

A Rational Approach to Royalty

R.K. MAHESHWARI

Introduction :

Although bamboo was accepted to be suitable for paper making since early 1920s it took nearly three decades thereafter to establish itself as a reliable raw material to attract large scale investment. The concessional rate of royalty guaranteed over a long tenure of lease had been one of the major attractions for the entrepreneur to risk large capital on establishment of this industry and to expend for the creation of such infrastructure so as to handle intensive exploitation from the scattered and inaccessible areas from the remote forests. Of late these basic concessions are being questioned and there is a clamour for enhancement of royalties.

The glossary of technical terms for use in Indian Forestry defines the term royalty as "a prescribed fee payable to the owner on the forest produce". It is thus a prescribed fee as differentiated from market price. On the other hand disposal of forest produce on royalty has been always associated with concession. Grant of such concession to the lessee for the exploitation of a specified forest produce is motivated not out of charity but purely out of commercial considerations linked with the principle of disposal of the surplus for the complete utilization of which there is a deficient demand, lack of know-how or paucity of resources.

Bamboo had been for long a surplus forest produce in India. The

local demand for bamboos was only a small fraction of its availability. But for its large scale consumption at present by the industry, bamboo would still be a huge undisposeable surplus. Thus from the Government point of view grant of concessions have resulted in extra revenue which would otherwise be unavailable, and industrial development for the production of a scarce goods by mobilization of an idle commodity.

Market Price and Royalty :

There is a tendency to compare rate of royalty paid by the industry with the prices realised in the open auction for the marketable bamboos. There are however basic differences between exploitations for commercial and industrial uses. In commercial exploitation only marketable bamboos which are straight, sound and of specific lengths are collected while in industrial exploitation commercially rejectable short length pieces, lops and tops and flowered dead bamboos which otherwise have no market value are also utilizable. Quantitatively more material is collected in the industrial exploitation not only in terms of per unit area but also on account of long term interest, the industry can afford to lay out roads, ropeways etc., for intensive exploitation even in inaccessible areas thus increasing the gross yield. For the same reason industry is more inclined to work the bamboo forest on scientific lines unlike the annual lessee who with his short term interest is prone to collect everything possible without paying any attention to silvicultural rules of extraction. Thus in the

long run the long term industrial leases on royalty basis are bound to be more profitable than the annual leases by open auction. Royalty at concession rates is therefore viewed as a necessary incentive for developing these infrastructures in the forest by opening up new areas for extraction by formation of suitable communication system and to arrange intensive utilization and scientific exploitation by engaging educated and technically trained staff.

When we compare market price of bamboo with royalty we are in fact thinking of alternative utilization overlooking the aspect of quality, and quantity that can be so consumed. For example, it has been found that bamboo can replace steel in certain kinds of reinforced cement concrete structures. A small quantity of a specified quality bamboo which may find demand for this purpose to replace steel could fetch extraordinarily high price, but on this basis if the price of bamboo is linked with price of steel it would be ridiculous.

Cost of artificial regeneration and royalty:

There is another school of thought which advocates linking royalty on natural bamboo with the cost of growing it artificially. If this principle is applied it can be questioned whether present rates received in open auction even for timber and fuel from the natural forests are at all economical, because none of these species can be grown artificially within the present level of prices realised in the market.

R. K. Maheshwari Asst. Secretary,
A.P.P. Mills Ltd.

Object of Disposal:

It will have to be first decided whether the object is to sell the material for short term gains or to reserve it for industrial consumption in favour of overall economic development. In the event of a decision to allocate the forest produce to an industry it should be understood that the direct royalty is likely to be rather lower than the market price but the indirect revenue by way of duty and taxes is bound to be much more. It has been worked out that every tonne of bamboo converted into paper adds Rs. 200/- to the national exchequer.

Employment Potential:

The impact of paper industry on rural community in particular is so great that for every person employed in the mill there would be 4 to 5 persons engaged in the forest operations. This makes significant contribution to the ideal of uplift of the people living in the backward areas for which the Government have special schemes.

Factors Influencing Royalty:

There should indeed be a rational basis for fixing royalty. It is, however, not possible to prescribe a uniform rate of royalty for all the units, because in deciding about this issue all the variables from collection of raw material to marketing of the produce will have to be taken into account. The factors influencing cost of collection could be mainly divided into the following heads:

(a) Labour:

The forest operation involves recruitment of labour and their organization for cutting, conversion and stacking of material in the forest. Recruitment and organization of

labour would be cheaper if they are available locally. But if availability of labour is scarce they will have to be brought from distant places even at higher wage rates and it would be necessary to arrange for their transport and camping. Cost on this item will increase with the increasing number of outside labourers required for the operation.

(b) Communications:

In the forests which have been under organized working for a long time roads and extraction paths will have been developed. But in general bamboo being widely scattered in the forest these communications will be mostly found inadequate. The problem of communication in the unorganized forests is indeed too difficult. In such cases roads will have to be newly constructed which would greatly add up to the cost of collection of raw material.

(c) Lead:

The distance from which the material is to be brought in, is an important factor as the transportation cost forms a major portion of the delivered cost. This cost will also be influenced by the type of road available, because even for a given lead if the roads are rough rate of transportation will have to be much higher.

(d) Terrain:

The type of terrain to be dealt with in the forest has an overall effect on the cost of collection of raw material, because more difficult the terrain more will be the labour charges for cuttings, conversion and stacking, increased cost on formation of roads and higher cost on transportation.

(e) Density of bamboos:

If the density of bamboo is good and the area is compact the cost of collection could be reduced, but on the other hand when the bamboo is scattered and is distributed over a widely spread out area the costs especially on supervision and management of the operations would greatly increase.

Thus in deciding about the royalty advantages and disadvantages a unit has as regards labour, communications, lead, terrain and density of bamboo have to be taken into account. The other factors which account for the structure of cost are related to the production and sale of the finished product. These would include the distance from which the dyes, chemicals, coal, lime etc. will have to be brought in and the distance over which the finished product will have to be sent out for marketing.

When we speak of rational approach to royalty it is essential therefore to adopt certain standards for every variable that goes in to determine the cost, from procurement of forest raw material to the sale of end product, so that instead of fixing the royalty on purely arbitrary grounds it may be decided on the basis of the standards so set.

In its interim report the National Agricultural Commission has pointed out that for the development of forestry sector it would be necessary to invest Rs. 850 crores of which the paper and pulp sector alone would need Rs. 611 crores. Since such a huge outlay cannot be provided from the State Government sources alone it has been suggested by the commission that Industrial participation in the development activity

would be necessary. These useful suggestions could be translated into practical action by committing the industry to invest in forest development for any concessional rate of royalty that may be charged on the forest raw-material utilised by them. The commission has also further

suggested that the States' revenue share should be only the equivalent of the average revenue of the three previous years and the rest of the income should be left to support the programme of forest development.

The time is indeed ripe for the

industry and the Government to sit together and work out the norms for arriving at royalty rates on realistic basis so that the present ambiguity and controversy could be put to an end, and a dynamic forest development strategy could be formulated on co-ordinated lines.