- Hardwood chip **demand** by country (China, Japan, Korea, Taiwan, Indonesia, and India). Historical wood chip imports by origin, from 2005. Main chip consumers, detailing the location, capacity, pulp grade, capacity and degree of integration. Pulp production trends and new capacity plans.
- Hardwood chip **supply** by country (Vietnam, Australia, Thailand, Indonesia, South Africa, Brazil, Chile). A description of the plantation resource and roundwood harvest, by species and end use sector. Leading wood chip suppliers, and potential future export availability.
- Wood chip **price trends** and **drivers**. Impact on pulp production costs, differentiating between dissolving, kraft, high yield, integrated and market pulp.
- Outlook for chip **demand** and **supply**, based on plantation resource development, pulp production trends, and pulp & bioenergy market dynamics.
- Outlook for chip **prices**

The 2022 report is available now, for a price of **GBP2,950** and includes:

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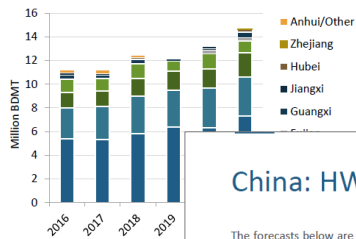
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## China: HW chip imports by province, mill locations



Chip imports by province, 2016-2021



The four shaded provinces (Guangdong) accounted for 90-95% past five years. We have also seen imports will rise substantially over inland locations such as Chongqing imported chips, but the addition significant. Red dots denote installed capacity construction.

# Page extracts

## China: HW chip demand forecast

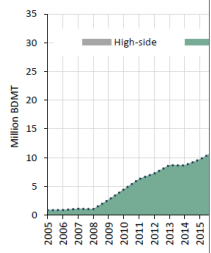
The forecasts below are derived from the pulp expansion projects listed in the table on page 18. The base-case assumes limited growth in domestic pulpwood supply, and that the majority of projects who have installed or already ordered the equipment from Valmet or Andritz proceed. Specifically:

- Sun Paper ramps up the new HYP lines and BHKP line in Beihai through 2022-23, adding 2.5 million BDMT/y.
- Nine Dragons installs all of the 4.2 million t/y by end 2024. We assume only around 2.9 million BDMT/y hardwood chip demand because some lines are expected to be dedicated to softwood.

- Projects of Lee & Man Jiangxi, Liaoning

The high-side forecast includes some capacity additions more closely reflects our supply-side scenario.

China HW chip demand forecast scenario

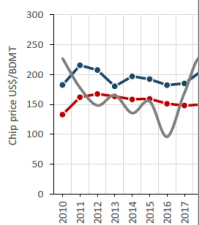


## HW chip price forecast

The nominal price scenario in the chart below is plotted against our BEKP pulp price forecast. Prices of both pulp and chips are currently on an upwards trend due to supply-chain delays and bottlenecks and cost inflation. However, Chinese paper and board prices are not keeping pace because of acute over-capacity, and a slowing domestic economy brought about by the zero-tolerance Covid-19 policy. It is not clear when (or how) China will emerge from the lock-downs which are affecting many of the large urban areas. It is widely expected that the government will prioritise economic stability through various stimulus mechanisms, but the growing debt burden and other structural headwinds will limit this potential.

We expect pulp prices will undergo acceleration of market pulp capacity and a higher floor than in the past, and for chip prices are expected to rise relative to increased efficiencies. However, over the long term, the market position continues to deteriorate.

Hardwood chip prices, CIF China, from 2010 to 2017



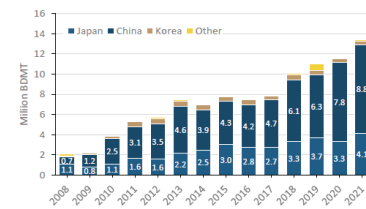
## Vietnam

Vietnam is very much the local and low cost supplier to China, particularly for the southerly mills located in Hainan, Guangxi, and Guangdong.

Japanese mills have traditionally sourced high quality eucalyptus chips, often from their affiliated plantations in Australia, South Africa, or Chile. However, over the past ten years Vietnam has grown its market share from 10% to 45%, as Japanese companies have learned to benefit from the cost advantage. Similarly, Vietnam has replaced Australia as the preferred supplier to Korea over ten years ago.

Vietnamese supply is partly seasonal, with access to wood and yields partly dependent on the length and severity of the rainy season. Chips are exported from 8-10 ports, which are relatively evenly distributed from north to south. Port capacity has been a constraining factor for exports due to the pace of growth and high competition from other export industries.

Vietnam wood chip exports by destination, 2008-2021



Exporting ports





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