March 2012

BLASH
THE INTERNATIONAL TRADE CLUB

TRADEWINDS

Monthly magazine on National and International Trade

Company Profile
GLENCORE

Analysis of Indian Ports

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Analysis of Chilli and Guntur Yard

Sugar Supply Chain Industry in India

Industry Speaks
Rahul Poddar

INDIAN INSTITUTE OF FOREIGN TRADE

March 2012

Editor's Desk

Team Trade Winds is proud to bring to you the latest edition of IIFT's monthly trade digest.

Commodities look like they will take center-stage with prospects of global recovery increasing. Government decisions seem to make a flip-flop in commodities such as cotton. In this issue, we bring all the latest news in this sector over the last month. Our students bring about analysis of commodities such as Sugar and Palm-Kernel oil. Emphasis has been made on the operational aspect of Sugar commodity. In our constant endeavor to provide a diverse knowledge, we have come up with a brief report on the ports of India. In the company profile section we bring to you a snap-shot of Glencore. After bringing to you the views of our distinguished alumnus Sanjeev Asthana in the previous issue, we bring to you excerpts of interview with Rahul Poddar, Strategic buyer at Nestle and a distinguished alumnus of IIFT (2000-2002).

- S.V.Praneet Varma

Inside this issue

"If the United Nations is a country unto itself, then the commodity it exports most is words."

- Esther B. Fien

Write to us at blash@iift.ac.in

MCX soars on market debut, fuels optimism

The Multi Commodity Exchange (MCX), first Indian exchange to come out with an IPO, and also the first public offer of the year 2012 revived the overall market sentiment when it was listed at a premium of 34%.MCX also became the first company to list under the new Sebi rules introducing pre-open bidding in the first-day trade of stocks listing after IPOs. It had set a price band of Rs 860-1,032 per share for the IPO, and the final price was fixed at the top end (Rs 1,032) given the strong demand witnessed for the offer. Based on a new price-discovery mechanism, followed for the first time in MCX listing, the shares finally opened normal trade at the BSE at Rs 1,387 -- a premium of 34 per cent, and went on to gain further ground to a high of Rs 1,420. The promoters FTIL was holding 31.2 per cent in MCX, which came down to about 26 per cent after the IPO. FTIL, SBI, Bank of Baroda, GLF Financials Fund, Alexandra Mauritius Ltd, Corporation Bank and ICICI Lombard General Insurance were the investors divesting part of their holdings in MCX through the IPO.

Barclays, JPMorgan turn ace commodities players

Barclays and JPMorgan Chase have become top players in global commodity derivatives trading, catching up with long-time leaders Goldman Sachs Group and Morgan Stanley. The two banks tied Goldman Sachs and surpassed Morgan Stanley in the share of clients who use them for over-the- counter energy derivative trades, a Greenwich Associates survey of corporate treasury officials shows. In metals derivatives, JPMorgan dominated with a 60% market penetration. In energy derivatives, Barclays, Goldman Sachs and JPMorgan each had 41% market penetration, and Morgan Stanley had 37%, according to the survey. Among executives who use derivatives to hedge metals prices, 35% chose Barclays, 22% used Morgan Stanley and 21% did business with Goldman Sachs. Some companies use multiple investment banks for commodities derivatives trading. Although European energy companies said they do more business with London-based Barclays than its rivals, they selected Goldman Sachs and Morgan Stanley, both based in New York, as the top banks for service quality.

Did you know:

- *Japan is now the 3rd largest consumer of coffee. They use it to improve their skin and reduce wrinkles by bathing in coffee grounds fermented with pineapple pulp. Amazing! Beats mud-bathing.*

Food ministry hikes sugar production estimates

Food ministry has reviewed the output estimations for this year and sugar production is set to cross 25 million tonne - more than the initial estimates of 24.6 million tonne. Last year, sugar output stood at 24.3 million tonne. The revised estimation is expected to brighten prospects of more shipments from India (**World's 2nd largest producer**). The government has already allowed exports of 2 million tonne. Indian millers have been lobbying the government to allow up to 4 million tonne of exports this year. This may lead to an upward revision in the estimates and may prompt the government to open more exports. The cash flow from the exports will help millers make timely payments to farmers.

OPEC oil production up to record levels in Feb since 2008

Crude oil production by the OPEC group rose by 4 lakh barrels per day to reach 31.27 million b/d in February as compared to January. This is the highest monthly output from the 12 producing countries since the autumn of 2008, a Platts survey of the Organization of the Petroleum Exporting Countries and oil industry officials and analysts has revealed. Continuing recovery in Libyan production accounted for 2.5 lakh b/d of the month-on-month increase while smaller increments came from Angola, Kuwait, Nigeria, Saudi Arabia and Venezuela.

"For all of 2012, the call is 29.9 million b/d. Instead, OPEC is producing well over a million barrels per day above that, yet oil prices continue to climb. Output dipped slightly in Iran, Iraq and the UAE", said John Kingston, Platts global director of news. Given that EU Oil embargo on Iranian oil is due to come into force on July 1, this prompted other producers to ramp up facilities to meet the shortfall.

wilmar

Wilmar buys stake in Goodman Fielder, eyes more

goodman fielder

Singapore headquartered palm oil company Wilmar International said it has acquired a 10.1% stake in Goodman Fielder Ltd , Australia's largest listed food company, for $124 million and added its brands were a good fit. Wilmar is among several Asian companies that have been snapping up Australian food businesses. Wilmar bought Australia's largest sugar miller, CSR's Sucrogen, in 2010 for A$1.75 billion and last year took over Proserpine Sugar Co-operative for A$120 million. It beat off competition for Proserpine from Chinese state-owned food giant COFCO, which earlier took over mid-sized sugar miller Tully Sugar. Most recently, Thailand's Mitr Phol moved to complete the takeover of MSF Sugar.

GOVT REVOKES BAN ON COTTON EXPORTS

India issued a notification scrapping a week-old ban on cotton exports amid mounting protests from domestic farmers, traders and overseas customers. Traders should seek fresh registrations for exports, according to a statement on the website of the Directorate General of Foreign Trade (DGFT). The Government scrapped a ban on cotton exports imposed on March 5 after protests from farmers, traders and China. But the revocation would come with some riders to be decided at the March 23 meeting of the EGoM. Finance Minister Pranab Mukherjee, who heads the EGoM, had asked the Commerce Ministry to prepare a new notification after a meeting on March 9. India, the world's second-biggest cotton grower, won't allow fresh registrations for cotton exports until further notice, Rahul Khullar, commerce secretary, told reporters in New Delhi today. Only the quantity permitted before the export ban will be allowed to be shipped, the Trade Secretary said. Contracts for about 2.5mn bales are already registered and awaiting shipment. The ban had brought the cotton trade to a halt in Maharashtra, Andhra Pradesh, Gujarat and Karnataka.

RISE AND FALL OF OIL: SAUDI PIPELINE FIRE RUMOR

Oil surged nearly 5 percent on March 1st to its highest level since crude's record run in 2008 after a late report out of Iran of a pipeline fire in top exporter Saudi Arabia. Iranian media reported an explosion on an unknown oil pipeline in the oil-rich Eastern Province of Saudi Arabia, which later turned out to be a rumor. Markets have been on edge this year as threats of a supply disruption due to the West's standoff with Tehran over Iran's nuclear program have added to concerns about actual production losses from South Sudan, Yemen, Syria and the North Sea. There was immediate correction on March 2nd as the report was found to be baseless. New York's main contract, West Texas Intermediate crude for delivery in April, shed $2.14 to $106.70 per barrel, one day after hitting a nine-month high at $110.55.

Drought tightens corn supply before huge harvest

Droughts from Mexico to Argentina are shrinking corn stockpiles to a five-year low, raising the prospect of a bull market before US farmers start reaping the biggest crop ever. Global reserves will drop 4.2% to 123.43 million tonne by October 1, according to the average of 21 analyst estimates compiled by Bloomberg.

That's equal to 52 days of consumption, the fewest since 1974. Goldman Sachs expects prices to rise 8.8% to $7 a bushel before the US harvest starts in September, 21% above the one-year closing low reached on the Chicago Board of Trade in December.

CWB signs grain deal with Cargill

The Canadian Wheat Board has agreed with Cargill Ltd to move the CWB's 2012/13 grains through its grain elevators and port facilities, the first such deal as the board moves to compete in the open market. The Wheat Board will lose its wheat and barley marketing monopoly in August for the next harvest, leaving it to compete to buy farmers' grain against companies like Cargill, Viterra and Richardson International. The CWB lacks country elevators and port storage space.

Traders eye new markets in Iran and Iraq as wheat harvest begins

Wheat harvesting has begun across parts of Gujarat, Rajasthan, Maharashtra and Madhya Pradesh and supplies will pick up in a fortnight across central, peninsular and north India. With international wheat companies Cargill, Louis Dreyfus, Olam India, Glencore, and Noble yet to lease godowns, traders and warehouse owners are worried about off take. According to the US Department of Agriculture (USDA), with global stocks of wheat at record levels, India's minimum support price works out to $346 a tonne which is higher than the world market, leaving little room for exports. However, Indian wheat traders are exploring new markets in sanction-struck Iran and its neighbor Iraq. Scientists have observed higher yields this year in early-sown wheat varieties across the country and if there was no heavy rainfall, hail and snowfall, India could record a bumper wheat production of 88.31 million tonne in 2012. Wheat traders and companies have been able to export only around 5 lakh tonne of wheat after an export ban was lifted in September last year. Indian wheat, which lost the race to cheaper Russian and Australian wheat in global market, could be offloaded to Iran as its is scaling up grain imports on fear of poor crops due to dry weather. Similarly, Iraq's 2012 wheat crop is expected to fall 11% to around 1.87 million tonne as fewer rains in the northern growing region have reduced planted area and yield prospects. Iraq has approached India to buy rice, sugar and edible oil, besides wheat.

Did you know:

- *The world's only Corn Palace was built in 1892 in Mitchell, South Dakota to celebrate the farmer's harvest and as a tribute to the agricultural heritage of South Dakota.*
- *The Aztec emperor Montezuma reportedly drank fifty or more portions of chocolate every day!*

Cooking-Oil Imports by India Seen Climbing to Record as Harvests Decline

Cooking-oil imports by India, the biggest palm oil buyer, will climb as much as 12 percent to a record after dry weather and excessive rain curbed oilseed crops, according to GG Patel & Nikhil Research Co. Purchases will total 9.2 million metric tons to 9.4 million tons in the year that began on Nov. 1, compared with 8.37 million a year earlier. India bought a record 8.82 million tons in 2009-2010. The tropical oil, used in everything from candy bars to biofuels, advanced to the highest level in eight months on Feb. 28 as dry weather cut soybean harvests in South America. Global inventories of soybean and palm oils will drop to 7.84 million tons by the end of 2011-2012, the lowest in four years, U.S. Department of Agriculture data show. About 80 percent of India's purchases consist of palm oil. Oilseeds production in India may drop to 30.5 million tons in the year ending June 30 from 32.48 million tons a year earlier, according to the farm ministry. The soybean harvest was damaged in Madhya Pradesh state, the biggest grower, because of excessive rains.

Argentine grains ports hit by dock workers' strike

Argentine dock workers went on strike for want of better conditions on Thursday, slowing the country's ports just ahead of corn and soybean harvests which is key to world grains markets and the local economy. Argentina supplies nearly half the world's soy meal, used for animal feed, as well as soy oil, used for cooking and in the booming international biofuels sector. The South American country also provides about 12 percent of soybean exports and is the world's No. 2 corn exporter after the United States. The strike halted at least two cargo ships in the country's main grains hub Rosario, said Argentina's port chamber, known by its Spanish acronym CAPYM. The chamber issued a statement saying all the country's ports were being affected by the work stoppage, which was called as Argentine farmers get set to bring in their crops. Labor unrest is common in Argentina, where unions strive for pay raises in line with annual inflation estimated by private economists at over 20 percent.

Did you know:

- *Virtual water is the water 'embedded' in commodities. Producing goods and services requires water; the water used to produce agricultural or industrial products is called the virtual water of the product.*

US HIKES DUMPING DUTY ON INDIAN SHRIMP IMPORTS

The Sixth Administrative Review on shrimp exports to the US has fixed a 2.51 per cent anti-dumping duty on Indian shrimp consignments, up from 1.69 per cent awarded last year. However, what is noteworthy of the latest review is that another company, Falcon Marine, has been awarded de-minimus status - they have been awarded duty of 0.5 per cent or less, sources in the Seafood Exporters Association of India (SEAI) said. Earlier, Devi Seafood had already come under the sub-minimus status. While there have been a small increase in the rate of duty for the country as a whole, SEAI sources said that it will not have any serious implication for trade. The findings of the Sixth Administrative Review were announced in the US on February 29 and India is still to get the detailed report. What is salutary, SEAI source pointed out, is that Indian shrimp exports to the US should be out of 'zeroing' at the end of the Seventh Administrative Review period – February 2012 to January 2013.

WHAT IS ZEROING : While it is inevitable that every country would be forced to sell a very small portion of its export consignment beneath fair-value price mainly under distress conditions, the practice of the US Customs to identify these specific consignments and charge anti-dumping duty on all shipments is known as zeroing. The World Trade Organization, in recent rulings ,has declared zeroing as an illegal practice under the WTO guidelines as it was found violating several international and multilateral trade rules. The removal of zeroing will be welcomed by the Indian trade and is expected to strengthen the country's shrimp exports further. India's seafood exports increased to Rs 12,191 crore during April-December 2011, with shrimp exports contributing the bulk.

FROZEN SHRIMP : Frozen shrimp exports constituted over 51 per cent of the total value of seafood exports during the period. What is further noteworthy is the fact that US was the single most important shrimp export destination during the period. The US accounted for 33 per cent of India's total shrimp exports and realized 42 per cent of the shrimp export realizations. The low rates of anti-dumping duty and positive moves on zeroing would have far reaching positive impact on India's seafood exports.

Did you know:

- *There are four main types of tea: white, green, oolong, and black. But depending on the influence of culture, these four types can turn into thousands of varieties.*

AN INTERVIEW WITH RAHUL PODDAR

SUPPLY CHAIN – The Enabler

Rahul Poddar (A distinguished alumnus of IIFT), has seen the complete integration of supply chain from farm to factory gate of many agro Commodities and one of the select few who was responsible for rolling out and managing the "e- choupal" channel very early into his work at ITC. Later he moved to AWB India Pvt Ltd. as a trader before taking up the challenging role of Controlling a spend of Rs 300 Cr as Strategic Buyer at Nestle India Ltd. Here are few excerpts from the Interview

How technology and innovation could enable better supply chains for procurement and sourcing?

Technology is making possible real time assimilation and analysis of information expanding across geography and cutting across different functional departments. This in turn has automated decision making to large extent and for the ones which still require human intervention there is a drastic cut in decision making and dispersion time. All this comes together to make real time and agile yet intelligent Supply Chain to respond to dynamic and volatile market needs in most efficient and optimized manner. With today's pressures on costs due to commodity volatility and depleting consumer expenditure every penny saved by operational efficiency is money earned.

Apart from infrastructure, what other issues cripple supply chains of companies doing procurement in India?

Variable regulatory requirements and taxation structure are the main problem areas for the supply chains of India. Often these two factors force in sub optimization in supply chain structuring thereby leading to wastes which otherwise would have been easily avoidable.

There is too much hype and hoopla around contract farming. Is it justified?

Contract farming as a concept has miserably failed in India. There are enough examples in the past two decades of failed attempts by reputed corporate across geography of India. This concept is unworkable in India for two reasons. Firstly it places restrictions on the freedom of choice of farmer which statutorily is almost impossible to enforce in India given laxity in our commercial laws and elongated time required for litigation finalization. Secondly despite being the largest producers India is still deficit in almost all the crops due to its huge consumption base. This fundamentally short circuits the idea of making seller of scarce commodity to comply to a contract restricting his selling options.

What are your views on APMC act with respect to the sourcing for food industry?

As per my information there is no centralized APMC act in India. Agriculture is a state subject and each state administers its own APMC act. Mostly the provisions are designed as per the individual state's interest in mind w.r.t its consumption or production. This distorts the supply chain structure across different states. This causes unnecessary diversions or routings of flow of commodities from farmers to consumers thereby causing more wastage and increase in final cost to consumer.

Any suggestions for the current students at IIFT who would like to build a career in this field?

Supply chain management is a key vertical in any manufacturing oriented organization. Given cut throat competition in all industries there is no scope of inefficiency available to organizations. With top line and bottom-line pressures increasing, supply chain plays the key role in providing the organization a competitive edge to survive or thrive in market.

PALM KERNEL OIL MARKET-INDONESIA

by Hitesh Yadav (1st year MBA-IB)

Indonesia Palm Kernel Oil Market Overview ***"Palm oil area of production is expected to increase to 15 million hectares, double compared to current levels, by 2020." ------ Agriculture Department, Indonesia***

Key Highlights

- Exports dominate the demand for PKO in the Indonesian palm kernel oil market. More than 60% of the PKO produced in the country is exported.

- The domestic (**Indonesian**) demand for PKO grew at a CAGR of 5.51% between 2006/07 till 2009/10. During the same period, production grew at the rate of 5.12%. This growth was mostly driven by the demand from the global market.

- The production of PKO is expected to increase at a CAGR of 3.78% and Indonesia's domestic demand is expected to grow at a CAGR of 2.85% between 2010/11 till 2014/15. Both production and demand will be driven by the growing demand from across the globe.

- Malaysia, a leading producer of palm kernel oil in 2003, started losing its market share from 2003 due to production and stiff competition from Indonesia.

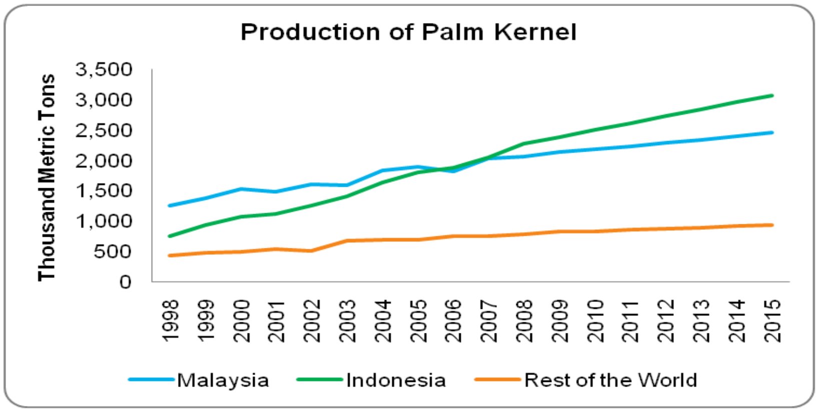
- Malaysia's idle agricultural land for palm production totals only 0.8 million hectares. Indonesia, however, has 26.8 million hectares.

- Indonesia has a very high potential to grow and is likely to be a market leader. It is projected that Indonesia will produce 48% of global palm kernel oil production in 2015, up from 44% in 2009.

Global Trend

Historically, from 1998–2011, palm kernel oil production grew at a CAGR of 5% in Malaysia, 11.1% in Indonesia and 6.1% in the rest of the world due to the increase in per capita consumption of palm oil. Globally, the per capita consumption of palm kernel oil was growing at a CAGR of 5.3% from 1998–2009 and is expected to grow at a CAGR of 2.4% from 2009–2015. The increase in per capita income and the growing population are expected to increase the demand for PKO (**P**alm **K**ernel **O**il), which will lead to a rise in the production of PKO in Indonesia.

Trade Activity

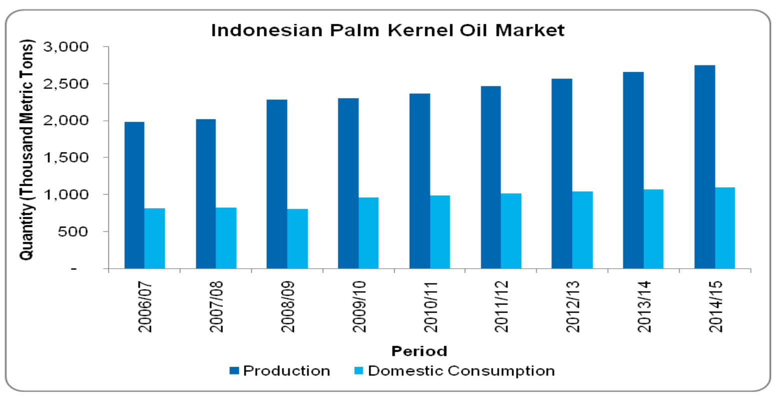


Key Highlights:

- From 1998–2011, palm kernel oil exported from Malaysia and Indonesia grew at a CAGR of 1.6% and 16%, respectively, since the demand for palm kernel oil from China and Europe started increasing.
- In 2008, 74% of palm kernel oil exports were from Indonesia and 26% were from Malaysia. These two countries are expected to be the largest PKO exporting nations in the near future due to the high availability of PKO in these countries.
- The import of palm oil in China and Europe was growing at a CAGR of 36.6% and 3.8%, respectively, from 1999–2009.
- The demand for PKO from emerging countries, such as India and China, is being driven by their growing population and increasing per capita income. This demand is expected to increase the exports of PKO from Indonesia.

PKO Drivers and Constraints in Indonesia

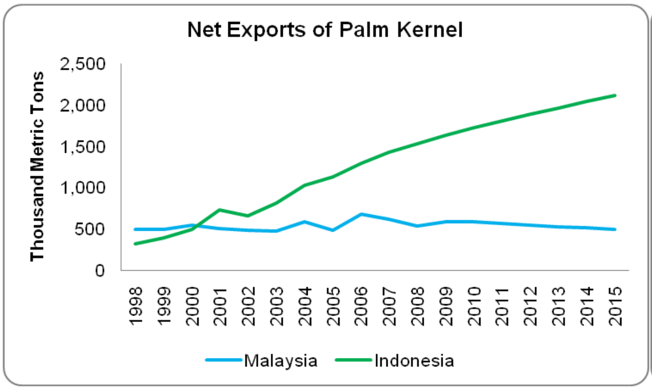
Industry Drivers

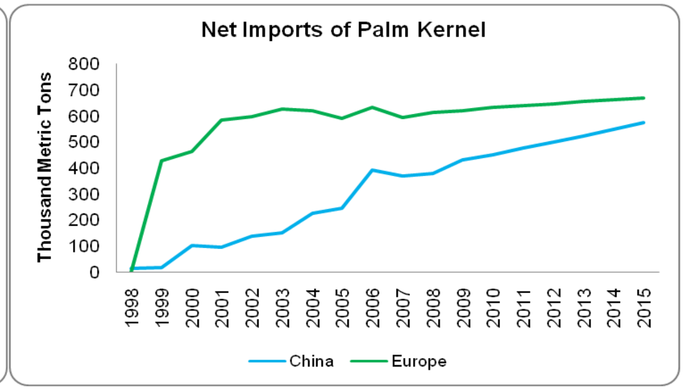


- The growing demand for palm kernel oil in developing nations, especially from the food sector (which is increasing because of the growth in population), is expected to drive the demand for palm kernel oil.
- The growing demand for palm oil across the globe is expected to increase the availability of palm kernel, thereby increasing the supply of palm kernel oil in Indonesia.
- The increasing prices of CPO (**C**rude **P**alm **O**il) are expected to drive small holders to increase their plantation area, which is expected to increase the availability of CPO and PKO.

Industry Constraints

- Growing concerns about deforestation in Indonesia's forest for the purpose of palm plantation, which affects the wildlife and increases CO_2 emissions, are hindering plantation expansions.





- Major producers, like Unilever and Nestle, have implemented initiatives to source only from RSPO (**R**ound Table **S**ustainable **P**alm **O**il) certified suppliers. This practice will affect the future expansion of large companies.

Regulations and Export Tariffs

Indonesia Sustainable Palm Oil (ISPO)

- The Indonesian government has implemented ISPO, an initiative to save the forest. According to this mandatory requirement, players are not allowed to set up new plantations in reserved and protected forest areas.
- Producers are also expected to manage their waste responsibly and employ renewable energy in the production process.

Export Taxes

Indonesia has imposed export tariff slabs for CPKO as well as CPO. As the price increases, the tariff percentage also increases, which prevents price hikes.

Export Rate	
Crude Palm Oil	Base Price: $754 Tax: 4.5%
RBD Palm Oil	Base Price: $797 Tax: 3.0%
Impact	The different slabs for export taxes tend to keep the price from increasing. However, the export tax may hinder exports, which affects the industry because producers are dependent upon exports to sell their products.

Export Rate	
Crude Palm Kernel Oil	Base Price: $989 Tax: 3.0%
RBD Palm Kernel Oil	Base Price: $1,019 Tax: 3.0%
Impact	As the base price is fixed, any increase above it will attract more taxes. Hence, the price might not increase drastically.

Key Takeaway: Indonesia's palm oil production is expected to be greater than other producing countries and rise steadily in the export market. Its continued increase in production is a result of plantation area expansions and favorable weather conditions.

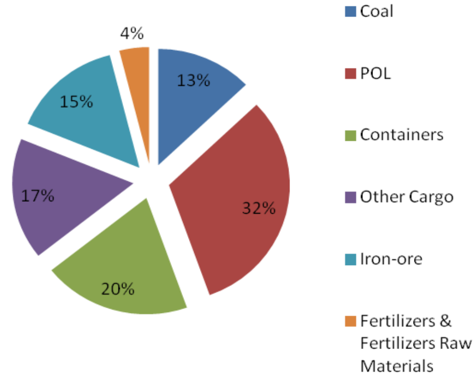
Analysis of Indian Ports

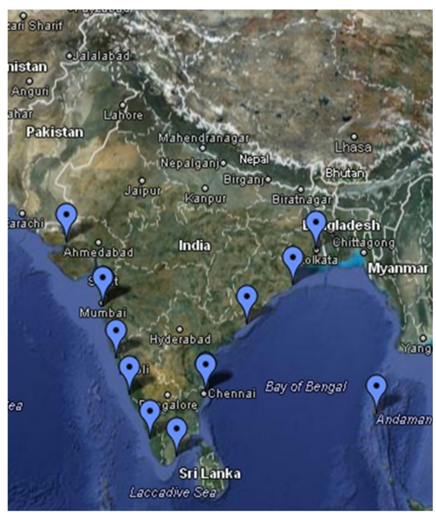
by Prince Jain (MBA-IB—2011-2013)

India has an extensive coastline of 7517 km (excluding Andaman and Nicobar Islands) with 12 major and 200 non-major ports. They handle 95% in terms of volume and 70% in terms of value of country's trade amounting to 849.9 million tones. Non-major ports account for around one-third of the same. The classification of Indian ports into major, minor and intermediate has an administrative significance. Indian government has a federal structure, and according to its constitution, maritime transport falls under the "concurrent list", to be administered by both the Central and the State governments. While the Central Shipping Ministry administer the major ports, the minor and intermediate ports are administered by the relevant departments or ministries in the nine coastal states—West Bengal, Orissa, Andhra Pradesh, Kerala, Karnataka, Goa, Maharashtra, Gujarat and Tamil Nadu.

The 12 major Ports are-

- Kandla (Gujarat)
- Mumbai (Maharashtra)
- Jawaharlal Nehru (Maharashtra)
- Marmugao (Goa)
- New Mangalore (Karnataka)
- Cochin (Kerala)
- Tuticorin (Tamil Nadu)
- Chennai (Tamil Nadu)
- Ennore (Tamil Nadu)
- Visakhapatnam (Andhra Pradesh)
- Paradip (Orissa)
- Kolkata, Haldia (West Bengal)

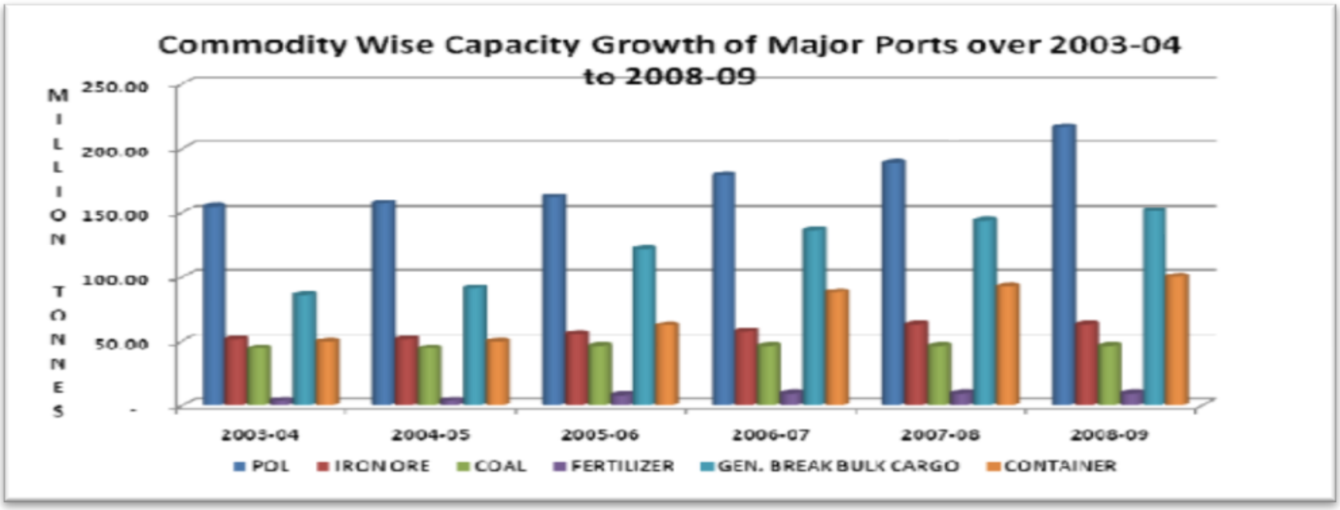




The gap between the cargo traffic handled by major ports (i.e., government-owned ports) and minor ports is narrowing, with major ports' share of cargo traffic shrinking while minor ports' share of cargo traffic grew accordingly. In fiscal year 1998, major ports handled around 90% of India's total cargo traffic, leaving about 10% for the minor ports. However, the cargo traffic handled by minor ports has trended upward since 1998. Over the last 12 years, the major ports' share of cargo traffic has dropped to approximately 65% while minor ports' share has increased dramatically to nearly 35%. These changing trends were the result of increasing private participation in establishing minor ports. Cargo traffic handled by the major ports grew by just 5.8%, while cargo traffic handled by minor ports grew at 35.5% during fiscal year 2009-2010.

In terms of cargo composition, petroleum-oil-lubricants (POL) is the dominant commodity carried through major ports. It accounted for nearly 32% of the total cargo in 2010-11. Container cargo was the next largest commodity in the mix, accounting for 20%, closely followed by iron ore at 15%. Coal is also an essential component of cargo at Indian ports and accounted for about 13% of the total cargo in 2010-11.

Bar Graph given below shows the increasing share of POL in the Indian Cargo over the last few years. This is due to an increasing demand of crude oil in India. This is causing a steep growth in Indian Im-



ports bill, which is ultimately leading to a greater current account deficit as imports grew 20.6% in February in comparison to only 4.3% increase in exports.

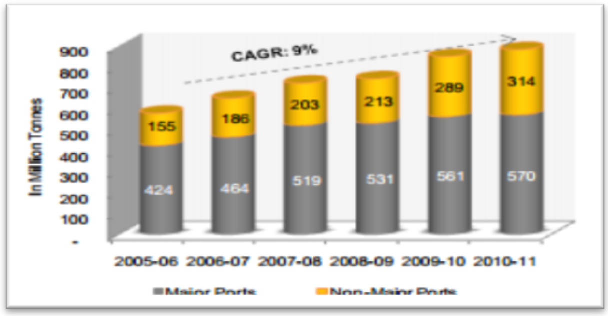
Following is an estimate of the cargo composition of India for the next 10 years. One thing is clear from these statistics that Indian ports needs to be more efficient in handling such a high volume of cargo in next few years.

Cargo Volumes All Ports (mmt)	2009-10 Actuals	2011-12 Projected	2016-17 Projected	2019-20 Projected	7-year CAGR (FY10-17)	10-year CAGR (FY10-20)
Coal	113	187	476	570	23%	18%
POL	320	333	528	660	7%	7%
Iron-ore	149	156	228	259	6%	6%
Containers	116	148	384	486	19%	15%
Others	151	208	403	520	15%	13%
TOTAL CARGO	**850**	**1,032**	**2,019**	**2,495**	**13%**	**11%**

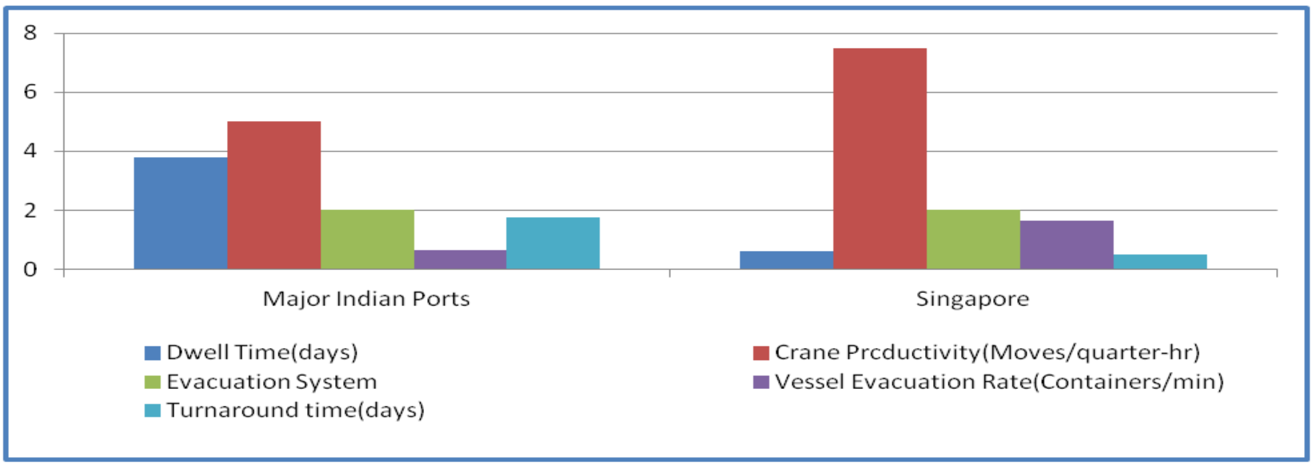
Source: Maritime Agenda 2010-20

The infrastructure efficiency of any port is measured by:-

- Total traffic
- Number of vessels
- Total number of TEUs
- Average Pre-berthing Detention of Vessels (In hours)
- Average Turnaround Time of Ships (In days)
- Average Output per Ship berth day (In tonnes)
- Average Idle time (%)
- Average Berth Occupancy (%)



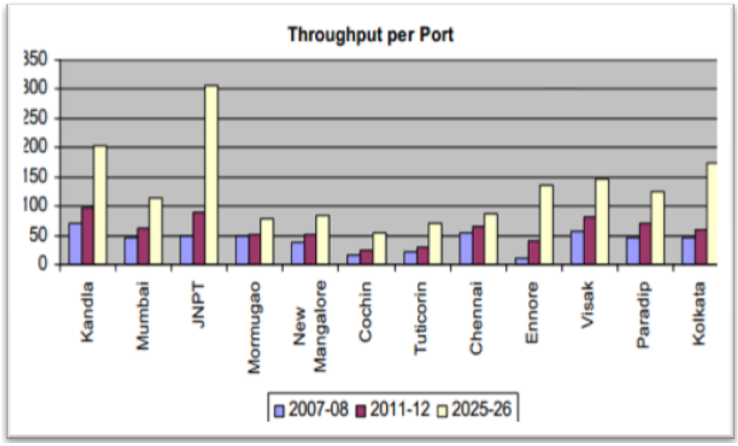
Based on these parameters a score called Quality of Port Infrastructure is calculated by World Bank for



each country every year. (Score: 1=extremely underdeveloped to 7=well developed and efficient). For India it was 3.86 in 2010. Of all the 125 countries evaluated India ranked midway at 61 with Singapore getting a score of 6.9 and ranked 1. The capacity utilization of ports in India has been 83% in 2010-11, with 85% for major ports and 81% for minor ports. This is expected to decrease further to 78% in 2016-17. But due to various projects being undertaken, the figure is expected to go up again to 80% in 2019-20. The graph shows the current and projected throughput of all the various major ports of the country. As is clearly evident, JNPT is projected to be the most efficient of the major ports in 2025-26. Kandla and Kolkata are also projected to achieve a greater throughput compared to other ports. The major reason for a comparatively worse throughput of Indian Ports is their high Turnaround Time. This has resulted in a low competitiveness of Indian Ports. As compared to the turnaround time of 12 hours of Port of Singapore, it was 3.79 days on an average in 2008-09 for the ports of India. It has further increased to 4.38 days in 2009-10. The average pre-berthing waiting time has also increased in 2009-10 to 11.67 hours, against 9.55 hours last year.

Conclusion:

The Indian port industry is poised for tremendous growth in the coming years as a long coastline provides India an opportunity to transform itself into a transshipment hub. Also a huge Indian market and landlocked countries in the north will ensure that the ports see a rise in traffic. The sector has a huge potential, in order to fully tap this potential there is a need to tackle some key issues, like:



- Port capacity
- Improving the port productivity to international levels, in terms of measurable like turnaround times, dwell times etc.
- Making the cargo handling systems more efficient
- Lowering port dues on vessels
- Improving inland transportation capacity
- Making the institutional framework less rigid
- Use of IT for improving process efficiency at all major ports
- Revised regulation of Port tariffs
- Improving the quality of services/business attitude
- Professional Port Management

Did you know:

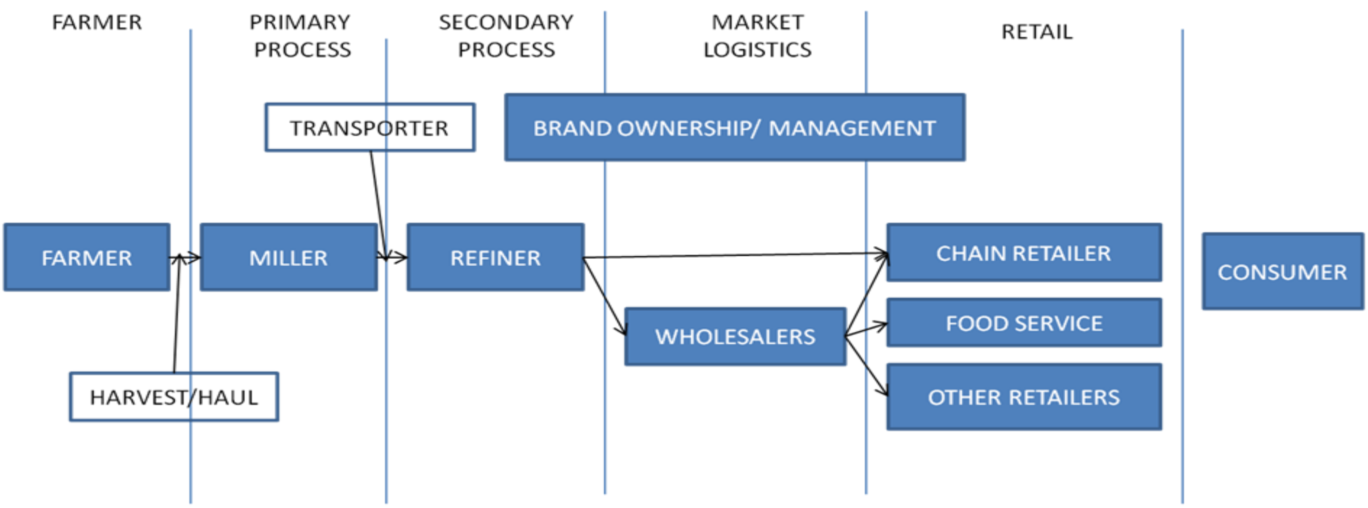
- *LCL stands for less than container load, FCL stands for full container load and the mass/weight ratio in freight shipping will always be in 1 cbm (cubic metre) to 1 ton.*
- *There was a time in the past, when Indians were the masters of the sea borne trade of Europe, Asia and Africa. They built ships, navigated the sea, and held in their hands all the threads of international commerce, whether carried on overland or sea. In Sanskrit books we constantly read of merchants, traders and men engrossed in commercial pursuits. Manu Smriti, the oldest law book in the world, lays down laws to govern commercial disputes having references to sea borne traffic as well as inland and overland commerce.*

SUPPLY CHAIN MANAGEMENT IN SUGAR INDUSTRY *by Himanshu Verma (1st year MBA-IB)*

Sugar industry is second largest agro-based commodity in India after textile. Sugar production in India follows a five year cycle with 2-3 years of high production followed by 2-3 years of low production. There are 553 installed sugar mills in the country with a production capacity of 180 lakh MT of sugar. 60% of these mills are in the co-operative sector, 35% of the total are in the private sector and rest in the public sector.

Sugar industry can be classified into unorganized and organized sectors. In India, sugar industry is highly regulated. Perishable nature of cane, small farm landholdings and the need to influence domestic prices; all have been the drivers for regulations. Since 1993, the regulatory environment has considerably eased, but sugar still continues to be an essential commodity under the Essential Commodity Act.

SUPPLY CHAIN OF SUGAR



VALUE CHAIN

The industry is highly regulated in India across the entire value chain from cane growers to millers/ manufacturers, traders and final consumer. Various controls on the industry cover the aspects such as licensing, capacity, cane area, location of mills, specific taxes and levies, cane cess, etc.

The cost of cane procurement accounts for 70 percent of the ex-mill sugar price and is the largest cost component of sugar. The sugar industry contributes to the government through a number of taxes levied across the value chain. When the mills purchase sugarcane, a purchase tax is levied by the respective state governments. This purchase tax varies across states. Haryana and Bihar have the lowest purchase tax, while Tamil Nadu and Karnataka have the highest purchase tax.

The sugar produced by the mills attracts an excise duty and a cess. The mills also pay an excise duty on molasses. In addition to the various taxes discussed above, the industry also pays direct taxes to the government. Additional taxes also accrue from other value added products like alcohol, chemicals, paper boards, and so on.

The farm-to-retail price spread measures contributions of food manufacturing, wholesaling, and retailing firms. The difference between farm value and retail price rarely gets transformed into any significant value addition — more often than not, there is only value depletion. Micro-studies on marketing margins show that cereals have a margin of 19.2%, 32.9% for fruits and vegetables, 7.2% for oilseeds, 6.7% for milk and milk products, and 37.2% for sugar and sugarcane. In India, there are usually 7-8 middlemen between the farmer and the retail consumer.

PROCUREMENT

Farming in India is highly fragmented with farmers owning small tracts of lands. Sugar mills in India produces refined white sugar of 100-159 ICUMSA, known as plantation white sugar using sugarcane as Input.

In India every sugar factory whether it is private or co-operative has their command area allotted to them based on their crushing capacity by the government. During the crushing season they are allowed to procure sugarcane from command area which gives a regular supply of sugarcane.

Each sugar mill both in the private and cooperative segments of the industry in its command area enters into a formal written contract with farmers for cane delivery to a mill. Mills conduct a comprehensive annual farm survey during the month of May/June to assess each cane grower's area under the early, mid and late cane varieties and the major cultivable practices i.e. plant and ratoon.

Each sugar mill procures cane from about 8,000-10,000 diversified farmers that increase the complexity of managing cane procurement, quality control and cane development. Being a bulky product, sugarcane must be processed within days of harvesting or it loses its sucrose content. Therefore, mills must be located closer to the cane fields to minimize transport costs and sucrose losses. Sugar mills have monopsony power under the "command area" or zoning system, whereby farmers who have land in a particular area can only sell cane to the assigned mill in that region and the mill can only buy cane from the farmers in its command area. Cane price floors are set by state and national governments. Each mill pays its farmers a single price per metric tonne of cane every year, based on weight {i.e., mills cannot price discriminate on the basis of quality, each farmer must be paid the same price per ton of cane.

SUGAR PRODUCTION

Sugar production is a two-stage process. The first stage consists of planting and growing sugarcane, and harvesting and transporting it to the factory. Sugarcane is a water and fertilizer intensive crop that is harvested yearly. Once harvested, the stalk can re-grow for another 1-3 harvests. The second stage involves extracting sugar from the cane at the factory. The harvested cane is crushed to extract sucrose-rich juice, which is boiled and refined using lime and sulphur to produce sugar crystals. The crushing season usually runs from November through April/May.

DISTRIBUTION

All mills regularly submit data pertaining to sugar stock position to the Department of Food and Public Distribution. The Department directly allocates sugar sales quotas to each private mill while to the co-operative mills it is allocated through the State Sugar federation.

The government has approved licensed supply agents, actual users with storage license and the mills are entitled to sell sugar only to these authorized agents. Supply agents are attached to each cooperative sugar mill from both within the state and the adjoining states.

These agents collect sugar purchase orders from wholesalers, place these along with delivery instructions before mills, arrange for sugar deliveries from mills and collect payments from wholesalers for the client mills. Mills pay them commission @ 0.5% - 0.75% for the rendering of these services.

Every year, the Central Government fixes a statutory minimum price (SMP) of sugarcane for farmers. Different states also announce independently state-advised prices (SAP), which are often higher and bear no relationship with the SMP. The prescribed sugarcane prices have now been related to the sucrose content in the cane, which has motivated the farmers to improve the quality of the crop. The Supreme Court had decreed in a judgment that only the SMP announced by the Central Government is relevant in negotiating the price of cane.

Sales agents are required to sell sugar within two weeks of its receipt (earlier it was one week) to retailers/wholesalers (only once). Secondary sale deeds are transacted through brokers. Such brokers bring together wholesalers and retailers for an ultimate sale and they charge a brokerage up to 0.25%. Sugar moves from mills as a mass product to the wholesale/retail markets. Finally, retailers break down these whole lots and pack sugar into consumer packs.

Did you know:

- *The first traces of crystallizing sugarcane dates back to the Gupta dynasty in India. Around this time, people chewed sugarcane in its raw form to extract its sweetness, as the concept of crystallized sugar was unimportant. The method of turning sugarcane juice into crystals was discovered by Indians. They realized that the crystallized form was not only easy to store, but also convenient, when it came to transportation.*

Analysis of chilli and Guntur yard

by Anil Kumar Kolla (IIFT 2010-2012)

Chilli is the second largest traded spice in the world with a 22% contribution in the world spice trade. It is a fruit of the plant Capsicum annuum and Capsicum frutecens that belong to the family Solanaceae. It is known for its sharp acidic flavor and color and is primarily used in making beverages and medicines. The duration of crop is 3 to 4 months. The crop is planted as and when the rainfall occurs starting from August and harvesting takes place in December and chillies start reaching the major markets in February and March. There are several varieties of chilli cultivated in India. The most popular among these are (Guntur) Sannam, LC 334, Byadgi, Wonder Hot, Jwala etc.

A few salient points about Chilli Trade in India are –

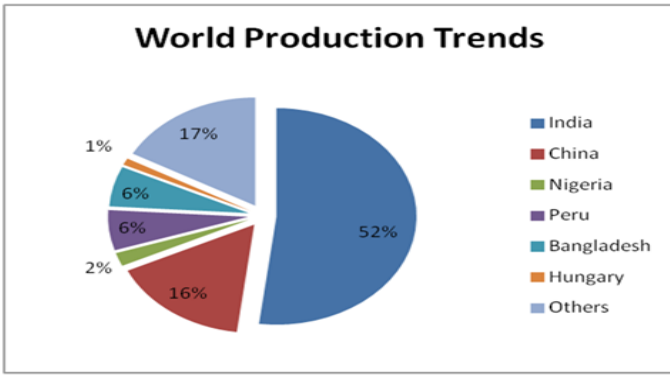
- India is the largest consumer of chilli in the world. Around 90% of India's production is consumed within the country. India contributes 25% of the Global chilli exports
- It is estimated that around 25-30% of the chilly crop is used for powder preparation, with the branded chilli powder manufacturers accounting for around 5% of the total volume
- Guntur is Asia's largest market for chillies. The marketing season begins in the first week of February, peaks during the month of April, and closes by the middle of May
- India exports chillies in the form of dried chillies, chilli powder, picked chillies and chilly oleore
- Out of all spices , Chilli occupies first position in Spice exports from India
- The area of chilli cultivation in Andhra Pradesh is 26 per cent of the total area in India while the production stands at 55 per cent level. This is due to the very high productivity in Andhra Pradesh. Guntur district in Andhra Pradesh stands first with 38 per cent production followed by Khammam, Warangal and Prakasam.

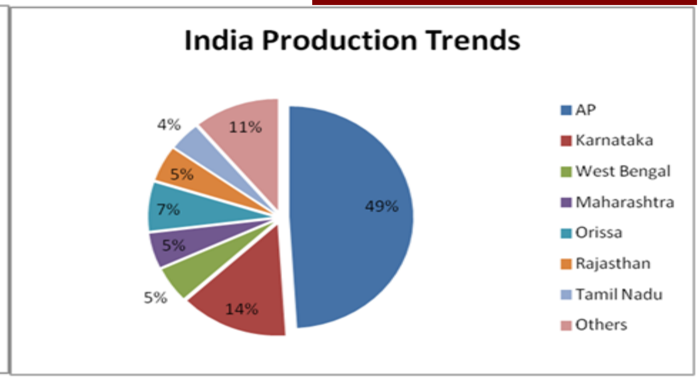
World Trade in Chilli

Global production of chilli stands at about 20 lakh MT to 25 lakh MT per annum. India is the largest producer and contributes about 12 lakh MT to 13 lakh MT annually followed by China, Nigeria, Peru, Bangladesh, Hungary, Spain, Mexico, Pakistan, Morocco and Turkey. Domestically, Andhra contributes 49 % of total production followed by Karnataka (14 %), Orissa (7 %), Maharashtra (5 %), West Bengal (5 %), Rajasthan (5 %) and Tamil Nadu (4 %).

Major importers of Indian chillies are Sri Lanka, Bangladesh, U.K, Germany, France and U.S.A.

India has immense potential to export different types of chillies required by various markets around the world. It is the leader in export, with 25% share in world trade, followed by China with 24% share in total global export. Clearly, China is a serious competitor to India in the international markets, penetrating all major markets like Indonesia and the US. Indian chilli exports are mainly

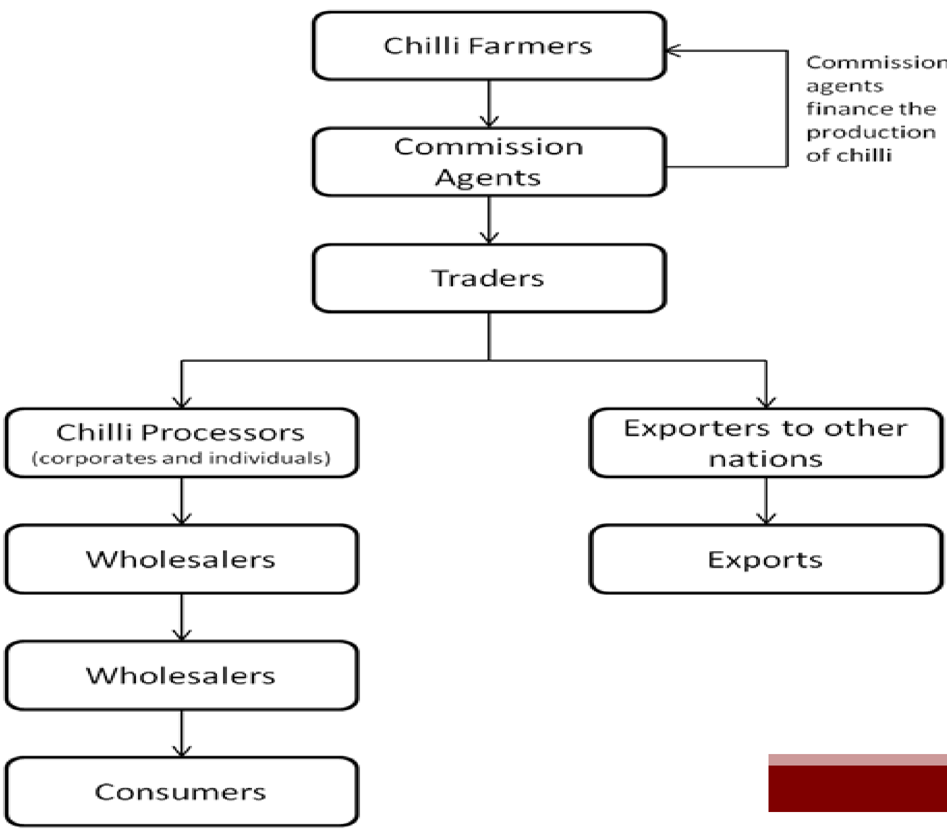




affected by domestic demand and uneven production which is due to erratic monsoon, drought, and yield factor. It is observed that India's chilli exports are showing an increasing trend from the last decade on rising export demand coupled with short supply from other major producing countries, and ban by the European Union on imports of chilli from Pakistan due to presence of aflatoxin in its produce.

India started exporting chilli in 1960-61, with 8,364 tonnes valued at Rs.176 crore. Since 2001-02, India's export performance has been excellent, with higher international demand pushing exports to current levels. According to the Spices Board, the total export of chillies from India in 2007-08 touched a record high of 2.09 lakh tonnes, valued at 1097.59 crore, up 41.2%, against 1.48 lakh tones valued at Rs 808 crore shipped 2006-07. Again, it is expected that 2010-11 will result in a bumper export of 2.40 lakh tonnes with a total value of Rs 1535.54 crores.

Participants involved in Chilli trade



Chilli Balance Sheet

Year	Production		Import		Export	
	Area (hectare)	Production (tonnes)	Quantity (tonnes)	Value (crores)	Quantity (tonnes)	Value (crores)
2005-06	742,200	1,023,128	933	4.44	113,174	403.01
2006-07	809,437	1,325,273	1,595	10.30	149,022	808.56
2007-08	836,684	1,371,250	475	3.61	209,000	1097.50
2008-09	801,070	1,353,796	820	6.57	188,000	1080.95
2009-10			1,300	7.50	204,000	1291.73
2010-11(E)			450	4.08	240,000	1535.54

About Guntur Chilli Yard

Guntur Chilli Yard, also famously called as Guntur Mirchi Yard, is regulated and owned by the Agricultural Market Committee (AMC), Guntur. Originally called as 'The Guntur– Bezawada Tobacco Market Committee', it was constituted in the year 1939 for the prime purpose of regularisation of trade of Tobacco. Its objectives are –

- To supervise and regulate the sale and purchase of agriculture produce
- To provide organizational protection to the producer and purchaser by avoiding the malpractices and exploitation in the Market
- To help the farmer from the clutches of the middleman
- To provide justice both to the purchaser and seller in all activities relating to purchase and sale of agriculture produce
- Finally, to establish a place with all facilities required for smooth transaction of sale and purchase of agriculture produce

Asia's Biggest Chilli Market: Reputed to be as largest Chilli Market in Asia, the market attracts produce from different parts of the state and buyers from all over the world. It also generates the highest revenue in terms of market fee among all the Market Committees in the state.

Sale-Commission-Agent System: Over the years, the AMC has been following the tried and tested method of selling the agricultural product through Commission Agent system. Chillies brought to the Market Yard are sold in an open auction. The market has 575 Commission Agents as selling agents on behalf of chilli farmers and has 375 chilli purchasers and exporters (Traders). The sale of chilli in the Market Yard starts soon after model auction at 7.00 a.m. The sale price will be announced through a public announcement system and the traders could procure chillies after examining and verifying the samples

The major states to which chilli is exported from Andhra Pradesh and particularly from Guntur are – Tamilnadu, Maharashtra, Kerala, Delhi, West Bengal, Karnataka, Gujarat, Orissa

Participants in the Guntur Chilli Yard

There are two important participants in the Chilli Yard – Commission Agents and Traders. Their business model has been in existence and has been successful over decades.

The Commission agent's working model is as follows –

- Commission agents or kachcha adatias are small traders to whom the farmers typically sell their produce
- The trader/commission agent provides financial assistance to the farmers to buy the seeds, fertilizers and other information regarding the crop demand so that the farmers get leverage to buy the required inputs and till their land for the season
- Once the produce is collated after the production season, the farmer brings it in bags to the commission agents
- The agents act as intermediaries and help farmers in finding suitable purchasers.
- The agents receive a specific pre-defined percentage commission from the farmer on the sale of the produce.
- The agents pay the farmers upfront after the sale of the produce, but give a credit of about 15 days to the buyer of the produce

Traders are those people who buy the chilli from commission agents and export them to various states where processing plants are located or from where sometimes chilli is exported. The typical business model of these traders is as follows –

- Traders buy the chilli produce from farmers via commission agents
- The traders are given a credit of 15 days by the commission agents, but the commission agents pay the farmers upfront once the trade is done
- The traders gather demand from their buyers and thus make the forecasts of demand of chilli for the next season
- The prices quoted by the traders are a function of demand and supply of chilli
- Occasionally, traders do buy/sell chillies over the exchange when there is a huge difference in the market price and the exchange price. They get updated about the exchange prices over SMS updates with the market opening and closing prices and perform their exchange trades via brokerage houses.

Conclusion

Though India is the largest producer of Chilli our exports are not huge due to high local consumption. But, there is a huge potential in the exports of chilli powder and other processed items.

GLENCORE

by Pavan Chandramouli (1st Year MBA-IB)

Glencore International plc is a leading integrated producer and marketer of commodities, with worldwide activities in the marketing of metals and minerals, energy products, and agricultural products and the production, refinement, processing, storage and transport of these products. Industrial customers around the world rely upon Glencore's established global network of operations as a source of bulk commodities that they need.

Glencore was founded in 1974. Headquartered in Baar, Switzerland, Glencore employs over 2,800 people in its global marketing operations in some 50 offices in over 40 countries. In its industrial operations, Glencore employs over 54,800 people at 15 plants in 13 countries. Additionally, Glencore has interests in various publicly listed companies including 34.4% in Xstrata, 44% economic (39% voting) in Century Aluminum, 74.8% in Katanga Mining, 8.8% in UCR, 51.5% in Chemoil Energy and 32.2% in Recylex.

Glencore became a public company in May 2011 with a primary listing on the London Stock Exchange and secondary listing on the Stock Exchange of Hong Kong. Glencore's Initial Public Offering was the largest ever on the premium listing segment of the London Stock Exchange. It is currently attempting a $90bn merger with Xstrata PLC. The new group would become the worlds biggest exporter of coal for power plants and the largest producer of zinc.

GROUP STRUCTURE - Three Business Segments

Metals &Minerals	Energy Products	Agricultural Products
•Akumina/Aluminium •Zinc/Copper/Lead •Ferroalloys/Nickel •Cobalt/Iron Ore	•Crude Oil/Oil Products •Coal/Coke	•Wheat/Maize/Barley •Edible Oils/Oil Seeds •Sugar

UNIQUE TO COMPANY

- The world's largest physical supplier of third party commodities in respect of the majority of metals and minerals it markets.
- The world's largest participant in the supply of seaborne steam coal, including attribution of the volumes under a number of exclusive advisory and agency agreements with, amongst others, its associate company Xstrata.
- Among the world's leading suppliers of sugar.
- One of the leading exporters of grain from Europe, the CIS and Australia.

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BLASH is the official International Trade Club at Indian Institute of Foreign Trade. The club focuses on providing a platform for the student community to learn and discuss about various aspects of International trade. Besides releasing the monthly newsletter, the club organizes various guest lectures, sessions, corporate interactions, quizzes, live-projects and competitions for the student community at IIFT

About IIFT

Indian Institute of Foreign Trade (IIFT) is India's nodal institution of excellence in the field of International Trade and Business. Since its inception in 1963, IIFT has kept pace with the extremely dynamic Global business environment by focusing on International Trade and Logistics-related issues. The rigorous, extremely dynamic and up-to-date course curriculum stands testimony to this fact. Supplementing the classroom, IIFT organizes several events and discussions on currently relevant issues in the field of Trade and Logistics, which are graced by pre-eminent professionals, industry veterans and academicians, alike. Our students have maintained and sustained IIFT.s rich legacy by successfully exhibiting their skills time and again in various Live Projects and Competitions. The institution has groomed international business managers for over 40 years and boasts alumni base spread over geographies and business verticals.

INDIAN INSTITUTE OF FOREIGN TRADE

IIFT Bhawan
B - 21, Qutab Institutional Area
New Delhi - 110016

Phone: +91 11 26853055
Fax: +91 11 2685 3956

Articles Invited for Next Issue of TradeWinds

Send in your entries to blash@iift.ac.in

BLASH COORDINATORS:

Amit Sharma (+919899219807, amit_d13@iift.ac.in)
Kamal Raju Gotte (+919650637712, kamal_d13@iift.ac.in)
Puneet Garg (+917838872848, puneet_d13@iift.ac.in)

TRADE WINDS EDITORIAL TEAM:

S.V.Praneet Varma (+918447574308, praneet_d13@iift.ac.in)
Chief Editor

Pavan Chandramouli (+919990925135,pavan_d13@iift.ac.in)
Editor