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Better times for basmati

India has produced over 100 million tonnes of rice annually for the last six years. Kharif is the major season for paddy, accounting for 88 per cent of the annual output. India produced record rice output during 2011-12, at 104.26 million tonnes. Since then, surplus production for five consecutive years has buoyed up rice stocks in the open market. As a result of this glut, premium rice varieties have seen their prices fall throughout this season. Some varieties of rice have seen prices decline by as much as 25 per cent, never to revive. Stockists who held these varieties have notched up huge losses.

Basmati glut

The Basmati rice complex has been the worst hit among rice varieties. Merchants and millers had bought paddy at around ₹2,700 a quintal in November-December 2014, but prices traded at around ₹2,400 for the rest of the season. The major reason for this price drop is excess production as well as import restrictions by Iran. The production part first. Basmati rice production in 2014-15 was up 33 per cent at 5.88 million tonnes. The higher planting of Basmati varieties was due to the handsome prices realised by farmers at around ₹5,600/quintal in November-December of 2013.

At the same time, a new short duration variety 1509 was also introduced, which allowed farmers to reap three crops in a year. This also earned them two-three times higher realisations than non-Basmati paddy which is a longer duration crop.

However, millers have resisted buying the new 1509 variety due to its poor recovery rates and lack of acceptance in the export market. Continued plantings of this 1509 variety have contributed to the Basmati glut too.

Given this backdrop, what's ahead for this season? The Basmati complex (1121, 1509 varieties and others) will see record production for the second year in a row in 2015-16, at 5.91 million tonnes. Opening stocks with millers and merchants are already at around 0.85 million tonnes, which is more than double the levels of season.

A variety-wise break-up shows that production of the 1121 variety could be around 4.38 million tonnes (+0.4 per cent), the 1509 variety at about 0.74 million (+1.4 per cent) and production of the traditional varieties at 0.39 million tonnes (+0.7 per cent). As a result, prices have already declined sharply.

Farm realisations (after excluding direct and indirect costs) for Basmati have been sharply lower year-on-year and even negative, for the farmers cultivating rented land. Interestingly, the farm realisations for non-Basmati rice have improved year-on-year for all farmers. The rents are lower for non-Basmati and the downside to the price is also limited due to the strong MSP-based government buying.

Export prospects

But while there is excess supply, domestic consumption of Basmati is expected to increase by a sharp 10 per cent to 1.55 million tonnes this year. Growth in domestic demand has been helped by lower prices and the increased use of branded products. Low prices last year also stimulated export demand. India’s Basmati exports increased 17 per cent to a record 4.05 million tonnes.

While the largest buyer, Iran, has been reducing its imports for the last couple of years (imports in 2014-15 were 0.86 million tonnes), with depleting stocks and lower prices, Iranian demand is expected to revive in the current season. As a result, Indian Basmati exports are expected to reach a new record of around 4.4 million tonnes in 2015-16. The new crop arrivals are expected to pick up in the first week of November.

In the near term, prices of Basmati (1121) could head lower from ₹2,000/quintal levels due to higher stocks, record crop and arrival pressures, to below ₹1,800. However farmers’ resistance to any prices below the cost of production will provide a floor to prices at those levels.

Over the next three to four months, prices could recover on higher demand to around ₹2,400/quintal. Sharper rallies are, however, unlikely due to record availability of Basmati. Overall, this season may be better compared with the previous one as prices have already corrected. Downside in prices from here is limited and lower prices will stimulate only demand.

WTO effect: India may halt export subsidies for raw sugar

Buckling under pressure from countries such as Australia and Brazil at the World Trade Organisation (WTO), India is considering discontinuing direct export subsidies for raw sugar which are banned under the multilateral trade rules. It may instead give incentives that are compatible with the regime.

A government official told *BusinessLine*: “The mandate in the government is to move away from export subsidies. The Department of Food and Public Distribution is in consultation with the Commerce Ministry to explore other options for helping the sugar industry. The message is clear that export subsidies cannot be the answer to the problems facing the industry.” The subsidy of ₹4,000 a tonne for export of raw sugar, which expired on September 30, has not been extended, much to the disappointment of sugar millers. Millers say that without incentives from the government it would not be possible to export the 4 million tonnes (mt) of sugar that the government has mandated for the current sugar year (October-September 2015-16) as world prices are ruling much below domestic prices.

Need for proper schemes

The subsidies that the WTO allows for exported sugar are either for transportation or marketing. “If subsidies are to be extended for transportation and marketing, proper schemes have to be devised so that these can’t be questioned,” the official said.

The Agriculture Ministry has been announcing subsidies for export of raw sugar for the past two years to help ease the sugar glut in the country and enable millers pay the mounting dues to cane farmers.

However, these subsidies have increasingly come under the scanner of the WTO, with several members claiming that these could distort global prices. New Delhi has got away so far by claiming that it has not disbursed the subsidies to exporters yet, but it faces the danger of being dragged to dispute at the WTO if it is established that such sops are being doled out.

At the recent meeting of the Committee on Agriculture at the WTO, Australia pointed out that if the mandated 4 million tonnes of raw sugar takes place at a subsidised price, it could have an effect on world prices as the amount was equivalent to almost a tenth of world trade.

Through mandatory sugar exports, India aims to reduce the glut in the domestic market and help millers pay cane arrears to farmers, which stood at ₹14,000 crore at the end of August.

According to industry estimates, because of higher supplies, there would be a carryover stock of about 10.2 mt in the new season. With sugar output in 2015-16 expected at 28 mt, the total supply next season is pegged at 38.2 mt.

Goa eyes exporting 20 MT iron ore; open to discount in prices

Miners in Goa expect to sell 20 million tonnes (MT) of iron ore that they have been allowed to mine from the state and are prepared to slash prices in a bid to make their ore competitive amid demand slowdown.

Goa mainly produces low grade iron ore (with iron content generally in the range of 55-58 per cent) that is exported to China and other consuming countries. Iron ore is the main ingredient for making steel.

Iron ore mining in Goa has started after a gap of three years and mining conglomerate Vedanta is set to ship the first consignment in October. The Supreme Court has permitted the state to mine 20 MT of the ore.

"We expect to sell all of 20 MT of iron ore. Even with subdued global prices (including of grades with iron content more than 60 per cent) and a huge tax burden on the miners in Goa, we are fairly certain of finding buyers for our low grade ore," Goa Mineral Ore Exporters Association (GMOEA) President Ambar Timblo told PTI.

The prices of iron ore (with Fe content 56-57 per cent) in the global market is in the range of USD 37-40 per tonne. October-May is the period when most of the ore is exported from Goa.

When asked if miners are considering any discount considering low prices, Timblo said: "Definitely a possibility."

The members of the industry body were in the national capital to meet officials from the Mines Ministry to put their demand of cutting export duty and allowing to dump mining waste .. outside the lease area.

"Already there are duties and then there is the District Mineral Foundation (DMF) contribution of 10 per cent, the Goa Mineral Ore Permanent Fund Scheme (GMOPFS) of 10 per cent and export duty of 10 per cent," Timblo, who is also the Managing Director of Goa's leading miner Fomento Resources, added.

Mining in Goa has a 30 per cent export duty on iron ore fines with Fe content of 58 per cent and above and 10 per cent for below this content. For iron ore lumps, the duty is 30 per cent.

The miners in the state are also demanding slashing of the duty for ore below 58 per cent of iron content.

"We have been successfully exporting our low grade ore for over 65 years and will do it this time as well. But we are urging the government to seriously consider our demands so that we can better compete in the global market that is going through one of its toughest phases," he said.

Another demand of the miners is permission to dump the mining waste outside the lease area.

"One needs to understand that the mining lease area in Goa is less than 100 hectares and the average lease are in around 60 hectares. This is a reason that we are urging that we be allowed to dump our waste in a designated area outside the lease," Timblo said.