World Corrugated Boxes

Industry Study with Forecasts for 2013 & 2018

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MARKET ENVIRONMENT

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Global demand to grow 3.4% yearly through 2013

World demand for corrugated boxes is forecast to increase 3.4 percent per year to 213 billion square meters in 2013, in line with real (inflation-adjusted) gains in GDP. Factors contributing to rising box demand include growth in industrial activities, particularly the manufacturing sector, which often requires corrugated packaging to protect and transport goods. In addition, ongoing developments in small flute and high-quality graphic board will allow corrugated boxes to penetrate traditional folding carton applications, especially in the developed world. Greater interest in corrugated packaging as a point-of-sale display in retail applications will also boost demand for value-added corrugated boxes. Additionally, corrugated boxes will benefit from their environmentally friendly image, as well as certain cost advantages compared to plastics crates, which typically involve cleaning and returning costs.

Recycled board to capture more market share

Global containerboard demand growth will trail box production as trends toward the use of higher-performance, lighter board continue. In addition, recycled board will continue to capture market share at the expense of virgin kraft linerboard and semichemical corrugated medium (fluting), accounting for over 70 percent of board by 2013. Advances for recycled board will be bolstered by consumer, industry and regulatory pressures for environmentally friendly products and practices, rising virgin board prices and rapid demand growth in Asia, which is heavily reliant on recycled liner and fluting.

Developing regions to see fastest increases

The fastest increases will occur in the world’s developing regions, although growth rates will moderate from the 2003-2008 period. The Asia/Pacific region, Eastern Europe and the Africa/Mideast region will all outpace the global average. Some of the best gains are expected in China, which will surpass the US as the world’s largest corrugated box market by 2013; and India, which will benefit from strong growth in industrial output and consumer product markets, as well as greater investment in state-of-the-art manufacturing equipment, resulting in improved product quality. China will account for about half of the increase in demand over the forecast period. Greater urbanization and industrialization, and expanding international trade will support advances in these regions’ generally underdeveloped packaging sectors. Rising consumer income levels and expanding middle-classes will also generate robust internal demand for packaged consumer goods like processed foods, beverages and personal care items, supporting increases in corrugated box consumption.
Through 2013, economic growth in Indonesia is expected to be quite respectable by global standards but will remain somewhat below the regional average. Although infrastructure investment has increased in recent years, the level relative to GDP remains substantially below other Asian countries in similar stages of economic development. Further investment will be needed to propel the country’s industrialization.

**Indonesia: Corrugated Box Trends**

Demand for corrugated boxes in Indonesia totaled 2.7 billion square meters in 2008, accounting for four percent of the regional total and under two percent of the global totals, respectively. Through the forecast period, demand is expected to increase 6.0 percent annually to 3.6 billion square meters in 2013. Continued economic expansion will be the most important factor supporting rising corrugated box demand.

In general, corrugated packaging demand will benefit from the relatively low cost and favorable recycling record, as well as from the migration of electronics manufacturing industries to Indonesia from other Asian countries. Increasing interest in point-of-sale and other high-graphic corrugated boxes, while not yet well-established here, will also propel demand throughout the forecast period.

Indonesia produced 2.8 billion square meters of corrugated boxes in 2008, representing four percent of the regional total. Shipments are forecast to rise 5.9 percent per annum to 3.7 billion square meters, in line with the Asia/Pacific projected regional average (and faster than the projected global average). Indonesia runs a modest trade surplus in finished corrugated boxes, with exports being mainly destined for Singapore, Australia, Malaysia and the United States.
Sample Profile, Table & Forecast

Nine Dragons Paper Holdings Limited
Sun Hung Kai Centre, 31st Floor, Room 3129
30 Harbour Road
Wanchai
Hong Kong
852-3929-3800
http://www.ndpaper.com
Sales: $1.8 billion (FY 2008)
Employment: 10,840 (FY 2008)
Key Products: Linerboard, including kraft linerboard, testliner board and white top linerboard; corrugating medium; and coated duplex board

Nine Dragons Paper manufactures and sells paperboard packaging products and unbleached kraft pulp in China. In addition, the company manufactures specialty paper, and bamboo and wood pulp. The company's principle market is China and sales to overseas customers contributed less than 10 percent of the total in 2008.

The company is active in the world corrugated box industry through the production of such paperboard packaging products as linerboard, corrugating medium and coated duplex board. These products, which are marketed under the NINE DRAGONS, SEA DRAGON and LAND DRAGON brand names, are available in over 60 base weights and over 1,000 different sizes and type specifications. Nine Dragons Paper is one of the largest producers of containerboard products in China, as well as one of the largest in the world in terms of capacity. As of June 2008, Nine Dragons Paper had a total annual production capacity of approximately 7.1 million metric tons of paperboard packaging.

TABLE VII-10
INDONESIA -- CONTAINERBOARD SUPPLY & DEMAND (thousand metric tons)

<table>
<thead>
<tr>
<th>Item</th>
<th>1998</th>
<th>2003</th>
<th>2008</th>
<th>2013</th>
<th>2018</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corrugated Box Shpts (mil sq meters)</td>
<td>1350</td>
<td>2020</td>
<td>2750</td>
<td>3670</td>
<td>5050</td>
</tr>
<tr>
<td>grams/square meter</td>
<td>741</td>
<td>733</td>
<td>727</td>
<td>719</td>
<td>713</td>
</tr>
<tr>
<td>Containerboard Demand</td>
<td>1000</td>
<td>1480</td>
<td>2000</td>
<td>2640</td>
<td>3600</td>
</tr>
<tr>
<td>+net exports</td>
<td>500</td>
<td>300</td>
<td>200</td>
<td>200</td>
<td>200</td>
</tr>
<tr>
<td>Containerboard Production</td>
<td>1500</td>
<td>1780</td>
<td>2200</td>
<td>2840</td>
<td>3800</td>
</tr>
</tbody>
</table>

"Demand for containerboard in Indonesia is projected to advance at an annual rate of 5.7 percent through 2013 to 2.6 million metric tons, slowing from the 1998-2008 average pace. Gains will lag growth in box shipments, as the product mix continues to shift in favor of lighter basis weights.

Historically, Indonesia has been a major exporter of containerboard. However, the country's trade surplus has declined over the past decade due to rising domestic demand and is expected to remain relatively flat over the forecast period. Containerboard production is projected to increase ...

--Section VII, pg. 140
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