CHAPTER V

PROBLEMS OF FOREST BASED INDUSTRIES IN KARNATAKA
Considering the position of the forest-based industries in the growth of economy of the state, any fruitful efforts to promote and support their group gains more significance at this stage. The identification of problems, which will affect the growth and development of forest industries and take the problem solving measures would be desirable at this level and improve the prospects and position of them. A practical and deep insight into the various problems of both external and internal and the prominent among them are useful in suggesting the strategies to the entrepreneurs for sustainable growth and development.

This chapter is mainly concerned with highlights of the important specific and general problems of select forest based industries in the state.

**PROBLEMS OF PAPER AND PULP INDUSTRY**

(i) Paper industry finds itself the problem of inadequate supplies of pulpable wood which is continuing to pose a major challenge both for the integrated mills as well as small paper mills. Bamboo and pulp wood continue to be the basic raw materials for paper industry. In Karnataka State, the yield of wood per hectare is not satisfactory and the availability of bamboo is getting scarce day-by-day due to deforestation.
(ii) As raw materials available in limited quantity and imports are being made from other states, the cost of them is getting escalated and cost of other inputs like chemicals, energy etc. are also showing increasing trend.

(iii) Environmental issue is another problem this industry has to combat. Those companies which are unveiling to evolve or simply cannot afford to, will suffer largely in coming years. The environmentalists not only challenging how forests are managed and what production technologies are used in producing paper and pulp but they are also questionring the product itself and calling for reductions in consumption levels.

(iv) Effluent treatment cost is another serious problem of paper industry.

(v) The standard definitions in the context of the national paper industry are: large, medium and small (though many Indian mills are considered small as per international standards). Size bears a strong correlation to raw materials used. Middling units tend to be agricultural residue based, where as the large units are dependent on forest produce. The small and medium mills consume waste paper and paper cuttings to be a large extent obtained from other states which increases the cost of production.
(vi) Power costs form a significant component of a paper mill's cost structure. Except a very few, majority of paper mills in Karnataka facing shortage of and interruption in power supply and coal supply which affect continuous running of mills.

(vii) Many mills in Karnataka, as well as in India suffer from obsolete technology. The small paper mills do have uneconomic sizes and second hand equipment. In the past, demand recession and uneconomic prices prevented these units from upgrading the technology. This led to poor quality and low productivity.

(viii) Some paper mills in Karnataka have been running with the problems of non-availability of skilled labour and professional management which affect the efficiency of the mills.

(ix) Import of paper and pulp from other countries pose price, quality, competition etc. As a result, domestic paper mills have to forceably reduce prices and therefore influences low revenues which affect their financial viability.

PROBLEMS OF PLYWOOD INDUSTRY

(i) In India, about 160 common species available for commercial purpose. Out of them, only 77 species are identified suitable for plywood manufacture and that too a few species are grown in Karnataka's forests and many in North-Eastern region of

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India. This made inadequacy of ply logs to plywood units of the state. Import of good large size timber from other states and countries are not economical though liberalized policies exist.

(ii) Most of the key machines for plywood industry are being imported. Like specialized machinery slicers, peelers, splicers and drum sanders are not possible for small units to import as they require large amounts. The quality is affected by using the machinery of indigenous technology.

(iii) Increase in prices of glue, resin, urea, phenol, formaldehyde and methanol which enhance the cost of production.

(iv) The increasing trend of establishment of wood based factories in North-Eastern states like, Tripura, Nagaland, Arunachala Pradesh, Assam etc., with a view to generate employment to local people and use locally available resources, has created new problem to flow of inter-state movement of plylogs and results in shortage of wood raw materials for plywood industries in Karnataka.

(v) Most of the small scale units having problem of non-availability of skilled labour and lack of professional practices. At present, some plywood research centres offering training, courses to
Indian students but they are found not adequate and scientific in all respects.

(vi) On account of obsolete technology and poor quality of personnel led to low yield per volume of logs peeled and low productivity (output per worker). The effects of these can be seen in the form of wastage of material/resource and high manufacturing cost.

(vii) Factory condition is not satisfactory in the State. Work room in most of the factories do not have sufficient light, ventilation, floors are uneven, congestion and unhygienic. This condition creates poor manufacturing performance.

PROBLEMS OF SAW MILLS

(i) Sawmills are facing problem of insufficient quantity and quality of wood. In order to get good quality of wood, they have to import from far places which increases the cost of wood.

(ii) The cost of logs delivered to the sawmills is usually highest single cost involved in producing sawn wood. Depending upon the difficulty of logging, this may amount to 60 percent of manufacturing cost.

(iii) There is severe competition between small scale, and medium and large-scale units in procurement of raw materials from forest depots, auctions and farm forests, and also in scale of output.
(iv) Electric power supply in the state is inadequate and irregular. Frequent stoppages of power supply on all working days leaves to lack of full utilization of men and machines in production activity of the industry.

(v) Most of the small scale sawmills face problem of lack of proper infrastructure and well trained drivers of machines.

(vi) Machines that are used in small sawmills are old and getting stopped in the process. Repair services are not available near by the factories.

(vii) As railways, ship and boat building companies, carpenters are go for the main alternative to wood like plywood, steal, plastic, fiberboard etc. to meet their need which is reported to be yet another problem of this industry.

PROBLEMS OF MATCH INDUSTRY

(i) The main problem that the cottage match industry is facing with the heavy competition from the mechanized sector in market area.

(ii) There is decline in the availability of appropriate matchwood in the forests of Karnataka State. Further, the wood upon which the match industry depends is also greatly in demand from other forest industries. For this reason, match industry forceably
depend on splints and veneers made out of sub-standard variety of wood with high cost.

(iii) The distribution of matches is usually made through a large number of middle men (whole sellers and retailers). The overheads included commission, freight, sales tax, VAT, Octroi, loading and unloading costs etc., increase the cost of the matches and therefore, difficult to sell the matches at competitive prices in the market.

(iv) Stocking of inputs and output, maintaining records of stocks and goods sold, attend the excise officials etc., create another problem to match industry in India.

(v) The facilities for providing specialized training to workers are presently not available in match industry. Most workers acquire proficiency in the trade by sheer experience. So, they lack scientific knowledge of their craft.

(vi) As a rule, non-mechanized factories do not expand their production despite their capacity to do so. This is because, they apprehend the loss of excise rebate as they exceed the ceiling on production and therefore usually content with gaining rebate.

(vii) As far as the printing labels for cottage match units is concerned, no printing industry is located nearby these units. So they have to take the help of middleman on commission for paper labels.
PROBLEMS OF WOODEN FURNITURE AND FIXTURES

(i) Raw materials like wood, wood polish, plywood sheets, nails, bamboo etc. are not easily available for the unit located in rural areas. Furniture makers have to move from one sawmill or wood depot to another in search of their required wood and collect other inputs from far away towns and cities which create a lot of inconvenient for them.

(ii) Due to lack of funds, carpenters rely more on traditional tools in manufacture of furniture which finally decreases competitive strength of them when compare to urban artisans whose workmanship always good as they use modern tools and expose to modern techniques.

(iii) Rural artisans face problems of transportation and its costs not only for bringing raw materials from sources of availability to the sources of use, but also for sale of finished goods at market centers. Hence, rural artisans take this job on part-time basis and earn less income compare to urban artisans.

(iv) Illiteracy, ignorance and paucity of information and exposure, most of the entrepreneurs have not made use the financial and non-financial facilities that are extended by the Karnataka Government.
(v) Most of the rural artisans find lack of infrastructure. They run their trade at living houses.

PROBLEMS OF BULLOCKCARTS AND AGRICULTURAL IMPLEMENTS INDUSTRY.

(i) Wood raw material is available in limited quantity from forests of the state and hence, this industry is forced to depend more on farm forest and imported wood at high costs. This has created a lot of problem to this industry in terms of out put, loss of labour days and also market.

(ii) At present, the demand for bullock carts, ploughs and other agricultural implements is at declining stage due to invention and use of modern machines and metallic tools in agricultural activities.

(iii) Carpenters are not assured with continuous work through out the year in rural areas as the demand for agricultural implements is seasonal. Because of the above, this profession is taking off day by day.

PROBLEMS OF CANE AND BAMBOO PRODUCTS MANUFACTURING UNITS.

(i) This industry obtains raw materials usually through or from middlemen which leads to high cost of raw materials and in turn, sell the finished goods through the same intermediaries at low
prices. Craft men get very less margin and some times, even incur loss in this process of craft trade.

(ii) The market of this industry for its products local where the manufactures sell at low prices.

(iii) In the absence of institutional finance, manufacturers depend on local money lenders for working capital purpose. This money lenders give money at higher rate of interest range and put many other conditions.

(iv) Cottage and village industry which engage in this craft work, follow primitive methods of production and therefore, not able to produce competitive goods economically.

(v) Bamboos are the main raw materials of paper industry, hence, good quality of bamboos are not available to this industry.

(vi) Ineffective functioning of co-operatives of tribal people and other government run bodies, cause delay in supply of raw materials to the members as well as distribution of finished goods.

(vii) The marketing system of this industry is unorganized and totally lack facilities for scientific marketing. Market finds with self-use, local sales, sale to private traders and sale through co-operatives and KVIB.
PROBLEMS OF AGARBATHIS INDUSTRY

(i) With the growth and spread of the industry throughout the state, accompanied by exploitation of natural resources, there has been acute shortage of forest raw materials. Sandalwood oil and dust are the main raw materials of this industry. On an average, sandalwood production is 250 metric tonnes whereas the estimated demand is 500 metric tonnes in the state.

(ii) Use of low level quality of inputs which locally available or imported at high costs, leads to poor product with less competitiveness or at high prices as case may be, made another problem of this industry.

(iii) Small scale Agarbath manufacturing units face cut-throat competition from big factories in the state or import products from other states in the market.

(iv) Since many Agarbathi units engage in manufacture of agrbathis at cottage level, face problem of infrastructure.

PROBLEMS OF BEE KEEPING

(i) The very existence of this industry is based on fauna and flora and in turn, fauna and flora depend on rain fall in the state.

(ii) Entrepreneurs undertake the process of bee keeping on traditional basis. Inspite of training given by the Department of
Industries and commerce, a few are benefited and out of them, only one or two follow the modern practice of beekeeping. Traditional way of beekeeping leads to low productivity.

(iii) Naturally, honey available in forests and hill stations. Collection of honey and wax not effective in the state.

(iv) Bee keepers do not get remunerative prices for their products honey and wax as they are sold in local market or through contractors in the local.

(v) High chance of destroy of hives, bees etc., by rain, fire, wind and other natural calamities made to give up this craft.

PROBLEMS OF BEEIDI INDUSTRY

(i) As beedi factories are on small scale and some of them conduct rolling of beedies at cottage level, they face problem of procurement of tendu leaves, tobacco powder and wrapping paper, which are used in beedi making. State forests are with limited source of tendu leaves. Similarly, discourage steps taken by the State and Central Government towards tobacco-based products, tobacco growing has been declined in the state.

(ii) Shortage of tendu leaves to be imported from neighbor states. Movement of tendu leaves bundles from one state to another state not so easy.
(iii) Beedi factories are neglected by the State Government inspite of employment potentiality. Concessions and subsidies are not adequately available to promote this industry in the state.

(iv) When people are diverted by themselves to engage in their primary agricultural work during cultivation and harvest seasons, this industry faces the shortage of labour, which causes decline in production.

PROBLEMS OF SANDALWOOD OIL AND EUCALYPTUS OIL DISTILLERIES

(i) Sandal wood and its oil quality is best in trees grown in south India. Karnataka forests also famous for sandal wood but not enough to the needs of distilleries as government has placed certain restriction on cutting of sandalwood. As such, this wood is having diverse use and therefore, the quantity of sandal wood available to sandal wood oil distilleries is not enough. Similarly, eucalyptus wood also use more in pulp industry and in rural areas this wood is being used for construction activities as well as for firewood, and limited quantity wood available to oil distilleries.

(ii) Since small scale units are reported to be not following modern techniques of oil, more wastages happen to be there in the process of distillation.
(iii) Lack of funds, traditional techniques of extraction, high competition from large scale units making small scale units become sick.

(iv) Low labour productivity and lack of institutional support made small units suffer with many other problems in the state.

PROBLEMS OF WOOD NOVELTIES AND WOODEN TOYS

(i) Channapatna and Ramanagara taluks known for wood carving and toy making units. Suitable wood (Wrightia tincoria) availability is deterioratory in these taluks.

(ii) As Government prevents cutting wrightia tincoria from forests, manufacturers have to collect wood from farmers field / private lands at Rs.1600 to Rs.1800 per tone and some times more than that, which is not economical.

(iii) The cost of other inputs which are used in toy making and other wood novelties has been increasing. Consequently, the cost of production of wood novelties becomes more and therefore, sale of toys finds difficult in the presence of substitute products like plastic toys especially made by China available at cheap rates in the market.

(iv) The long distance between the places of wood available and production centres that too in the absence of regular transport, creates crucial problems to this industry.
PROBLEMS OF PAPER PRODUCTS MANUFACTURING UNITS

(i) Demand for good quality paper from printing industry and office use increasing day by day. This creates main problem to paper products manufacturing industry with supply of inferior quality paper in limited quantity relatively at higher prices.

(ii) Ever increasing prices of pulp/waste paper, optical fibre, nylon, copper and other allied inputs, made this industry to experience increase in the production cost continuously.

(iii) Discouraging industrial policy of the Central and State Governments and high-level competition from plastic and synthetic goods industries, led to closer of many manufacturing units of this industry.

(iv) It has become difficult to the medium and small industries to have continued innovation, expansion, modernization and technology upgradation as they require huge amounts. Hence, these firms are struggling hard to face competition arise from the foreign industries.

After having observed the various specific problems of select forest based industries, a very few problems destroy the chances of success of many industries. The problems which adduced for the sluggish growth of industries are: inadequate finance, shortage of raw materials, too many government policies, old and out dated technology,
lack of infrastructure facilities, labour problems, marketing and management inefficiency, trade blocks and their brief discussion is as follows.

**PROBLEM OF FINANCE AND CREDIT:**

Most of the traditional forest based industries face the scarcity of finance and credit. The initial investment of these industries comes mainly from owners contribution or borrowed funds from non-government agencies which is not adequate to meet all the expenditure incur in organization and running of units. However, many forest industries except large scale units, are small scale and cottage industries facing this problem and have to rely on government assistance. In many cases, credit is obtained on a very high rate of interest and this is exploitative in character. The Government of India has recognized the importance of credit flow for the development of the small scale sector and this was a major motivation for nationalization of commercial banks, setting up of State Financial Corporations and Small Industries Development Board of India. Banks were mandated to provide 40 percent of their lending to the priority sector comprising of agriculture, small scale industry, small road and water transport operators, small business houses etc. But government agencies like Banks and Karnataka State Finance Corporation (KSFC) are generally reluctant to advance money thinking that they are not in a position to
offer the required guarantee and repay loans in time. Even when small loans can be raised from these agencies, the procedure is so difficult to follow and therefore, most of the entrepreneurs who are either illiterate or semi-literates, hesitate to make use finance facilities and try to manage out of their own hard earned money. In course of or at the time of expansion, they need to take finance from outside.

The position of the small scale units in the economic reform phase has grown worst as in order to meet the conditionalities under the structural adjustment programme, the government tried to cut down expenditure. This, in turn, brought about severe credit restrictions. The shortage of funds makes it difficult to install modern machinery and tools and to maintain well organized and full equipped units. More over, they can not buy and store good quality of raw materials or stock their finished production and undertake effective promotional programmes to get good demand for their produce. Today, banks and financial institutions totally discourage to finance forest industries. If they agree to grant credit, they take several days or months to take decisions on giving term loans and release the same. Quite often, new aspirants get fed up at this stage and give up the project. Even some entrepreneurs go to financial institutions for want of loans to get the advantages of subsidies and interest rate concessions there is a scope for improper use of funds which leads to further shortage of funds.
PROBLEM OF RAW MATERIALS:

At faster rate of industrialization and depletion of forest resources in the state and even in the country, the shortage of the right type of raw material at economical rates has affected the entire forest based industrial sector in the state. The continuous withdrawal of forest produce over a long span of time in unsustainable way resulted in large-scale degradation of natural forests. At no point of time government had the required funds to rehabilitate such degraded forests and also the forest-based industries did not invest any or a larger part their profits for the regeneration of exploited forests. The present forest policy stresses forest industries to raise their own raw materials preferably by establishing direct relationship with farmers and individuals by providing them inputs including credit, technical advice etc., who can grow trees on their lands. Government also put ban on felling of green trees from forests (even from private lands without permission) following the decision of the Central Board of Forestry to check the degradation.

The total industrial demand of wood in India in terms of Round Wood Equivalent (RWE) will rise from 58 million m$^3$ in year-2000 to 153 million m$^3$ in year-2020 i.e., a rise of about 164 percent in 20 years. The pressure of growing population, live stock, fuel wood and other forest uses has created a growing demand in excess of the ability of the forests. In addition to this poor financial condition small scale forest industries in the state have to get raw materials from the
middlemen at higher prices or use cheap and low quality materials which result in low quality of finished products. Further, irregular supply of raw materials also affects their production programmes. Some suppliers create artificial scarcities and rig up prices of them. Even forest authorities take putting wood under open auction and sell through wood depots.

PROBLEMS OF GOVERNMENT REGULATIONS:

In India, wood industry is linked with forest and is often known as forest industry, but none of the forest policies of 1884, 1952 and 1988 focused on any issue concerned with the development of wood working industry in the country except to make provision either to extract wood or ban cutting of trees. There are incentives designated to promote the development of wood industry today. Contrary to this, problems of small scale units start with getting license from the Forest Department/District Industries Centers (DIC's), local bodies and continue as long they exist because so many regulations to be followed. Government officials are often unhelpful in issue of licenses and other aspects. Many small entrepreneurs do not know how to approach and take facilities announced by the Central and State governments. When some raw materials or machines are to be imported still importers should get permission after going through lengthy procedure, which keep on changing frequently because of changes in the policy of the Government. This makes that people are not able to understand and
intricate ever-changing rules. Through the government often states its support and commitment to the rapid development of small-scale industries but forest industries are neglected. Due to the ban of felling green trees and other policies of the government, establishment of new units (wood based) freely, has banned in the state. Thus, present regulations of the government are not totally favorable towards forest industries not only in the state but also in other states in India.

**PROBLEMS OF TARIFF STRUCTURE:**

Due to lack of wood raw material available in Indian forests, forest industries are allowed to import wood in logs and other wood related items. Since industries use imported raw materials and intermediate goods in their industrial process, import tariff remain high in comparison to tariff in some manufactured goods. This has created the problem of a significant 'inversion' in tariff structure, which specially hurts small firms since they are more labour using and have high material to output ratios.

**PROBLEM OF MACHINES AND OTHER EQUIPMENT:**

Technology is the base of all industries. But in many small-scale industries, machinery and other equipments have grown obsolescent. It is reported that only large scale paper mills in the state, able to adapt improved technology in the process of paper making. A
few industries use machines and the rest (mainly cottage and village) of them still depend on labour skill and traditional tools in manufacture of products out of forest raw materials.

PROBLEM OF INFRASTRUCTURAL FACILITIES:

Most of the small-scale forest industries and cottage and village industries mainly in rural areas face the problem of inadequate physical infrastructure. The most severe constraint is power. Others are, building problem, inadequate communication systems, banking and insurance facilities, transport facilities, farness of markets. More over, what all programmes have been announced to cater infrastructural facilities are not reaching actually targeted people due to rampant corruption.

PROBLEMS OF MARKETING:

Marketing is one of the major stumbling blocks for small-scale forest based industries. The many problems which they face in marketing are lack of standardization, poor quality, poor finish, lack of marketing ability, high competition etc. These units often do not possess any marketing organization and if there are, not working effectively. Because of the shortage of capital and financial resources, they do not have adequate staying capacity and are often forced to
selling their goods at un remunerative prices in local markets or the whole sellers.

**PROBLEMS OF DELAYED PAYMENT:**

Most of the small-scale industry associations complain about the hardships the small entrepreneurs go through on account of delayed payments by large firms and government departments. When they sell to wholesalers and cooperative societies, are often forced to offer extended credit periods. As for as delays in payments from government agencies against goods supplied to them under the government’s purchase programme, these delays are on account of the cumbersome and complex procedure and rampant corruption in these departments.

**INEFFICITIVE MANAGEMENT PRACTICES:**

The area in which forest based industries have encountered the greatest difficulties is that management. A well-organized industry owes its success mainly to its good management. Except a few paper mills in the state, all other industries management has been in the hands of the heads of families called proprietors. Due to lack of professionalism and poor education, they are unable to plan and organise well, understand well forest market conditions, anticipate problems and prepare to face them effectively. The success of any industry depends upon the earnestness with which proprietors apply
themselves to learn and put in to practice. But these industries have not adopted modern management techniques. Many industries fall sick due to improper handling of management of finance, inventory, budgeting, marketing, personnel and accounting aspects.