February 2012

TradeWinds

Monthly newsletter on National and International Trade

Analysis of Global Footwear Industry

Sugar
A Commodity
In Turmoil

Cocoa Industry
A Bumpy Road
Ahead

Industry Speaks

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Company Profile

Vitol

Indian Institute of Foreign Trade

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Editor's Desk

Riding on the success of hosting an International conclave in Singapore, attended by the who's who of the trading community and deliberated on Asia becoming the next benchmark in commodities, team Trade Winds is proud to bring to you the latest edition of IIFT's monthly trade digest.

Amidst the global macroeconomic turbulence and uncertain government policies including sanctions on Iran, commodity markets have been extremely volatile. In this backdrop this edition of Trade Winds presents a brief outlook of the hottest agri-commodity of 2011, The Gaur complex. Also find a brief analysis of the Export and Import scenario of Footwear industry in India. In addition to it you will find a profile of a Vitol, one of the largest energy trading house. As part of our Industry Speaks initiative, we have provided few excerpts of interview with Sanjeev Asthana (Founder and Managing director of iFarms) discussing issues ailing the Indian agriculture.

Our news snippets section covers the major developments in the trading community over the past month.

- S.V.Praneet Varma

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"Commodities tend to zig when the equity markets zag."

-**Jim Rogers**

Write to us at blash@iift.ac.in

Iran using gold and oil to buy food from Europe

Iran is reportedly using gold and oil as an exchange to procure food from Europe-an increasing sign of rising international barter trades between nations. "Grain deals are being paid for in gold bullion and barter deals involving oil are being offered. Some of the major trading houses are involved", quotes an European trader. Increasing financial sanction from US and the EU has meant that Iran is finding it difficult to source Dollars and Euros- the two main currencies used in international trade. As such, a barter system is a logical choice. Recently, India and Iran reached an agreement by which India will pay 45% of oil payments in Indian Rupees, which Iran can use to purchase machinery and food from India.

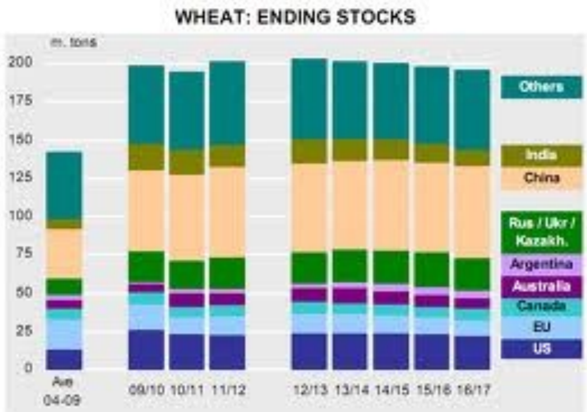
Commodity futures value may top Rs 170 lakh cr this fiscal

Lending its support to the commodity exchanges, the Consumer Affairs Ministry has raised its voice against any move to impose commodities transaction tax (CTT).

With a view to reducing STT, the Finance Ministry is said to be considering imposition of CTT to protect its revenues. But, the Consumer Affairs Secretary, Mr. Rajiv Agarwal, feels that such a move will restrict the growth of the futures market. Inaugurating a conference organized by industry chamber Assocham, Mr. Agarwal said that the value of trade in the commodity futures market may exceed Rs 170 lakh crore in 2011-12, from Rs 119.5 lakh crore in the previous year and Rs 66,000 crore in 2002-03.

He said that the passage of the Forward Contracts Regulation Amendment Bill, 2010 will generate greater confidence among stakeholders, encourage them to participate in futures market, improve market liquidity and strengthen the true price discovery process. The commodity exchanges argue that since they provide hedging instruments, commodity futures cannot be treated on par with the equity market, which is purely investment segment. Hence, the taxation principles cannot be applied to both.
At present, there are about 35 major commodity exchanges in the world, but barring Taiwan, no other country has imposed CTT. Even when Taiwan imposed CTT, its futures exchange lost trading volume to the Singapore Exchange.

Record world wheat stocks to offset S.America drought



World wheat stocks will swell to a record this year and corn supplies will be larger than expected despite a crop-withering drought in South America, the U.S. government fore-cast on Thursday. India will post a record rice crop of 102 million tonnes, up 2 million tonnes from a January estimate, due to beneficial monsoons and growing weather, the U.S. Department of Agriculture forecast, as the global grain outlook improves slightly after years of tight stocks and rising prices. Further signs of replenished global grain bins may help keep a lid on grain prices globally. Corn, for instance, has slid by more than $1 a bushel from late last year to about $6.40 a bushel.

Macroeconomic Woes Pressure ABC's Agribusiness

Overall earnings of ADM, Bunge and Cargill's Agribusiness experienced a downfall due to volatile trading and economic uncertainty. While earnings before interest and tax of Bunge's agribusiness segment fell to $273 million in the quarter from $381 million a year before.ADM reported overall earnings of $80 million down from $732 million, similarly Cargill also revealed that the quarter ending Nov 30 as its worst since 2001.Owing to weak demand and downfall in overall earnings ADM and Cargill have announced plans to cut their global workforces.

Rise in Oil Imports Drives a Rare Trade Deficit in Japan

Japan recently became a net importer for the first time in 30 years. The nation's exports also fell slightly as a result of last year's devastating tsunami, tepid global demand and a punishingly strong yen — though a surprisingly strong post-disaster rebound by its exporters has kept the fall to a minimum.

Instead, much of Japan's 2.49 trillion yen ($32 billion) deficit in 2011 came as a result of a 33 percent increase in petroleum and other imports from the Middle East after the Fukushima nuclear crisis led to the idling of reactors across the country.

S-Oil inks 20-yr deal with Aramco to secure oil supplies

S-Oil had signed a 20-year contract to buy crude from Saudi Arabia as South Korea seeks to secure supplies and reduce dependence on Iran under pressure from the United States to halt doing business with the Islamic Republic. "The crude supply contract from the world's largest oil producing country, at a time of serious volatility in the market due to the embargo against Iranian crude and (Iranian) threats to block the Straits of Hormuz, will ensure stability in the company's refinery operations," S-Oil said in a statement.

Coal Prices in World's No.1 Producer to fall owing to improved production and weak demand

Australian coal exports are expected to improve in 2012 due to recovery from floods in coal producing regions which marred production in late 2010 and early 2011.As a result of improved production and weak demand the prices are expected to dip this year. Total exports are expected to increase to 313 million tonnes this year from 279 million tonnes in 2011 with thermal coal constituting 158 million tonnes in exports and coking coal 154 million tonnes in exports. Weak global economic growth, slower-than-expected recovery in demand from Japan and economic slowdown in China will push the prices downward. The prices for thermal coal are expected to be around $120 per tonne and for coking coal are expected to be around $240-$250 per tonne. Although wet weather and strike by workers at the BHP Billiton-Mitsubishi Alliance (BMA) mines, which produce about a fifth of annual global trade will try to push the prices up but the weak global demand is expected to outweigh these factors and the prices may not see the levels which they experienced in 2011.

Did you know:

- *Worldwide trading volumes in commodities are 4-5 times that of trading in shares and stocks*

Tata Steel posts first quarterly loss in years

Weak Demand in Europe and higher raw material costs were the major factors contributing to the first quarterly loss for the world's No.7 steelmaker Tata Steel in 2 years. While the global production of steel recorded an all time high of 1.53 billion tonnes in 2011 but the pace of growth was unable to match with the rise in production levels due to sovereign debt crisis in Europe and slowing growth in China.

Tata Steel reported a net loss of 6.87 billion rupees ($139 million) for its fiscal third quarter ended December, compared with a net profit of 9.49 billion a year earlier. Net sales rose 15 percent to 329.64 billion rupees. Not only Tata Steel but Arcelor Mittal, the world's largest steelmaker, also posted an unexpected quarterly net loss, while Korea's POSCO, the world No 3, reported a smaller-than expected profit rise. According to the analysts the future looks bleak for at least a couple of quarters.

- *In the 20 countries using the highest amount of energy, the people live 25 to 35 years longer than those living in the 20 countries using the least amount of energy.*
- *Coffee is the second most traded commodity worldwide next to oil.*
- *It takes a coffee tree five years before it reaches maturity. One coffee tree will only yield 1 pound of roasted coffee per year.*
- *Ganoderma Lucidum is the "King of the Herbs" dating back over 4,000 years. Emperors paid more for it than gold.*
- *For every ton of steel recycled, 2,500 pounds of iron ore, 1400 pounds of coal, and 120 pounds of limestone are conserved.*

AMTOI, Port of Antwerp ink MoU to facilitate enhanced logistics cooperation

The Association of Multimodal Transport Operators of India (AMTOI) and the Port of Antwerp have inked a memorandum of understanding (MoU) to facilitate increasing collaboration between the multitude of logistics companies operating in India, Belgium and Europe at large.

Mr. Marc Van Peel, Chairman of the Port of Antwerp, said the agreement was affirmation of the long-term commitment of the Port of Antwerp to India, not a one-time arrangement but a strategic pact for the next generation.

Krishnapatnam becomes the deepest draft port in India

In its second stage of growth process, Krishnapatnam Port has achieved a draft of 18 meters, thereby becoming the deepest draft port in India, overtaking the Mundra Port. On July 17, 2008 when the port was dedicated to the nation, the maximum available draft alongside the berths was a mere 10.5 meters. Perhaps it is the only port in the country to achieve such a feat in such a short duration. Today, the port can accept the largest vessels that visit Indian coast with a DWT of 180,000 MTs.

The deepening of the port's draft is just a small part of Krishnapatnam's overall plan of becoming the largest port in India, with the port earmarking US$4 billion of investment to expand the port over the next few years. The expansion includes the construction of 42 new berths, with a capacity of 200 million tpa, as well as dedicated terminals for RoRo, cruise, and liquid bulk. The ongoing work to develop the port into one of India's major port hubs was recognized in September last year after the Krishnapatnam Port was awarded Port Operator of the Year at the prestigious Lloyd's List Global Awards in London.

Shanghai Gold Exchange eyes OTC trading

The Shanghai Gold Exchange (SGE) plans to launch over-the-counter gold trading and is in talks with the China Foreign Exchange Trade System to conduct these trades via the interbank market, an official from the exchange said on Monday.

The exchange also has plans to start exchange-traded-funds (ETFs) for gold to tap rising demand in China. It was also considering rolling out palladium contracts, although preparatory work for both products was still in the early stage.

Asia buys record Africa oil volumes after Iran cuts

Asia's imports of crude from West Africa are at record highs as sanctions on Iran cut supplies from the Islamic Republic to China, a Reuters survey of West African oil flows suggest. Asian imports of West African crude oil will hit an all-time high in the first quarter as purchases of Iranian oil decline and as Chinese and Indian refiners build stocks from alternative sources, trade and shipping sources said. North American, Asia and European refiners compete to buy West Africa's high quality, low sulphur crude oil. Increasingly it is a favorite source of fuel for Chinese, Indian and other Asian refiners. The Reuters survey shows West African oil imports by Asian countries will average 1.81 million barrels per day (bpd) in March, 1.8 million in February and 1.84 million in January.

This brings the average for the first quarter of 2012 to around 1.82 million bpd, up from a previous record of 1.79 million in the first quarter of 2011 and 2011's average 1.57 million.

Industry Speaks

An Interview With Sanjeev Asthana

By S.V.Praneet Varma (1st year MBA-IB)

Sanjeev Asthana is a recognized leader in Food & Agri business with over 22 years of work experience in India & Internationally. Sanjeev led $200 mn investment in food supply chain infrastructure during last assignment with Reliance Retail. As Director on board of Cargill India, he managed the grain & oilseed business handling revenues in excess of $500 mn. Sanjeev is on several national committees of trade chambers viz., CII, FICCI, ASSOCHAM. In an interview with Praneet Varma, he shares his insights on problems ailing the agricultural sector in India and many more topics. Here are few excerpts from the interview.

Generally entrepreneurs do not take much interest to get into Agri sector. What was your thought process before setting up iFarms which is into agri and rural sector?

Ifarms is focused in 3 key markets which are agriculture, food and Rural market. This from the overall economy perspective forms nearly 40% of the GDP itself and a very large area to invest in. Within this, you could split that into 4 key areas. One is farm inputs which include fertilizers, seeds and other services. The second area is the infrastructure part which includes the warehouses, cold chains and the logistics related to that. Third and active part is the consumption part which includes processed food, food technology etc. The fourth part is on the rural markets and services such as education, health, entertainment, risk management, financial inclusion etc. If you take the Small and Medium enterprises which are typically are in the range of 100-500crore, the opportunity is huge and massive which is waiting to be uncovered.

Talking about agriculture in India, other than infrastructure, what are the major issues that ail this sector?

The problems in this sector typically are

Too many producers tilling too small a land. We have about 129 million farmers tilling about 142 million hectares of total arable land in India. So, from the perspective of the producer income, it becomes un-sustainable and unproductive.

Second is that the productivity and production has stagnated. At 2% growth rate in agriculture, when the services are growing upwards of 10% and industry has been typically has been at the range of 7-8%, income disparity between agriculture and non-agriculture sectors has widened out greatly.

Third is the issue of public spending, as the investment into agriculture, on a large scale, cannot be made by the farmers and even small companies. Since the liberalization, the effort and focus has moved away from agriculture and that has hit us very hard.

Last one is Government policies. There is the APMC act which needs to be amended, but that is not happening. Agriculture is a state subject and the tax collected by the APMC is the discretionary spend with the chief minister. There has also been a lot of lip-service offered to agriculture by the politicians. So on the whole agriculture is dismal on the production front.

What are the changes that are required for the APMC act so as to become productive for agriculture?

The main change that has to be made is that the private sector has to be allowed to purchase directly from the farmers and not through mandis necessarily. The mandis have to co-exist along with the private players. The farmers must have a choice of whether he wants to sell to a Cargill center or an ITC center or to the mandis etc. If that is provided, the competitive spacing for the farmer increases and everyone along the value chain can move forward.

The potential of agriculture sector is huge, but people generally look to moving out of agriculture sector after education. How do you lure the graduates and educated young to work in this sector?

Agriculture at the farm level is not attracting talent, but there is huge amount of professionals in non-production part of agriculture such as Mahindra & Mahindra, Syngenta etc. The questions you have to reframe is at the small and medium level and at the producer level, if the professional interface is not getting promoted, how will they manage? Nobody has got a desire to sacrifice good pay, growth and other benefits, for the agri sector. It is difficult to retain professionals when the land is fragmented and highly distributed. So today we need alternative forms of enterprises which can cater to these professionals, like the one called Producer companies which is getting formed. What you are doing is basically aggregating all the producers together so that they have a minimum viable economic model. If the average farmer’s revenue is 5 lakh, tomorrow if you have 1000 farmers under one producer company, you have an enterprise worth 50 crores. This enterprise can afford a professional or accountant etc. This is what the government is working on and something which I am also pushing a lot.

Even after the 70000 Cr subsidy a couple of years back, why do you think they are not helping the farmers?

There are two kinds of subsidies. One is at the farm input stage where lots of subsidies are given directly to the companies for selling fertilizers at a lower price. Other is at the procurement level, which is around the MSP driven procurement. Now both these subsidies are around 150000 crores annually but are not necessarily going to the farmers. Food subsidy is driven by a huge inefficiency by the FCI. The work that the FCI does can be done by the private sector at 1/3rd the cost. The input subsidy too is lopsided as it is mostly between, Punjab, Haryana, west U.P and Andhra Pradesh where 80% of the procurement is happening. These producers do not form even 15-20% of the country's farmers.

The "Farm Gate" model, also called Sathi in Cargill, how has this helped in the business of Cargill? This has also been replicated in many other corporations right now.

In Sathi, we tried to create an alternative to mandis and it was greatly successful. This is because we addressed some basic issues which farmers face. Some of them are getting a fair price for the farmers, being transparent in the whole process. When we say 100Kg, it is 100Kg and not 98Kg which happens regularly in mandis. There is a degree of transparency in dealing with, what you get, what you give and what you pay for. This was a very straight forward, traditional good working method and wherever we went, it took a lot of volumes away from the mandis. Sathi was just about 70 odd locations. We need 100,000 Sathi's all over India because land is hugely fragmented in India.

The main challenge you felt while setting up reliance retail from scratch?

The 3 main challenges I faced were:

1) How to roll out more stores as quickly as possible with all the resources under command and at the same time have the expenses under control. You cannot go around and recklessly spend the money. You need several licenses and in many cases, in upwards of 20Lacs.

2) The main challenge in retail is getting the right location.

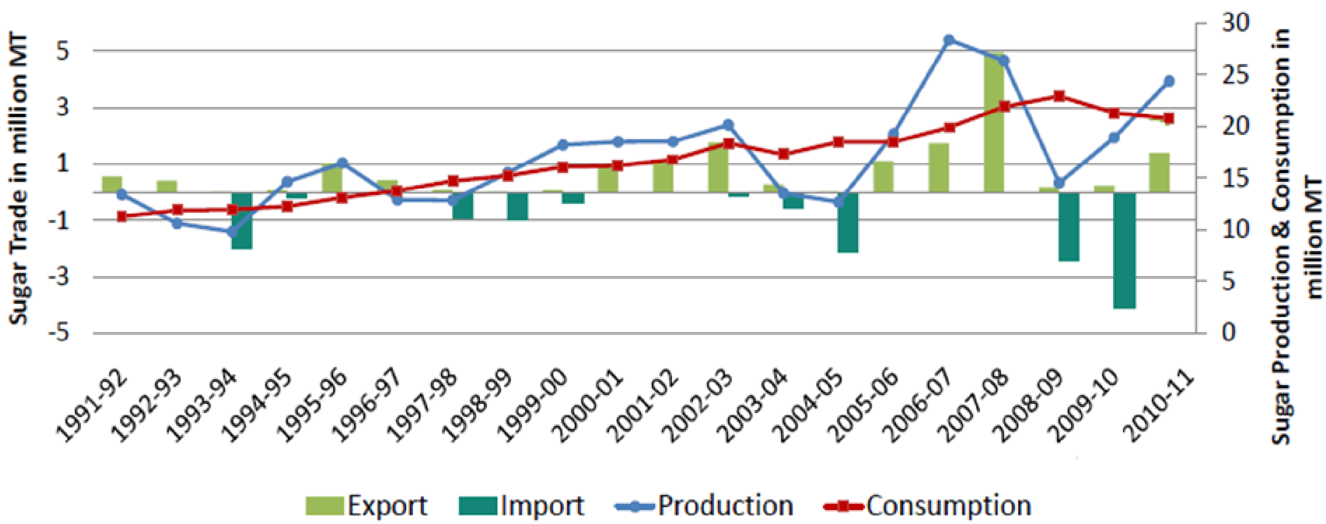
3) The other big challenge is the high cost of running it. Retail cost is largely constituted by the people, rental and electricity cost, which in India is high in all the three areas. Though per capita labor cost is less in India, on an aggregate level it is huge for a retail outlet.

Building a very good supply chain and distribution network is mandatory to deliver value to the producer, customer and the company.

Indian Sugar
A Commodity In Turmoil

by Shriya Dhar (1st year MBA-IB)

Sugar is one of the largest traded commodities in India. India being the second largest producer of sugar after Brazil and largest consumer of Sugar in the world enjoys a special place in world sugar market. Indian sugar market is known for its infamous cycle. Indian sugar pro-



duction follows a 5 year cycle. 2-3 years of high production followed by 2-3 years of low production.

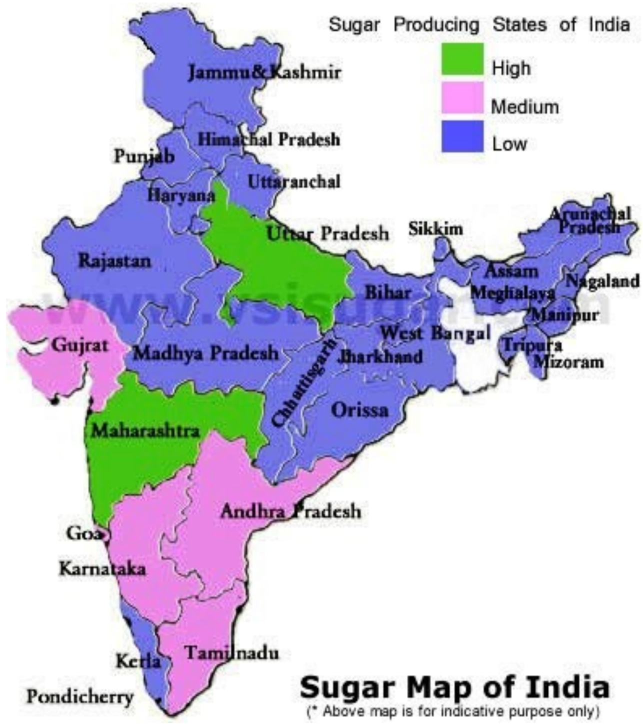
Right now the Indian sugar industry is going through the high production phase and this is all set to hit the Indian sugar industry. The country's 2011-12 sugar output is expected to rise to between 24.6 million tons and 26 million tons, while its annual consumption is around 22 million tons. According to Indian Sugar Manufacturers' Association the Indian sugar industry has so far produced 10.4 million tonne of sugar till January 15 in the current season, which is around 1.7 million tonne more than the production in the same period in 2010. Sugar production during that year was 8.768 million tonne. The International Sugar Organization's estimate about 4.5 million tonne surplus in the global market is set to hit the Indian sugar industry. The increased supply from Thailand, rise in domestic sugar production in Pakistan and Russia, and surplus production in western European countries - which was so far an importer of sugar has made the international market sluggish. There is little chance of international prices going up.

Sugar is a government regulated commodity in India in terms of sale quotas, export-import and packaging materials to be used. Sugar also serves as a political tool as the farmers associated with sugarcane production forms the bulk of the voter portfolios in some of the largest states of the country like Uttar Pradesh, Maharashtra, Karnataka etc. With assembly elections scheduled in UP this year the govt. has fixed higher cane prices to lure the farmers putting an extra burden on the already bleeding sugar industry. To add to industry woes a Supreme Court order to make full payment of more than 1,1000 million rupees in state advised cane price to farmers in Uttar Pradesh for the 2006-07 and 2007-08 seasons has thrown the industry in a quandary.

Few months back sugar export was seen as a viable option to rescue the industry. The higher international prices were seen as opportunity. But continual delay by government to export sugar now seems as a opportunity lost. The Union government on December 2 permitted a quota of 10 lakh tonne for exporting sugar, of which orders for four lakh tonne have been issued so far. The country has exported 1.5 million tonne sugar in 2010-11.

Did you know:

- *That in the late 16th Century, a mere teaspoon of sugar cost the equivalent of five dollars in London?*
- *A can of Coke has 39 grams of sugar and a can of Pepsi has 41 grams of sugar. That is about seven teaspoons or 13 lumps of sugar per can!*



The last date for applying for release orders has been extended by a month to February 16. Release orders of 5.5. Lakh tonne sugar have already been issued. The industry is understood to have already contracted for 2.5 Lakh tonne sugar though it has not yet applied for its release orders. It is estimated that about 2.5 Lakh tonne sugar has already been shipped out of the country.

Earnings of the sugar mills from selling their export quota have decreased by 50% with appreciating rupee and slowing demand for sugar. The maximum realization of the sugar mills during the three rounds of open general license (OGL) exports in the last year was Rs 8/kg to Rs 9/kg. During the ongoing first round of OGL exports of one million tonne sugar however, the mills' earnings have dropped to Rs 2/kg to Rs 2.5/kg. This is half of the license fee during the third round of exports last year. Even though the price at which licenses to export sugar have declined to 2/kg, exports are still reasonably viable for the industry. The mills are still getting Rs 2000/tonne over the realization in the domestic market

The harvest in India, the second-biggest producer after Brazil, may drop as much as 4 million metric tons in the 12 months ending in September 2013, from 25 million to 26 million tons this season, if millers are unable to pay farmers for cane leading the farmers to look at other cash crops in place of sugarcane. This again leads to the second phase of the infamous cycle and results in reduction in production and increase in sugar prices.

Its high time that that sugar industry should be decontrolled and given a level playing field. High govt. regulations have already taken a toll on the industry. The motive behind controlling sugar has been served and now it should be free from the government clutches. Open market forces with minimal regulation will lead to healthy competition in the industry which will allow the prosperous growth of all the stake holders.

The Curious Case Of Guar

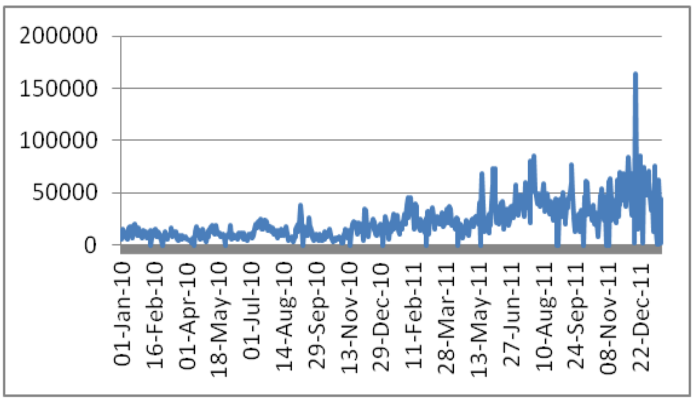
by Raj Ritolia (1st year MBA-IB)

Guar gum and Guar seed has seen the most dramatic rise in prices in the last one year. The contracts of guar gum futures hit a high of Rs 41000/100 kg, with a spot price of Rs 40693/100 kg. Guar seed contracts too were at its life-time high, at Rs 12,500/100 kg, with a spot price of Rs 12,600/100kg. Both the commodities repeatedly hit the upper at the time of arrivals. An investment of 100 in guar-gum on January 1, 2011, would have fetched a profit of 254.60 at year-end. FMC had to ban four members suspecting them of price rigging in guar and NCDEX had to postpone launch of fresh contracts in guar seed and gum.

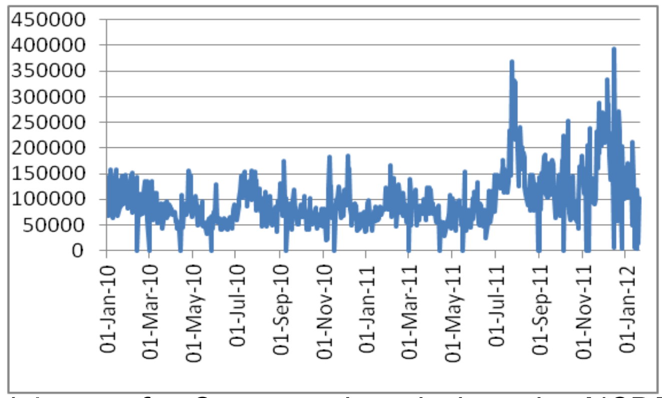
Guar also known as cluster bean (Cyamopsis tetragonoloba) is a drought hardy leguminous crop. It is being grown for seed, green fodder, vegetable and green manure. It is mainly a rain- fed crop, sown in July with the commencement of monsoon. It is mainly grown in areas of India (Rajasthan, Haryana, Gujarat and Punjab), Pakistan, Sudan, and USA. India produces on an average of 8 lakh tones of guar seed every year and it is largest producer and exporter in the world. The Indian production of guar seed in the 2010-11 was 11.2 lakh tonnes, up form 3.5 lakh tonnes in 2009-10. The production figure for the 2011-12 season is expected to be around 10 lakh tonnes. The fall in production along with the 85% rise demand has fuelled the prices upwards. Demand for guar is inelastic because it has no substitute in most industries where it is used. Guar exports touched a record high of 4 lakh tonnes in 2010-11 and the export demand this year has risen with pressure from USA and China. Even the carry forward stocks from last year are minimum because of the relatively low production in the year 2009-10. Acreage under crop has increased over 10 percent from last year, but output declined marginally on low yields as sowing and harvesting was delayed. South -west monsoon, a major source of rainfall for crop was delayed by 10 days in northwest region, despite early onset over Kerala. However, it picked up well later and overall rains reported excess in this region. The fundamentals surely meant that the price for guar will be rising this year. But the rise has been too dramatic.

Given that guar seed have considerable price volatility and that the export realizations have also vacillated between years, Exchange traded guar seed futures are ideal for price risk management needs of the processors, exporters and end users. Those with no natural exposure to guar trade can also benefit by undertaking 'cash-and-carry' arbitrage and 'calendar spread'. Speculators can take directional view on future prices and accordingly take positions in guar seed futures.

The trading volumes in the gaur seed and gum futures have spiked on the NCDEX over the last year. The low margins of up to 10% have allowed speculative buying to take the lead. A look at the rise in trading volumes in the recent months is self-explanatory –

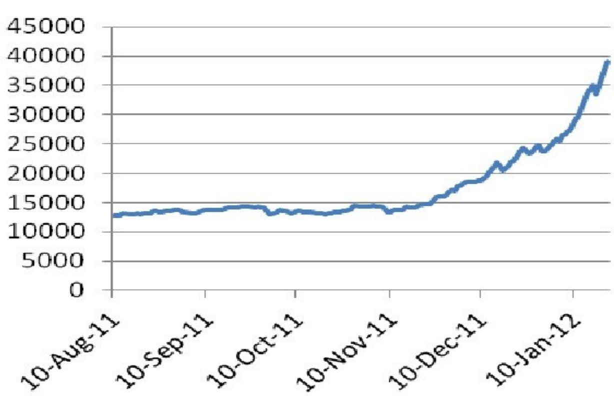


Volumes for Guar gum traded on the NCDEX

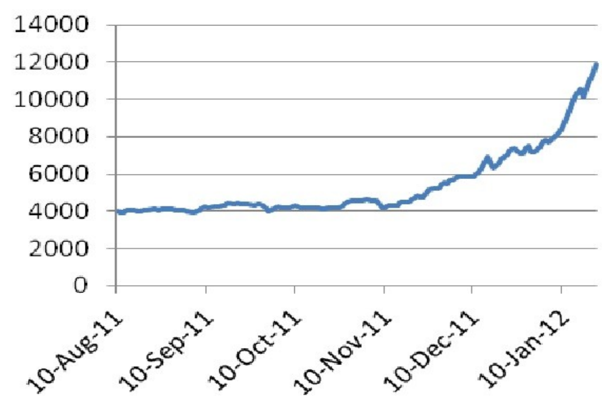


Volumes for Guar seed traded on the NCDEX

The sharp spike in trading volumes is complemented by the rising prices for the commodities on the NCDEX over the past months –



The guar seed January futures on NCDEX



The guar gum January futures on NCDEX

The spot prices mirror the image shown in the futures. So, the high rise in spot prices added to the volatility in the market. Also, it was only during this when prices touched all-time high that the futures market was more volatile than the spot and the former was leading the latter in all terms.

It is evident that the rally in guar has been strong in the last few months amongst speculations of rising demands and limited production. The speculation meant some people did make a lot of money, but since this is a contract trade, there has been a party on the other side which must have lost equal amount of money as well betting wrongly that gaur will fall. Hence it has been a really good trade for people who could have predicted better than others. Mostly such players are limited, but the sheer one sided movement of the market on one side has led to speculations of price fixing, which the Forward Markets Commission is investigating. The commodity derivatives market regulator has banned two brokers Shresth Commodities & Financial Services Pvt Ltd (SCFS) and Vinod Commodities Ltd (VCL), the two Rajasthan – based traders for alleged manipulation of guar seed and guar gum prices. While SCFS, a MCX, NCDEX and ICEX member, has been suspended for six months, VCL, a member of MCX, NCDEX and ACEL was terminated for one year. FMC has also investigated two other Rajasthan based traders on the matter.

But even after above tough measures by the FMC along with slapping of additional margins of up to 60% in cash, the rally in the guar complex has sustained. This shows that though the price has risen ostensibly, the demand is still there. There is a genuine increase in demand for guar, especially from oil drillers in the US. The Consumer Affairs Minister, Mr. K V Thomas has denied the delisting of guar complex from the exchanges citing the benefits that the farmers have got due to the rise in prices.

Guar complex has brought to the front the rising power of the commodities market in India, where so far the stock bourses were where all the action was. Now, even a dull-looking product like guar can more than double the money in no time.

Did you know:

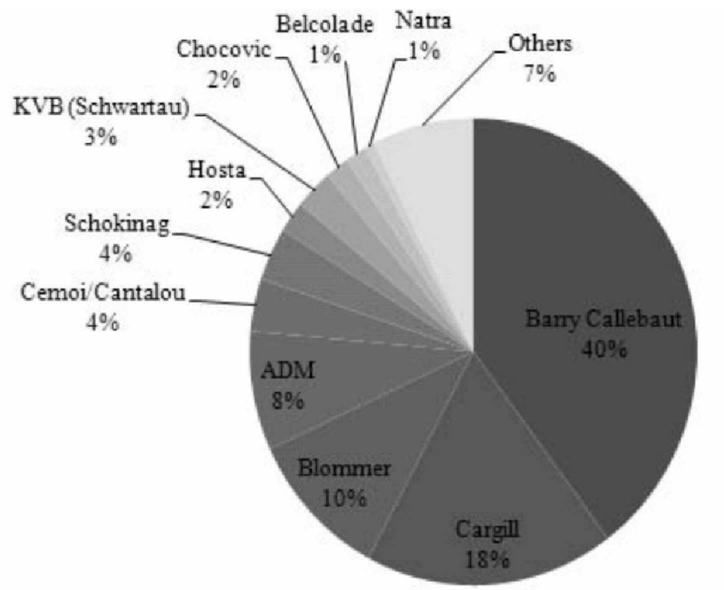
- *Guar gum is an important cash crop for India's and Pakistan's economies.*
- *The use of guar gum as an ingredient in non-prescription diet aids was officially banned in the early 1990s by the FDA.*

Cocoa Industry
A bumpy road ahead

by Romit Srivastava (1st Year MBA-IB)

The merger of Barry, a cocoa processor and Callebaut, a leading industrial chocolate group in 1996 had opened up the Pandora's Box. A plethora of acquisitions followed like, Van Leer Chocolate Corp., Industrial da Bahia SA, third largest cocoa processor in Brazil, Nestle for some assets and long term supply, Morinaga-one of the Japan's largest food companies and many more.

The trend is, the major trading companies in the international market (ADM, Cargill and others), to a considerable extent, have taken over the cocoa exporting operations. The boundaries between trading and processing companies have become blurred. The international trading companies, in order to compensate for the eroding trade margins, are now engaging themselves in a step further down the production chain. This is the vertical integration which is the cause of market concentration.



So, basically, the producers of the industrial chocolate fall into two broad categories:

1. Vertically integrated groups which produce chocolate for consumer market (e.g. Nestle, Cadbury, Kraft Jacobs, Hershey, Ferrero etc)

2. Industrial processors which supply their couverture (industrial cocoa) to the third party (e.g. Bloomer, ADM, Cargill, Barry Callebaut etc).

The effect is, the market of industrial chocolate is highly concentrated. About three-quarters of the market worldwide is currently supplied by just four companies (Barry Callebaut, Cargill, Bloomer, and ADM).

The obvious reason for the vertical integration is the increasing profits margin downstream the cocoa chain. Other, not so obvious reasons are the economies of scale and scope help reinforce the competitive edge.

Cocoa processing is capital intensive. Cocoa bean processing equipment is expensive, requires a large tonnage throughput and must operate on a continuous basis. Moreover, cocoa processing is becoming more sophisticated, as cocoa processors are required to meet increasingly stringent quality requirements (delivery of customized products) and delivery requirements (supply on a just-in-time (JIT) basis). Process and product development requires continual investments in research and development (R&D), as well as dedicated equipment. This adds to the need to gain scale. The economies of scale that are available to the largest processors in the industry are perceived as potential barriers to entry.

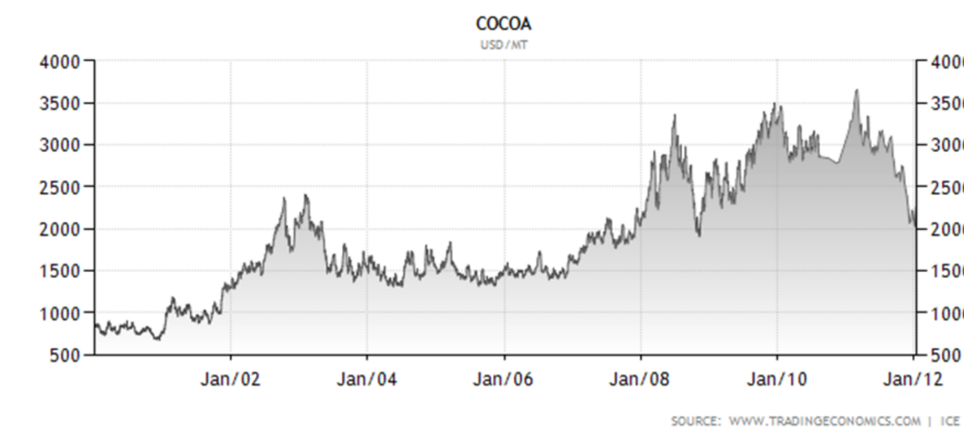
The synergistic efforts also reflect in the subsidized costs and benefits in economies of scale in R&D and logistics. Major costs savings have been obtained via the changes in logistics, which have reinforced the competitive position of the largest processors. Geographical proximity to chocolate manufacturers also confers major operational advantages.

In the consumer market, a strong brand name is an element of market power, particularly in specific product markets (chocolate snacks, for example). New entrants need massive marketing campaigns to promote new brands. The high advertising budgets necessary for promoting brand recognition translate into barriers to entry. Heavy investment in product development and brand marketing is also needed to maintain a strong position.

Some considerations may arise with R&D in product development and with distribution logistics. In practice, the latter may become an important barrier as the big supermarket chains have stringent logistics requirements for selected suppliers. Actually getting approved as a supplier for the large supermarket chains (or the large wholesaler firms) is a barrier in itself. In many (remote) locations, cocoa producers face an oligopoly, or even monopoly situation. In consuming countries, concentration is increasing on the retail side of the chain.

Prima facie, the reason is the increasing profit margins downstream of the chain, especially at the retail level, which may reflect the growing market power of the big retail chains. But, it may reflect the relative weight and growth of marketing and distribution costs in the value-adding process beyond the processing stage. These added costs typically refer to advertising, packaging, and distribution.

Hence, this would point to a further shift of value across the cocoa and chocolate chain, from upstream and middle stages (production and processing) to downstream "intangible" activities (product development, brand marketing and distribution). This move appears to have further widened the gap between producer and retail prices.



Some evidence points to the fact that, while cocoa and *couverture*(industrial chocolate) prices have moved over time a flat and even declining trend, the retail prices of chocolate products have generally tended to increase. However, the increasing profits are not being passed to the end consumers.

Local farmers do not have bargaining power vis-à-vis the cocoa traders as buyers, who have enough buyer power to set cocoa prices at a level below that would be set under competitive market conditions. The abusive behavior of firms with excessive buying power tends to penalize sellers, while the excessive profits made as a result of such as a result of such behavior are not passed on to consumers in the downstream market to which these firms sell.

The imbalance caused at different stages of cocoa-chocolate chain and to increase the producer's share of price some policy changes need to be incorporated. The vertical integration and consolidation of the large companies is making the entry barrier higher and reducing the real competition.

Firstly, a strictly applied merger control mechanism may help prevent mergers or acquisitions that increase market concentration, reduce potential competition or result in excessive vertical concentration.

Secondly, make Geographic Indications (GI) laws more stringent. Cocoa beans have a specific geographical origin and possess qualities or a reputation that are due to that place of origin. GI (place names, or words associated with a place) may be used to identify the origin and quality, reputation or other symbolic attributes of cocoa. To the extent that GI recognition attracts premium prices and this premium is channeled to producers, GI may be instrumental in capturing extra value in origin countries.

Lastly, at the implementation (administrative) level in origin countries, a compulsory system of certifying the origin of exported cocoa should be in place to ensure a genuine supply of cocoa under GI with no blending authorized. This would require involvement of competent sectoral authorities, such as the National Cocoa and Coffee Board.

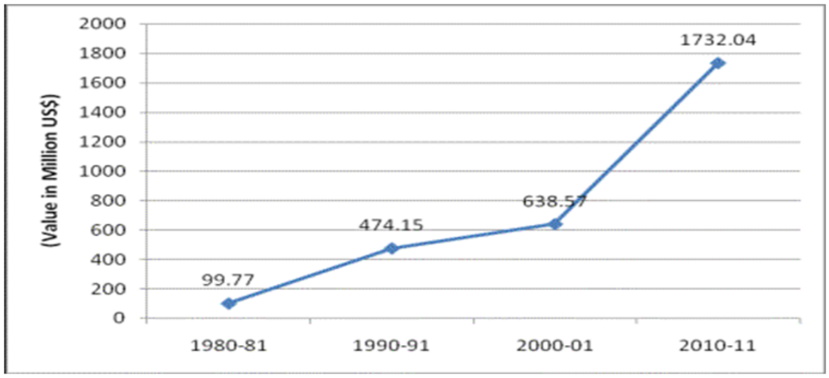
Global Footwear Industry

by Amit Sharma (1st year MBA-IB)

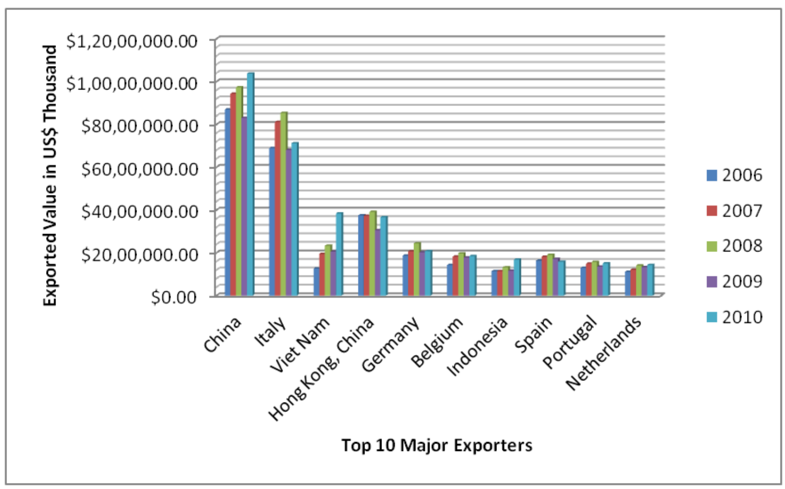
The footwear sector is the engine of growth for the entire Indian leather industry. India is the second largest global producer of footwear after China. The average growth in the industry has been estimated at 12% and is estimated to touch Rs 50000 crore by 2025. India produces more than 2500 million pairs of different categories of footwear (leather footwear, leather shoe upper and non-leather footwear). It exports about only 5% of its production as 95% of its production goes to meet its own demand. The Footwear product mix Gents 54%, Ladies 37%

and Children 9%.

The footwear industry exist both in the traditional and modern sector. While the traditional sector is spread throughout the country with pockets of concentration catering largely to the domestic market, the modern sector is largely confined to select centers like Mumbai in Maharashtra, Kanpur in U.P., Jalandhar in Punjab, Chennai, Ranipet, Ambur in Tamil Nadu, Agra, Delhi, Karnal, Ludhiana, Sonepat, Faridabad, Pune, Kolkata, Calicut and Ernakulam.

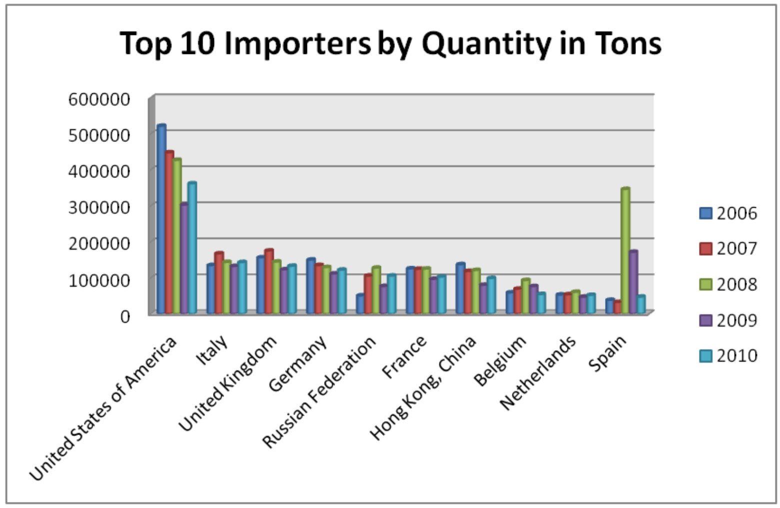


India's Footwear export (leather, uppers & non-leather) is growing at a CAGR of 8.78% in the last five years ending 2010-11. Footwear exports have increased from US$ 99.77 million in 1980-81 to US$ 1732.04 million in 2010-11. Nearly 90% of India's export of footwear goes to European Countries and the USA. Germany, UK, Italy, USA and France form the top five destinations for Indian footwear exports.



Global Export Scenario for HS6403

Exports of Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather increased from US $ 26 billion in 2001 to US $ 47 billion in 2010. Exports reached 13 billion pairs in 2010 from 7 billion pairs in 2000 with Asia constituting for more than 80% of the exports. In terms of value, leather footwear still gets a much higher share (52%) but the share of rubber and plastic footwear is on the rise. It is clearly evident from the above graph that China has been the major exporter followed by Italy, Vietnam and others. India stands at 11th position in terms of exports in terms of value. China exports stood at US$ 10.4 bn followed by Italy (US$ 7.1 bn), Vietnam (US$ 3.8 bn), Hong Kong (US$ 3.66 bn) and Germany (US$ 2 bn). India's exports stood at US$ 1.6 bn.



Global Import Scenario for HS 6403

Imports of Footwear with outer soles of rubber, plastics, leather or composition leather and uppers of leather increased from US $ 29 billion in 2001 to US $ 48.5 billion in 2010. Europe constitutes for more than 40% of total imports while North America constitutes for more than 25% of total imports. Individually USA is the major importer by a large distance.

USA comprises of approx 25% of total imports, Italy, UK Germany and Russian Federation complete the top 5 importing countries.

Company Profile - Vitol Group

by Kamal Raju G (1st Year MBA-IB)

The Vitol Group is one of the largest independent energy trading groups in the world and operates through a global group of companies. It was founded in 1966 by Jacques Detiger & Henk Vietor. It has headquarters both in Rotterdam and Geneva. It operates mainly from Geneva, Houston, London, Moscow, Rotterdam and Singapore employing 3150 people.

Although mainly a physical oil trader, the Group is now broadly based with active trading operations in gas, coal, power, non-ferrous metals, derivatives and sugar. The present CEO of the company is Ian Taylor. Its main competitors include Glencore – Xstrata, Trafigura Beheer B.V, BP Plc. Vitol is owned by its 330 active employee shareholders. The annual revenues of the company for year 2010 were $195bn. It has over 200 ships at sea at any given time.

In 2007 it was fined $17.5mn in New York after pleading guilty to paying kickbacks to officials in Saddam Hussein's regime in Iraq while taking part in the UN's oil for food programme.

About *BLASH*

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.

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