

The Jute Packaging Act

The socialist baggage?

The 'magic' of the marketplace does not seem to have worked on the jute industry. It is still coddled by the Government at the expense of other major industries, mainly fertilisers, according to Dr. Uttam Gupta.

AT A time when there is increasing emphasis on freedom to do business without being encumbered by controls/licences, there exists a piece of legislation which strikes at the very root of such freedom. This is the Jute Packaging Materials (compulsory use in packing commodities) Act 1987 passed by Parliament on May 9, 1987. The Act provides for mandatory packing of bulk items like foodgrains, fertilisers and cement in jute packaging materials at a prescribed percentage of the quantum of production.

At the time of its enactment, the order stipulated that 50 per cent of all fertiliser materials (excluding CAN, ANP, SSP, Sufala and TSP) be packed in jute materials. Following representations by the industry, it was amended in August 1990, to provide for exemption of all fertiliser materials. But there was a catch; 50 per cent of urea production should still be packed in the material.

In the last several years, manufacturers have been knocking at the doors of the judiciary, seeking restoration of the freedom in regard to packaging. A spate of petitions filed in various High Courts were transferred to the Supreme Court.

Apart from some adjustment in the percentage of mandatory packaging, all that the Government did was to give an assurance in Parliament that till the apex court takes its decision, no punitive action would be taken against any defaulter. This was tantamount to postponing the problem.

Recently, the apex court upheld the constitutional validity of the Act. Result: Manufacturers have no other option but to comply with the provisions laid down in the Order or face penal action. Worse, they could also be hauled up for possible violations in the past.

Although, technically, the manufacturers were expected to comply with the Order during the period of judicial review, there were serious practical problems like inadequate/untimely supply of jute bags. Consequently, even if the concerned manufacturers wanted to comply with the order disregarding commercial interests, they were still not able to do it.

What packaging material should be used? Should it not be the exclusive prerogative of the manufacturers? All the more so in this era of deregulation and free market forces. In selling urea, remember that it is not just attractive packaging.

Urea is a high-value product, the cost of a 50-kg bag being about Rs. 300 on a weighted average basis for the industry and still higher at about Rs. 450 in respect of imported material. Given this, it requires extreme care in handling, storage and transportation. More so because of need to protect it from moisture thanks to its highly hygroscopic nature.

The peculiar logistics of urea supply, distribution and use further complicate the situation. While, on the one hand, production is round-the-year, on the other, demand is seasonal with bulk of the consumption being in July/August in kharif and November/December/January during rabi. Thus, the material has to be pre-positioned and kept in storage at convenient locations to maintain timely supplies.

Moreover, supply centres (factories/ports) being few and demand widely spread all over the country, the product has to be moved over long distances. Although, bulk of the movement is by rail, invariably, the consumption points are served by rail-cum-road which leads to multiple handling.

Urea packed in jute bags tends to attract moisture which makes the product lumpy and, thus, unsuitable for use. To make it usable, the material has to be re-processed and standardised which adds to the cost. If, however, it is stored in this form for longer periods, it will badly affect the quality, leading to much greater loss (and can be disposed of only by offering it at a huge discount).

Thanks to shortage of covered wagons, very often the fertilisers have to be moved in open wagons. Such movement during the rainy season results in unprecedented loss by way of seepage if urea is packed in jute bags.

With loading and unloading operations being predominantly manual, urea packed in jute bags is prone to substantial handling losses. Because of the heavy weight, the use of jute bags also adds to the cost of transporting the product.

Under the retention pricing and subsidy scheme for urea (RPS) with extremely tight

provisions on reimbursement of the bagging cost, such increases in cost/loss largely remain uncompensated. This eats heavily into the manufacturers' profit margins.

Traditionally, the fertiliser industry had been using jute-laminated bags in the absence of any other suitable packing material. In the past two decades, but, a distinctly better alternative has come up — HDPE-laminated woven sacks. Urea packed in HDPE bags is totally free from seepage, resistant to water and pest and has a longer shelf life. With the HDPE bag weighing only about one-fourth the jute bag, the cost of transporting is also lower. So are the handling losses.

The HDPE bags have greater acceptability amongst farmers as these have other uses (such as for rain coats and thatching roofs during the rainy season). Farmers can also use these bags for storing foodgrains.

On the flip side, the Railways' capacity to carry has not expanded at the desired pace. The mismatch is likely to continue and innovative measures will have to be implemented to make the best use of the existing rail infrastructure. Increase in the unit of packaging provides a befitting answer as it helps accommodate larger quantities in wagons. This is, however, possible only by use of bigger bags or pelletisation. HDPE bags are just the right recipe.

Small wonder then that the fertiliser industry took to HDPE bags in a big way. The bulk of the supplies being from small-scale manufacturing units, this also helped increase employment. Unfortunately, introduction of the Jute Packaging Act 1987 led to serious problems.

In the aftermath of the Act, the cost of jute bags frog-leaped from Rs. 9.5 in 1989 to Rs. 18.5 in 1996. In sharp contrast, the prevailing price of HDPE bag is much lower at Rs. 11.5. The difference implies an increase in the cost of urea by about Rs. 140 a tonne. Given the total urea consumption of 18.5 million tonnes and as 50 per cent of it is to be packed in jute bags (i. e. 9.25 million tonnes), the extra expenditure will be about Rs. 130 crores a year!

Under the RPS, this will have to be reimbursed by the Government as additional subsidy. In the eventual decontrolled regime, this would lead to a corresponding increase in the selling price to farmers and, in turn, affect consumption.

Apart from the higher cost, jute bags pose problems of supply. There are only a limited number of manufacturers who can supply the bags as per the specifications. As most of them are located in the eastern parts of the country, they have not been able to maintain timely supplies to fertiliser plants which are largely located elsewhere. (Compare this: the supply time of jute bags is generally 55 days and HDPE bags 35).

The jute industry is often affected by frequent labour problems resulting in strikes and disruption of supplies. This, in turn, has forced the fertiliser industry to make alternative arrangements for packing material at the eleventh hour.

Why should the Government legislate something which not only amounts to an infringement on the freedom of doing business, but also, leads to substantial economic loss? The apex courts' vindication of the Act should not be construed as a favourable comment on the economic rationale of the law. This is because the court is not expected to interfere in economic policy, the domain of Parliament/Executive. (Even on the question of telecom licences for basic services, the court, while allowing the licensing process to continue, did not go into the merits of privatisation).

While there may be need to protect the jute industry, this should not be done at the cost of the user industries and farmers. Even as the Act inflicts a heavy cost on the latter, besides increasing the subsidy burden on the exchequer, it need not necessarily result in improvement in the financial health of the former.

Instead of banking on protection through legislation, the jute industry should help itself through revamping and modernisation of the mills, improvement in efficiency of operations, reduction in cost, diversification into new areas (manufacture of yarn and Hessian fabric for apparels etc.), and above all, better management. Improved industrial relations will also be of great help in producing better quality products at competitive prices.

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