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Fiber Sustainability In India – A Concern

Abstract

Sustainability is a concept which takes care of Profit, People and Planet. To take care of these 3 Ps wood availability for Indian paper industry is always a matter of concern and is dependent on the quantum of planting done by farmers through various mills Farm Forestry programme. Plantations are undertaken by farmers depending upon the economic viability of the plantation crop and to attain

sustained wood supply, it is of utmost importance that farmers continue to get returns better than agriculture crop so that availability and supply is always maintained avoiding abnormal supply and price shocks in the long run. We are aware of the critical cyclic availability of wood, a strategy could be adopted with the feasible Industry interventions like assuring and implementing support price, providing better productivity solutions to farmers through mills robust R&D programme so that over all returns per acre for the farmers are maintained in spite of reduction in Farm gate price and educating farmers to foresee, predict and understand demand supply gap more transparently so that he retains his crop at the time of oversupply and manages his economics keeping his and industry interest intact thus leading to concern free sustained supply of pulp wood protecting Indian industry and as well as providing scope to domestic market to grow and expand.

Keywords: *Farm gate price, farm forestry, Farmer's linkages, industry interventions.*

Introduction

Over all wood demand in India is about 21 million¹ MT / annum which includes Pulp, Paper, Poles and even Ply and MDF, which is expected to reach about 23 million¹ MT per annum in next 4-5 years as per the capacity announced and speculating the demand in growth as well envisaging the improvement in the efficiency of the mills.

Overall Wood Demand in India :

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Usage	2014 (Million GMT)	2019 (Million GMT)	Comments
Wood-Paper	9.60	11.10	3-4 years rotation
Ply /Veneer /MDF	8.50	9.1*	Mostly Haryana/UP/Punjab (6-7 years rotation mostly on bunds)
Rayon-Pulp	1.20	1.20	3-4 years rotation
Poles	1.60	1.95	Gujarat / Maharashtra / Rajasthan (Imported from KN,AP, UP, Haryana, Punjab)
TOTAL	20.90	23.35	

* Due to Supreme court ban from 1998 onwards on new licenses for Saw mills/Veneer units -demand kept constant.

Current Paper demand in India is about 12 Million² MT / Annum expected to be doubled to about 25 Million² MT by 2025, it's an ambitious forecast in a country where wood prices are maximum in the world, recycled fiber (RCF) collection efficiency is only about 27-28%³ and with no support from the Government a very relevant question remain unanswered, can Indian Paper industry sustain / survive in India with the cyclic nature of our Industry? Indian Pulp and Paper industry has faced similar situation many times but always came out successfully every time but future is altogether different ball game with Global economy showing signs of further slowdown, their domestic demands diminishing they all will look for greener pastures like India where average per capita paper consumption is 10.1 kg⁴ which is too low to match global per capita average demand of 56.9 Kg⁴, with the existing Govt policy of "Make in India" many actions may be taken by Govt where they may be forced to accommodate our global competitors to dump their paper in India at competitive price thus this situation may remain for longer making it unlike any other previous adverse conditions where normalcy regained in a quicker

time.

With all these adversities answer lies only in competing with them by improving our efficiencies and reducing costs. Future lies only with that Mill, which has / will generate wood fiber nearest to its mill, will directly get an advantage of about Rs 4-6000/MT of Paper or even more.

Existing Fiber Scenario in India:

Indian Pulp and Paper industry has already lost about Rs.2160 crores / Rs.21600 Million⁵ in about one to two years on account of price hikes happened due to shortage of pulp wood.

For the first time in Indian Paper industry history, pulp wood logs / Chips have been imported already lost about \$112 Million⁵ of FOREX.

Pulp and Paper mills in India are spread all over India but Fiber availability is maximum in UP/Haryana/AP and TN a fact to be analyzed and understood more critically. With a feeling of complacency and with a vision of sourcing wood from the state where wood is

bit surplus not only affects their bottom line adversely and impact others as well. (Annexure-1 - Wood surplus supply region with demand spread all over).

With above mentioned facts and with region wise supply demand imbalance such situations will continue to recur. On account of Govt policies and very high cost of production supplemented with high cost of capital, 2 major mills are closed at present. When innovative actions are missed at the right opportunities, suffering continue for long and to attain equilibrium in the market some have to get sacrificed whether it's the company or the manpower involved.

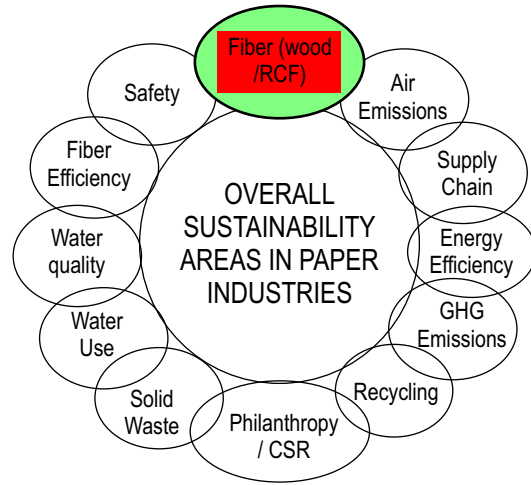
Forecast to launch new capacities in the market to keep pace with demand of paper and supply of wood missed somewhere and additional capacities were launched which were more than the market could absorb leading to oversupply, not only the industry itself suffered and led even others to be under pressure with NSRs dropping and ultimately eroded overall bottom line of all the mills.

With surplus supply of wood during the years 2009 - 2010 farm gate price of wood reduced so drastically that Agriculture crop became more lucrative to farmers than wood crop as a result of which fresh plantations didn't happen and farmers even uprooted wood crop which resulted in short supply since 2012 till now. If we gained about Rs.700/-per MT⁶ during the oversupply we have lost about Rs 2800/- per MT⁶ during this short supply.

India doesn't have any support from government as of now but even if it is extended by way of allocating degraded forest land to undertake Pulp wood plantations, are we in a position to invest so much, especially when Industry is bleeding.

Overall Sustainability areas in Pulp and Paper Sector:

International Paper has set focus on following individual areas of sustainability to ensure improvements globally and as well as with individual mills too.



Sustainability with special emphasis on Fiber in India:

Sustainability is a concept which has to fulfill all the 3 basic criteria of Economy (Profit), Society (People) and Environment (Planet).



Environmental, economic and social well-being for today, tomorrow and always

Considering Sustainability in Paper Industry, it's the wood / fiber which play most vital and crucial role in making industry's financial viability critical. Whatever saved in manufacturing efficiency whether it's energy saving, water saving / fiber loss reduction all goes haywire if wood prices increase. All the three

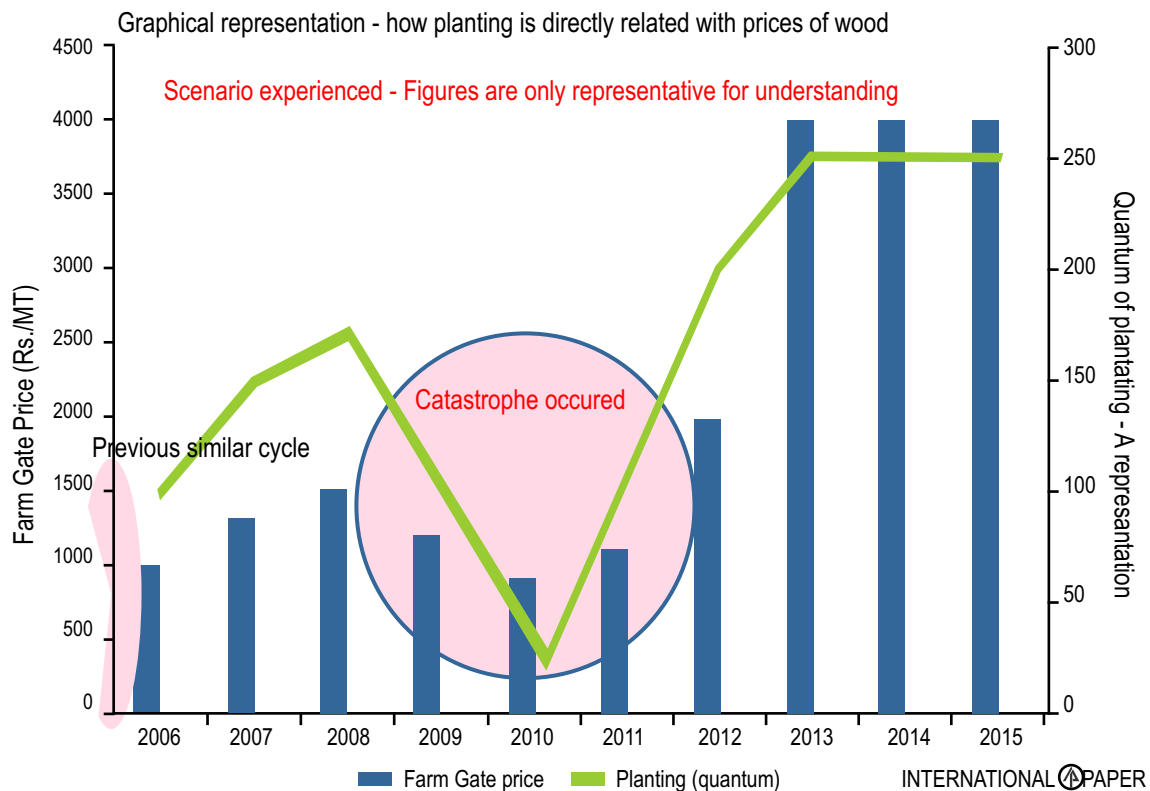
components of sustainability have a meaning if industry continue to make profits and that too substantial so that it continue to grow and do its best to support other components of Sustainability. Apparently it appears that if we have long term vision than all the 3 components play meaningful role in sustaining the business successfully.

The cyclic nature of paper industry attributed mainly on account of Govt policies, economy down turn or additional capacities coming in and above all the wood prices. Out of these components wood prices and launching of additional capacities are directly in the hands of Industry which to be analyzed and controlled cautiously so as to ensure paper industry in India perform sustainably.

Above graph provides a pattern of planting happened under mill's Farm Forestry programme with the price movement of the wood, when prices were high very high quantum of plantations happened and it dipped and even uprooted with prices reduced making planting of wood non viable thus leading to current short supply. The way

planting has happened in last 2-3 years is an encouraging phenomenon for Indian Paper industry this should be the right time to come up with capacity expansion so that demand of wood balances the supply thus keeping farmer well under wood viable proposition to make him to plant continuously but if no demand for wood improves wood prices are bound to fall. Cycle of lesser planting may again lead to a phase where we may face another supply crunch in next 4-5 years time affecting sustainability adversely, thus repeating vicious cycle. If we learn from past and even present still it's not too late to be active to secure better wood availability in long run. To ensure farmer continues planting, mill's suitable intervention is needed which protects farmer's interests to continue planting.

With the current scenario where wood supply is regionally imbalanced, there is always a thinking "I first to secure wood so that my mill runs" and suppliers controlling the complete wood supply mills never come to know what price a farmer is getting, by the time mill come to know it is too late, farmers start getting losses and they stop planting with that



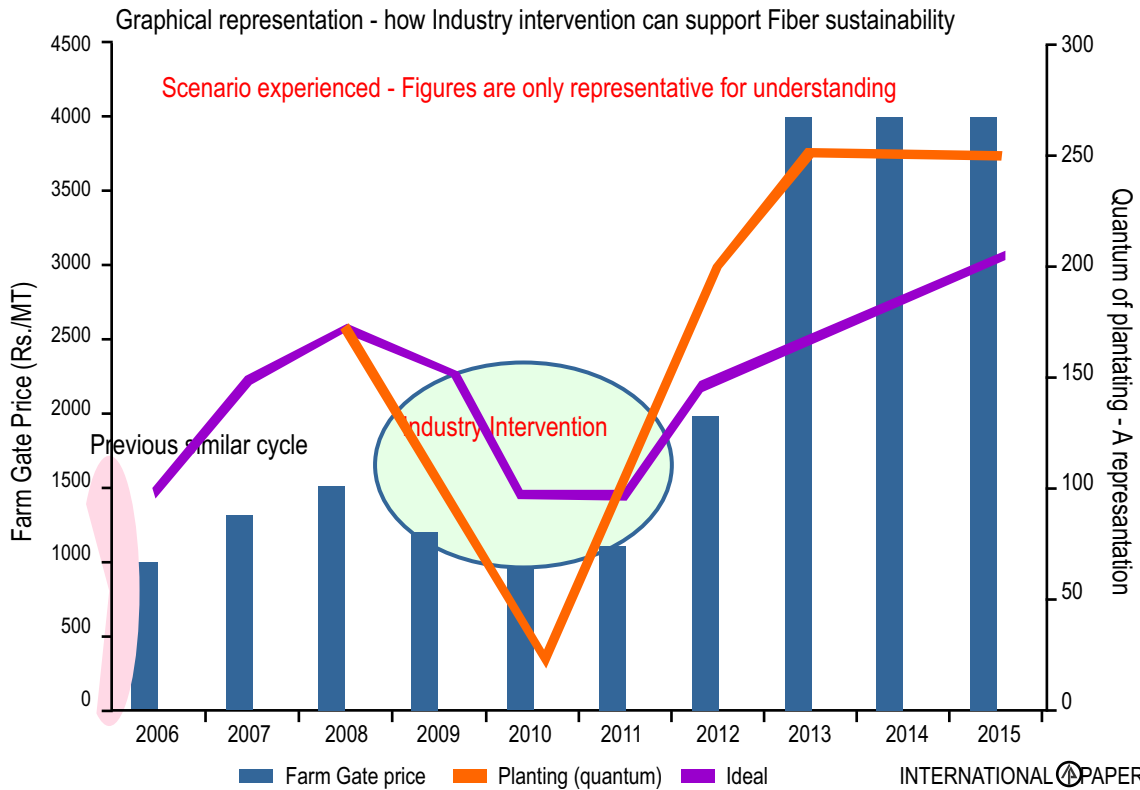
sustainability of wood breaks, this happens because all the mills do not have sufficient plantations in their own catchment thus direct farmer's purchases are missing, farmers have to depend upon the middleman for his wood to be harvested and transported to the desired mills, they do not have suitable logistics support which can help them in transporting of wood beyond 100 kms and even to 400-500 kms as mills purchase wood from such larger distances too. The money spent extra on transportation to transporter and middleman, neither farmers gain nor the industry. If a farmer gets a bit higher farm gate price within mill's catchment so that he continues to plant will always work for the company. But why it's not happening remains unanswered.

Proposed strategy to attain sustainability in Fiber availability in India :

1. To ensure farmer gets sufficient farm gate price to be more viable than agriculture crop a pricing mechanism (Shock absorber to farmer and as

well as to Industry) can be developed where farmer interest is protected when prices are dropping at the time of surplus availability ie providing support price of wood to the farmer. It may happen through many ways :

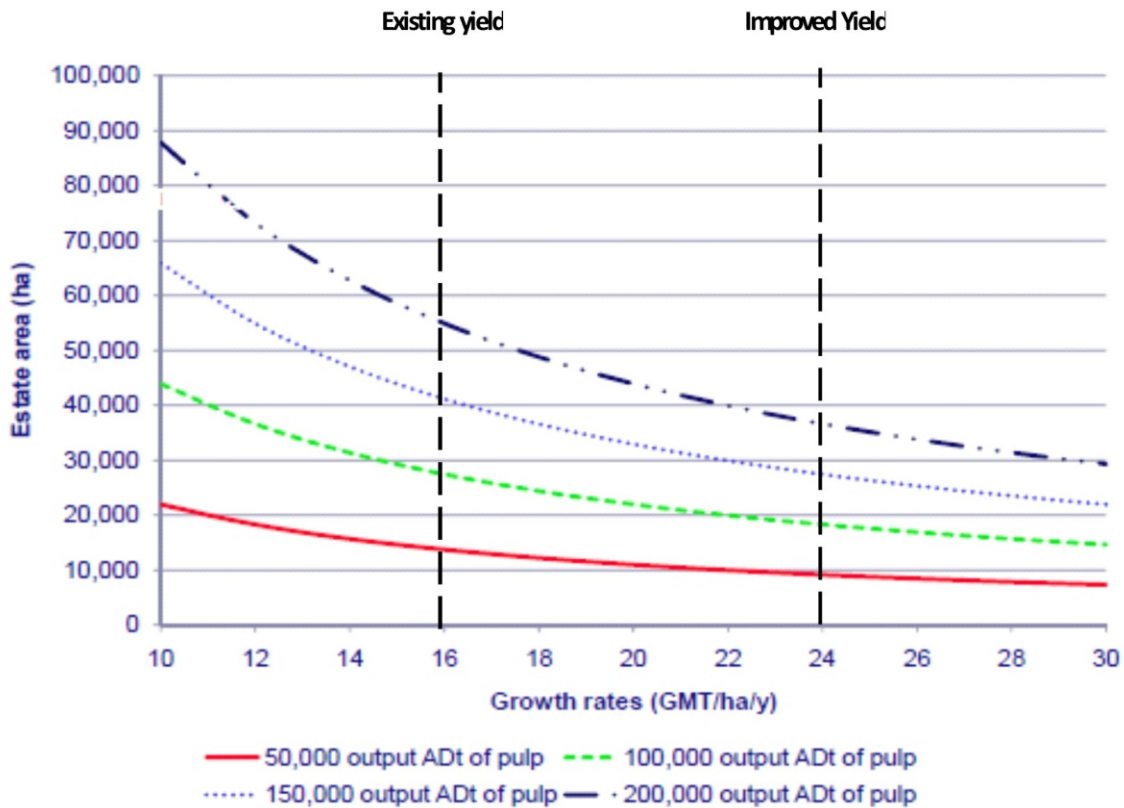
- a. Directly purchasing from the farmer. It is possible when farmer plantations are well within feasible reach from the mills. Farmer with his own support brings the wood to the mills ie to develop mechanism of wood purchase directly from the farmers by way of having meaningful strong linkages since the time farmer plants sapling.
- b. Providing better productivity solutions to farmer so that farmer continue to get higher returns than agriculture crops per acre of plantations eg productivity today 40 MT / acre to enhance to 60 MT / acre in next few years down the line by importing higher productive germplasm from other suitable countries and testing it and releasing the



successful germplasm to farmers through mass multiplication thus ensuring that farmer continue to get the similar quantum of returns per acre of land in spite of wood prices dropping. To ensure this industries to have greater and focused emphasis on robust R&D, with timely launching of product which protect interest of farmers so that they continue to undertake plantation.

c. With continuous R&D for improving per acre yield of the crop will lead to effective utilization of land and that too executed with combination of various Agro forestry models / Intercropping patterns with various agro climatically suited feasible agriculture crops will not only provide sustained supply of wood to the industry will support farmers against any nature's vagaries affecting adversely to agriculture output.

2. Culture of holding plantations at the time of high wood supply to be inculcated amongst farmers ie to protect him against distress sale of wood to middleman. He should be made aware of long term demand supply forecast so that he sells his wood at the right opportune time, this will protect his interest and as well as industry's interest.
3. Enhance passionate well planned planting well within catchment of individual mills and providing farm gate price to the farmers which to be judiciously more than agriculture returns. It may be more than actual market price but to attain sustained supply avoiding severe shocks in the long run will be a practical and feasible financial investment. (Pl. refer graphical representation no 2).



Source: IFC Farm Forestry Study, 2010

Graph: With increase in productivity of wood per acre over all requirement of land also reduces.

4. Focus on segregation and collection of recycled fiber at source itself to improve so that dependency on imported RCF reduces gradually.

We have suffered on all three wheels of sustainability whether it's Profit, Society and Environment during the last 2 to 3 years period. It is said that it is better to be late than never to reach to the right spot It is only the paper industry which has to ensure its own

Annexure 1: Localized Wood supply regions wrt demand spread all over regions in India



sustainability especially in an environment where no support is expected from any corner. Hope Paper industry improves not only with its better financials in future years but also with the environment and Society in a better form so that it continue to improve in long run with no unfavorable shocks in future.

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4. RISI annual review 2014
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6. Based on the actual personal past experience as RM head with ITC Bhadrachalam and currently as Vice President-Forestry with International Paper especially referring with the South Indian wood farm gate price fluctuation of farmer's farm gate price.