

# INVESTING IN CELLULOSE - 2013

## INSIDE THIS ISSUE:

<i>Words from CelCo</i>	<b>1</b>
<i>Participations</i>	<b>1</b>
<i>Next year conference</i>	<b>1</b>
<i>Market Observations</i>	<b>2</b>
<i>Conference Agenda</i>	<b>3</b>
<i>Participant feedback</i>	<b>4</b>
<i>Participant profiles</i>	<b>5/6</b>
<i>Photos</i>	<b>7/8</b>

## Topics covered during the 2013 conference

- **SUPPLY & DEMAND**
- **MOFCOM anti dumping**
- **FINANCIALS**



## WORDS FROM CELCO....

Dear participants,

Thank you for attending this year's conference. We appreciated your positive feedback on the current settings, a good balance between speakers & free time to network, and the quality of this year's presentations. If you could not make it this year to the conference you can learn more on the presentations by inquiring at [info@celco.ch](mailto:info@celco.ch).

In summary this year discussions were heavily geared toward the China anti dumping action as the MOFCOM decision had been released the week before. It seems that there will not be any "winners" per se as most likely the entire industry will be penalized by this action.

On the other hand in the context of slower demand and DWP oversupply, there will be some "losers" as some suppliers who did not prepare for those duties will have severe difficulties to reorganize their sales mix.

As this year has shown the volatility of the rayon grade prices has been detrimental to some market segments such as the cellophane industry who requires to align its sourcing strategy with its customers requirements.

China cotton supply as a competitive fiber to VSF remains a potential serious threat to the VSF demand as so far China prices have remained artificially high compared to world prices with about 9 months of inventory.

More than ever access to quality information on the DWP supply and demand will be key to help suppliers anticipate and adapt their sales mix strategy as well as for the buyers to benchmark their purchase prices with world prices as well as adjust their purchase time horizon.

Celco "App" and Celco market reports will help do just that!

We wish you a well deserved year end break and look forward to see you next year on November 4th 2014. Surely by then the China anti dumping question will have settled and next November will be a good time to evaluate how suppliers and buyers have reorganized their supply/purchase mix. across the world.

Many gratifying comments and the "return intention" rate over 95% are encouraging us to repeat this event next year at the same location on **November 10th 2014**

### Attendance

- The event was a truly international event with 20 countries attending.
- All corporate functions being represented: Sales & Marketing 34%, Purchasing 22%, and General Management 16%.
- 10 recognized experts in their field shared a total of 202 pages of presentations with the delegates. They provided market update as well as inspiring and thought provoking ideas.

You can also find more information on this year's event and CelCo's services at

[www.celco.ch](http://www.celco.ch)

# MARKET OBSERVATIONS

## Conference summary:

During the conference many topics were addressed. Below is a summary of the topics addressed by the speakers. This year CelCo emphasized the need for market data to help companies benchmark their performance.

- High purity cellulose demand has shown limited growth during last year. The increase of viscose staple output has been the principal driver of DWP demand. The current large capacity surplus has led to low prices for the commodity DWP grades in China. Low market prices threaten the viability of Chinese DWP and CLP producers, who have high production costs because of the use of high cost imported woodchip and expensive raw cotton linter. These producers successfully petitioned Mofcom to instigate an anti-dumping investigation into DWP imports. This situation might encourage viscose staple production outside China to vertically integrate their assets. Surplus of DWP capacity is set to persist. Some producers could switch production to paper grade pulp which will partially enable them to recover investment. Even so, this flexible capacity will contribute to the surplus capacity hanging over the market.
- China DWP capacity saw rapid expansions in the recent years, totaling 940kt with an average capacity utilization of 61%. China has 1970kt cotton linter pulp capacity, down by 200kt from the peak in 2011/12. Chinese VSF capacity increased rapidly in the last years. In 2013 VSF-Cotton and VSF-PSF price spread was shrinking with relatively attractive VSF price boosting the demand. VSF actual supply is exceeding production. Market supply and demand are distorted and VSF price fluctuate trending downward. Polyester filament and staple are taking a higher share of cotton's natural markets in apparel.
- Cotton will continue to lose share of the fibre market. Cotton yields have reached a plateau and potential new technology is unlikely to come on-stream before the end of the decade. Polyester filament and staple are taking a higher share of cotton's natural markets in apparel. This is the result of improving price competitiveness and increasing consumer acceptance of polyester in apparel and home textiles. China's government reserve policy has had a major impact on the domestic and international cotton market in the last three years and will continue to affect cotton prices and volumes into the future. High domestic cotton prices in China have contributed to rising demand for viscose staple.
- Paper is still a growth business with China accounting now for 26% of the World production. China buys 30% of world pulp, 13% aagr in the last 10 years. Conversions to Dissolving Wood Pulp helped balance paper pulp markets in the past 2 years. Excess-supply-driven pricing correction should begin late Q1 2014. China continues to drive global wood fibre markets. There is good paper/pulp growth prospects in emerging markets, e.g. India, Turkey. Softwood pulp supply—except in Russia and US South will grow at 2%. Emerging markets have good paper growth prospects also. Recovered Paper supply growth will slower as quality declines, and costs rise. Overall market pulp are gaining share.
- Cellulose derivatives are well established in drilling and completion fluid applications. CMC's and "PAC" 's are used in water-based drilling fluids to enhance viscosity and control "fluid loss" in the borehole. Cellulose Derivatives CMC's, PAC's (PAC = PolyAnionic Cellulose or a CMC with higher degree of substitution) are mailing used in drilling. HEC are used in well completion The Oil & Gas Drilling. Operations are using high and low viscosity grades. The market for the established cellulose derivatives depends on drilling activity and split between water-based and oil-/synthetic-based drilling fluids.
- Cellulose film represented 1% or 60kt of the Biaxially Oriented Polypropylene (BOPP) market estimated at 6500 kt. Use of these films are price driven. To maintain its position, Cellulose film producers needs to balance risk, value and growth.
- High Alpha Cellulose are a Specialty Chemical (10x EBITDA) business. For producers, it depends on demand growth and the fate of hardwood mills for DWP viscose. If DWP markets remain oversupplied, high cost producers should cut production and strap in for a bumpy ride if you are lower cost suppliers. Up until 2011, BKI and RYN enjoyed record-setting margins and income from their high-end specialty DWP. In May 2011, RYN announced a \$300 million project to convert 260,000 tonnes of fluff capacity to 190,000 tonnes of high-quality DWP. Future Growth in this high end market is tied largely to cigarettes. The high-strength industrial yarn is all wood-based od high purity. Overall Specialty DWP Market is likely to grow about 3.0%-3.5% (50,000 tonnes) annually in tonnage per year. The just-announced chinese duties apparently do not impact high-quality DWP.
- The expectation of the petitioners in China was that duties imposed on the subject producers from Brazil, Canada and the United States would cause the DWP price for viscose grade pulp in China to rise by the amount of the duties. If applied, duties would only hit mills and prospective mills in "Subject" countries. If MOFCOM or China Customs becomes aware of any particular activity, such as transshipment there is a risk of an increase in the duty rates for the DWP producer. China is putting the VSF industry at risk from retaliatory trade actions. It will not raise prices sufficiently to protect China's DWP producers.
- Celco bi annual Market reports are available in 4 modules: Module I: World & Country macro-analysis, Module II:Market segment macro-analysis, Module III: Suppliers and buyers of DWP analysis and Module IV: Volume and pricing Forecast (NEW !).
- CelCo mobile app© provides industry news as well as monthly price and volume indexes for the upstream and downstream DWP markets. Indexes can also be viewed graphically with a « compare » function.(>Dec '13)

If you could not make it to this year's conference and are interested to have more details on the presentations contact [info@celco.ch](mailto:info@celco.ch)

# AGENDA

## MONDAY NOVEMBER 11<sup>TH</sup> 2013

### Conference at The Royal Horseguards Hotel

#### **Welcome and Introduction**

C. Chavassieu – M. Perrenoud, Managing Partners – CelCo

#### **A word from the lawyer**

Simon Barnes, Partner – Shoosmiths

#### **Current Supply & Demand of the D.W.P. markets**

Richard. Brice, Senior Consultant – PCI Fibers

#### **China Supply & demand V.S.F. industry update**

Ding Jinqi , Ms. Chen Huifen, Senior Consultant – CCF Group-China Chemical Fiber Group

#### **Cotton supply update**

Bruna Angel, Fiber Consultant – PCI Fibers

#### **Paper pulp conversions to D.W.P. Where is the limit?**

Brian McClay, President – Brian McClay & Associates Inc.

#### **Customs data for the specialty cellulose industry**

Pierre-Emmanuel Goffinet, Director of International Affairs – Global Trade Information S.A.

#### **Cellulose additives in oil & gas drilling**

Mike Hodder, Director, Aberdeen Research & Technology – M-I SWACO Schlumberger

#### **Dissolving Wood Pulp sourcing**

Ian Robinson, Purchasing Director – Innovia Films

#### **The D.W.P. industry from an investor's perspective**

Chip Dillon, Partner Paper & Packaging – Vertical Research Partners

#### **China anti dumping status**

Richard Bassett, CEO – Cato sales & trading

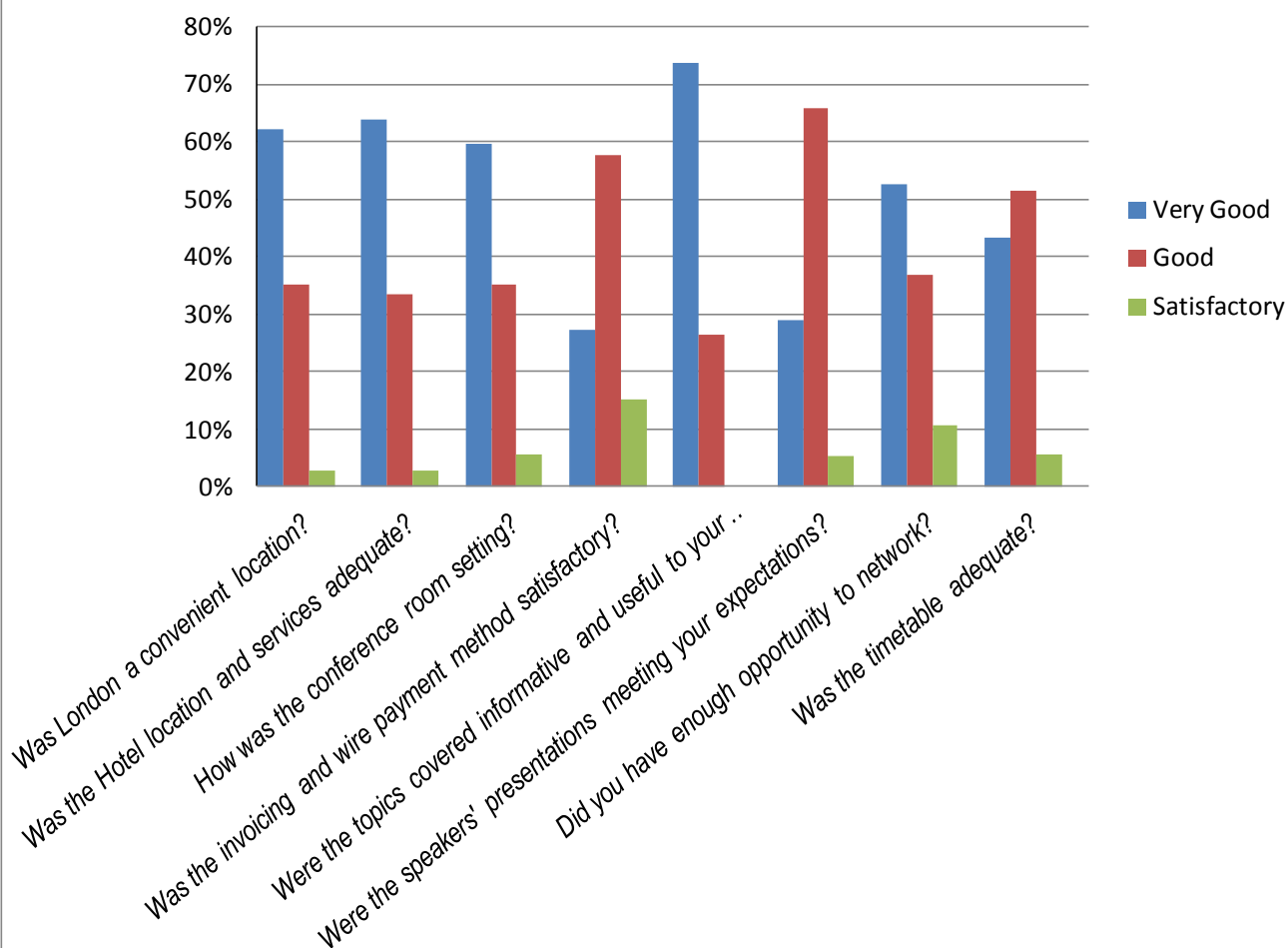
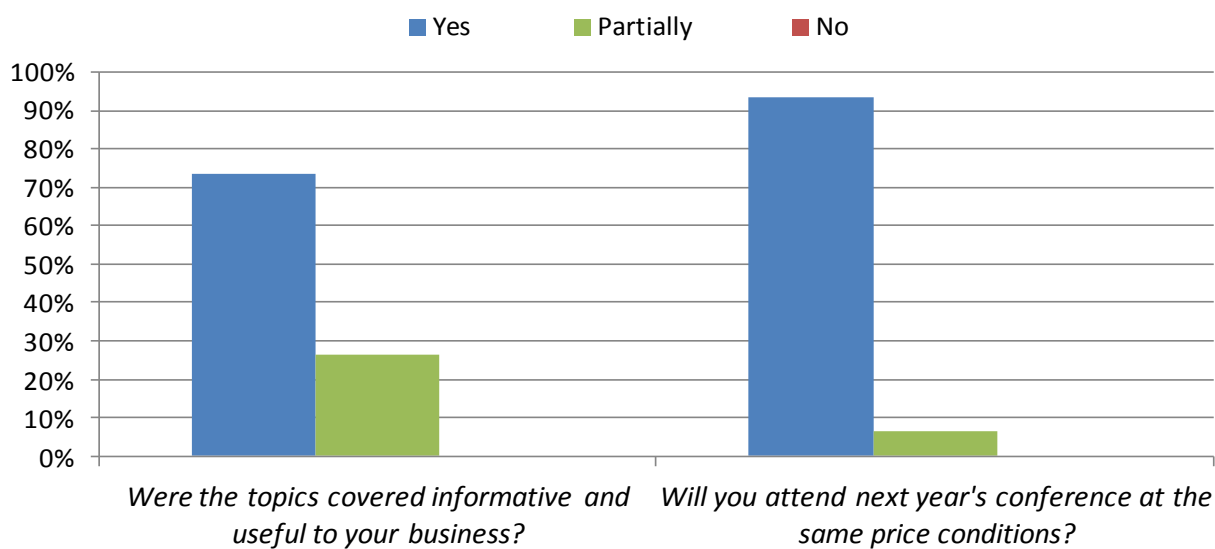
#### **CelCo market reports & mobile app**

Christian Chavassieu, Managing Partner – CelCo

#### **The future of our industry**

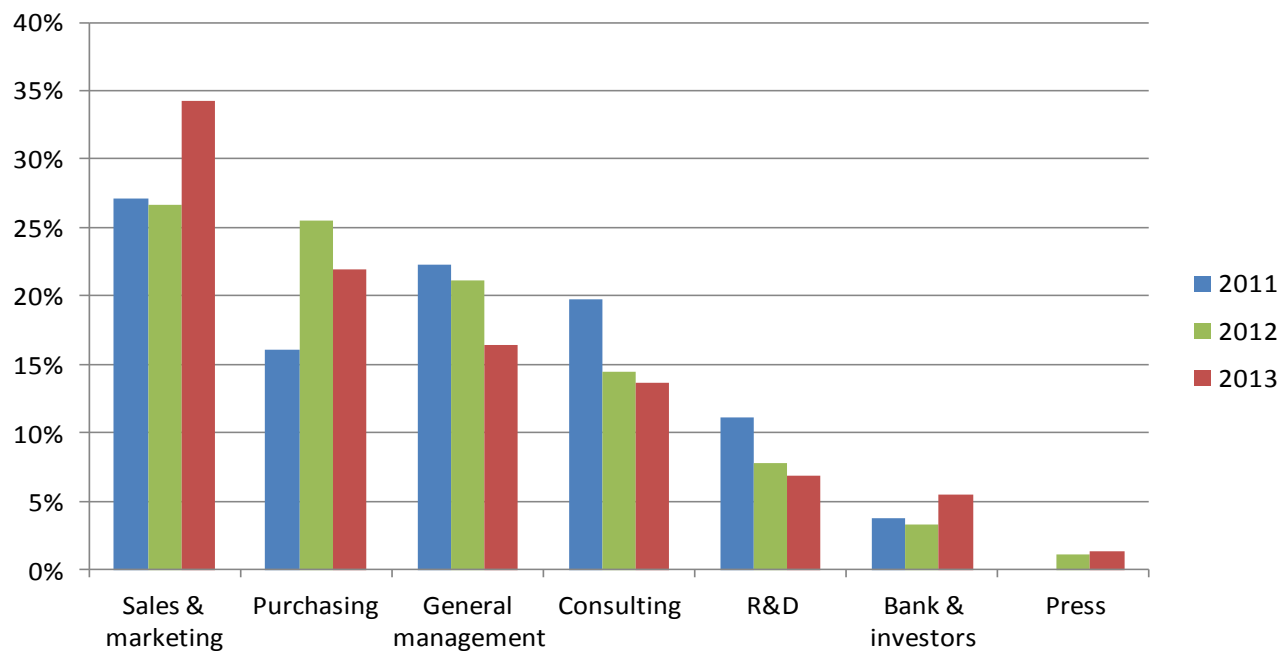
Maurice Perrenoud, CelCo

## PARTICIPANT FEEDBACK

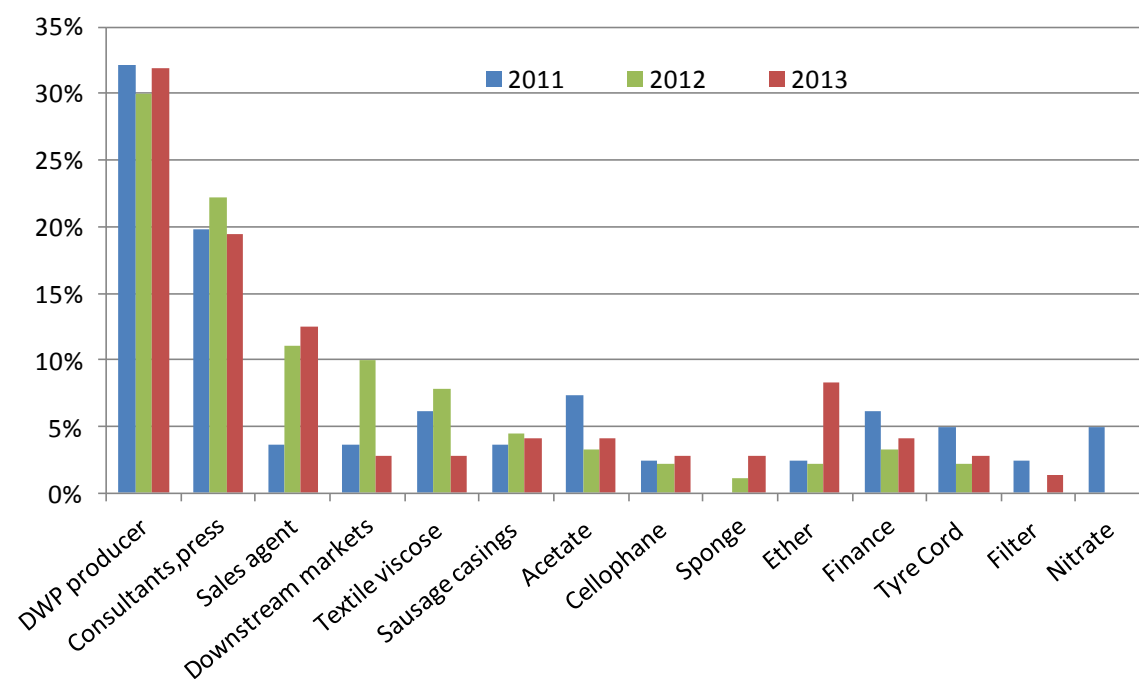


## PARTICIPANT PROFILE

### By market segment

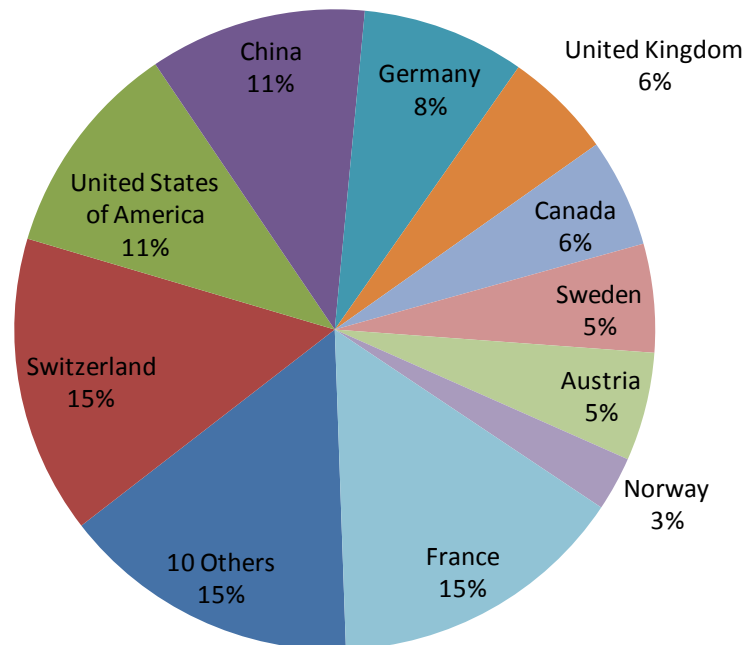


### By profession



## PARTICIPANT PROFILE

### Participation by Country



**CelCo**  
Cellulose consulting

54 Rue Agasse  
1211 Geneva  
Switzerland

Website: [www.celco.ch](http://www.celco.ch)

Contact: [info@celco.ch](mailto:info@celco.ch)



Maurice Perrenoud

Christian Chavassieu

*Whilst making all reasonable efforts to provide correct information CelCo cannot and does not warrant or guarantee that the data provided by this document are accurate in every respect. CelCo disclaims all warranties of any kind in regard to information provided on these pages, nor accepts responsibility concerning decisions made by the readers on the basis of this information. CelCo shall in no event be liable for any special, indirect or consequential damages whatsoever resulting from loss of use, data or profits, whether in action of contract, negligence or other action, arising out of or in connection with the use of the information here provided.*



## PHOTOS OF SPEAKERS



Simon Barnes  
*Shoosmiths*



Richard Brice  
*PCI Fibers*



Ding Jinqi, Ms. Jessica Lu  
*CCF*



Bruna Angel  
*PCI Fibers*



Brian McClay  
*Brian McClay & Associates*



Pierre-Emmanuel Goffinet,  
*Global Trade Information*



Mike Hodder  
*M-I SWACO*



Ian Robinson  
*Innovia Films*



Chip Dillon,  
*Vertical Research Partners*



Richard Bassett  
*Cato Sales & Trading*



Christian Chavassieu  
*CelCo*



Maurice Perrenoud  
*CelCo*

# PHOTOS FROM THE CONFERENCE

## Conference room THE GLADSTONE LIBRARY at The Royal Horseguards

