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Market Research on China Packaging Machinery Industry

Executive Summary

July 2017

TABLE OF CONTENTS

INTRODUCTION	Error! Bookmark not defined.
EXECUTIVE SUMMARY	2
MARKET OVERVIEW	Error! Bookmark not defined.
COMPETITIVE LANDSCAPE	Error! Bookmark not defined.
Key Domestic & Foreign Players of Packaging Machinery	Error! Bookmark not defined.
SNAPSHOT OF KEY APPLICATION SEGMENTS AND CUSTOMERS	Error! Bookmark not defined.
Overview of Key Application Segments	Error! Bookmark not defined.
Overview of Key Customers	Error! Bookmark not defined.
IMPORT AND EXPORT ANALYSIS	Error! Bookmark not defined.
Overview	Error! Bookmark not defined.
Imports of Packaging Machinery into China	Error! Bookmark not defined.
KEY MARKET DYNAMICS AND TRENDS	Error! Bookmark not defined.
CONSIDERATIONS FOR ITALIAN COMPANIES	Error! Bookmark not defined.
Potential Opportunities for Italian Companies	Error! Bookmark not defined.
Potential Barriers for Italian Companies	Error! Bookmark not defined.
Practical Options for Italian Players Approaching the Market	Error! Bookmark not defined.
SUMMARY AND CONCLUSIONS	Error! Bookmark not defined.

EXECUTIVE SUMMARY

Market Overview

- China's packaging machinery market was estimated to have increased at a CAGR¹ of 12% from 2011 to 2016 to US\$ 31 billion; the growth rate has slowed in the past two years with the overall economic slowdown.
- Out of the entire packaging machinery market, filling/closing/sealing machinery still demonstrated the most extensive application among downstream sectors, followed by labeling and coding machinery, as well as wrapping/bundling/palletizing machinery.
- The market remained highly fragmented, despite the steadily growing production contributed by medium and large sized packaging machinery manufacturers² which accounted for ~18% of the total market value.
- Domestic packaging machinery market presents a pyramid structure:
 - The high-end market is mainly dominated by international manufacturers with advanced technologies and bargaining power; only a handful of domestic manufacturers with high profitability and certain research and development (R&D) capabilities can compete with international counterparts on certain packaging equipment and substitute certain imports;
 - The mid-range market is filled with more players with certain capital and little innovation capabilities, which provide many imitation products of international and domestic counterparts; some of these companies are likely to be acquired by larger domestic counterparts;
 - The low-end market is concentrated with the largest number of players with low profitability which are only able to low-technology and low-quality products, and compete intensely on price; in the next ten years, a lot of these companies may face a high risk of bankruptcy.
- In the next few years, China's packaging machinery market is expected to continue growing albeit at a slowing pace, and the key growth drivers include:
 - Burgeoning middle class and population (including ageing population);
 - Continuously increasing household disposable income supporting the growth of downstream sectors especially food and beverages, personal care and health care, household chemicals, medical devices, etc.
 - Government stimulus policies during the 13th Five-Year period (2016-2020) on consumption, technology and equipment upgrade, and energy saving and environmental friendliness, Intelligent and automated manufacturing;
 - Rapidly growing e-commerce businesses;
 - Improving standards and requirements on food safety, processing and packaging hygiene as well as packaging technologies.

¹ CAGR = Compound annual growth rate

² Refer to enterprises with annual revenue above US\$ ~3 million.

Competitive Landscape

- Over 7,000 packaging machinery manufacturers exist in China, and less than 300 of them are medium and large sized enterprises; the rest are small enterprises which provide low-end products.
- Majority of packaging machinery production is clustered alongside coastal provinces around *Yangtze River Delta* and *Pearl River Delta* areas; increasing number of domestic and foreign companies have relocated their manufacturing bases to inland provinces or lower-tier cities to take advantage of lower costs of labor and land.
- Core technologies are still held by international enterprises such as *Krones*, *Tetra Pak*, *Bosch*, *Coesia*, and *KHS*; most domestic companies still remain in the stage of imitating foreign high-tech packaging equipment such as aseptic packaging machine and large high-speed beverage filling machine.
- Moreover, leading international companies are capable of offering turnkey solutions to meet the high requirements of large downstream clients; most domestic companies are weak in this area due to the separation between primary and secondary packaging processes.
- However in the past few years, leading domestic companies have strengthened their R&D capabilities through acquiring domestic and international counterparts, and some of them such as *Tech-Long*, *Newamstar*, *Youngsun*, and *Truiking* are able to develop quality packaging equipment to replace certain imports.
- Improving domestic production, coupled with new overseas entrants, has led to more intense competition in the high-end packaging machinery market in China.
- In 2016, many international packaging machinery companies including *Bosch* and *Krones* have encountered significant challenges from local and overseas competitors in China; *Krones* had to increase investment (including employees) and expand their China presence to maintain a 12% year-on-year growth in China.

Snapshot of Key Application Segments and Customers

- Over 50% of demand for packaging machinery was still generated from food and beverage sectors; water and soft drinks grew faster than other liquid sectors in 2016, and this trend is likely to continue, driven by the increasing Chinese population and disposable income.
- Other key downstream sectors including pharmaceuticals and medical devices, household chemicals, cosmetics and personal care have maintained certain growth in the past few years and the upward trend is expected to maintain, driven by government's stimulus policies in healthcare industries and rising middle class.
- In the past few years, tobacco sector has experienced ups and downs; however since May 10, 2015, the government has raised taxes on tobacco which resulted in an average 10% increase in the retail prices of cigarettes; the 8% decrease in production of tobacco in 2016 have reflected the impact of the tax rises on tobacco.
- Main end users of packaging machinery are food and beverages manufacturers, OEM packaging service providers, pharmaceutical manufacturers, logistics companies, household product manufacturers, agricultural chemical companies, etc.

- The stricter enforcement of regulations on food safety, clean production, hygienic packaging, together with modern Chinese consumers' sophisticated requirements and attitudes towards product packaging, has pressured large downstream clients to progressively implement advanced, innovative, environmental-friendly packaging solutions.
- Leading downstream clients such as *Beingmate* have largely increased automation through installing highly automated production lines including packaging lines; this is likely a model to be adopted by other large manufacturers in the next five to ten years.

Import and Export Analysis

- China remains a net importer of packaging machinery; however, only less than 5% of the 2016 market size was attributable to imports from key exporting countries like *Germany, Italy, Japan* and *South Korea*.
- From 2011 to 2016, packaging machinery imports reached a peak at ~US\$ 2.0 billion in 2011, followed by rebalancing period between 2012 to 2013 and went up to US\$ 1.8 billion in 2014.
- However, the overall slowing economy have led to a 29% decrease in imports from 2014 to 2016 to US\$ 1.3 billion; imports are expected to remain around US\$ 1.3 billion in 2017.
- Over the same period, exports kept the steady growth momentum (with a CAGR of 11%) and reached nearly US\$ 1.2 billion in 2015; yet the year 2016 has seen a drop of 17% in exports compared with 2015.
- In 2015, *Italy* maintained #2 in packaging machinery imports, after *Germany*; however, imports from most top five countries (except South Korea) showed decrease between 2015 and 2016, among which *Italy* dropped by 36%, outpacing the other four countries.
- The trade data in first four months of 2017 has shown that there is likelihood of increase (~24%) in China's imports from *Italy*.

Trends and Market Dynamics

- International packaging machinery manufacturers still dominate the high-end market; yet the competition is getting more intense in China with the improving domestic competitors and new overseas entrants.
- During the 13th Five-Year period (2016-2020), the consolidation in the packaging machinery industry is likely to accelerate with the Central government's stimulus policies and the trend of value chain integration especially between primary and secondary packaging.
- The new focuses for packaging machinery are likely to comprise energy saving, minimizing waste, intelligent and highly automated manufacturing, environmental friendliness.
- The Central government's policies (e.g. tax reduction and financial subsidies) are generally in favor of domestic enterprises with R&D capabilities so as to strengthen local companies and substitute foreign imports; in the long run, the decline in imports of packaging machinery is likely to continue.

Considerations for Italian Players

- The demand for high-end packaging machinery in China is still increasing, despite the slowing economy.
- The rebalancing economic structure in China is expected to further stimulate consumption, which will likely drive downstream sectors including food and beverages, daily household consumable etc. and hence more demand for packaging machinery.
- As the current domestic supply of high-end packaging machinery has not fully met the domestic demand, there are opportunities for Italian players.
- Opportunities exist for Italian players in highly automated packaging machinery and packaging lines.
- Generally, Italian packaging machinery is regarded as high performance with more reasonable prices compared with German, Swedish and US counterparts.
- In terms of market entry options, small and medium sized Italian companies may consider using agents / dealers to import and sell packaging machinery into China; companies can also consider setting up a Wholly Foreign Owned Enterprise (WFOE) to import and distribute packaging machinery in the China market.
- It is important to identify qualified and experienced partners, as the partners' market and management experience can significantly impact the development of a new brand in the market.
- Before entering the market, it is also critical for Italian companies to protect the intellectual property (IP) of the brand and technologies, as the IP infringement is prevalent in China.