CHAPTER FIVE

CHANGING STRUCTURE OF INDIAN JUTE INDUSTRY

5.1 EVOLUTIONARY CHANGES

5.2 CHANGES IN MANAGEMENT AND OWNERSHIP PATTERNS

5.3 CHANGES IN MARKET CHARACTERISTICS

5.4 CHANGES IN THE STATE OF COMPETITION

5.5 CHANGES IN TECHNOLOGICAL DEVELOPMENT
CHAPTER V

CHANGING STRUCTURE OF INDIAN JUTE INDUSTRY

5.1 EVOLUTIONARY CHANGES

In the evolutionary process, Indian jute industry (IJI) has passed through four phases of introduction (1855), growth (1856-1950), maturity (1951-65) and decline (1966 onward till date).\(^1\) The move from one growth stage to the next is due to the impact of changes in the structure of Indian jute industry. The present study has considered evolutionary changes for the period since mid-sixties onward only as the earlier period could be safely assumed as being too remote to have any perceptible impact on the strategy formulation and implementation process for the jute companies presently.

5.1.1 The Phases of Growth

The IJI had reached the growth stage of maturity in terms of the number of jute mills, installed capacity, profitability, volume of foreign trade and foreign exchange earnings, etc. in the mid-1960s. The number of mills, looms and spindles increased to 112, 66000, and 129500 respectively.\(^2\) The industry flourished by earning huge amount of profit and foreign exchange, and many jute companies were able to declare handsome dividends and implement modernisation schemes. The IJI's contribution to the total foreign exchange earnings of the country, during this period, rose to about 23 per cent.\(^3\) Thereafter, a transition from maturity to decline stage started. The industry began to lose export markets to synthetic substitutes and to Bangladesh jute industry which emerged in
the global market as a major-exporter with its high quality jute products. Since 1970s the volume of jute goods exports declined as a whole by an annual compound rate of about 3.5 per cent\(^4\) and the share in total foreign exchange earnings reduced from the earlier figure of 23 per cent to only 3.3 per cent in 1981-82.\(^5\)

The dramatic fall of jute goods demand in export markets has been replaced/substituted by a change in the consumption pattern from the overseas market to domestic market due to the rapid growth and increase in the production of food grains, sugar, cement, fertilizer, etc. which increased the requirements of gunny bags over the years. Despite favourable domestic demand, a serious crisis began to take shape in the jute industry in the early 1980s with more than half of jute mills running at losses and several closing down.\(^6\)

In 1985, the number of jute mills came down to 69 with a total installed capacity for manufacturing about 14 lakh tonnes of different jute products. Of these, barely 42 mills were in production. While 21 mills have downed their shutters, 15 were believed to be incurably sick.\(^7\) The travails of IJI, attributed to official apathy, technological obsolescence, low productivity, growing competition from synthetics and frequent lock-out and strikes, have further aggravated the jute economy.

Since then, Government of India has supported the jute industry by means of economic as well as legislative measures. Some entrepreneurs of big business houses have also come forward, to revamp the age-old industry, with the help of a mix of strategies.\(^8\) They initiated the policy of merging vulnerable/sick jute mills with other viable
non-jute industrial units. Thus, the conglomerates of jute industry have started to fare better than those depending entirely on jute-based manufacturing.

Over the recent years, the overall condition of the industry has slightly improved. The number of closures has reduced from 21 mills 1985-86 to 15 mills in 1987-88 and now there are 67 jute mills in operation (as of 1990). The production of jute goods has increased by 16.3 per cent reaching 13.8 lakh tonnes in 1988-89 against 11.92 lakh tonnes in 1987-88. The production has further increased to 14.3 lakh tonnes in 1990-91 before declining to 13.4 lakh tonnes in 1989-90. Presently, the Government of India has initiated various policy packages and promotional measures for modernisation and product diversification and thus, make the industry viable and export-oriented.

5.2 CHANGES IN MANAGEMENT AND OWNERSHIP PATTERNS

The management and ownership patterns of IJI has also experienced some changes in both management and organisational structures which impacted policy making process of the industrial units under different circumstances at various time. The several changes seen in this component of jute industry structure are described separately under the following two sub-sections.

5.2.1 Ownership Pattern

Since its inception (1855), IJI had been under absolute private-ownership till late 1970s, either in the form of partnership or private limited or public limited company. Indian Jute Mills Association (IJMA) was established by the private sector mills in 1884 with a view
to safeguard and develop the Indian jute economy through maintaining harmonious relationship among the member units. Obviously, as a representative body of the private jute mills, IJMA's role was, and is, predominantly constructive and encouraging as it consists of a large number of jute mills.

But in response to changes in industrial practices and market trends mostly with the objective of rescuing some jute mills from the immediate closure, Government of India has taken over the ownership of only 6 jute mills. These units are nationalised under the provision of Jute Companies (Nationalisation) Act, 1980. Over the last couple of years as many as 13 mills have changed hands. Some of them have been taken over under cooperative ownership (e.g. New Central Jute Mills Limited at Calcutta), and others have been taken over by a new breed of trader turned owners.

5.2.2 Management Pattern

The changes in the management pattern of IJI was susceptible to the changes in ownership structure. Most of the jute mills in India were being managed under the managing agency system. Some Indianised European Companies and big business houses of India (Birlas, Goenkas, Bangurs, Kanorias and others) looked after the management affairs of most of the companies. This system prevailed till late 1960s. Thereafter, nationalised jute mills have been placed under the direct control and management of National Jute Manufacturer's Corporation Limited (NJMC). Workers' cooperative management system has been introduced in some mills. The rest of the mills are still under private management pattern. But, in every case more emphasis is put on the necessity of professional management to cope with everchanging business environment of jute economy.
5.3 CHANGES IN MARKET CHARACTERISTICS

The various components of Indian jute industry's market have undergone certain changes over the lifetime of the industry. The effect and direction of these changes are outlined in the following sub-sections.

5.3.1 Market Segmentation

As per market needs and preferences, IJI's markets were classified as international and domestic markets, mainly on the basis of geographical location during 1970s. The market segmentation was done in such a manner because IJI's foreign markets had a high level of trade transactions, profit, and foreign exchange earnings. Market segmentation based on quality, nature, and application of different items of jute products, has become pertinent in the subsequent period along with the change in market trends. But, due to the gradual decline of demand in international market segment, IJI has adopted a segmentation policy of giving more emphasis to domestic market rather than overseas market during the entire period of 1980s. Moreover, segments like non-traditional market, hessian and carpet backing markets, and consumer market are gaining strategic importance in the present market situation.

5.3.2 Users and Their Characteristics

Before the advent of synthetic packaging materials Indian jute products were mostly used by the overseas buyers/users like the USA, USSR, EEC countries, Japan and other developed countries. But since the beginning of 1980s all these overseas users except the USSR have recourse to the use of their own manufactured synthetic packaging materials and, at present, very small quantity of jute goods are used by them.
In the Indian domestic market, previously, a small quantity of jute products were used by domestic users as compared to foreign users. But now the users category has changed and a bulk of the quantity of products is used by domestic users like agricultural sector, and fertiliser, cement and sugar industries. The domestic users are under compulsion to use jute products for packaging as per the Mandatory Jute Packaging Materials Act, 1987.

5.3.3 Products and Their Demand Pattern

Till late-1970s IJI produced traditional products like hessian, sacking, and carpet backing whose demand was higher in the overseas markets. The overall demand for traditional jute products in the overseas market has gradually reduced over the eighties because of the inroads of synthetic substitutes and competition from low-cost producer-exporters. Product-wise demand analysis shows that hessian and carpet backing have a higher demand but sacking's demand is discouraging. In a research report, it has been computed that in 1955-56, hessian, sacking, carpet backing and other jute products accounted for 45, 50, 1.2 and 3.8 per cent respectively of the total Indian exports. Whereas, in 1985-86 these items constituted 55, 10.2, 27 and 7.8 per cent respectively. This means that the relative share of sacking declined by 39.8 per cent whereas the shares of hessian, carpet backing and other jute goods went up by 10, 25.8 and 4 per cent respectively. This change in product-wise demand is still underway.

Over the past few years, sackings' demand in the domestic market is picking up with the rapid growth of both agricultural and industrial sectors of Indian economy. The widespread domestic market at present can consume about 80
per cent of the total annual production. However, the non-traditional, value-added jute products like carpet, matting, furnishing fabrics, door mats, wall-coverings, bags, hammocks, briefcases, lamp shades, jute carpets and blankets, jute garments, geo-jute and various gift items are gaining ground in the internal as well as the global markets. But their existing demand is not yet sufficient enough to neutralise the declining demand of traditional items in overseas market. The domestic demand for different categories of jute products as projected in the 8th plan period (1990-95) is shown in Exhibit 5.1.

EXHIBIT 5.1

PROJECTION OF DOMESTIC DEMAND FOR JUTE PRODUCTS (1990-95)
('000 tonnes)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Hessian</td>
<td>140</td>
<td>145</td>
<td>150</td>
<td>155</td>
<td>156</td>
</tr>
<tr>
<td>Sacking</td>
<td>840</td>
<td>880</td>
<td>920</td>
<td>960</td>
<td>1001</td>
</tr>
<tr>
<td>Tarpanlin</td>
<td>165</td>
<td>180</td>
<td>195</td>
<td>215</td>
<td>235</td>
</tr>
<tr>
<td>Decoratives and other Jute Specialities</td>
<td>10</td>
<td>20</td>
<td>35</td>
<td>55</td>
<td>81</td>
</tr>
<tr>
<td>Geo-jute</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>Yarn and Twine</td>
<td>30</td>
<td>32</td>
<td>35</td>
<td>40</td>
<td>45</td>
</tr>
<tr>
<td>Canvas and others</td>
<td>15</td>
<td>17</td>
<td>19</td>
<td>20</td>
<td>26</td>
</tr>
<tr>
<td>Total</td>
<td>1203</td>
<td>1278</td>
<td>1359</td>
<td>1453</td>
<td>1556</td>
</tr>
</tbody>
</table>

Exhibit 5.1 shows that the Sub-Group on Jute Industry for 8th Five Year Plan (1990-95) seemed to be quite aware of the total potential of diversified jute products as well as the problems of their development and market promotion in the short-run. The group projected a modest growth rate of these products to the tune of 0.81 lakh tonnes by 1994-95 i.e. about 6 per cent of the total demand of jute production during the end of Eighth Five Year Plan.

5.3.4 Distribution Facilities

The IJI has maintained distinct distribution network separately for overseas and domestic market/buyers. In most of the cases, jute goods were sent directly from producer to the end users/consumers. There were exporters/shippers, dealers and agents also who acted as middlemen in the distribution channel. Some export trade was done with the agents of foreign buyers having their offices at Calcutta.

But with the fall in export trade and unremunerative price of jute products in overseas markets, bulk of the distribution is presently made through government authorities of NJMC and State Trading Corporation (STC) or their consortium. Simultaneously direct distribution is also done either by the individual jute mills or through Calcutta Jute Fabric Shippers' Association (CJFSA).

With regard to domestic market, distribution policy has changed over the last few years with the change of jute products demand from overseas to domestic market. Presently, jute products are distributed among different government agencies and mandatory users through Directorate-General of Supplies and Disposals (DGS&D), a supply department of the Ministry of Commerce, the Food Corporation of India (FCI), and other state food procurement agencies. The DGS&D lifts almost 40 per cent of the jute bags manufactured by IJI.
Another study reveals that DGS&D purchases jute bags to the extent of 2 lakh annually which form 25 per cent of total production of 8 lakh jute bags in a normal year.13

5.3.5 Pricing

In between mid-sixties and late seventies, due to the high demand of jute products in export market, IJI followed a cost-plus pricing approach which was more remunerative and profitable. But, the gradual decline in export-markets' demand, shortage of raw materials, orientation towards domestic markets, increase in production cost, competition from low-priced synthetic substitute, and entry of new competitor-exporters have adversely affected the price of jute products. Presently, Government fixes the price considering different aspects of overseas market situation. Minimum export price (MEP) is a commonly practised policy declared every year by the Government. This pricing policy is not at all remunerative and results in low profit margin.

The price of jute goods in the domestic market are quoted by the Gunny Trade Association (GTA). This price is followed by both the public and private sector units. GTA'S formula for quoting price is based on the average prices of the previous months on the date of actual placing orders plus 5 per cent. There is no organised mechanism in pricing jute goods other than that for the traditional products.

5.3.6 Promotional Activities

The promotional activities of IJI have undergone a significant change over its life span. During 1960s and mid-1979s, IJI had an ensured widespread export market and it had adopted low profile promotional measures during that period. Over the last few years, however, it has initiated
different types of promotional measures suitable for the concerned markets. These measures are initiated at both the governmental and industry levels. Holding and participating in exhibition and export fairs, establishing liaison with importers and end users, sponsoring of delegation and commissioning of market surveys and commodity studies, launching of EMA and IMA schemes, financing R&D projects, encouraging product diversification policies, sponsoring advertisement and campaign in the USA'S carpet backing markets, opening showrooms "SONALI" at Calcutta, Bombay, Hyderabad and Madras, etc. are a few examples of what promotional activities are functioning for the revival of the market as well as rejuvenation of the industry. Most recently Government of India has withdrawn, the cash compensatory support (CCS) on jute exports but instead an exemption of excise duty on jute products has been declared in the Union Annual Budget 1991-92. Jute Manufactures Development Council (JMDC), a national body for promotion of Indian Jute and jute products at home and abroad, is active in this regard.

5.4 CHANGES IN THE STATE OF COMPETITION.

The changes in the sub-factors described below would determine the total change in the state of competition which is one of the most important factors of the structure of the Indian jute industry.

5.4.1 The Major Players

In the perspective of world jute economy, Bangladesh was the main and only competing country till mid-1960s. That scenario has changed with the emergence of China, Thailand and Napal in jute goods manufacturing and export business in 1980s. Now, these new entrants and the traditional
Bangladesh jute industry are the major competitors of IJI in the export sector.

Because of the traditional nature of production as well as distribution in the domestic market, the industrial units are not competing as such. The protected markets and stable domestic demand stemming from assured government purchases made them competitive only in the case of getting government's orders for jute bags. However, a mild competitive state prevails within the jute mills in the home market. Out of 67 jute companies now in operation, 6 companies may be designated as major players domestically on the basis of their strategic and economic performance. They are Hukum Chand Jute Mills Co. Ltd., New Central Jute Mills Co. Ltd., The Ganges Manufacturing Co. Ltd., Fort Gloster Industries Ltd., Samnuggar Jute Factory Co. Ltd., and Anglo India Jute Mills Co. Ltd.

5.4.2 Market Shares

The IJI's export market share reduced from 52 per cent to 38 per cent between mid-1960s to late 1970s. This share has further fallen to about 30 per cent over the last few years.

In the recent years, IJI's sales in internal market has gone up, which accounts for nearly 70 per cent of the annual total production. Quantitatively, while export of IJI has declined from 2.96 lakh tonnes in 1986-87 to 2.37 lakh tonnes in 1987-88 and further to 2.26 lakh tonnes in 1989-90 despatches in the internal market rose from 9.57 lakh tonnes in 1987-88 to 11.87 lakh tonnes in 1988-89 subsequently going down to 11.08 lakh tonnes in 1989-90.15
5.4.3 The Major Buyers

The status of major buyers of IJI has changed, over the life period, from the overseas to domestic buyers. Till 1970s, the developed and industrialised countries of the USA, USSR, EEC countries and Japan were the major buyers in the export markets of IJI. They consumed collectively around 50 per cent of the IJI's total annual production. For the last few years, only the USSR has been importing Indian goods which account for about 50 per cent of the IJI's total annual production. Presently, the DGS&D, Food Corporation of India (FCI), and the Cement, Sugar and Fertiliser industries are the major buyers as they purchase almost the entire stock of jute products despatched in the internal market. Of the major buyers, cement industry consumes 20 per cent of the total products. Most recently, this industry has reduced its consumption of jute bags as it incurs a loss of Rs. 100 crore annually owing to seepage, lump formation, and other factors. The same resentment is shown by the fertiliser and sugar industries as they are also among the mandatory users.16

5.4.4 The Major Players

Till mid-1970s, the agriculture sector of the Indian economy, especially, the jute growing states of West Bengal and Assam often failed to supply the required quantity of jute for IJI. Particularly, bad harvest years and/or excessive order received by the industry compelled it to import the shortage quantity from Bangladesh. But, during the years after mid-1970s, the supply position of IJI has become self-reliant due to the governments' active policy of bringing more land area under jute cultivation as well as declaration of various incentive measures for the
jute-growers. In the recent years, Indian agricultural sector could provide more than 70 lakh bales of jute annually needed by the industry. JCI, IJMA and individual jute mills may procure raw jute from the growers level either directly or through their agents, dealers or purchasing centres located in the jute growing areas.

5.4.5 The Competitive Situation

During the period which extended up to the late 1970s when IJI was more export-oriented Bangladesh was the traditional and major competitor in export market. Bangladesh had competitive advantage over India in terms of product quality, cost-structure freight rate, trade condition etc., that resulted in a gradual squeeze in IJI's exports. The situation has further aggravated due to the entry of low-cost product-exporters like China and Thailand in the export-segments.

In such a competitive situation, IJI's export trade has become meagre and the industry is only sustaining due to the demand in the internal market. In domestic sector it is again competing with about 400 Synthetic packing materials manufacturing units. To face such an unavoidable competition, IJI is now trying to explore new markets for the diversified jute products in the overseas market instead of traditional items.

5.4.6 Export Market

In the early days of IJI its export market was large enough to consume about 80 per cent of the total production which came down gradually to just 30 per cent in the recent years. Value-wise export earnings over the last few years
have fluctuated between Rs. 250 crore to Rs. 300 crore which accounts for merely 2 to 3 per cent of the total foreign exchange earnings of the economy against more than 20 per cent between the period of mid-sixties and mid-seventies. A perceptible change is noticed in the buying pattern of foreign buyers. Earlier the USA, Japan and EEC countries purchased more jute products from India and, at present they are purchasing less. During recent years, the USSR has become the major foreign buyer purchasing a bulk of the exportable quantity of hessian and sacking. The USA and Japan are still buying more CBC from India.

Of late, IJI has taken ambitious policy measures to retain and restore its past role in the world jute goods market by exporting newly innovated and diversified value-added jute products which have a higher global demand potential. With this end as well as to create a pressure on the mills to increase exports in the coming years the Government, recently, direct that big exporters with exports of Rs. 5 crore per annum and a growth of 5 per cent of their products to General Currency Area (GCA) will be allocated 25 per cent of the total orders for B-Twill jute bags. The medium exporters are to raise by 3 per cent exports over their previous years exports and other mills will have to give an undertaking that they will export 3 per cent of their total production by 1991-92 to get the orders for sacking items from the government.

Meanwhile, several market promotion measures have been launched by the industry to penetrate into the export market segment. The recent devaluation of Indian currency and the chaotic shipment position in Bangladesh have shown a positive impact over the IJI's exports. Indian hessian products are now selling six to eight per cent cheaper as
compared to Bangladeshi goods, and demand for Indian CBC in the USA is picking up. All these factors indicate a change in the export market policy of IJI of moving from a passive to a more active approach to benefit from the export of jute goods.

5.5 CHANGES IN TECHNOLOGICAL DEVELOPMENT

The IJI's plant and machinery in use are old and based on obsolete technology. Efforts for modernisation and upgradation have been made at different times. But they were on a limited scale till late-1970s. The modernisation that was carried out during that period led to the introduction of high speed auto doffing sliver spinning system in place of rove spinning system and broad looms weaving system for only hessian product excluding sacking and CBC items. The finishing technique has remained the same. Several attempts initiated by the Government to upgrade technology have not made much headway.

The decline in exports of traditional jute products have prompted modernisation and upgradation and thus brought a shift in the pace of technological development. Since early 1980s, IJI has launched several technological development programmes through its different allied organisations namely Indian Jute Industry's Research Association (IJIRA), Jute Technological Research Laboratory (JTRL), Institute of Jute Technology (IJI), the Lagan Jute Machinery co. Ltd etc., that led to the introduction of fairly updated technologies. Examples of improved technology are circular looms in weaving process and rotor spinning and DREF spinning techniques for producing jute blended yarns and so on. For modernisation and diversification of jute products, the Union Government in 1986 sanctioned a Jute Modernisation Fund Scheme. Presently, the government has
liberalised the import policy for procuring new and modern technology from Western European countries. Thus, the technology of IJI is developing gradually but in a restricted manner.

5.5.1 Research and Development

The IJI had given little attention to R&D, either at the unit level or at the industry level till the beginning of 1980. The bad state of the industry has led to a change in attitude in this direction over the last few years. IJIRA has been activated so as to deal with the R&D work pertaining to the areas of product quality, manufacturing process, chemical and laboratory analysis of jute fibres and the like. The research results of IJIRA are implemented by the individual jute mill. The JMDC has patronised different research projects especially on marketing feasibility study of newly developed products of IJIRA and it coordinates the research programmes between the research organisation and the industry. To expedite the R&D programmes, JMDC has imposed a cess on various industrial jute units to fund the IJIRA. The geo-jute, JRP boxes for packing fruits, jute decorative laminates, jute blankets are some of the diversified jute products developed by the Indian R&D institutions. Individual mills have not yet developed separate R&D division within the organisation. But, with the support of the units, R&D activities at the industry level are being encouraged.

Overall, this historically significant industry of India has faced rough weather over the last several decades but with sustained efforts on the part of the individual units, industry, and the Government it could regain some of its past glory and contribute to the economic development of the country.
REFERENCES

1. S.U., Ahmed. Comparative Study of Jute Industry Profiles of Bangladesh and India, Unpublished M.Phil. Dissertation, Department of Business Administration, Aligarh Muslim University, Aligarh, 1989, p. 120


