- to continue to work with the Chinese Research Institute of Machinery Science and Technology (RIMST) on database development and their efforts to better define and quantify the demand for environmental technology in China.

Forestry

Business Environment

Pulp and paper production and consumption have risen significantly with China's rapid economic growth over the past 15 years. Production is increasingly unable to meet the demand for greater volume and higher-quality paper products. This growing demand is challenging China's domestic industry, which is increasingly constrained by limited raw material, lack of financing and outdated mill technology. A boom in construction has also led to an increased demand for wood and other wood-based building products.

In Hong Kong, the import of pulp is on the decline because more pulp is being imported directly into China rather than through Hong Kong. Hong Kong has an increasing demand, however, for paper and paperboard products.

Market Opportunities

In the Pacific Rim area, China is one of the fastest-growing markets for pulp and paper products. There are business opportunities through export sales, the transfer of technology, and investment for equipment, pulp and paper and wood products.

Equipment: China is investing heavily in its pulp and paper industry. Annual investments equivalent to $1.6 billion for technical improvements and imports of machinery are anticipated under China's Ninth Five-Year Plan. In 1994, China imported over $1.25 billion worth of equipment related to wood products. In 1995, Canada exported some $21.5 million of pulp, paper and paperboard equipment and parts to China.

Pulp: The following are 1996 figures for China's pulp market (wood pulp and non-wood fibres):

Total Chinese market:	13 478 850 tonnes
Domestic Production:	12 008 850 tonnes
Balance (Imports):	1 470 000 tonnes

Of the balance, Canada supplied 40 percent or 595 000 tonnes, valued at $328 million.

Domestic production will continue to be supplemented by imports to meet the growing demand. By the year 2000, China's market for wood pulp and non-wood fibres should be more than 25 million tonnes, of which between two and three million tonnes will be imported, depending on the price of pulp and the availability of foreign currency.

In Hong Kong, the demand for chemical wood pulp, which is favoured by local users and importers to produce higher-quality paper products, will continue.

Paper: Production in the paper and paperboard sector has been growing rapidly for the last 10 years and reached 21 million tonnes in 1996 (24 million tonnes in 1995), falling short of the apparent demand of 25 million tonnes (28.5 million tonnes in 1995). About four million tonnes were imported in 1996. Current projections forecast that domestic production will be 30 million tonnes by the year 2000 and 40 million tonnes by the year 2010. Demand is expected to continue to exceed production, necessitating additional paper imports.

Canadian exports of paper and paperboard were $18 million in 1995 and $123 million in 1996, with the increase a result of low prices and the excellent quality of Canadian newsprint. More specifically, Canada exported $84 million of newsprint, $5 million of paper and paperboard and $35 million of value-added paper products (wallpaper, household and sanitary paper, stationery paper, bags, etc.)

In Hong Kong, Canadian newsprint is the market leader, although the presence of other Canadian paper products is not strong. In dollar value terms, newsprint constituted just 7.3 percent of the total value of Hong Kong's pulp and paper imports in 1996. Canada exported little paper and paperboard, which are in greatest demand and were the highest value paper product import into Hong Kong in 1996. Kraft paper and liners as well as white sheet (SBS) should stay in high demand.

Wood: Growing consumer affluence is fuelling greater interest in new housing and home renovation. This trend is creating a potential new market for Canadian value-added wood products, particularly in interior finishing. In 1996, Canadian exports were $11 million of lumber, $306 000 of wood-based panels and $7.6 million of wood-based building products. In 1996, China imported 3.2 million cubic metres of wood and one million cubic metres of plywood, veneered panels and similar laminates.

Rising demand in Hong Kong for certain value-added wood products will continue. For instance, the increased use of beech, maple and oak hardwood flooring is a major market trend. As well, veneers, wood panels, including engineered wood panels such as MDF, and particle board are widely used in furniture manufacturing.

Constraints

Canadian exporters face various constraints, including:

- a preponderance of small-capacity, state-owned mills with antiquated equipment, which lack effective pollution controls and have difficulty finding the right partner with adequate management and financial resources;
- strong competition from Pacific Rim and other surrounding countries;
- difficulties in financing purchases of imported machinery;
- a general lack of current and reliable information about domestic production, local companies and planned projects;
- difficulties in finding reliable agents and business partners; and
- a low import tariff on pulp (2 percent), but higher tariffs on value-added products such as paper and paperboard (approximately 15 percent plus a 17-percent value-added tax [VAT]), newsprint (15 percent plus a 17-percent VAT), and doors and windows (30 percent plus a 17-percent VAT).

Action Plan

The objectives of the Action Plan is this sector are as follows:

- to increase the Chinese awareness and knowledge of Canadian products and technologies through missions, shows and technical seminars;