

SOME CONSTRAINS AND PROBLEMS CONFRONTING THE INDIAN PAPER INDUSTRY*

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Shri Mohamed Fazal, Shri Gohel and Friends :

I take this opportunity to thank Shri Gohel and IPPTA for giving me this honour of delivering the Key Note Address at this Annual Conference of the IPPTA. I have been closely associated with the activities of the Association since its formation and connected with the Paper Industry in our country since last more than 20 years having acquired experience in all facets of this Industry. I propose to confine my comments on the various constrains and the problems confronted with the growth of this Industry in the development of new capacities in our country. A faster rate of growth of the industry and creation of new capacities will largely depend upon a few positive steps being taken at the earliest by the Government as well as by the Industry itself. I hope the Government of India as well as the Industry will not hesitate to take appropriate steps to ensure the future smooth development of this vital industry.

The production of different varieties of paper excluding Newsprint in the year 1972 was of the order of 8.03 lakh tonnes as compared to the present production of 8.80 lakh tonnes

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in the year 1976, thus reflecting a total increase of only 77 thousand tonnes in the course of last five years' period. This shows that the rate of increase in the production of this industry has not been even 2% per annum on an average. Evidently the rate of growth in the paper industry has been one of the lowest. The severe stress and strain and various other factors that have come in the way of rapid growth of production of paper has not only slowed down the rate of growth but has also resulted in under-utilisation of its capacity already created in the country.

The present installed capacity of the paper and paper board industry has come upto 1.2 million tonnes but the actual production may not even reach a million tonnes by the end of 1977. The major factor which is adversely affecting the production is the depressed market conditions which set in during the past two to three years resulting in continued decline in profitability of the industry along-with the rising cost of production which has caused a real set back to the better utilisation of the existing capacity and the slow rate of new growth in the Industry. Of course there have been other factors also which have been adversely affecting the fuller utilisation of the existing capacity like power or non-

availability of adequate forest raw materials, and the lack of adequate financial resources with the Industry.

However, it can by no means be inferred that such depressed conditions will continue to prevail for all time to come. In fact the present indications are to the contrary. As of now, the per capita consumption of paper in India is 2 kg. per annum which is one of the lowest in the world as compared to the developed countries such as :

U.S.A.	205 kg.
Canada	127 kg.
Sweden	127 kg.
U.K.	105 kg.
Germany	84 kg.

Even by the standards reached by some of the developing nations in the Afro-Asian countries such as :

Israel	30 kg.
Kenya	3.1 kg.
China	2.7 kg.

our per capita consumption of paper is woefully low.

Recently, the Food & Agricultural Organisation (FAO) of the United Nations has prepared a detailed study of the world pulp and paper consumption outlook and according to this Study Group, it has based its statistical and consumption forecasts on two main components relating to

Far East Region, excluding Japan, based on Gross Domestic Product (GDP) and its Consumption/Income Ratio (C/IR—Consumption per unit of GDP). The rate of growth in the Far Eastern Region, excluding Japan, has been very low in the past decade from 1965-75.

Probably this has been mainly due to the disturbed conditions prevailing particularly in this region, on account of conflicts between India and Pakistan, between Pakistan and Bangladesh, including all the three Countries in the region along with other un-settled conditions prevailing in other Far East Region added further certain natural setbacks caused by the drought and famine conditions, immediately followed by the fuel crisis that has set-in in the course of the last two to three years. However, most of the difficulties have been very largely overcome and the economic condition of the region are now poised for a much faster rate of growth than what has been in the previous decade. Besides, the rate of literacy is also going up much faster and, therefore, the consumption of newsprint as well as other varieties of cultural papers in this region are expected to go up in the coming decade.

This in itself is at once a challenge and an opportunity. It is an opportunity because with economic development in the living standards and the growth in the rate of literacy, this per

capita consumption is bound to go up and one can visualise a day when there would be tremendous growth in demand for paper in India. And that day is not far off. The challenge lies in equipping the industry adequately to meet such an expanded demand for paper and it is upto the industry and the Government to take preparatory steps now itself to be in readiness to meet such a high demand coming up in the near future.

The growing economy, particularly the healthy trend noticed on our agriculture and export front of various non-traditional items gives added confidence that with the general economic growth the demand for paper and paper board, particularly the packaging paper, would grow much faster than what it is today. However, the main hurdles causing real set back to the growth of demand is the prevailing high rate of interest and excise duty 30 per cent on the packaging and wrapping paper which works out as under for the various varieties of kraft papers.

<i>Gramage</i>	<i>Ex-mill Price</i>	<i>Excise Duty at 30%</i>
	<i>Rs.</i>	<i>Rs.</i>
60 gsm	4,000	1,080
70-99 gsm	3,900	1,353
100 gsm		
& above	3,800	1,026

This has resulted in inflating the cost of our packaging material, compelling the packaging industry to reduce the standard of packaging resulting in the shrinking of

demand for packaging paper to the bare minimum. By no stretch of imagination the use of proper packaging can be construed as a luxury. This is not a desirable trend, and, therefore the rates of high excise duties on the paper industry has got to be considerably simplified to bring it on a more realistic level, avoiding too many slabs of rates. As far as possible, the rates of excise duties should not be in more than two slabs—one on writing and printing paper which goes mainly for educational purposes and the other, on other varieties of paper. The variation in the excise duty should not be more than 10 to 20 percent—10% on writing and printing paper and 20% on other varieties of paper. This will considerably simplify the various excise levies manuals. Beside that the system of Ad-valorem duty should be followed by fixing the Unit rate per tonne to avoid further complication.

Out of the various new schemes and substantial expansion as sanctioned by the Government of India only a few are likely to materialise during the next two to three years which may hardly add an additional capacity of 1.5 to 2 lakh tonnes. However, the success in the implementation of these schemes also largely depends upon the basic policy that may be followed by the Government in compensating the new capacity built up at higher capital outlay and by providing adequate financial assistance at a concessional rate of interest.

The overall utilisation of capacity in paper industry has come up from 77.5% in 1975 to about 80% in 1976. Particularly in the large mills it rose from 81.6% to about 86%. Unfortunately, however, the capacity utilisation in small paper mills registered a fall from 61.5 to 59 percent during the same period. While many of the large mills have utilised their capacity above 80 to 85 percent, most of the small mills could utilise their capacity up to 50% only.

As we all know, more than 80% of the paper production comes mainly from the large units. Although the number of small units working in the country are around sixty, still their utilisation of capacity is poor and the total production turned out by them do not reach more than 15 to 20 percent of the total output. Therefore, it is quite obvious that substantial increase in production of paper will largely come from large economic size units. It is my opinion that to increase production economically in a short time, it is necessary to undertake a study of the paper industry to explore the short-term programme of rapidly increasing production which should cover the question of maximising production from its existing capacity already created. Besides, it is very important to adopt modern technological innovation of high yield pulping, prevention of water pollution to make use of Economy of Scale which could be possible to achieve

only through large size units in the country. Various suggestions have been given from time to time through the Development Council as well as discussed by the Paper Mills Association, expressing the need to draw the attention of the Government to make a close study of the working of the Paper Industry to explore ways and means of increasing production from the existing units on a short-term basis as well as on a long term programme alongwith the possibilities of adopting modern technology of high yield pulp with adequate measures to prevent environmental pollution.

Initially these measures will have to be taken on a short term basis to increase paper production faster than what has been so far. However, we must also have a Long Range Planning for which the study should cover the problems faced by the Paper Industry in attracting new investments for establishing their economic viability.

To make the high capital outlay economically viable, there is an urgent need to exempt the new units from the levy of high rates of excise duty totally for a period of ten years on a graded scale starting from 90% and going down every year by 10 per cent.

Fifty per cent of such excise concessions should also be extended to the substantial expansion of the existing units.

The implication of high import duties on the plant and machinery

which is at present 40% needs serious consideration. To make the capital outlay competitive with other countries, the import duties on plant and machinery should not exceed 20 per cent.

It is also equally important to encourage the indigenous production of newsprint by large existing units which will be possible provided some 15 to 20% protection is given to the indigenous production of newsprint by imposing import duty in the range of 15 to 20 per cent on imported newsprint. This will also make indigenous production of newsprint economically viable and workable.

The implication of the present Paper Production Control Order which imposed an obligation on the industry to produce and market 30% of the total production in the form of concessional writing and printing paper, that too, at a very low price of Rs. 2750 per tonne have got to be carefully weighed. This price means a direct loss of about Rs. 600 to Rs. 700 per tonne to the industry as the present control prices fixed for writing and printing paper is far below the present cost of production. The present supply of 2 lakh tonnes of writing and printing paper at such concessional rates primarily meant for weaker sections of society is often diverted for various other sectors thereby keeping the market suppressed. Consequently, this deprives the industry of a big chunk of its legitimate financial

resources, required for its growth. How long can Industry be expected to subsidise the consumer in such a big way to that extent ?

Many of our large units in the industry are fairly old and need immediate attention for modernisation and rehabilitation. Unless the phenomenon of obsolescence is checked at the earliest, this tendency is soon likely to endanger the economy of the industry and the old units will then need to be nursed back by providing immediate massive investment for modernisation and rehabilitation on priority basis as made applicable for other priority Industries like Textile, Jute, Cement and Engg. industry. The cost of this will have to be borne by the nation in terms of providing required investments on soft term basis to avoid further irreparable damage resulting from the erosion of production of such basic items like paper so badly needed by the society.

Stagnation in the growth of paper industry since last four to five years will have very serious repercussions and it will lead to a severe paper famine at a time when more paper is required. Therefore, this subject has to be considered with Certain sense of urgency more keeping in view the wider national angle and for that purpose suitable incentives have to be given so that new projects may come up smoothly and at the earliest possible stage.

The existing large units can easily be entrusted with specific responsibility of increasing the production on an average by 10% per annum with minimum investment, provided of course, their problem of obtaining adequate supply of forest raw materials and the necessary release of power and the financial resources is ensured. It is suggested that the Government may appoint some study group to go into the problems of the paper industry and suggest short term as well as long term measures to increase paper production capacity in the country.

It is a well known fact that a minimum economically viable new paper unit of about 35,000 to 40,000 tonnes per annum will call for a total investment of Rs. 40 to Rs. 50 crores. Even conceding that such huge finance can be arranged by means of equity and loans, the actual cost of production of such a unit will be in the vicinity of Rs. 5000 per tonne of paper including the burden of interest on long-term finance raised, to which provision for dividends will have to be added. This may make the total selling price around Rs. 5500 to Rs. 6000 which will be difficult for new units to realise in the near future.

Thus if such new units whether coming in the public Sector or Private Sector will have to realise a selling price of Rs. 6000 per tonne just to continue to be in business against which the present realisation works out hardly around Rs. 4500 per tonne. There-

fore, ways and means will have to be found to bridge the gap between the cost of production and sales realisation of such units if they are to come up at all.

There is a need to set up a Central Research Institute for the Pulp and Paper, controlled and managed directly by the the Paper Industry in accordance with other Research Institutes that are being organised by the Industries like Textile, Sugar, Cement and Plywood. Of course, we have the Forest Research Institute working at Dehradun which is being further expanded and similarly the Institute at Saharanpur is also being strengthened, but what is really needed is to involve the Industry directly in playing an active role in running such a Research Institute in some central place like Hyderabad, Bangalore or any other convenient location. This question of setting up a Research Institute has been discussed on several occasions. However, it seems so far no enthusiastic steps have been taken either by the Industry or by the Government in this direction. I hope Shri Mohamed Fazal, who has an Engineering bias, would probably initiate this and see that such a Research Institute is created in the country at the earliest.

Since the control of forest raw materials to the Industry is with the State Governments and some of the States do not view this question from the broad national point of view and jack up the rate of royalty on such supplies of

forest raw materials like bamboo or eucalyptus indiscriminately. Besides fixing high rates of royalty on bamboo, the latest trend in some of the States is to take over the actual forest cutting operation resulting in indiscriminate increase in the actual cost of bamboo to the Industry. The Government, while fixing the high rates of royalty completely ignores the contribution of the Industry to the National Exchequer in the form of large amount of excise duties, sales-tax, incometax and other contributions made to the incometax national economy as a whole.

Now what is needed in the present context is to have a broad all-India forest policy in respect of forest based raw materials to the industry, particularly bamboo, and certain uniform norms needed to fix for arriving at a reasonable rate of royalty on such supplies. Almost all the basic raw materials or essential products like steel, cement, paper, textiles, sugar and coal or even heavy chemicals have more or less one price range prevailing throughout the country. It is, therefore, essential to have some

rational and uniform rate of royalty all over India. This aspect needs more serious consideration particularly to persuade the State Governments who are pursuing their own independent policies.

There has been no organised intensive development programme of man-made forest plantation and regeneration of the forest raw materials for this industry by the Forest Departments especially bamboos has been painfully slow and whatever natural growth we have today are fast depleting. While forests continue to be the preserve of the State Governments, it should be their solemn duty to regenerate the raw materials that are taken out of them and strive to meet the demands of the industry on a sustained basis. As an alternative, the industries themselves could be involved in this process which, I am sure, the industry will readily agree, if only the State Governments will have the political courage to take an economically justifiable step.

Before concluding I would like to urge once again the problems that are confronted to-day by the Paper Industry need to be taken

up with certain sense of urgency involving the Industry to play a more positive role to rapidly increase paper production, especially when the general economic climate in the country already created is poised for much faster growth than what has happened in the past decade of 1965 to 1975.

May I express once again my grateful thanks to all of you and to the President of IPPTA for giving me this opportunity to express my views on the current problems of the paper industry.

I have no doubt we have a real dynamic personality in Shri Mohamed Fazal, who has recently taken up as the Secretary of Industrial Development Ministry, will create a new impact of his own with his deep knowledge as a man of varied and practical experience. He is a practical person and a man of action to implement once a decision has been taken. We do look forward to having more frequent opportunities to exchange our views and put forward before him which we really feel should be looked into to remove the present day difficulties experienced by the industry.