

Global Challenges of the Paper Exporters (A Case Study)

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INTRODUCTION:

Export trade is the major source of earning for the economic growth and development of the country. India's exports made a record of \$420 billion in 2021-22, exceeding the government's set target by 5% while services exports stand at \$250 billion. If we talk particularly about Indian paper industry as per the IPMA report then Exports of paper and paperboard from India increased by 80 per cent in FY 2021-22, setting a record Rs 13,963 crore. "In terms of volumes, have raised four times from 0.66 million tonnes in FY17 to 2.85 million tonnes in FY22. In terms of value, exports of paper boards and coated paper increased by 100 per cent, tissue paper by

75 per cent, uncoated writing and printing paper by 98 per cent, and Kraft paper by 37 per cent," said IPMA. Major countries to which India export paper & paper boards are UAE, Saudi Arabia, Bangladesh, Vietnam, Sri Lanka, Iran etc. etc.

"The Main reason behind the rising export is due to capacity expansion, technological up gradation & changing market development strategy undertaken by Indian paper mills which resulted in better quality product which found global acceptance" said by Rahit Pandir, General secretary , IPMA. But despite of all the achievements & growth still Indian exports has become a costly affair. It not only lacks & faces challenges for not becoming economically viable in comparison with other top paper & paperboard exporting countries but also for its survival due to the following reasons:

DOMESTIC FACTORS:

A) Quality & Packaging:

- **Internationally Acceptable Quality:** The paper produced in India is not as good as available in other paper producing countries due to technological limitations.
- **Packaging Challenges:** International standard packaging facilities are lacking in India. Also if available, cost is very high & it becomes unviable to compete with other exporting countries.

B) Infrastructure Bottlenecks:

- **Inadequate Rail-Road Network:** Not all manufacturing places are directly connected with the sea ports or ICDs with good rail -road network. It takes longer than usual for transporting the goods up to the port from the production unit .While in transit also there are a lot of hurdles which are hindering free movements of export cargo thus taking

more than usual time & cost to reach port enhancing the transactional cost up to a significant extent.

- **Lack of world Class Port Facilities:** The sea ports infrastructure is not as good as in other high performing countries. With enhancement of export targets there should also be a plan to modernize & upgrade Indian sea ports & ICD's.

C) Uncertainties / Procedural Complexity:

- **Banking operations:** Indian banking mechanism is not exporter friendly. Its cost of operation is very high. The document handling, processing & follow up mechanism of Indian banks with the international banks & its interface is very poor.

D) Institutional Rigidities:

- **Custom procedures:** When the exportable goods are inside the port/ICDs the custom process is very tedious, time consuming & costly. Everyone somehow or the other is trying to find out ways to get benefitted out of that transaction. Right from forwarder to custom handling agent to custom officers to surveyors to shipping lines to CFS owners & other facilitators.
- **Post Export benefits:** There are some post export benefits by the MoC & MoF, to avail these benefits certain shipment related verifications are needed from the ports/ICDs etc. & due bureaucratic hurdles usually it takes long to receive the required data on line for claiming these benefits & ultimately it is a cost. Usually all the exporters take into consideration these benefits while making costs at the time of offering price to the buyer & with the delay in recovering these part costs , the transactional cost increases which makes exports in competitive.

E) Inadequacy of trade information & foreign diplomacy:

- **Ad hoc International Trade policy:** The FTP is normally ad hoc in India. To say it is for 5 years & of course 5 years is a good time to plan well for exports by any organization. But it has been seen that the FTP is very frequently altered & keeping track of these alterations is not possible for the export community on a day to day basis. This often becomes a parameter of high transactional cost as every lapse has its own cost. Such lapses in decision making are obvious for the reason of not being able to keep track of the frequently changing export policy.

F) Port & shipping charges

- The shipping business in India is ruled by foreign shipping line. Apart from ocean freight, shipping line imposes various other charges like container detention charges, documentation fees, container survey, congestions charges, bunker adjustment factor, currency adjustment factor, insurance, port operator collects wharfage, demurrage, ISPS fees, container freight station operator also collects transportation charges, container handling and grounding charges, ground rent charges, etc.

These charges are significant & do effect the exports viability.

GLOBAL FACTORS:

SHIPPING COST:

India's have coast line of about 7517 km, linked with 12 major and 205 minor ports. India's merchant marine fleet contains an estimated 1500 vessels (foreign-bound and coastal operations combined). Most cargo ships that sail between Europe and Africa, East Asia and America, pass through Indian territorial waters. . In FY 2022, all major ports in India handled cargo traffic of 650.52

million tonnes (MT). However, India ranked 19th globally as per the review of maritime transport (2021) of the United Nations Conference on Trade and Development

The World Trade Organization, in its World Trade Report 2021 highlights long-term priorities that may be considered as far as the Indian economy is concerned, against the drastic increase in shipping cost. The Baltic global container freight index report indicates that shipping cost which was wandering between USD 1,500 to 2,000 /TEU two years prior to the pandemic, sharply increased to USD 4,500 levels by January 2021& is still steeply increasing. Deficiency of the equipment/empty containers and not having long-term contracts are the major reasons behind increase in ocean freight rates. Thus shortage of shipping containers is yet another reason for creating a vicious cycle which raised questions on the survival of Exporters that the pandemic has brought on international supply chains.

EQUIPMENT SCARCITY:

Most of the containers are in Inland depots, others are piled up in cargo ports and the rest are onboard vessels, especially on transshipments. To understand deeply why the containers are where they are, it's important to first understand the initial stage that has resulted to such crisis. Let's understand it from the beginning: Asia was the epicenter of the COVID 19 because of which most of the countries declared lockdowns which resulted into economic slowdown and reduced production, temporary shutdown of industries which became the reason for the large numbers of containers remain parked at the ports only. Then, a unique scenario developed, as Asia being the first to get affected by the pandemic, was also the first to recover, thus, when China resumed exports earlier than the other countries which were still dealing with restrictions, lack of workforce and

minimal production the consequence resulted that almost all of the remaining containers in Asia headed out to Europe and North America, but those containers did not come back at fast pace.

The shortage of containers and the expectation for its faster recovery in international trade has raised the freight rates significantly over the past year with some key international routes even seeing an increase in freight rates of over 500 per cent compared to last year.

RAW MATERIAL SHORTAGE:

Crushed by a bundle of problems, paper industry struggles for survival & Faces crisis on raw materials shortage, costly coal and the Russia-Ukraine standoff. The past few days scenario was that a company will be ready to pay the full amount in advance for paper but manufactures refused by saying he would price his supply as per market rates prevailing on the day of dispatch and he was not sure about the next day's raw material availability and its prices were rising on a daily basis. This example shows how the Indian paper industry is going through a crisis, something not seen in the last four decades. "It seems worse than the crisis faced by the Indian paper industry in 1974" says a veteran industry analyst. Enough raw materials for the paper industry is not available in India & even if plan to import then delivery takes at least 2 months which also results into the scarcity. Price of pulp & waste paper increased sharply day by day which pushed paper mills for cutting their operations to 2-3 days a week. The US & Europe are our main source of waste paper but some Chinese units have set up mills in the US to source raw materials for their paper mills back home since China has banned the import of wastes, including paper, from January 2021 & therefore from February 1, the US waste paper rates have been increased to \$400 from \$300 a tonne FOB. The situation come at a point where we are not getting supplies despite being

ready to pay the hike, In addition, the Russia-Ukraine tensed situation has added fuel to the fire. The Indian government has also imposed 2.5 per cent basic customs duty on waste paper imports. Shortage of raw material resulted in domestic waste paper prices hike from ₹20 a kg to ₹28. Another big problem came across with huge shortage of coal supply as on priority basis coal supplied to power plants firstly and paper mills not getting the enough supply. During few months only, the price of coal has raised from ₹6 a kg to ₹15-17 a kilo. Paper industry feels this is a “passing phase” and will have to survive “today before thinking about tomorrow”. Thus there are numerous challenges for the survival of the Indian paper exporters because these hardships are felt more deeply in India than in other paper exporting countries because of the single big factor that India being a very populous country do have significant domestic market & there comes the stress on the demand & supply position of the paper which directly impacts the exporters of the paper.

QUESTIONS:

1. Do you think "Pandemic" has become the main reason of such hardships for the trade & how can the exporters get sign of relief from this situation?
2. Should India think of setting up its own shipping lines infrastructure for reducing dependence on foreign shipping lines?
3. Should India think of alternate local fuel for the industry to overcome global competition in the fuel which is one major cost of production?
4. Should Indian exporters find new international markets where the competition from the other paper exporting countries is insignificant?