

Indian Pulp And Paper Industry (Pains and Pit Falls of Globalisation)

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INTRODUCTION

The fortunes of Indian pulp and paper industry which have always been fluctuating have of late been put back. The going having been good for years, the industry now faces a severe financial crunch. Papers which were commanding premium are lying stacked up in godowns. Ordinary qualities of papers and paper boards are not finding proper market even at below production costs.

The profits of most of the units have declined to an all time low. For some, the jolt has been so severe that even their survival is in jeopardy. If these units are still in production, it is either due to some external pressures or because of the hope of demand and prices reviving in not too distant a future. But as far as their present working economy is concerned, they are as good as closed.

Softening of local prices due to sluggish consumption growth, surge of imports due to readjustment of tariff as a part of trade reforms for imported papers on one side, and the rising cost of raw materials, chemicals, power and fuel, labour, administration and finances on the other, have squeezed the operating margins to a non-sustainable limit. With our commitment to globalisation and the basic constraints remaining unsolved, whether the existing pulp and paper industry will ever improve is a big question mark.

With the latest trend of country's economic policy, the existing Indian Pulp and Paper Industry has reached the cross roads. It is a challenge to decide as to which direction it should go from here. The concept of globalisation where the industry has not only to compete with the price in the global market but also with the quality and other specifications of the product, makes this decision still more difficult.

The Indian industry has hitherto developed in a protected market economy. The protection it enjoyed is slowly diminishing due to trade reforms and consequently it has become highly vulnerable to price fluctuations in the world market. The cyclic slump both in the local and international paper markets and the readjustment of import duty structure was a welcome invitation to the paper producing giants to dump their products in India giving a blow to the already limping industry. The concept on 'globalise or Perish' has started showing its effect on the industry.

RETROSPECT

The Indian Paper Industry is more than 100 years old, but its growth till the year 1950-51 had been very slow. It is only after independence when the country launched its programme of planned development that the installed capacity went up and the country by and large became self sufficient in respect of normal varieties of paper and boards within about 20 years. While there were only 17 mills in the year 1950 producing about 116,000 tones of paper per annum the number rose to about 380 mills in the year 1996 producing nearly 2500,000 tones/annum. This increased the per capita consumption of 0.46 Kg in 1950 to 3.2 KGs in 1996, but it remained far below the world average of 45.6 Kg and Asian average of 18.2 KGs. This fact can be further explained by the fact that while India's population is nearly 16% of the world's population, the consumption works out to 1% of the total global consumption.

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THE PAINS

It is true that liberalisation has given the Indian entrepreneur opportunity to step up industrial development and economic growth for promoting globalisation, but the haste with which these trade reforms are introduced resulted in the pace with which the process of our socio-economic transformation being overlooked. We have embarked upon liberalisation without realising the major gap in our policy making related to the infrastructural development.

If we analyse the cost and quality aspects of the Indian Pulp and Paper Industry in global terms, it will be seen that the basic inputs required by the industry both in terms of cost and quality are in no way near to the global standards. The raw material, power and fuel, facilities for transport, the cost of finance and other related services are for one reason or the other far behind the nations with whose products the industry has to match its products.

The international players, because of their advantage of better infrastructure facilities, superior type of raw materials at lower cost, low cost of power and fuel and chemicals and in addition the advance process technology will always have an edge over our domestic industry. Under these conditions the fear of the industry that the present policy may prove detrimental to its existence is not unfounded.

Trade reforms initiated in the year 1991-92 gave impetus to the industry to invest in modernisation and expansion in its own humble way to become competitive in the global market. For a couple of years, the industry was quite comfortable. In the year 1995-96, the paper market bounced both locally and internationally, resulting in extraordinary increase in the local market prices. Alarmed by such unprecedented escalation, the government brought down the import duty on paper, and allowed free import.

The cyclic slump from 1996-97 both in the local and international paper market added to the woes of the Indian Paper Industry which had already started feeling the pinch of reduced import duty and freer import of paper due to trade reforms. Plagued with higher cost of inputs, inefficient operations and inferior quality of products in comparison to that of the paper producing giants of the globe the Indian industry started losing heavily, and had to defer their projects and planned investment.

The trade reforms and the agreements that are being entered into, to make the Indian Pulp and Paper Industry global, have changed the entire scenario. Small mills based on waste paper and agricultural residues, which, despite their drawbacks enabled the country to become selfsufficient in paper and paper boards, are the hardest hit. Mills based on forest based raw material are in the same plight.

This does not mean that the trade reforms should be reversed just for the sake of this industry, which neglected the timely modernisation trends followed by the developed countries, because of the protection it enjoyed. Our major production of paper and board still comes out from the obsolete technology-based inefficient units. If this situation is to be reversed on global pattern, the industry will need massive investment and restructuring.

When we talk of investment and restructuring we should not forget about the cultural and business philosophy of our country which influence the overall development of the industry. Finances for investment do not come from air. They have to be earned by improving work culture, to which we unfortunately give least importance. Whenever we conceive of restructuring, we start with the belief that the large specialised machines of low-cost production will drive out the small scale high-cost operation units. But this is not a fact. The small scale units are remarkably tenacious, and can rejuvenate at a much lower cost to remain in business. This however, depends upon their changing the business philosophy of cost and production driven to market and customer motivation. Such a change in work and business culture is difficult in traditional organisation and cannot be accomplished without competent open and well-motivated managers.

PIT FALLS

Paper industry is in general capital-intensive. Its fibre, power, water, steam, chemicals and man power demands are heavy. Unfortunately, except for man power all the other required inputs lacks in quality and quantity compared to global standards. The work culture, political interference, regional barriers, and our social structure are the other hurdles in the overall transformation of this industry global.

A demand of nearly 3.7 to 4 million tonnes of paper by the year 2000-2001 has been projected. Looking to the raw material scenario, the major growth will be on the agro-based and waste paper-based sectors with more and more dependence on imported

fibres. In fact there is hardly any unit which is purely based on its own produced pulp. All the units use some imported fibre to augment their pulping capacity/capability to suit their Paper/Board making facilities. Some units use imported fibre just for augmenting the short fall in their pulping capacity while some use the same for quality consideration. Whatever may be the reason, the use of imported fibres has become a ground reality for practically all the Paper/Board making units in the country.

It is true that many countries in the world which have not been able to develop the pulp and paper industry for one reason or the other, depend upon the import of pulp or paper for their use. But can the Indian industry by importing raw material or pulp to produce paper remain economically viable and compete with the world players? Study of such a scenario in some parts of the world shows that the pulp and paper prices by the exporting countries in course of time are be so adjusted that converting of pulp to paper becomes costlier than the imported paper and if restrictions are not imposed by the government, the indigenous industry will collapse.

The raw material used for paper-making in India is not any where near the cost and quality available in the major paper producing countries. Added to this, the ongoing shortage of fibre continues to plague the industry. The man-made forest and plantation schemes to provide adequate raw material to the industry appears to be beyond reality and may go the way of several paper schemes framed for the psychological satisfaction of the electorate.

Had these schemes been taken seriously without prejudice against one or the other, the availability of forest-based resources not only for the paper industry but also for the other users, would not have become so critical as is being experienced today. It's unfortunate that we have been beating about the bush since decades without taking a firm and final decision for such a crucial subject, and plantation has remained only a paper priority.

India has abundant quantity of Agro-based raw materials like Wheat/Rice straw and baggase. The technology for making good, acceptable quality of papers from these raw materials is also available. Large capacity green field mills, based on the agro based raw materials, like Tamilnadu Newsprint can be installed in agricultural residues concentration zones.

Utilities consumption by the Indian Paper

Industry per unit weight of paper is far higher than in the other major paper producing countries. The reasons are obvious. The age old equipment and technology, miniature size operations, lack of instrumentation, automation and control equipment are some of the basic factors responsible for high utility consumption. To this is added cost of power and fuel which is 2 to 3 times higher than the cost of power and fuel of those countries.

Poor condition of roads leading to high transport cost, 3 to 3.5 times the interest rates making the finance dearer high chemicals cost and the low productivity of man power are the other factors affecting the cost of production. In spite of these deterrent factors the industry had continued to develop partly due to protected market and partly due to ingenuity of the entrepreneur.

PLANT AND MACHINERY

Paper industry is capital-intensive. Entrepreneurs installing green field mill, who are particular about quality and efficiency, select renowned world players in this line for supplying plant and equipment of latest technology, tailor-made, to suit their project parameters. They, however, have to pay a handsome price for their projects. Those who are under financial constraints hunt for equipment from established small scale manufacturers and buy equipment in piecemeal, and have to compromise in quality and efficiency to get the same at cheaper price.

During the last three decades, machinery-manufacturing industry in India has mushroomed in different parts of the country. They copy the equipment made by established manufacturers, hardly sticking to the quality of material and specifications. However, as their equipment is much cheaper than supplied by the established manufacturers, they get good business from the paper industry.

During the past 30 years, the Indian Paper Industry has developed on the basis of buying discarded second hand equipment from major paper producing countries. Those installed which are run with proper management control did add to the growth of the industry, but others became a burden on the exchequer. Today the mills running satisfactorily are sustaining because of the tax and other concessions given by the Government from time to time. If these concessions are withdrawn what will be their fate is any body's guess.

The same scenario applies to the green field

mills established 40/50 years back. In spite of continuous renovation and modernisation, these units are no better than the units based on the imported second hand machines and equipment. These old units have low financial cost because of the depreciated cost of their infrastructure. But their working overheads are high as they continue to operate under traditional working discipline.

MAN POWER

Man Power in Indian Pulp and Paper Industry is always a debatable point. It is wrong to think that as the labour is cheap in India, the man power cost input to the total production cost is an edge. In fact the total man power cost per tonne of product is quite high due to disproportionate man power to production. The available data reveals that the production per man in developed countries is nearly 10 to 15 times the production per man in India. The reasons are many like;

1. Multiplicity of equipment
2. Small scale operations
3. Lack of instrumentation and automation
4. Underfined factors like social and other obligations and
5. Lack of Work Culture

New units coming up in the country are no doubt taking care of these factors, but the old existing ones are more or less in the same state. This is evident from the fact that the man power cost in paper industry in India varies from 8% to 16% of the total production cost.

VISION

Availability of adequate raw material is one of the major constraints for the development of paper industry. For wood based industries, industrial plantation is the only answer. India has nearly 31 million hectare of degraded forest land. It is high time for the Government, the Industry, the NGO's and the environmentalists to sit together and find a common acceptable solution to achieve sustainable production and supply of wood from high-yield plantations in these degraded forest lands for timber, fuel and paper fibre.

Existing Agro-based and waste paper based small

and medium size units will continue to depend upon some imported fibre. Low cost technological upgradation of their pulping process will go a long way in partially, if not wholly, reducing their dependence on imported fibres. The Industry and the Government should join hands in promoting research in this direction rather than depending upon the imported technology, which is cost prohibitive for these units.

New green field mills may be planned in Agricultural residue/waste concentration areas with latest available technology. These units will take care of normal writing and printing varieties of papers, relieving the wood based industries for quality products.

Government should consider banning the import of normal writing and printing papers or the tax structure of such papers should be so designed that the import gets discouraged. This is possible by disseminating widely the obligations under WTO agreements, and setting up procedures and systems for dealing with dumping and other unfair trade practices.

Power and fuel requirement of paper industry is enormous. Considering that our industry will remain fragmented due to socio-economic considerations, co-generation should be encouraged where ever it is technically and economically viable.

Machinery manufacturing facility during last about 30 years has developed in the country substantially. However;

1. Our fancy for foreign,
2. Lack of research facilities for equipment development and
3. Lack of quality consciousness in the machinery manufactures.

are some of the hurdles coming in the way of our reducing dependence on equipment import. Its high time for us to realise that for appropriate equipment of appropriate technology and process the Industry, Research institution, and the machinery manufactureres will have to join hands to develop design and research facilities to manufacture suitable equipment. Indian entrepreneurs have sufficient capabilities, if given right opportunity and incentives to break through these hurdles, and make equipment of international standards to help the existing industry

to renovate and modernise at affordable costs.

There are about 300 small and medium size mills in the country. Nearly half of them are closed or nearly closed, about 75 are just sustaining and the rest are marginally comfortable. It is a misnomer to think that all these small and medium size industries will have to close down, if large specialised machines of low-cost production will come up in the country. They have the inherent capacity to sustain at a much lower capital cost if given the required support by the research institutes and machinery manufacturers.

There is also a silver for these small and medium size units. Lot of special varieties of papers for which the demand is not very high can be manufactured by these units if suitably renovated. To think that small units can not remain profitable is not correct, if their renovations are properly planned. To think that from bold investment decisions only, the success will come, is wrong. Be it a modest investment or a bold investment, success will depend on efficiency in terms of low-cost materials, modern, well maintained and up-to-date technology. It is much easier for these small and medium size mills to adopt this business philosophy.

There can be a lot of valid arguments against this statement. These small/medium capacity units will ever remain high-utility consuming and labour intensive unless they are renovated at cost prohibitive prices. Yes, it is true to a certain extent. But under the existing infrastructure, discarding the existing ones and starting from scratch will be still more cost prohibitive. In fact if the constraints under which the Indian pulp and paper industry is functioning are resolved, it will not be difficult to find a via media to make these mills viable.

All these points have been discussed on various forums since decades. But the response from the government, the Industry and the society has been half hearted. We have neither learnt from our past mistakes nor taken any lesson from the successful experience of other developing nations. We talk of globalisation but our vision is still sectoral. We coin slogans but hardly act on them.

The most painful step that the investors may have to take for the required transformation is to find a new generation of leaders and executives from outside the industry if the existing industry leaders and executives; do not change in tune with the times and become really global in their approach. The

industry should change its philosophy from cost and production driven to market and consumer motivation. It should realise that the policy of short term gain without the long term perspective will be suicidal.

Let us not ignore the human factor which can reverse the entire globalisation process if not properly educated about the challenges involved in liberalisation and globalisation. The roots of globalisation are as much in politics as in economy. It is the political philosophy that influences the human behaviour, and as such unless our political system gives a clear signal nothing will move.

CONCLUSION

It is true that one cannot become globally competitive in all the fields because of lack of some basic resources, congenial climate social considerations, work culture and environment. The pains and pit-falls associated with the transformation to global are difficult to overcome in traditional organisations. Inadequate preparedness to handle the challenges can have adverse impact on our economy and social structure. Whatever may be the case, there is no question of our going back from the trade reforms already initiated. It is now left to our initiative and understanding as to how the Government, Industry and trade work together to minimise the disadvantages and maximise advantages under the new policy. If we want to develop, we should be prepared to tolerate the pains associated with it. Challenges have to be faced with determination.

To be globally competitive neither the industry nor the governmental policies alone will help. Government being the sole owner of all the major inputs for paper industry, should show the way and try to match the cost and quality of their supplies to industry within global standards. The industry should simultaneously improve its working efficiency rather than asking unusual concessions to cover inefficiency. The present attitude of both the government and the industry 'Take it or leave it' is a big hurdle to reach the goal of globalisation. For a country like ours, where social and cultural needs outstrip the material needs, the race towards globalisation has to be viewed from a different angle.

Globalisation process is costly and tortious. One should try to understand the challenges involved in liberalisation and globalisation. The inevitable changes that will follow should be welcomed rather than merely accepted. Leaders of industry and executives

should become really global in their approach with long term horizons. Indian paper industry has a chequered history. It has a good record of adapting to change, and there is no reason why the impediments coming in the way of this industry becoming really global, can not be removed. Indian entrepreneurs are known for 'Jugad' (Finding a solution to every problem that comes in their way). However, one thing is certain that no industry, be it small or big, can

develop in isolation, especially when it has to compete with the world market. It should have a continued support from the government and the society. To be global, overall cultural change is a "must" and that is possible only if we have the will and determination.

(The author does not guarantee the correctness of the statistics as various agencies are giving different figures for the same period).