CHAPTER VIII

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INTRODUCTION

The Paper Industry is one of the industries of basic importance to the Indian economy. It encompasses manufacture of pulp, paper, paper board and newsprint. Before the advent of modern machine-made Paper Industry in India, the Country had a thriving hand-made Paper Industry. The first machine-made paper was manufactured in 1870s in West Bengal. The Indian Paper Industry can be considered to have come of age only in the early 1950s. The installed capacity rose from 1.37 lakh tonnes per annum in 1950 to 10.42 lakh tonnes in 1975, to 23.60 lakh tonnes in 1985 and further to 30.20 lakh tonnes at the end of 1990. That means, the installed capacity registered an increase by 28.83 lakh tonnes or by 21.04 times during this 40-year period. But the per-capita consumption of paper in the Country is very low at 3 kgs. In fact, the Country remains behind other Asian countries in the below 5 kgs per capita cluster. India has over 16% of the world population, yet consumes a mere 1% of paper and paperboard. As a result of various factors, the Industry is operating in a peculiar situation. On the one hand, the installed capacity has the potential to meet the demand requirements of the future and on the other, the production is so low that there is a chronic shortage, necessitating imports.
Besides, the quality of paper produced indigenously leaves a lot to be desired. A number of reasons have led to this protracted period of diversity that blighted India's Paper Industry. However, the period beginning from 1990 onwards witnessed the onset of slightly improved state of affairs. Due to a greater demand-supply parity, the post-1990 has been witnessing a better realisations and there has been a dramatic revival in the fortunes of the Indian Paper Industry. This trend appears to show no signs of flagging, at least, in the near future. This period of comparative well-being and the much enhanced performances that have been posted by the most progressive paper units, perse, could lead to the conclusion that the worst is over and that the entire Paper Industry is, most probably, doing well and looks well poised to continue to do so in the foreseeable future. But this is not entirely true. First, it is just a clutch of select paper units that have registered an appreciable upswing in their fortunes. A sizeable portion of this Industry is still labouring under a cloud. The capital-intensive nature of operations, the acute scarcity and the resultant rising prices of most of the raw-materials and other inputs, the non-availability of coal and power in adequate quantities, non-neutralising administered pricing regime, the rising dependence on imports and appallingly rampant technological backwardness are some of the important problems that have long besieged the Industry. These problems are sure to acquire even more daunting proportions in future. Hence, it is feared that the future is far from being bright. What one is bound to witness is a scenario redolent with a host of contradictions and inherent
anomalies. What one sees ahead is a situation characterised by severe paper shortages. This does not augur any good for the Country. The prospects of rising paper consumption in the Country from the present dismally low level of 3 kgs per capita will definitely ensure good times ahead for this select band of paper units which have grown strong enough to endure the odds that lie ahead. To put it in a nutshell, it is feared that ahead of us lies a phase that will be good for a few companies due to demand shortages putting them on a strong footing, but not so good at all for either the rest of the Industry that is not fundamentally that strong or for the Country as a whole.

In the background of various problems haunting the Indian Paper Industry, this study has been taken up with an objective of evaluating the present position and future prospects of the Industry in Karnataka. The purpose of this study has been to analyse the development of Paper Industry in India with special reference to Karnataka - to evaluate the impact of various factors on the profitability of the units under study; to analyse and establish the relationship between cost-price-profit, to analyse the role played by the Government in this sector as well as the relevant challenges before the Industry in the coming years. The analysis has been based on a case study of four paper manufacturing units in Karnataka with special emphasis on Mysore Paper Mills Ltd, Bhadravathi.
Major findings of this study along with appropriate suggestions are presented herein under.

FINDINGS AND SUGGESTIONS

I. PROBLEM OF RAW-MATERIAL AS TO THEIR AVAILABILITY AND SUITABILITY

Material cost accounts for about 35% of the total cost of production in the Industry. Out of this, the cost of raw-materials accounts for about 80 - 85% and the cost of chemicals for the balance.

Though a variety of conventional and non-conventional raw-materials can be used in the manufacture of paper, each one of these sources poses certain problems as to its availability in adequate quantity, cost, technical suitability, etc. It has been further observed that forest-based raw-materials account for a major portion of raw-material mix. The material cost in case of all the units under review has shown an increasing trend excepting few marginal reductions here and there. This is inspite of the fact that there has not been any corresponding increase in the volume of production. This indicates continuous rise in the landed cost of raw-materials, thereby pushing the cost of production of paper.
And given the raw-material crisis on the horizon, the Country seems to be heading towards a paper famine in the near future. If we do not develop our own sources of raw-materials or if we do not generate the requisite resources to import them and given the run away rise in our population (and resultant demand for paper), the job of meeting the growing needs for paper will be terribly difficult, if not impossible.

One major solution lies in the setting up of industrial plantations. The present total land area in India under forest cover which is merely 11% needs to be raised to a level of 30% by generation, conservation and preservation of forests. Because, the primary raw-materials of this core sector Industry are obtained from forest resources. Viewing the dire shortage of forest-based raw-materials, the Centre has been following a judicious policy of encouraging the use of unconventional raw-materials obtained from agricultural sector and which are, therefore, renewable at a much faster pace than forest based raw-materials. This is also being further supplemented by the import of fibrous raw materials, waste-paper and wood pulp under OGL, with a view to conserve national forests. But, only these measures will not suffice as one problem appears to be stupendous. The long term solution lies in rising industrial plantations backed up by the application of modern scientific agricultural techniques and technology so as to ensure speedy and optimum output from land, otherwise lying unused. This is the only course through which the Government and the Industry can co-operate to ensure
self-reliance for the Paper Industry as far as the raw-materials are concerned.

In this scenario it could be seen that the Mysore Paper Mills Ltd has been found to be highly dependent on imported wood pulp. But even this Company has, of late, resorted to increased consumption of bagasse and generation of captive plantations so as to gradually reduce its import bill and check the cost of production.

In order to control the ever-increasing cost of materials (both raw-materials and chemicals) and to reduce the dependence on forest-based raw-materials and to save foreign exchange (by avoiding import of pulp), the following course of action is suggested.

i) The Industry should utilise, to the maximum extent possible, bagasse which is definitely the raw-material of the future. In order to ensure regular supply of bagasse, a well organised machinery should be evolved for the procurement and collection of bagasse. Yet another problem is the crying need for a composite and comprehensive conservation of bagasse. While the Paper Industry is reeling from severe shortage of raw-materials and needs every tonne of bagasse that it can get, thousands of tonnes of bagasse are burnt as fuel, even when other fuels are available. This is a deplorable thing. The Government must, therefore, ensure that bagasse is not burnt as fuel,
but is instead made available increasingly, if not exclusively, for the manufacture of paper. Further, the Mills may even think of tieing up with either the sugar mills or baggase contractors or the farmers. New Paper Mills should invariably be located in close proximity to sugar mills. The sugar mills themselves should be encouraged to put up their own pulping projects as part of forward integration. Alternatively, a cluster of sugar mills of a particular region should explore the possibility of setting up of 'mother pulping plant'. Further, conservation of baggase by checking its burning as fuel should be given equal importance by the sugar mills.

Besides, consumption of straw and grass by limiting to maximum possible extent there uses as cattle fodder, and of recycled paper by promoting and establishing de-inking facilities and limiting the use of waste paper to make packets are suggested as further supplementary exercises in this direction. Recycled paper is another important raw-material source that is acquiring growing importance the World over. In nations like USA, Canada, Australia and all over Europe, there is increasing Governmental support and industrial inclination to increasingly use waste or recycled paper as a raw-material. It is freely available, it causes no ecological degradation and it can be used paper. Our Government would do well to be increasingly more supportive to the proposition of using greater quantities of Indiian
waste-paper in paper production.`. However, some opine that waste paper alone cannot be used for making good quality paper. Because, quality of Indian newsprint has generally been regarded as `not-too-good` due to lack of `de-inking` facilities in most of the mills. Further, use of waste-paper to make packets in India limits the quantity of waste paper available for the manufacture of paper. Therefore, indigenous waste-paper may not offer any great source of relief as raw-material of any great significance.

As if things were not already bad enough, the Government has also hiked, in the recent past, the import duty on waste-paper from 20% to 40%. This is appalling. India generates, indigenously, hardly enough waste-paper to sustain paper manufacture, thus leaving the Industry with no alternative but to import. And, to add insult to injury, over and above a 133% margin on imports, the Industry has been burdened with a 40% import duty. It must be appreciated that the Industry resorts to waste-paper imports, only because they constitute a vital raw-material ingredient, which is hardly available in India. It is, therefore, unjust to further compound woes of the Industry as it has to pay high import tariffs.

Import of pulp and waste paper should not be restricted because imports are resorted to by the Industry as pulp is not available.
indigenously. Pulp is essential for the manufacture of good quality paper. Hence cash margins on imports as well as import duties on these items should be kept at a low level. Otherwise, the landed cost of these materials would go up thereby affecting the production cost and the operational viability of the Mills;

ii) One major solution lies in the setting up of industrial plantations. The Paper Industry is at the centre of core sector. Its prime raw-materials, the world over, are obtained from forest resources. The present total land area in India and the forest cover at barely 11% needs to be raised to a level of 30% by generation, conservation and preservation of forests. This should be backed up by the application of modern scientific agricultural techniques so as to ensure speedy and optimum output from land, otherwise lying unused. This, in the opinion of the researcher, is the only course through which the Government and the Industry can co-operate to ensure self-reliance for the Paper Industry, as far as raw-materials are concerned. Giving degraded land to the Industry for development of alternative sources of raw-materials offers the only re-course to bridging the demand-supply gap. The advances made in bio-technology and genetic engineering would help to provide raw-materials at a much speedier rate than ever before and also increase the green cover. It must be emphasised that the Paper Industry, if it is to grow and flourish, will have to be entrusted with
the development and growth of industrial plantations. This would also be socio-economically beneficial, as this would provide employment to a large number of people at cultivation, nursing and harvesting stages;

Of the total national land mass of 304 million hectares, about 82.8 million hectares consist of cultivable waste, fallow lands, scrubs, barren and non-productive forest lands. Of this, the Paper Industry needs just 1.6 million hectares - barely two per cent of the waste land in proximity to the mills in order to become self-sufficient in raw-materials. It is hard to understand how such industrial plantations on barren land can prove an ecological hazard. In its own interest, the Paper Industry would ensure that these plantations survive and thrive. Yet the Department of Environment and Forests has turned down the proposals for industrial wood plantations. In fact, even for firewood, the need is to promote industrial plantations. Otherwise, the natural forests will continue to be depleted and even virgin areas will soon be barren as is happening today with the Paper and Pulp Industry obtaining its raw-materials from the hitherto untouched forests of the North-East.

Of course, wood can be imported. But this will involve a heavy drain of foreign exchange. By 2000 AD, the demand for pulp wood will rise to over ten million tonnes per annum. Even if the present supply of
pulpwood from domestic sources continues to remain at five million tonnes a year, this will mean importing of five million tonnes a year. The current cost of imported pulpwood is Rs.1,400 a tonne and this is bound to go up. If industrial plantations owned by the corporate sector for captive use are not permitted extensively, the Paper Industry has slim chances of survival;

iii) The Paper Mills should give more importance to the economical utilisation of chemicals. The efficiency of Recovery Systems should be improved so as to facilitate reprocessing of the used chemicals and thereby reducing the expenditure on this account;

iv) State Governments should keep the royalty on the forest produce, transportation tariffs, sales tax on coal, chemicals, etc at the minimum. Further, coal should be allocated to the Mills on priority basis.

II. CONVERSION COST PROVIDES POTENTIAL AVENUE FOR COST REDUCTION

Conversion cost, another important aspect affecting the profitability of the Industry, has been found to continuously increasing over the years even though there has not been any corresponding increase in the volume of output. It is further observed that the cost of power, fuel and water
accounts for about 55 - 60% and the employee remuneration accounts for about 20 - 25% of the total conversion cost. Thus, these two items of cost jointly, account for nearly 75 - 85% of the total conversion cost. Power has been one of the major constraints faced by the Paper Industry, especially in Karnataka. Lack of uninterrupted supply of power at reasonable tariffs has adversely affected the operational efficiency and the production cost and in some cases, it has even resulted in the cessation of the working of the Mills. In order to overcome this constraint, the following suggestions are made:

i) The State Electricity Boards should ensure uninterrupted supply of power to the Mills. Even if the load shedding is inevitable, it is to be kept at the minimum level for Paper Mills. Further, electricity tariffs should be reasonable for this power-intensive Industry;

ii) The Mills too should think of having their own captive power generation stations (like MPM) to bridge the gap between the availability and the requirement of power by the Mills. This is more important as the in-house power generating sections have been found to generate power at a comparatively low cost;

iii) Since paper is an essential commodity, it is necessary on the part of the Government to keep the imposts and levies on this item at the minimum level to enable the Mills to operate at lower cost and more economically;
iv) The Government should grant special subsidies to cover the cost of effluent treatment; and,

v) Both the public sector Paper Mills under review have been saddled with a huge work-force which is unnecessary. Further, the overall labour productivity has been far from satisfactory. Proper man-power planning, training the employees in latest technology, inculcation of discipline and dedication in them as well as motivating them for better results should be given urgent attention by the managements of these Mills. This will go a long way in improving the labour productivity and operational efficiency of the Mills.

III. PRODUCTION AND PRICING POLICIES

Since 1974, Paper Industry was subject to statutory pricing and distribution controls. The Industry had to supply stipulated quantities of printing and writing paper to the educational sector at concessional prices. The total loss to the Industry on account of this obligation has been estimated at Rs.211 crore. However, the Government abolished this control in 1987 and extended the broad-banding facility to the Industry. Prices of paper, particularly writing and printing paper have been steadily increasing since then. There has been about 40% increase in the prices of paper since de-control. Newsprint, however, continues to be governed by administrative price mechanism which has been blamed for its non-neutralising and un-
remunerative impact. In order to ensure the development of the Paper Industry on a sustained basis, it is essential to evolve a suitable pricing policy. Such a pricing policy should ensure automatic, immediate and full neutralisation of cost of production and payment of a fair percentage of return on investment. This would help to improve the bottom line of the paper units and would also encourage the flow of fresh investment into the Industry. The belated neutralisation of costs brings with it the burden of backcharges of a substantial order. As a corollary, debt servicing becomes impossible to a large extent, as no margins would be available in the price to take care of unpaid interest and instalments of principal. In this regard, the following suggestions are made:

a) Production:

i) Production control on paper should be totally abolished. Paper products of common usage should be subsidised as in the case of fertilisers and domestic cooking gas;

ii) The Mills should produce value-added high-priced products to enhance sales realisation and profit margins;

b) Pricing:

iii) Delay in the announcement of administered prices, especially in the case of newsprint should be avoided. However, if, for whatsoever
reason, it is delayed, backcharges to be covered fully (i.e., by giving retrospective effect);

iv) The Government should allow the Mills to evolve their own pricing policies and practices based on their cost of production, required margins and the market forces;

v) The administered price should fully neutralise the cost of production or alternatively, a balanced neutralisation in combination with measures to reduce the cost of inputs and interest and tax burden should be prescribed by the Government. Progressive adjustments of end-product prices to correspond with the increase in input prices of raw-materials, chemicals, coal, power and wages are essential for economic survival of the Industry;

vi) Government may also permit Mills to operate a price-pool system for newsprint. This involves the operation of a weighted average price, which would even out the price differential between the imported and domestic newsprint (the landed cost of which would be lower than the pooled prices), to be used for compensating the domestic producers (whose individual retention prices would be higher than the pooled price);
c) Financial Incentives:

vii) The Government may levy customs duties on import of paper at a very high rate to make the imports of paper uneconomical and domestic paper cheaper. This will go a long way in according protection to the domestic paper industry against the competition from foreign multinational paper giants. However, in the current liberalisation environment, if the Government cannot afford to follow this recourse, then imports should be properly regulated to promote competition and improved efficiency in the Industry;

viii) Further, fiscal concessions by way of substantial increase in excise duty reliefs should be extended.

IV. TECHNOLOGY AND CAPACITY UTILISATION

Even after 115 years, since its inception in India, the Paper Industry continues to be plagued by widespread technological obsolescence. By and large, barring a handful of progressive and technology-conscious units, the Industry continues to labour with an appallingly obsolete level of technological operations. A lion's share of all the machinery used in the Industry is over five decades old. Hence, the capacity utilisation has remained at low levels, operations are capital, energy and raw-material-intensive and the quality levels are very poor, when compared with international standards. Naturally, this calls for widespread replacement, renovation
and modernisation. The plight of the smaller mills is in no way different. In this area, a capacity of almost 6-7 lakh tpa requires urgent renovation and/or modernisation. Unfortunately, most of these mills have been saddled with obsolete technology. Their operations have become all the more uneconomical because of inadequate availability of bagasse and other agricultural residues.

The Industry is aware of this problem but it is not in a position to improve things. Because, there are a number of understandable reasons for this impasse. The Industry, embittered by decades of Governmental apathy and battered by virtually unending adversity, either did not have or was not willing to commit any large sums towards technological upgradation. After all, for an Industry that was reeling under red till not very long ago, survival was accorded the highest priority and certainly not further capital investment.

Hence, it is necessary that financial institutions and banks take a liberal view as regards the rephasing of existing liabilities so as to reduce the debt-servicing burden and as regards financing of modernisation, technology upgradation and implementation of rehabilitation packages at soft terms of interest and longer moratorium and period of repayment.
V. DEMAND

Another serious handicap facing the Paper Industry is low per capita consumption of paper and consequent recession in market demand. In this regard, the following alternatives are suggested to stimulate the demand for paper;

i) The society and the Government should take up mass literacy campaigns on a much vigorous pace than presently followed;

ii) Another action needed to be taken is to increase the demand for domestic newsprint by checking inflow of cheap foreign newsprint, at least in the short run; and,

iii) Another important area which should receive immediate attention is the substitution of timber by paper for packaging. The estimated demand for timber in packaging at present is over 70 lakh cubic meters a year in its finished form. This is expected to increase to 192 lakh cubic meters by the end of the Century, if existing trends of using timber as a packaging material continue. The havoc this will cause on the Country’s depleting forest resources can well be imagined. Paper-based packaging has equivalent capability as pure wood-based packaging, but requires only a tenth of the timber consumed by the latter. Himachal Pradesh has already experimented
successfully with corrugated paper boxes for packing apples, to replace chinar wood boxes, thereby saving 40% of the cost. Corrugated fibre board cases (CFC) for horticultural produce, tobacco, textiles, engineering goods and electronics and multiwall paper sacks (MWPS) for tea have been tried and found functionally acceptable. Other uses of paper packaging such as sackcraft for cement and tetrapack for beverages have also come of age. The way to stimulate such substitutions is to lift the excise duty on packaging paper as has been done for kraft paper used for apple boxes;

iv) Research and Development activity should be encouraged to find out newer uses to which paper can be put;

v) Government may consider treating writing and printing paper as ‘newsprint’ to promote its substitution for imported newsprint which will help save foreign exchange to the extent of Rs. 80 crore annually;

vi) The newsprint allocation mechanism should ensure that offtake of domestic newsprint is not affected, by resorting to imports of newsprint only to meet the residual gap.
CONCLUSION

Now that the Industry is beginning to get back into the black, the basic needs of the Industry should be accorded top priority. The Government and the concerned financial institutions appear to have learnt nothing from the past. The emphasis appears to be more on granting licences to new units and capacity expansion, rather than on improving raw-material availability, improving technological practices, boosting capacity utilisation and paper consumption and evolving a remunerative administered price mechanism. Unless these steps are taken now, the Paper Industry would continue to be plagued by such problems as obsolete machinery, low productivity, high cost, consumer resistance, recession, sickness, poor export presence, etc.

Our Country would do well here to learn from the example of Japan. Without growing a tonne of raw-material, it has emerged as the second largest pulp manufacturer in the World and the fourth largest paper manufacturer. Indonesia and Malaysia also present similar examples of nations which, till not long ago, were virtual non-entities on the World `paper map', but which, thanks to Governmental support of the highest calibre and entrepreneurial enthusiasm, are increasingly making a dent in the World markets.

If we are to ensure that our growing population's needs for paper are to be met, that our per capita consumption is rised to a more respectable
level, then it is necessary to create proper environment which will ensure a supportive atmosphere for Paper Industry.

Raw-material availability is an area which has to be accorded the highest priority. Along with raw-materials, availability of fuel and coal must be taken up on greater urgency. So also, financing by financial institutions and banks to ensure speedier technological upgradation and modernisation is a means of extricating the Industry from the mill-stone of supporting ‘museums’ of old machinery in their plants. This only drives home the sad fact that 115 years after the Paper Industry made its debut, India still does not have a comprehensive ‘paper policy’. Paper is rightly acknowledged as the reflection of, and the barometer to gauge, the well-being of any developed society and thus a healthier Paper Industry is imperative for the well-being of an industrially well developed, increasingly self-reliant and probably most important of all, a more literate India!