July 2012

BLASH
The International Trade Club

TradeWinds

Monthly magazine on National and International Trade

Company Profile
Noble Group

Wheat Enough to "Eat"?

Logistics Outsourcing

Vendor Selection Analogy

All is "Not Well" for STEEL Industry in India

Industry Speaks
Santosh Pillai

INDIAN INSTITUTE OF FOREIGN TRADE

July 2012

Editor's Desk

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

In the coming days, the outlook of the Indian economy seems to go any way other than up. Drought in US, failing monsoon in India and other such adverse weather conditions around the world will deeply affect the global commodities in the months to come. 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 Steel and Wheat. In our constant endeavor to provide a diverse knowledge, we have come up with an article on different levels of logistics providers and an article on the Vendor selection analogy faced commonly. In the company profile section we bring to you a snap-shot of the Noble group. We hope you would gain industry insight on working in Africa from the excerpts of the interview with Santosh Pillai, Managing director of Food production at Wilmar for West Africa and a distinguished alumnus of IIFT (2000-2002).

- S.V.Praneet Varma

Inside this issue

"Twenty years from now you will be more disappointed by the things that you didn't do than by the ones you did do. So throw off the bowlines. Sail away from the safe harbor. Catch the trade winds in your sails. Explore. Dream. Discover."- **Mark Twain**

Write to us at blash@iift.ac.in

Ship scrap chaos hits India

The world's largest ship scrapping site in Alang is said to be in turmoil after the Supreme Court blocked the import for recycling of vessels containing toxic waste. "The court order is basically insisting that all inbound vessels must be cleaned of all hazardous materials at origin prior to arrival," said one demolition broker.

What is being described in India as a "landmark" judgment follows the filing of a lawsuit by the Research Foundation for Science Technology and Natural Resources through its director, the environmental campaigner, Vandna Shiva.

The judgment, which is being appealed by the country's ship breakers' association, amounts to a ceasing of recycling in India for any vessels not yet arrived, says industry sources. India's Supreme Court has ruled that the Basel Convention covering the trans-boundary movement of waste must be strictly followed by all concerned players before vessels are allowed to enter India's territorial waters and be beached along its coastline.

The judgment comes at a critical time for the shipping industry because owners are expected to dispatch a record number of vessels this year to the Indian sub-continent in response to over-tonnaging and weak freight rates. It also raises questions over India ratifying the new Hong Kong Convention on the safe and environmentally sound recycling of ships which is designed to raise scrapping standards and safeguards in countries such as India and overcome the confusion surrounding the Basel Convention.

A firm date is still to be set for the ship breakers' association appeal and until then vessels failing to conform with the pre-cleaning order will not be permitted to enter any Indian port for recycling.

Natural Gas Discovered in China's Bohai Bay

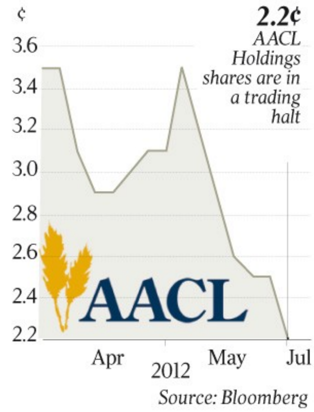
China National Offshore Oil Corp., known as Cnooc, said on Thursday that it has discovered natural gas at an offshore deep well after drilling more than 5,000 meters in northeastern Bohai Bay. This is the first gas discovery in Bohai, it said in a statement on its website, adding that it was a "technological breakthrough." The company didn't mention the volume of the discovery.

Five offshore oil discoveries were made in Bohai in the first three months of this year and the area will remain the company's major growth engine in the future, Cnooc Ltd. (CEO) Chief Financial Officer Zhong Hua said in April.

Did you know:

- *Global 2012/13 rice production and ending stocks are projected at 465.1 million tons, still a record despite decreases totaling 1.4 million mostly due to reductions for India and Ecuador.*

GLENCORE



Glencore in negotiations to take over AACL Holdings

Australia's biggest corporate grain grower AACL Holdings has hit another difficult patch, reversing its forecast profit of $2.1 million to a forecast loss of around $7.2 million.

The company has also announced to the Australian Stock Exchange that it has entered into a heads of agreement with Swiss commodities trader Glencore, which is a major funding partner of AACL.

That means that Glencore will look to buy the AACL Pty Ltd business, which is the project manager and investment operations company, that runs the projects in Australia. 60 per cent of AACL's business is done in WA, the remainder is in the eastern states.

LouisDreyfus Commodities

Louis Dreyfus sued by trader over cotton squeeze

Commodity trading giant Louis Dreyfus Commodities BV has been sued by a former senior trader at rival Glencore, who alleges that Dreyfus illegally cornered the cotton market last year as prices tumbled from record highs. In one of the highest-profile commodity market-manipulation lawsuits in more than a decade, the trader, Mark Allen, accused Dreyfus of violating antitrust law by artificially inflating prices of Inter-continental Exchange cotton futures contracts expiring in May 2011 and July 2011.

Other defendants in the case include Dreyfus's Allenberg Cotton and Term Commodities units, and several individuals including Allenberg's chief executive, Joseph Nicosia, collectively considered the biggest cotton traders in the world. The "defendants' price control over the May 2011 contract and the July 2011 contract reflects monopoly power and collusion," according to the complaint filed Friday afternoon in the U.S. district court in Manhattan by Allen, who lost his job as the top cotton trader at Glencore last November after the trading firm lost more than $300 million in the market.

The lawsuit is a response to the upheaval in the cotton market last year, when prices in March reached their highest level since the U.S. Civil War in 1860S and then more than halved by July. In that period, Dreyfus affiliates took delivery of most ICE cotton futures contracts at expiration.

Great Eastern Shipping Adds a Very Large Gas Carrier to their Fleet

India's Great Eastern Shipping Company Limited has signed a contract on July 3rd to buy a Very Large Gas Carrier (VLGC) of about 49,700 dwt (75,000 cbm). The 1990-built vessel is expected to join their fleet during Q2 FY2013. Great Eastern's current fleet stands at 32 vessels, comprising 22 tankers (9 crude carriers, 13 product carriers) and 10 dry bulk carriers (1 Capesize, 3 Kamsarmax, 1 Panamax, 4 Supramax, 1 Handymax) with an average age of 8.7 years aggregating 2.55 million dwt.

Sri Lankan teas fetch world's highest average price

Sri Lankan teas continue to fetch the highest average price at auctions among teas from all countries, reveals an analysis of the latest data available with the different auction centres around the globe. In the first four months of current calendar, the Island's teas, of the current calendar year, fetched an average price of $3.02 a kg at Colombo auctions — 14.20 per cent less compared to $3.52 got in the same period of last year.

Kenya's teas fetched the second highest price of $2.69 at Mombassa auctions — 3.58 per cent less compared to $2.79 got last year. Bangladesh's teas came third at $1.89 at Chittagong auctions — 17.11 per cent less compared to $2.28 last year. Indonesian tea price averaged $1.84 at Jakarta auctions – 9.04 per cent less compared to $2.02 last year.

Closely following this, Indian teas at country's different auction centres fetched an average price of $1.83, a whole 10.29 per cent less than $2.04 got last year. North Indian auctions lost 12 per cent to average $1.98 (last year: $2.25) while South Indian auctions, 7.19 per cent to average $1.55 ($1.67). Malawi's tea fetched the lowest price average of $1.68 at Limbe auctions, but it was the only centre to post an increase over last year — 3.52 per cent more compared to $1.63.

Late rains may damage cotton crop

Cotton increased by about Rs 400-500 a candy of 356 kg due to delay of monsoon in the production areas. Prices may rise further if the wait for rains prolongs. The market was worried as late rains may damage the crop. Buying by mills and exporters has pushed up the prizes of the fibre crop. Though the supply is restricted, export demand is also low.

The Sankar-6 variety was traded at Rs 34,800-35,000 a candy and the new V-797 variety at Rs 28,000-28,500. About 9,000 bales of 170 kg each arrived in Gujarat, while 21,000 bales arrived in the rest of the country. Kapas or raw cotton gained Rs 20-25 to Rs 800-905 for a maund of 20 kg.

In Maharashtra, A grade low micronaire (29 mm) quoted at Rs 34,700-35,000 a candy and high micronaire at Rs 35,000-35,700.

SCI halts China runs

Shipping Corp of India (SCI) is scrapping its boxship services to China.

The state-owned company views the route as unviable in the downturn. SCI started its Chinese loops 12 years ago, but according to an official these services on the India-China route will stop because they are not viable. Although SCI has a good volume of cargo coming to India, the ships go empty when going back to China."The exit of SCI will leave one less competitor for lines like Maersk, MOL and NYK in the trade.

SCI is trying to turn around losses of INR 4.28bn ($78.16m) in its last financial year.

India's Sugar exporters to gain from delayed harvest in Brazil

India's sugar exporters are likely to gain from rain delayed Brazilian harvest and lower supplies for exports amid rising demand for the sweetener across the globe. Rains in Brazil have also disrupted the loading of sugar in its ports for exports.

Also the production drop of corn crop has increased the domestic demand of sugar canes for producing ethanol. All these factors have added to the rising price of the commodity in the global market.

Meanwhile, in India, sugar production is expected to be around 26 million tons for 2011-12 and consumption estimated at 22 million tons.

With the exports of the surplus produce, the exporters have an opportunity to tap the global sugar market and gain profit.

LOW ARRIVALS DRIVE TURMERIC TO 8-MONTH HIGH

Spot turmeric prices touched an eight-month high of Rs 5,000 a quintal as arrivals were the lowest this year.

Prizes (hitting Rs 5,000) is purely unexpected for both traders and turmeric growers. On November 9,2011, the finger variety was sold at Rs 5,034 a quintal at the Erode Turmeric Merchants Association sales yard and on November 10, 2011, the crop was sold at Rs 5,009 a quintal at the Gobichettipalayam Cooperative Marketing Society. Further July 9th arrival of 7,100 bags is the lowest for the current year. Turmeric prices have not appreciated in other North Indian markets where it is still selling at Rs 4,300 a quintal.

If rains fail and no water is released into the Lower Bhavani Project canal after August 15, turmeric prices will surge. On July 9th the finger variety increased by Rs 900 a quintal and the root variety by Rs 300 a quintal. Of 7,100 bags that arrived, 90 per cent of the stocks were sold. About 95 per cent of this was procured by stockists.

At the Erode Turmeric Merchants Association Sales yard, the finger variety was sold at Rs 2,399-5,026 a quintal and the root variety Rs 2,399-4,009. Salem Crop: The finger verity fetched Rs 4,986-5,616 and the root variety Rs 3,909-4,636. Of 945 bags that arrived, 498 were sold. At the Regulated Marketing Committee, the finger variety was sold at Rs 4,679-5,119 and the root variety Rs 4,599-5,100. All the 1,160 bags on offer were sold.

At the Erode Cooperative Marketing Society, the finger variety was sold at Rs 4,009-5,499 and the root variety Rs 3,980-5,116. Of the 1,167 bags of turmeric on sale, 1,164 were sold.

Did you know:

- *Global oilseed production for 2012/13 is projected at 465.7 million tons, down 5.1 million from last month. Lower soybean, cottonseed, and sunflowerseed production estimates are only partly offset by increases for peanuts and rapeseed.*

TANJUNG PELAPAS BULKS UP

Malaysian port to splash out on capacity expansion as box throughput hits record numbers. The Port of Tanjung Pelapas (PTP) is planning to spend MYR 1.5 billion ($470 million) on new cranes and berths over the next three years as box throughput numbers reach record levels. PTP says it handled a total of 679,617 TEUs this past June, the highest number in a single month ever recorded at the port.

The port says it is on course to handle a total of 8 million TEUs this year. With its main customers Maersk and Evergreen now building a new generation of giant containerships, PTP plans to spend MYR 250 million on new cranes capable of servicing these ships. Two new berths capable of handling large containerships will also be built.

PTP, which is located in the southern Malaysian state of Johor, was completed in 1999. The project was designed to compete against Singapore as Southeast Asia's main box transhipment hub and got off to a successful start after winning over Maersk and Evergreen, two of Singapore most important liner company customers. Transhipment now accounts for 95% of PTP's business, although PTP's Chairman Datuk Mohd Sidik Shaik Osman notes that the volume of cargo originating from Malaysia is rapidly increasing.

SANCTIONS SQUEEZE FORCES IRAN TO CUT OILFIELD FLOW

Tough Western sanctions are forcing Iran to take drastic action and shut off wells at its vast oilfields, sinking production to levels last seen over two decades ago and costing Tehran billions in lost revenues. Iran struggled to sell its oil in the run-up to the European Union ban on July 1, yet it managed to sustain oilfield flows at lofty rates above 3 million barrels per day (bpd) by stashing unwanted barrels in tanks on land and on ships in the Gulf.

But oil sales have now slumped to half the rate of last year and storage is running out. As a last resort, Tehran is carrying out "enforced" maintenance at its ageing reservoirs, say Iranian and Western oil sources, dropping output below 3 million bpd.

It's a step that could make Tehran look as if it is caving in to the West and, in any case, leaves it trailing former rival Iraq in the ranks of the world's top oil producers. And if a big volume of oil is closed down, it will be difficult to bring it back online when it's needed, say Western oil experts. Oil shipments have declined steadily as buyers cut imports to comply with U.S. and European Union sanctions imposed due to concerns that the country is attempting to build a nuclear bomb. Iran says its nuclear activities are peaceful.

Last month, Iran acknowledged that exports had fallen sharply - down 20-30 percent from normal vol-

Saudi Arabia Imports Cheap Oil from Europe

SINGAPORE–Saudi Arabian Oil Co., or Saudi Aramco, is shipping fuel oil from Northwest Europe to the Red Sea to meet Saudi Arabia's peak domestic summer demand, taking advantage of arbitrage economics that have been favorable up until recently.

The first cargo from Rotterdam this year–believed to have been bought from Litasco–aboard the 100,000-deadweight-ton Montego is due to land at the Red Sea port of Yanbu this week, and the company is on the hunt for a second cargo in Europe, but a deal has yet to be finalized, several traders said.

"They are just taking advantage of being able to land Rotterdam barrels into the Red Sea more cheaply than their own Middle East barrels," according to a senior European fuel oil trader.

But since it loaded the first cargo around mid-June from Rotterdam, the East-West spread has narrowed sharply, closing the arbitrage window for most players, and it remains to be seen whether Aramco can still find value in the move. The exit of large volumes of fuel oil from Rotterdam in first-half July and weaker sentiment in the Asian market have helped shut the arbitrage. The East/West spread for August was valued at $35.25 a metric ton Friday.

In the meantime, Aramco is heard to have chartered the 90,000-ton Ioannis to ship fuel oil from Ras Tanura to Yanbu loading mid-July, which will be at least its third shipment of fuel oil from the Persian Gulf to the Red Sea. Earlier, Aframax Poul Spirit was heard to have loaded from Jubail end-June and is currently on its way to Yanbu, while Aramco is believed to have chartered the 80,000-ton Neverland Dream for the Ras Tanura-Yanbu voyage loading around June 10.

Aramco has sharply cut fuel oil exports, as the country is burning more of the residual fuel this year to generate power. It was heard to have sold only one fuel oil cargo in June and has not offered any cargoes for July so far, said a senior Middle East trader.

Barclays Capital projected earlier this year that Saudi Arabia could turn into a net importer of fuel oil instead of exporting an average volume of 775,000 tons a month.

But exports out of the country aren't likely to dry up. Royal Dutch Shell and ExxonMobil have continued to offer fuel oil for export out of the country as tax issues discourage Aramco from buying and re-importing those barrels. Saudi Aramco typically buys fuel oil in the Middle East or ships cargoes from the Mediterranean to meet peak summer demand.

Did you know:

- *Global wheat supplies for 2012/13 are reduced 5.1 million tons with lower world production more than offsetting a 1.6-million-ton increase in beginning stocks.*

Industry Speaks
An Interview with Santosh Pillai

SUPPLY CHAIN – The Enabler

Santosh Pillai (A distinguished alumnus of IIFT), has more than 15 years of experience in Africa and India, mainly in the consumer goods with a consistent track record of delivering business results and managing people in challenging environment. His main expertise is in Strategic planning, operations, turnarounds and experienced in managing M&A's and JV's. Currently he is the Managing director of Food production, at Wilmar, managing West Africa countries.

Over the years, what are the major changes that you have seen with respect to agriculture and its allied industries in Africa?

There aren't many organized agricultural activities. Commercial farming on a large scale is very rare. That has primarily to do with

1) Regulatory factors
2) Right labor availability
3) Lack of sufficient allied industries to support agriculture
4) The presence of a trading mindset, where it is easier to import and substitute for local production.
5) The high cost of doing agriculture in this land.

In the recent years, there has been a shift in focus. There are larger firms coming and investing in Africa. They are seeing the right kind of opportunities due to Africa being the last frontier of this world. There is plenty of agricultural land available. With the right kind of incentives and support from the regulatory authorities and government, agriculture can be made into a profitable business. Probably this is the only part of the world where there is enough land available for agriculture. We will see lot more firms coming and investing in Africa.

Over the past few years, volatility in prices has been very high. How does Wilmar cope up with this?

Wilmar has a unique business model. We are a fully integrated agro business group. We don't just trade, we have our own plantation. One of the largest plantations worldwide. We have our own refining complexes. Over 300 of them worldwide. This does not end with refining. We pack them ourselves and distribute them ourselves. Thus our brands are amongst the leading brands. In India, Fortune is the leading brand. We have 46% of the Chinese market. Our brands are the leading ones in the East and West African market. So one way of managing volatility is to ensure that your operations are such that you are least impacted by the volatility and delist your product from the commodity and currency price fluctuations.

We know that many companies give job placements in African countries. How are the opportunities shaping up for the students of IIFT per se in Africa ?

In terms of opportunities, there are many in Africa. Whether IIFT students are geared up for this? Yes, they are. The curriculum and the training program are definitely geared to ensure that IIFT is adapted to this environment. The only issue is that there are not many professional firms operating in this part of the world. The awareness level of the opportunities, existing in Africa, also is very low in India. The inclination of the students of IIFT coming to Africa is not very high. So there is a combination of many factors. This has to do with understanding education and also the fact that many more firms will have to come to this part of the world to understand the kind of opportunities existing in Africa. I know many IIFTians who are in firms that are already in Africa. On a similar level, the person here in Africa handles much more responsibilities than his counterpart in India and thus has greater opportunities .

How has the two years at IIFT helped you in your career till now?

It prepares you for the professional world. It gives you a great grounding in the basics of finance or marketing or international trade. Obviously we had a great interaction with the faculty, visiting faculty on how the professional world operates etc. It also enhances your ability to analyze situations, cases, numbers, facts business scenarios etc. The grounding is set in these two years. It helps you to understand the nuances of how exports and international trade operate out of India. Basic things like incoterms, going through the grind of summer internship and not to miss the fact that you are studying with a set of very competent peer group. It all adds to the whole environment and finally you are prepared for the professional world .

For students who are interested in Trade and agri-business etc. What would you suggest to those students to equip themselves to the challenges in the real world ?

My view on this a bit different. Many people do not know what they are interested in, until they sit through the campus interviews etc. There would be very few who are interested in this side from the start. To those people my suggestion is that there are plenty of journals, materials, research projects etc in internet where they can channelize their interest. If I were such a student, I would try to do a lot of interactions with people in the field to understand how the companies operate. I would try to understand how Wilmar grew to be a $4 billion company in a short time. If I had an inclination towards edible oil, I would interact with people from Adani Wilmar or Marico etc. to understand their business and check if I can do a project with Adani Wilmar. There are many ways to channelize the interest. Obviously internet is a great source, but more than that one-to-one interaction with the Alumni or executives who are in similar fields would be a great learning experience

What are the common obstacles you face in your day to day work life in Africa ?

Briefly speaking there are plenty of challenges in Africa. Everyday throws up a new obstacle. You have political crisis, commodity crisis, foreign exchange volatility, regulatory challenges etc. This region is very unique and the lack of stability brings out new opportunities. The key success factor here is to see whether you are able to navigate through these challenges and operate very well in ambiguous situations. There is never a B-school kind of case here. You need to be ingenious, creative and survival instincts need to be very good. That gives you the edge required to perform well in this region.

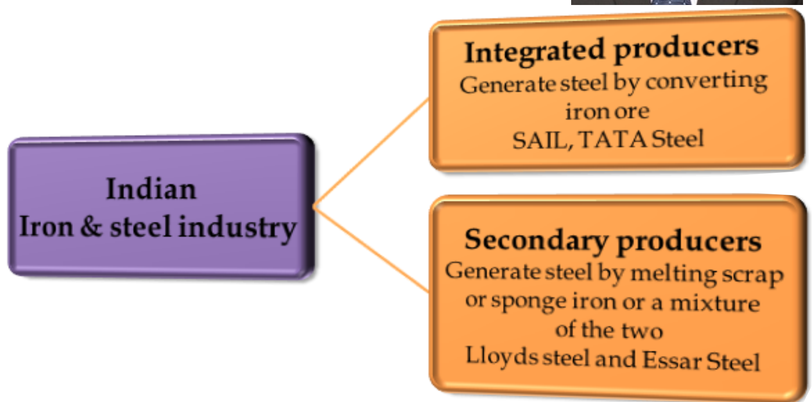
'ALL IS NOT WELL' FOR STEEL

by Mohammad Farhan (MBA-IB—2011-2013)

Steel even today is a vital component of a country's economy and is considered as the crux of modernization. Being the basic material for development of economic and social infrastructure, it is closely linked with various sectors of the economy. As a result, there is a direct relationship between the GDP and the demand for steel.

What did budget bring to the table?

The steel sector has plenty to cheer in the Budget 2012-13. There was some thrust for the infrastructure sector which is conducive for growth of the steel industry.



Structure of the industry on the basis of routes of production

Segment	Budget Expectation	Budget Outcome	Impact
Excise Duty	Hike of 2%	Duty hiked to 12% from 10%	Steel prices to move up but manufacturers unsure about passing the hike entirely
Coal	Cut in Import duty on thermal coal	Import duty on thermal coal reduced to NIL from 5% Customs duty on goods required for Coal mining projects is reduced to NIL	Slightly Positive for Power Companies; Imports may not rise sharply Positive for upcoming Coal mining projects
HRC	Hike in import duty on Steel	Import duty of coated and uncoated non-alloy flat steel products hiked to 7.5% from 5%	Slightly Positive for Domestic Steel Companies
Iron Ore	Cut in Export Duty of low grade Iron Ore Tax holidays for Iron ore Pellet making units	Export duty on Iron ore kept unchanged at 30% Customs duty on imported plant and machinery used in the industry has been cut from 7.5% to 2.5%	Iron ore exports may fall further especially from Goa which exports low grade Iron ore Positive for upcoming Pellet plants
Infrastructure sector	Significant increase in allocation for infrastructure.	Infrastructure investment to go up to Rs 50 lakh crore & taxfree bonds of Rs 60,000 crore are also announced	Positive for the infrastructure sector. Steel demand from Infrastructure sector may also improve

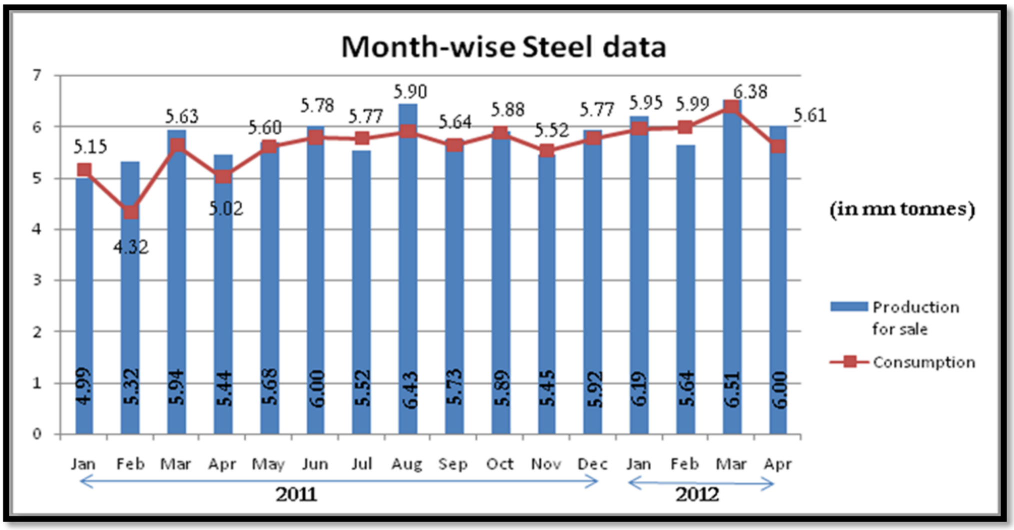
What's going wrong?

Globally, the production and demand has been sluggish owing to the Euro zone crisis and tight liquidity scenario in China- world's biggest steel consumer and producer. The growth in world crude steel production has almost halved from peak 15% in 2010 and the capacity utilization ratio has dropped from the peak 83.3% in Jan to reach 71.7% in Dec 2011. The domestic steel industry has struggled due to moderate demand from auto and construction sector coupled with the scarcity of iron ore in the country. Currently, domestic steel prices are hovering around Rs 32,000 per tonne.

India's per capita steel consumption has increased by around 25% in the last 5 years to 57 kg in 2011 against 45.8 kg in 2007. However, it still lags far behind the world average of 214.7 kg and China's average of 459.8 kg.

I don't see softening in steel prices in coming months although demand for long steel will fall with the onset of monsoons and the consequent slowdown in construction activity. The profit margins of the manufacturers would improve slightly but may not be sustainable as fall in input prices may not continue for long. The 10% price hike in May by NMDC, India's largest iron ore miner, would increase the cost of producing steel by 3-5% affecting the steel producers.

"The depreciation of the rupee no longer makes it viable, although international iron ore prices are coming down. There is an acute shortage; prices of what's available are being hiked in the run-up to the rainy season."
Essar Steel CEO Dilip Oomen



Further, the US has imposed a preliminary anti-dumping duty on import of the circular welded carbon steel pipe from Indian firms which were suspected of selling them at 48.43% below the fair market value. In 2011, the US imports of pipes from India stood at USD 64.6 million.

The dwindling supplies and a country-wide clampdown on ore production due to illegal mining have forced the steel companies to do the unthinkable - **import iron ore which India has in abundance**. This will threaten to increase their dependence on overseas supplies of crucial mineral resources and eventually erode their competitiveness.

With its existing land area, the sector could ideally produce 300 million tonnes instead of today's 75 million tonnes and should not need extra land till 2025. - CSE Report

I propose the following measures to address these issues:

1) The current uncertain macroeconomic environment demands collaboration between the players. I was disappointed to read about Tata Steel and NDMC's proposal of an alliance failing to see the light of the day. NMDC with its iron ore resources and Tata Steel with its steel making prowess could have been a perfect match.

2) The government needs to support the companies for certain strategic alliances. The $ 2.1-billion Bolivian project of JSPL which now stands officially stalled would have provided a major boost to its raw material security as the company had plans to mine 20 million tonnes of iron-ore annually and export half of it.

3) We must do everything possible to revive business and investor sentiment. I am talking about the by far the largest FDI proposal for India, POSCO's Odisha project which has run into repeated hurdles since 2005. Many multinational steel companies with similar plans are caught in the regulatory quagmire.

4) With GDP falling to its lowest in 9 years, there is an urgent need to put infrastructure projects on the fast track. The growth rate of core industries (having combined weight of 37.90% in the IIP) has slumped to 2.2% in April. An investment of $1 trillion is needed over the next 5 years in infrastructure and therefore more public-private partnerships.

5) The government should grant the infrastructure status to the steel industry which would ensure long term funds and tax holidays.

6) Improvements are required in the policy and regulatory performance for achieving existing global benchmarks by using appropriate technologies to ensure clean and sustainable development.

"India, which has nearly 80 mt per annum of installed capacity, will be among the emerging economies to drive demand of steel globally this fiscal" - Tata Steel

It would indeed require nerves of steel to make it happen!

WHEAT ENOUGH TO "EAT"?

by Vanshul Arora (MBA-IB—2011-2013)

India, a nation which had its record bumper harvest for the third consecutive year, should ideally be celebrating. But that isn't the case. Travelling to the villages of Punjab and Haryana you understand the reason – warehouses are overflowing with stock of previous season's grain and fresh arrivals cannot be accommodated.

As per estimates, Punjab has stored majority of its wheat produce (65000 tonnes) outside in the open because existing warehouses are already full and still need to be cleared of previous year's stock.

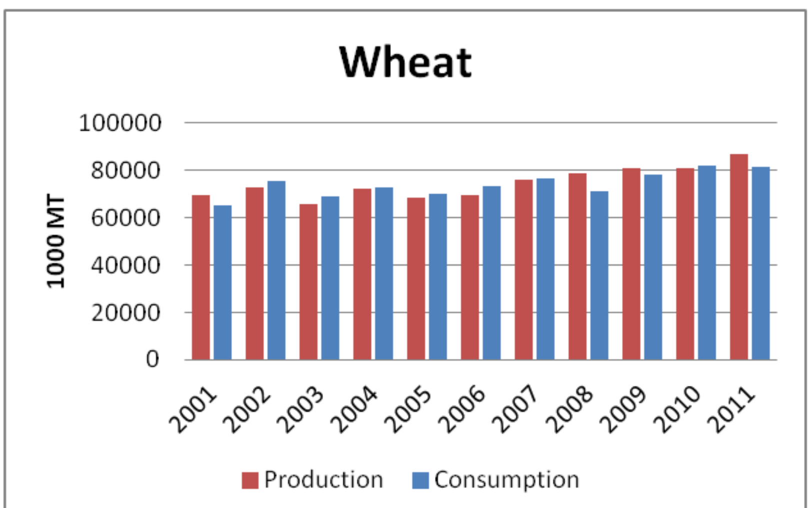
India, a country where 2.5mn people die of hunger every year (according to United Nations World Food Program report) and one third of the worlds hungry live here, it is disheartening to see people suffer from chronic hunger when grain rots in the open and is consumed by rodents.

So what is the problem over here? Governmental policies or distribution of grains?

Production and Consumption

The problem of the starving poor cannot be attributed to the fact that there is low production of wheat in the country. Supply has always met domestic demand.

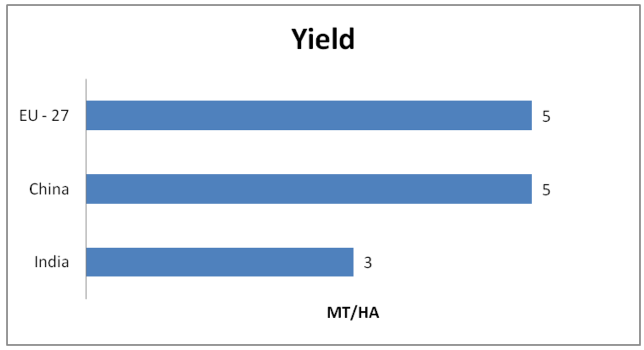
India is expected to produce a record 90.23mn tonnes of wheat this year, according to farm ministry data. The country consumes about 76mn tonne of wheat a year. It grows one wheat crop, which is planted in Nov-Dec and harvested in March-April.



It is the third largest producer of wheat in the world. This is because the crops used in China and EU are GM crops which have higher yield per hectare.

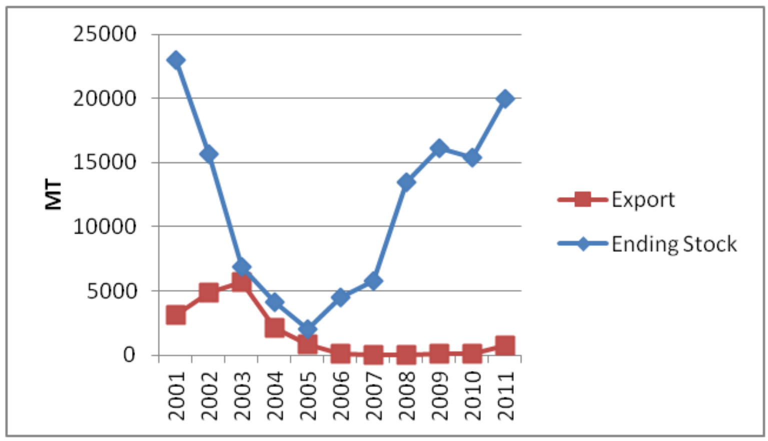
Reasons

There are various reasons for the huge stockpile of grain:



Policy of Govt:

The UPA government's National Food Security Scheme (NFSS) which it proposed to provide highly subsidised food grain is one of them. The govt. created a comfortable buffer stock of food grain before the scheme became operational. The plan failed as the launch of the scheme was delayed and food grain piled up in the godowns.



Exports:

Trade in agricultural products is not stable as it is switched on and switched off by the Indian govt. Such an approach towards exports neither helps in tapping the global market to fetch better prices, nor to steady domestic commodity markets. This can be seen in 2002-03 when govt was in favour of wheat exports, in 2005-06 when export of wheat was banned and finally in 2011 when wheat exports have been allowed again.

The production and procurement of wheat has outstripped demand for several years now, causing an acute shortage of space. The decision to export wheat has been held back until international prices began to soften. As a result, wheat exports lost much of their profitability.

2000-2005	Present
Decreasing stocks due to: 1) Increasing PDS from 20kg to 35kg 2) Giving out 2 lakh tonne for food-for-work 3) Allowing wheat export	Overflowing stocks due to: 1) Official stats state rotting of 6mn tonne of grain 2) Low exports

In the present scenario, FCI has a shortage of storing 12mn tonne. The govt. will have procured 75mn tonne of grain by the end of June while the total storage capacity is at 63mn tonne. Indian wheat has lost its competitiveness to cheaper Russian and Australian varieties in the global market. Indian wheat is priced around $270/tonne whereas the Australian and Russian varieties are available for $240/tonne.

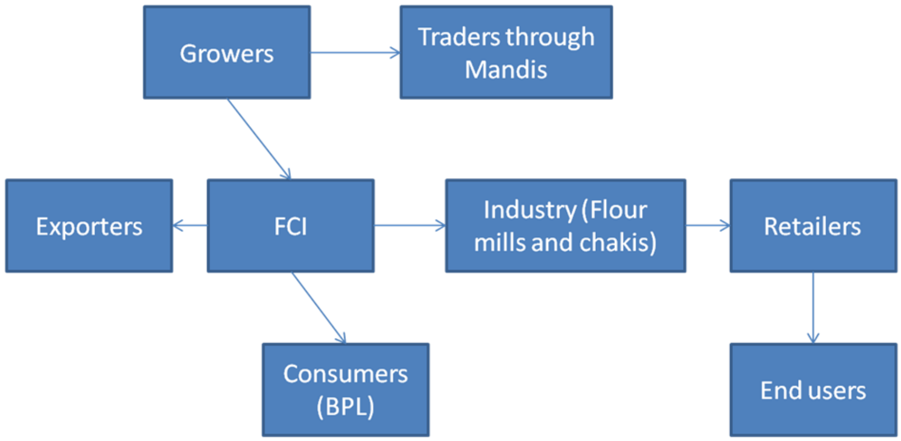
Therefore, unless the govt is able to export the grain at competitive prices or develop a proper mechanism for distributing grain under social schemes such as NFSS or MGNREGA, the rotting of grain is going to be a persistent problem.

Procurement and Distribution of Grain

The question we have to ask is the management policy for procurement of grain efficient or not?

Let us review the existing system.

The government follows a dual pricing policy in the agricultural sector. It sets two prices – a procurement price at which it would purchase grain from farmers, and a ration price (lower than retail price) at which it would sell limited quantities of grains through the Public Distribution system (PDS).



The PDS system at grass root level is a well defined and organized sector at state level. FCI is the major player in wheat procurement and distribution, buys 18% of the wheat from growers and maintains a buffer stock in the Capital Pool.

The balance 82% of wheat produced is marketed through channels such as commission agents, retailers, stockists, semi-wholesalers and large manufacturers of bread makers. The Govt. is the largest organized buyer in this segment; therefore it greatly influences price of wheat in the entire market. The phasing out of government's involvement would result in an increased participation of Private Sector in this market. This would lead to a two fold benefit of – reduction in food subsidy and alleviation of government's burden in this area.

Conclusion

To reduce rotting of grain the following solutions can be employed:

- Freeing inter-state movement of grain. The Essential Commodities Act modeled in the 1950's prohibits the private stocking and movement of grain due to fears of hoarding. These are rules of a bygone era as this is the age of surplus production.

- Improvement of farm storage. According to reports by USAID improved farm storage capacity may lead to reduction in losses that maybe as high as 30%. This will have a direct impact over farmer household income as well as increased ability to be more active participant in the value chain.

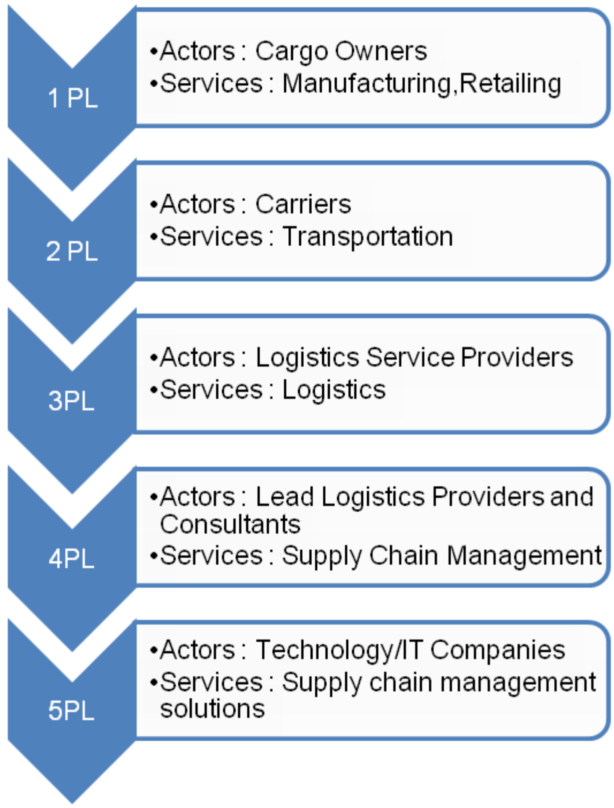
- Empowering of Regional General Managers (RGM) of FCI. Private godowns can be hired on yearly basis. These can be used to overcome the shortage in storage capacity of State Warehousing Corporations (SWC).

- Forming Bilateral Trade Agreements to export excess wheat. Countries like Uganda, the Gulf, Afghanistan and Pakistan need wheat. Iran, a country that used to import Indian wheat but stopped due to fungal infection in wheat crops, is now on a wheat buying spree and is looking for prospective buyers.

"LOGISTICS OUTSOURCING- OFFERINGS AND ACTIVITIES"

by Ankit Madan & Vikram Godbole (2nd year IIFT-Kolkata)

What makes the Logistics one of the most interesting and complex field is the involvement of many unrelated (by ownership) parties who are required to be in the loop. Putting some light on the PL (Party Logistics) levels, various parties which are involved in Logistics are referred to as 1PL, 2PL, 3PL, 4PL and 5PL.



1PL (First Party Logistics) means that the seller, producer or supplier is taking care of the logistics activities in the organization. The organization's main business is production and supply of goods, but because of their own production and marketing requirements they need to invest in building a number of warehouses, transport vehicles, stations and even railway lines and other logistics infrastructure. A transportation company is an example of 2PL or Second Party Logistics. Second-party logistics provider is an asset-based carrier, which actually owns the means of transportation. They are:

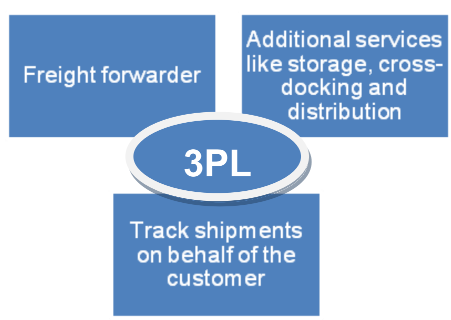
1) Shipping lines which own, lease, or charter their ships
2) Airlines, which own, lease, or charter their planes
3) Truck companies, which own, or lease their trucks
4) Barge companies, which own, lease, or charter their barge
5) Rail companies, which own their trains
6) Warehouse owners

THIRD PARTY LOGISTICS (3PL)

A firm that provides multiple logistics services for use by customers. Preferably, these services are integrated, or "bundled" together, by the provider. Among the services 3PLs provide are transportation, warehousing, cross-docking, inventory management, packaging, and freight forwarding "

Third-party logistics providers are:

1) Freight forwarders
2) Courier companies
3) Other companies integrating & offering
4) Subcontracted logistics and transportation services



It has become an ever increasing trend to outsource warehousing and distribution operations and take advantage of lower total costs, better quality and efficiency offered by 3PL providers. By this, the production and operation enterprises concentrate their efforts on core business and the logistics is taken care of by the specialists in the respective field. The ultimate advantage to the exporting companies is the reduction in the per unit cost of the transfer of product from exporter to the importer.

While some claim that 3PL should manage a customer's supply chain, others state that it is solely focused with moving freight and less concerned with management and control.3PL may or may not use its own resources when executing these services .Taking this all into account the main idea is that the 3PL has the ability to carry out multiple functions for its customers' supply chain requirements.

Parameters for the selection of Third Party Logistics Company:

- Presence in countries concerned
- Knowledge/Expertise of import formalities, routes, carriers, territories, infrastructure limitation, appropriate material handling techniques and machinery
- Credible past record & experience in handling similar consignments
- Resources and manpower to handle a job of this nature
- IT capability to track the consignment on a continuous basis using GPS technology
- Competitive cost vis-à-vis other players
- Safety and Security standards of the company

Evaluation of Performance of Logistics

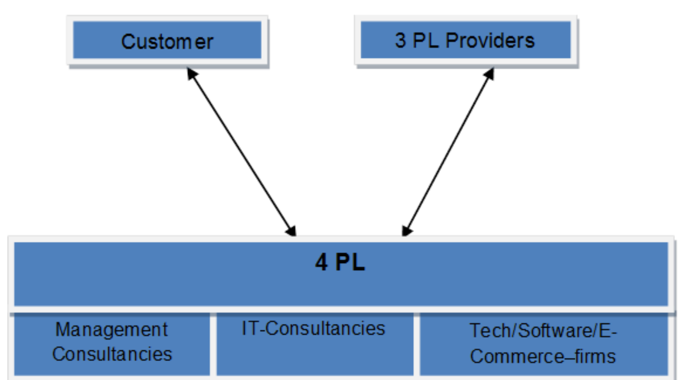
Inventory related metrics: inventory in transit, inventory in hand, supplier routing compliance percentage, supplier on-time order shipping percentage

Transportation related metrics: on-time pickup and delivery, claims ratio, billings accuracy percentage,3PL cost per shipment

Warehousing metrics: inventory accuracy, quantity handled per man hour, rush shipments handled, on-time receiving and departure, no. of orders processed and accuracy

FOURTH PARTY LOGISTICS (4PL)

In 1996, Accenture first coined the term 4PL (Fourth Party Logistics Provider) and defined it as a 'Supply chain integrator that assembles and manages the resources, capabilities, and technology of its own organization with those of complementary service providers to deliver a comprehensive supply chain solution or 4PL can simply be referred as the logistics provided by the consulting firm's services.



These consulting companies need not to engage in specific logistics activities, not to build logistics infrastructure, but for the entire supply chain to provide integrated solutions.

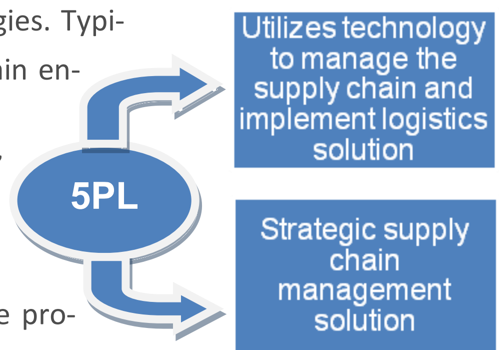
A lot of emphasis was placed on the 4PL provider being a single point of contact for the shipper, whilst becoming an integrated part of their business to the point of representing their Logistics department. Being non-asset based was also regarded as a fundamental feature of a 4PL provider as it would-in theory-ensure that they would be "neutral" in selecting the partners for the shipper. In general, the 4PL concept very much focuses on working together with client on transformation efficiencies, thus redesigning not only the supply chain but sometimes also the overall business process and internal organization.

The key difference between the 4PL and 3PL providers is that the former offers a more strategic service to its customers. The 4PL is a strategic activity which involves not only the management of the client's supply chain, but also the development and improvement of their supply chain strategy.3PL service providers offer far more tactical services.

The 4PL wants to position itself as an extension because it recognizes the role and need of IT in managing the process. Some of the 3PLs are solely focused on managing tasks rather than the full processes which has allowed for the evolution of the modern 4PL.

FIFTH PARTY LOGISTICS (5PL)

5PL is an organization that will plan, organize and implement logistics solutions on behalf of the contracting parties by exploiting the appropriate technologies. Typically 5PL deals with the large customers whose supply chain entails a greater degree of complexity.



Basically this intermediary strives to turn their customers' supply chain into and IT managed systems linking the suppliers and the buyers.

Fifth party logistics provider caters the information service provider to provide the main business of information processing facilities and equipment, technology and management methods, logistics information may only be part of the information it provides, it does not engage in any specific logistics activities, strictly speaking it belongs to the e-commerce or information intermediary companies.

<u>The road ahead</u>

With increasing trade leading to greater interdependencies in the world, it is imperative that the logistics providers focus on moving up the value chain by managing enterprise logistics process outsourcing instead of freighting / warehousing activities so as to create a sustainable and profitable situation.

VENDOR SELECTION ANALOGY-TO KNOW THE RIGHT VENDOR/SUPPLIER

by Rahul Jayasankaran (2nd year IIFT-Kolkata)

INTRODUCTION

Ever and anon, mankind has tried to seek something for its benefit. The earliest gatherers were always on the lookout for that extra animal they could kill and eat. Mother Nature was the first true vendor for the Neanderthals, who were the first customers. Since then, the roles of vendors and customers have changed drastically, with both sets of functions choosing each other with great care.

Trade and operations have always been considered to be entirely different entities, and rightly so, lexically and functionally. Operations encompasses everything related to the production and dissemination of a good or a service, right from sourcing the requisite input materials to the final dispatch of the same. Trade, on the other hand, is more about getting a product/service from another entity, which is capable of providing it.

However, both these crucial functions have one thing in common: **finding the right supplier.**

THE CONUNDRUM

So, how do we fix the right supplier for the job at hand? Obviously, this is not a job which can be solved with a snap of our fingers. A tremendous amount of effort, time and of course money needs to be expended to get how much of what we want, when we want and as we want.

But finding the right supplier is a problem which plagues the best of firms in the trickiest of industries! Procurement of supplies is crucial because, without such endowments, a firm would get crippled and eventually shut down. Procurement is also more relevant in the 21st century simply because everyone is trying to locate the best stockpile of resources, many of which are dwindling (steel, conventional power plants, cement are a few industry examples springing to the mind).

Trade is also similar in such aspects because internationally, industries and individuals are always buying and selling from similar entities across the borders. Thus, it can be inferred that they need to do a similar kind of research before taking the plunge.

Research is the key word here because, like in operations, there is a lot at stake, and a single wrong choice can easily result in the company's coffers getting depleted by millions. Interestingly most companies tend to, after selecting the supplier, rate their performances, once the suppliers fulfill their commitments.

THE SOLUTION

What is the advantage of rating our suppliers? Quite simply, once a supplier fulfils the commitment, firms would obviously decide whether to maintain the relationship with him, if he does a proper job of the prior assignment. Thus, based on the criteria which were indirectly referred to in the preceding paragraphs, firms rate their suppliers, and then refer to these ratings to decide whether a supplier is good enough to supply materials to a firm. As it turns out, every firm's operations function includes the criteria of delivery, quality and price to rate a supplier's performance.

It can be inferred that the three highlighted parameters form the backbone of any firm or trading organization which is dependent on supplies of any kind. Why is that so? Countless research papers in myriad university journals have also arrived at the same conclusion. It does not take a lot of rocket science for a layman to understand the importance of these three parameters. For any procurement function, the recurring thoughts revolve around the problems, namely that the materials/services procured should arrive on time, in the right quantity, at the right cost, and of an optimum quality. And it is no big discovery that any trading firm would also be worried about the right quantity of the consignment, arriving at the right time, bought at the right cost and without any damage.

Consequently, the distinct functions of trade and operations converge when it comes to the idea of suppliers, and it won't be stretching it too far to say that for firms which base their identities on their operations, or in its specialization as a trading firm, sourcing their supplies is the one thing they will never outsource (unless it is too late of course!), and neither will they turn a blind eye to any problems plaguing such a crucial task.

CONCLUSION

Sourcing is one of the toughest jobs on the planet, not because it is dangerous, but because we are dealing with the problem of scant resources, which cannot be increased in many cases. Also, the vast difference between trade and operations disappears completely, as has been discussed repeatedly earlier, when it comes to finding the right person to equip us with the materials we require. Suffice it to say that procurement has always been an important cog in the organizational wheel, and will continue to be so.

As for trading, which is among the oldest businesses known to mankind, the idea of exchanging goods does not sound so primeval and primitive, because there is always going to be a vacuum of resources of different kinds in different regions of the world, and for our posterity to prosper, much like our ancestors, trade will also be as important as operations, the importance of which should not be lost upon anybody.

NOBLE GROUP

by Pavan Chandramouli (2nd Year MBA-IB)

Noble Group (SGX: N21) manages the global supply chain of agricultural and energy products, metals and minerals. Noble operates from over 140 locations, employing more than 70 nationalities. Noble manages a diversified portfolio of essential raw materials, integrating the sourcing, marketing, processing, financing and transportation of those materials. Noble owns and manages a portfolio of strategic assets, sourcing from low cost producers such as Brazil, Argentina, Australia and Indonesia and supplying to high growth demand markets including China, India and the Middle East. Today, Noble has interests in grain crushing facilities, coal and iron ore mines, fuel terminals and storage facilities, sugar and ethanol plants, ports, vessels and other key infrastructure facilities.

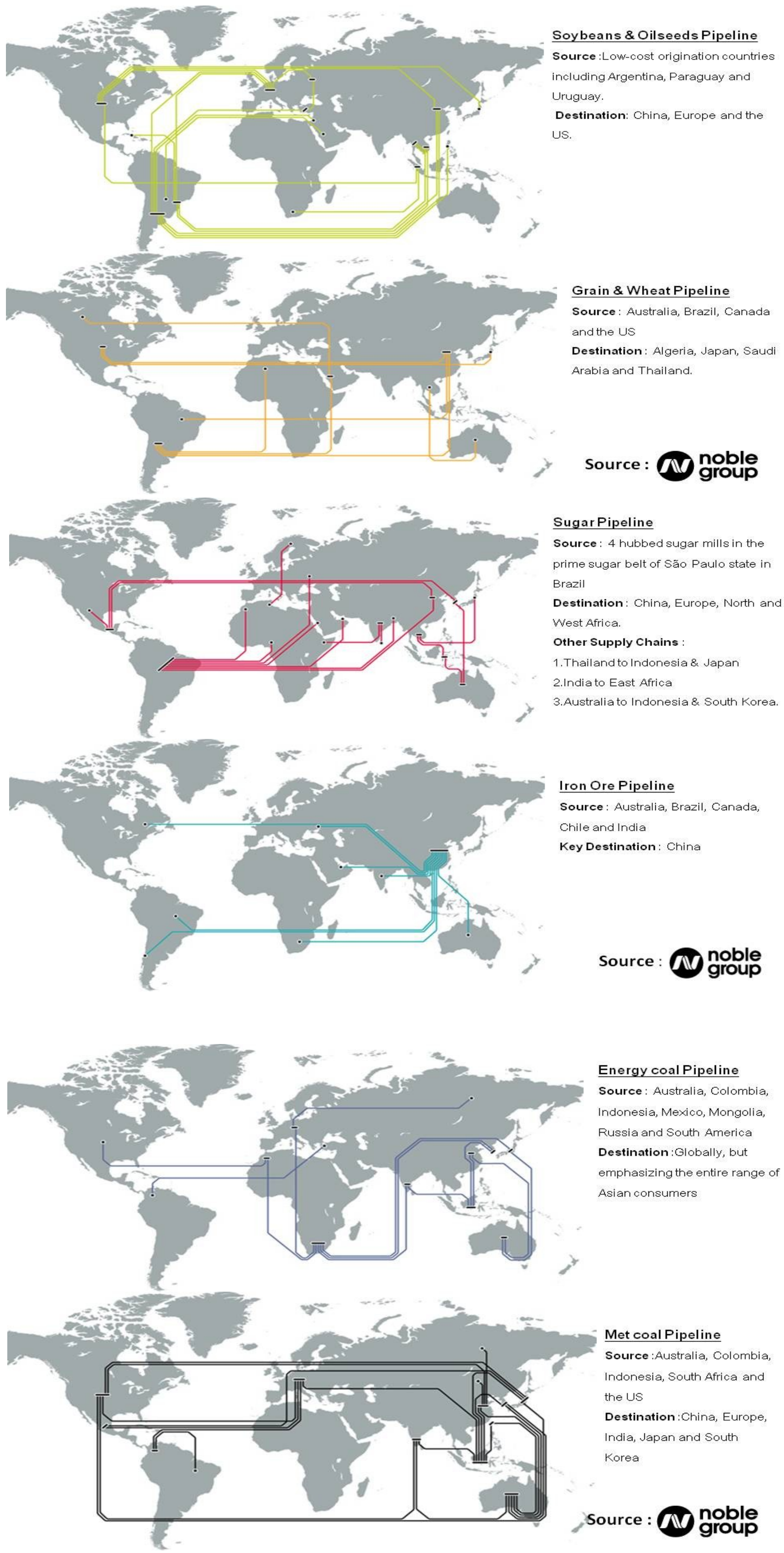
Noble is one of the few companies in the world that manages such a diversified portfolio of raw materials and natural resources ranging from coal, coffee and carbon credits to soybeans, sugar and base metals. This wide product diversification has always been an integral component of the company's risk management strategy.

Products

Agriculture	Energy	Metals, Minerals & Ores
•Grain & Oilseds •Sugar •Cocoa •Cotton •Coffee •Fertilisers	•Energy Coal & Carbon Complex •Oil, Gas & Power •Polymers •Petrochemicals	•Iron Ore •Base Metals •Metals Warehousing

Did you know:

- *World Steel industry directly employs about more than* ***two million people*** *worldwide, with a further two million contractors and four million people in the supporting industries.*
- *By sector, global steel recovery rates for recycling are estimated at 85% for construction, 85% for automotive, 90% for machinery and 50% for electrical and domestic appliances. This leads to a global weighted average of over 70% .*
- *761Mt of coking coal and Pulverised Coal Injection (PCI) coals are used in global steel production, which is around* ***12% of total hard coal*** *consumption worldwide.*



Pipeline Strategy

Noble manages supply chains that span origination, transportation, storage, processing and delivery of key commodities, connecting low-cost producing countries with high-demand growth markets. Noble focuses its investments on key assets at select stages of the supply chain process, allowing the Group to extract additional value, manage risk and secure long-term information and product flows.

Facts about Noble Group:

In late 2009, Noble achieved "Investment Grade" ratings (Baa3) from Moody's Investors Service and (BBB-) from Standard & Poor's, complementing its initial “Investment Grade" rating (BBB-) from Fitch the previous year. In addition, Noble Group is among the 30 securities listed on the Straits Times Index.

Founded: 1986

Headquarters: Hong Kong

Employees: 12000 (2011)

Website: www.thisisnoble.com

Chairman: Richard Elman

CEO: Yusuf Alireza

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 students 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