

China Market Pulp Report

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I. Global Overview

Global tightness in supply continued throughout December, which enabled the producers of BSK and BHK to nearly complete their US\$20~30/tonne price rise by the end of the month. It was amazing to see that market for BHK remained extremely strong against the start-up of new capacities.

According to PPPC, global market pulp shipment in November totaled 3.36 million/tonne, -3.6% from October, yet +5.5% from a year ago. Overall inventories equaled to 29 days of supply, up 1 day from October, yet 1 day less than a year ago. Inventories of BSK equaled to 27 days of supply, 1 day more than October, yet 3 days less than a year ago. For BHK, inventories equaled to 32 days of supply, which was 1 day more than October but 2 days less than a year ago.

In North America, list price of NBSK broke the previous historical record of US\$860/tonne set in 1986. Accord to FOEX, it reached US\$864.67/tonne by December 27. This was US\$14.67/tonne more than the previous month and a US\$94.67/tonne gain for the whole year of 2007. Strong demand also pushed BEK price to hit US\$805/tonne, +US\$90/tonne from a year ago.

North American market pulp shipment in November totaled 726,000/tonne, -3.6% from October, yet +4.9% from a year ago. This partly explained the outcome of more fine paper capacity cuts. It is expected that further mill closures in 2008 in North America will add uncertainties to the pulp market down the road.

Europe continued to show the strongest demand in the world. In December, the across-the-board price increase demanded by

the producers went through smoothly, which made the European price of NBSK to exceed that of the North America for the first time. Data released by FOEX on December 27 showed that NBSK was listed at US\$869.30/tonne, +US\$20.52/tonne from the previous month and +US\$139.05/tonne since January 2007. List price of BHKP reached US\$775.23/tonne, +US\$25.23/tonne from the previous month and +US\$104.44/tonne from January 2007.

Consumer inventories in November fell to 1 million/tonne in November, -0.1% from October and -2.0% from a year ago, according to EUROPULP. Consumption in November totaled 1.19 million/tonne, -3.8% from October and -2.1% from a year ago.

II. China Market

Contract Business remained in favor of the suppliers in December. The US\$10/tonne price rise for BSK and US\$30/tonne rise for BHK went through without difficulty, which sent prices to their historical heights in 10 years. The halt from supply to the China market at the second half of December by APP's Hainan Mill in order to meet internal demand added to the tightness of BHK supplies in China.

At end-December, NBSK from Canada was quoted at US\$750~760/tonne. SBSK from Chile stood at US\$740/tonne, so was quotation from Russia at US\$730/tonne.

For BHK, offers from Indonesia were US\$720/tonne at limited volume. BHK from Brazil stayed at US\$720/tonne.

UKP market remained unchanged from November. Offer from Chile continued at US\$570/tonne, though transaction seemed less active.

Spot market showed strength in BHK and weakness in BSK. List price of BSK dipped further, though not significantly, as a result of the switch by mid-to-small paper mills to less expensive local fibers. At the last week of December, SBSK from Chile lost RMB30~50/tonne (US\$4~7/tonne) and NBSK from Canada gave up RMB40~60/tonne (US\$5~8/tonne) from 30 days ago.

The strong demand and limited supplies triggered further price increases of BHK. At the last week of December, BHK from Indonesia and Brazil was transacted RMB80~100/tonne (US\$11~14/tonne) more than end-November. The benchmark "Dragon" BHK from APP's Hainan Mill surged to RMB6,300~6,350/tonne (US\$863~869/tonne, V.A. Tax included).

China Market Pulp Price Watch - Early Jan.08			
Brand Name	Type	Origin	Price*
Northwood	NBSK	Canada	6,530
Cariboo	NBSK	Canada	6,450
Silver Star	SBSK	Chile	6,320
Usk	NBSK	Russia	6,300
Butterfly	BHK	Brazil	6,450
Little Leaf	BHK	Indonesia	6,350
Gold Star	UKP	Chile	5,000

*List price in RMB per metric ton, V.A. tax included.
Note: For reference only. Transaction price varies

Spot business for UKP presented a horrible picture! Shipment from Chile tumbled RMB150~200/tonne (US\$20~27/tonne). Sales price of domestically produced UKP, primarily from Qingshan Paper, also lost RMB100~150/tonne (US\$20~27/tonne) to deal at RMB4,700~4,800/tonne (US\$644~658/tonne, V.A. Tax included).

Less consumption by containerboard producers vs. more shipment arrivals were the main force to drive the market low.

Imports. In the first 11 months of 2007, China imported 7.22 million/tonne of paper-grade market pulp from overseas, +4.15% from the corresponding period of 2006. According to

China Customs, shipment arrivals in November reached 703,030/tonne, +18.5% from October and +9.27% from a year ago. During the month, UKP imports totaled 69,580/tonne, +14.5% from October and +8.67% from a year ago. BSK imports reached 281,620/tonne, +17.1% from October and +13.3% from a year ago. Although shipment arrivals of BHK in November going up +27.1% from October to 263,270/tonne, it was -2.36% less than a year ago. Imports of mechanical pulp rose to 7,410/tonne, +28% from October and +33.75% from a year ago. Shipment arrivals of chemi-mechanical pulp in November totaled 81,150/tonne, +3.11% from October and +45.90% from a year ago.

As mentioned earlier, the congested shipment arrivals of UKP contributed to the weakness in local spot price. However, the stand-still in shipment arrivals of BHK in 2007 vs. 2006 tightened the local supplies and boosted prices.

Forest-Paper Integration Projects. The on-going Jin-Gui Forest & Paper Integration Project in Guangxi, south China is to spend RMB2.1 billion (nearly US\$269 million for Year 2007). As a JV between APP (China) and Qinzhou Huahui Forest Co. Ltd. under the equity ownership ratio of 95:5, the project is to receive total investment of RMB7.93 million (about US\$1.1 billion) to build a 300,000/mtpy thermo-mechanical pulp mill and a 600,000/mtpy food packaging SBS board mill. When in commercial operation, annual sales of the board mill will reach RMB4.3 billion (US\$615 million) and pre-tax earnings will be RMB1.87 billion (US\$267 million). The pulp mill will consume eucalyptus chips to be supplied from a 70,000/hectare plantation locally. Together with warehouses, chip yards, power plants, etc., the project will be completed by the end of 2008.

III. Statistics

China's Unbleached Kraft Pulp Imports								
(In US\$000/MT000)	Nov/07	Nov/06	Change%	YTD 2007	YTD 2006	Change%	Ave. Price2007	Ave. Price2006
Total Value	38,873.26	35,102.74	10.74%	382,869.74	303,472.87	26.16%	572.79	479.35
Total Volume	69.58	64.03	8.67%	668.43	633.10	5.58%		
Origin								
Chile	6.57	4.71	39.41%	74.47	85.00	-12.39%	622.97	479.48
Russia	27.30	18.26	49.55%	196.31	199.03	-1.36%	542.86	447.65
USA	23.29	24.44	-4.71%	229.99	184.85	24.42%	567.39	508.19
Japan	9.14	6.51	40.33%	81.65	78.64	3.83%	566.96	465.37
Others	3.28	10.11	-67.56%	86.01	85.57	0.51%		
Destination								
Manzhouli	9.95	5.53	79.88%	77.14	90.57	-14.83%		
Shanghai	10.76	21.30	-49.46%	176.35	169.92	3.78%		
Qingdao	12.64	8.76	44.24%	102.17	81.34	25.61%		
Huangpu	17.06	11.72	45.61%	135.31	191.58	-29.37%		
Others	19.16	16.72	14.61%	177.46	99.68	78.03%		

* Im.Price is "US\$/MT".Source: China Customs Administration/Chinapaperonline

China's Bleached Softwood Kraft Pulp Imports								
(In US\$000/MT000)	Nov-07	Nov-06	Change%	YTD 2007	YTD 2006	Change%	Ave. Price2007	Ave. Price2006
Total Value	205,876.46	165,814.72	24.16%	2,022,513.36	1,464,580.05	38.10%	710.24	574.31
Total Volume	281.62	248.56	13.30%	2,847.67	2,550.14	11.67%		
Origin								
Canada	90.50	88.28	2.51%	930.25	917.25	1.42%	714.28	576.86
Chile	43.56	31.17	39.76%	527.52	352.58	49.62%	710.72	559.74
Russia	45.37	48.34	-6.15%	455.43	480.32	-5.18%	696.47	566.01
USA	55.98	34.97	60.07%	458.84	351.26	30.63%	716.44	592.84
Finland	20.36	12.26	66.13%	165.58	164.94	0.39%	704.54	568.96
Others	25.85	33.54	-22.94%	310.05	283.79	9.25%		
Destination								
Manzhouli	30.28	28.91	4.75%	298.47	336.27	-11.24%		
Shanghai	45.67	61.95	-26.28%	598.09	568.14	5.27%		
Nanjing	63.78	29.75	114.41%	526.30	443.68	18.62%		
Xiamen	12.73	11.68	8.99%	118.33	91.26	29.67%		
Qingdao	72.66	64.95	11.88%	743.13	634.66	17.09%		
Others	56.50	51.33	10.07%	563.35	476.12	18.32%		

* Im.Price is "US\$/MT".Source: China Customs Administration/Chinapaperonline

China's Mechanical Pulp Imports								
(In US\$000/MT000)	Nov-07	Nov-06	Change%	YTD 2007	YTD 2006	Change%	Ave. Price2007	Ave. Price2006
Total Value	4,238.25	3,080.53	37.58%	31,917.35	33,640.58	-5.12%	543.71	507.02
Total Volume	7.41	5.54	33.75%	58.70	66.35	-11.52%		
Origin								
Canada	7.27	5.41	34.41%	57.13	60.96	-6.28%	541.21	507.08
Others	0.14	0.13	6.20%	1.57	5.40	-70.81%		
Destination								
Nanjing	6.67	0.00	N.A.	40.93	39.32	4.10%		
Others	0.74	5.54	-86.69%	17.78	27.03	-34.24%		

* Im.Price is "US\$/MT".Source: China Customs Administration/Chinapaperonline

China's Bleached Hardwood Pulp Imports								
(In US\$000/MT000)	Nov-07	Nov-06	Change%	YTD 2007	YTD 2006	Change%	Ave. Price2007	Ave. Price2006
Total Value	163,665.77	161,430.07	1.38%	1,628,200.65	1,495,554.31	8.87%	592.74	539.11
Total Volume	263.27	269.62	-2.36%	2,746.92	2,774.13	-0.98%		
Origin								
Indonesia	70.59	82.93	-14.88%	923.61	1097.52	-15.85%	594.44	540.94
Russia	16.35	17.86	-8.48%	180.24	152.04	18.55%	593.60	550.54
Brazil	96.78	104.83	-7.68%	781.11	863.01	-9.49%	563.68	531.97
Chile	29.26	15.32	90.94%	374.46	139.43	168.57%	624.98	563.72
USA	9.33	12.04	-22.53%	115.03	119.48	-3.73%	615.99	523.63
Others	40.97	36.64	11.83%	372.48	402.66	-7.49%		
Destination								
Manzhouli	9.38	7.28	28.78%	116.33	96.52	20.52%		
Shanghai	30.54	27.89	9.48%	374.35	297.58	25.80%		
Nanjing	137.76	130.66	5.43%	1318.81	1297.59	1.64%		
Qingdao	34.64	47.27	-26.72%	399.64	531.16	-24.76%		
Huangpu	12.26	17.81	-31.16%	138.25	164.30	-15.85%		
Others	38.69	38.71	-0.04%	399.54	386.98	3.25%		
* Im.Price is "US\$/MT".Source: China Customs Administration/Chinapaperonline								

China's Chemimechanical Pulp Imports								
(In US\$000/MT000)	Nov-07	Nov-06	Change%	YTD 2007	YTD 2006	Change%	Ave. Price2007	Ave. Price2006
Total Value	45,777.45	29,217.14	56.68%	476,491.73	433,731.36	9.86%	530.63	477.72
Total Volume	81.15	55.62	45.90%	897.97	907.93	-1.10%		
Origin								
Sweden	6.54	2.01	226.06%	33.17	36.92	-10.16%	532.79	466.21
Canada	70.10	46.99	49.18%	763.43	762.51	0.12%	536.04	481.64
New Zealand	4.50	5.83	-22.92%	82.93	75.70	9.55%	483.72	440.29
Others	0.00	0.79	-99.87%	18.44	32.80	-43.79%		
Destination								
Shanghai	8.18	5.33	53.45%	88.19	91.70	-3.83%		
Nanjing	19.40	12.31	57.61%	143.37	201.43	-28.82%		
Ningbo	24.61	20.14	22.16%	286.72	221.17	29.64%		
Qingdao	21.89	13.06	67.63%	281.88	289.84	-2.75%		
Gongbei	6.92	4.51	53.39%	83.18	88.90	-6.44%		
Others	0.15	0.26	-44.15%	14.63	14.88	-1.68%		
* Im.Price is "US\$/MT".Source: China Customs Administration/Chinapaperonline								

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