

16. Economic and Environmental Impact of Policy on Transportation Subsidy to Wood-Based Industries in Andaman and Nicobar Islands

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Introduction

The study aims at understanding, analysing and commenting on the role, effects and issues related to transportation subsidy provided by the Government of India to wood-based industries operating in Andaman and Nicobar Islands. It has tried to examine both the positive and the negative aspects of these industries. It attempts to analyse the economics of wood-based industries both with and without transportation subsidy. It also attempts to assess the extent to which these industries contribute to national, particularly to local, economies, and to identify the beneficiaries of transportation subsidy. Further, it assesses the negative effects of these industries on local environment and ecology in terms of deforestation, soil erosion, and loss of biological diversity, as well as the effect on local farming and livelihood systems.

Data and Methodology

The study is based on both secondary and primary data. Secondary data were collected from official records, published and unpublished documents and reports of the Forest Department, Industries Department, wood-based industries and other related government departments in Andaman and Nicobar Islands. Data and information were also collected through discussions with the officials of industries and forest departments, and personnel of wood-based industries. Primary data were collected at household, community and village / regional levels across the Andaman Islands. It was collected through discussions and with the help of brief structured questionnaires. Personal observations and assessment were also used wherever they were reliable and justifiable.

A total of 35 wood-based industries covering medium-scale plywood/veneer units (2), composite unit (1), sawmills (12), furniture and tiny handicraft units (20) operating across Andaman group of Islands were selected for the study. From these, data on all the components of costs and returns, direct and indirect employment created, and revenue to the government were collected and analysed.

Findings

As per official records and published reports, area under forests of Andaman and Nicobar Islands has declined from 740, 000 hectares (93.7 per cent of reporting area) during 1970–71 to 691, 000 hectares (87.5 per cent of reporting area) during 1996–97. This could be due to an increase in net sown area during the same period. Net sown area was 18, 000 hectares (2.3 per cent of reporting area) during 1970–71, which has increased to 38, 000 hectares (4.8 per cent of reporting area) during 1996–97.

The share of forestry and logging in state domestic product (SDP) of the Union Territory is substantial, though it has declined during the period 1980–81 to 1994–95. Across sectors, it ranks second, after agriculture. In fact, the share of agriculture has declined much more than the share of forestry and logging sector, from 44.2 per cent in 1980–81 to 33.9 per cent in 1994–95.

In terms of direct employment, wood-based SSIs have employed 1,402 persons, which is 21 per cent of the total employment by SSIs in the Islands. In addition to this, the three medium-scale units producing plywood and veneer directly employ around 2,000 persons.

There are many stakeholders in A&N Islands' forests and forest resources — there are settlers, in-migrants, wood-based industries, forest department, ANIPFDC, A&N Islands administration, aboriginals, environmentalists, poachers and the central government.

The net returns of medium-scale units are negative over total costs, and the rate of return is -0.2 per cent, which is not encouraging. It is transportation subsidy that adds to the unit's substantial gains. When transportation subsidy is subtracted from total costs, net returns would be positive and increase substantially, and the rate of return will be around 5 per cent. The low rate of return is due to the cost of timber and excise duty, which is around 49 and 16 per cent of total costs respectively. Moreover, at 15,628 Cbm, these units are operating below their full licensed capacity of around 22,000 Cbm.

As compared with medium-scale units (plywood and veneer), the economics of sawmills (SSIs) is quite different. Some of these sawmills used to produce match splints, pencil slats, etc., but stopped due to increase in the cost of production, and difficulty in selling their products in the mainland. Now all of them have become saw millers. These units are commercially viable, as their net returns over all costs, including depreciation, and excluding transportation subsidy, are substantial, at Rs.796, 000 per unit per annum. Even if transportation subsidy were removed, the net returns would be positive and substantial, yielding a rate of return as high as 17.3 per cent. If transportation subsidy were included, the rate of return would jump to 27.1 per cent, which is very impressive. Total transportation costs of these units, including loading and unloading, are just 10.5 per cent of the total costs. A transportation subsidy makes hardly any difference to the total costs. Moreover, operators are getting positive net returns, even without subsidy.

There are around 200 tiny furniture units, both wood-based and cane-based, which are playing an important role in the economy of these Islands. Even without any kind of subsidy, the net returns of these units are positive, with a rate of return as high as 19.3 per cent over all costs.

The other type of tiny units is the cane-based furniture producing units, which are also largely family based, depending on local forests for canes. In their total variable costs, the cost of canes is around 12 per cent. Though these units are family based, the cost of hired labour constitutes around 43 per cent of the total variable costs. These units

too are commercially viable, with a rate of return as high as 126.4 per cent over total variable costs.

With social costs, net returns of wood-based industry declines substantially, and in the case of medium scale and sawmill units, it is negative. This shows that these units are financially viable with transportation subsidy, but commercially non-viable even with subsidy. To be sustainable, their gross returns should also cover the social costs. In particular, medium-scale plywood and veneer industries are not suitable to A&N Islands, unless the social costs are met out of their returns.

Further, at the aggregate level, taking all wood-based industries into account, net benefits (per annum) of these industries is negative.

Policy Suggestions

Since net returns of medium-scale plywood and veneer units are negative on all costs (fixed and variable costs excluding transportation subsidy), these units are no longer commercially viable. If transportation subsidy were taken into account these units would become commercially viable but still the rate of return would not be encouraging. Their social costs are also much more than the social benefits and these units are economically non-viable. Also since the market for plywood and veneer is in the mainland, there could be no justification for these units to continue on A&N Islands' timber. Further, since the Supreme Court has ordered (order dated May 7, 2002) relocation of these units in the mainland away from forest areas, there is hardly any justification for transportation subsidy to these units.

Sawmills may be required to meet the local demand for timber. If government sawmills can meet this demand efficiently, there is no need for even these units. In fact, the Supreme Court order of May 7, 2002 says that licences shall not be extended or renewed even even in respect of the existing sawmills beyond March 31, 2003. In this situation the government sawmills would have to be more efficient. But government sawmills are subject to limitations. In that case, the existing sawmills may be allowed to continue, but no licence may be issued for new sawmills. Further, export of sawn timber to the mainland should not be allowed. And since net returns over all costs of these units are positive, there could be no need of any subsidy for them.