

Indian Paper Scenario – June 2007

Demand for paper is set to far surpass supply in India with the growing emphasis of the government in spreading education and alternative uses of paper increasing the country according to Paper Traders. According to the Federation of Paper Traders Association of India, the total domestic demand for paper stood at 7.2 million tonnes whereas the production was only 6.7 million tonnes. The gap between consumption and production has increased over a period of time. It is estimated that this gap may widen if adequate steps are not taken both by the industry and the government to spur the growth of the sector. Availability of raw materials has become a contentious issue for both wood-based paper manufacturers and waste paper based manufacturers. According to the paper traders growth sustainability of the industry at 9 -1 0 per cent was becoming a major challenge due to shortage of the main raw materials such as, wood and waste paper. This makes it difficult to compete against Brazil, Chile and Indonesia. The industry was also adversely affected due to the government's policy of not using wood from forests for commercial use. The government also does not allow industrial plantation on degraded forest lands. The government should allow rotation plantation system so that the industry has a supply of quality raw material. Such type of industrial plantation is allowed on degraded forest land in countries like Malaysia and Thailand. The paper industry was also crippled by the difference in the cost of production. Countries like Brazil, Chile and Indonesia are low cost producers of pulp and paper mainly because of their large-scale units and high-tech man-made plantations of pulpwood species.

World Kraft market pulp prices are set to rise around the world from June after the pulp and paper products council's inventory report last week showed declining supplies despite a month-to-month dip in shipments. Northern Bleached softwood kraft pulp prices in North America are the only ones that haven't been hit with price increase announcements. Only two producers have said anything about price increases for North America, and without the support of other producers, their attempts to boost prices, probably are doomed, analysts said. However, many market analysts and producers are like Mr. Rob Duncan, market analyst at McFarlane Gordon who doesn't look at month-over-month shipment comparison, which were up 5.61 per cent overall, and up 12.3 per cent in North America and up 30.7 per cent in China. The latest price increases generally are for \$20 a tonne, and they span Northern Bleached Softwood Kraft pulp in Europe, Eucalyptus around the world, Northern Bleached Hardwood Kraft Pulp and Southern Bleached Softwood Kraft pulp. The thinking among many producers of Northern Bleached Softwood Kraft pulp is that hardwood prices need to catch up with softwood. Hardwood price increases have lagged softwood increases over the last couple of years and the spread has become unusually wide. But, as markets go, price will correct almost anything. Demand has shifted over to hardwood pulp, and product has gotten especially tight over the last month. Birch production in the Nordic countries has become more difficult because of raw material availability, and Indonesia has cracked down on illegal harvesting. An eastern market analyst said the pulp and paper products council's (PPC) inventory report was the third in a row with less than normal inventory drops.

The country's paper industry is reeling under the twin pressures of scarcity of raw material and a serious technology gap as compared to its counter parts in other countries like Brazil, Chile and Indonesia, according to FICCI . The total domestic demand for paper is 7.2 million tonne whereas production is only 6.7 million tonne and

the gap between consumption and production would be further widened if adequate steps are taken to spur the growth of sector. The availability of the raw material is a serious concern not only for wood- based paper manufacturers but also for the wastepaper based manufacturers as raw material, whether wood or waste paper is not available.

Union Minister for Heavy industries and Public Enterprises has expressed satisfaction at the progress made by Hindustan Paper Corporation (HPC) towards modernisation and technical upgradation of its two mills in Assam. An outlay of about Rs. 6600 million and the Rs. 7800 million expansion –cum-diversification project of wholly owned subsidiary at Kerala – Hindustan Newsprint Ltd. During his visit to the corporate headquarters of HPC, he also reviewed the performance of the corporation and its future plans. He was accompanied by Secretary, and other Senior Officials of the Ministry. Referring to the revival plan for Nagaland Pulp and Paper Co.Ltd (NPPC), which has just come out from the purview of Board of Industrial and Financial Reconstruction. (BIFR), the Minister said that package for infusion of Rs. 5520 million had been approved. BIFR has cleared NPPC revival proposal. He desired that the process of revival should be started immediately. He also reiterated that Centre's commitment to a strong and effective public sector whose social objective were meant by its commercial functioning He added that the Government was also pledged to devolve full managerial and commercial autonomy to successful profit making companies operating in a competitive environment. A HPC press note has stated that for the fiscal ended March 2007, the company has shown spectacular results where in the three operating mills – Nagaon Paper Mill, Cachar Paper Mill and Hindustan Newsprint Ltd., have achieved a production of 3,20,880 tonnes exceeding the combined installed capacity of 3,00,000 tonnes for the fifth time in succession. The corporation's HPC sales figures have also crossed the Rs.10000 million mark for the second time. The Pre-tax profit in 1996-97 was Rs. 150 million. In 2006-07 the pre-tax profit was Rs.1670 million..

The paper industry, which is reeling under the twin pressure of raw material crunch and a serious technology gap, has cautioned against reduction of duties on paper under Free Trade Agreements (FTAs) and demanded creation of a Technology Upgradation Fund (TUF). The Ficci survey , based on the feedback of the industry has suggested rationalisation of custom duties on import of plant and machinery for paper industry, creation of TUF for paper industry on the lines of textile industry, which will provide interest and capital subsidy to paper industry for technology upgradation. In case of agro-residue based paper industry, the survey has suggested incentivising technology flow from Europe with the help of fiscal concessions. All respondents of the survey strongly felt that custom duties on paper should not be reduced under the FTAs. Currently; the basis custom duty on paper is at 10 per cent (which is the peak rate) Countries from which there could be a surge in imports of paper if the custom duties are reduced/eliminated include Indonesia, Thailand, Brazil, Chile, China, South Korea, USA, EU and the Gulf countries.

J K PAPER MILLS LIMITED: This paper company has launched a pilot project in Andhra Pradesh and Orissa for planting eucalyptus trees over 3500 hectares a move which would not only assure the company a fix supply of raw material but also help farmers earn one extra income by selling carbon credits. They have started a pilot project to plant eucalyptus trees in 3500 hectares in six districts of Orissa and Andhra Pradesh. The plantation on 70 hectares area has already been completed. The company will provide saplings to about 3800 farmers and buy it at market rate. The

company will use the raw material from these large tracts of land for its facilities located in Gujarat and Orissa. Besides, plans to provide some extra benefits to the farmers by selling carbon credits and for this it has already signed an agreement with World Bank.

SESHASAYEE PAPER AND BOARD LIMITED: This company has announced a dividend of Rs.3.50 (35 per cent) a share of Rs.10 for the year. The company has attributed the performance of increased production, net sales realisation, increased usage of in-house pulp instead of costlier imported pulp, reduction in energy costs. The company meets 85 per cent of its power requirement from a captive 20 MW plant to the higher profit after tax, according to a press release. The mill development plan, which it announced last year, is on track. The Rs.3500 million project involve expanding its pulp mill to about 350 tonnes a day from the present 230 tonnes. The components are in place and the project will be on stream by December. The company is in the process of increasing the area under contract tree farming to improve the raw material availability. It has over 9000 acres under contract and plans to increase the area every year.

TAMIL NADU NEWSPRINT AND PAEPRS LIMITED: This paper mill is in the process of expanding its capacity at an investment of Rs 6800 million that would take its printing and writing paper production to 3,65,000 tonnes a year from the present 2,30,000 tonnes. This would be the next phase after it is ongoing Rs. 5650 million mill development plan which is nearing completion. The plan envisages an increasing pulp production to 8000 tonnes a day from the current 520 tonnes and an annual 15000 tonnes addition in printing and writing paper production capacity.