VITAL INDUSTRY UPDATES - 23/07/2015

Government should keep to policy end of the business

Though the Government should restrict its role to policy formulation with periodic assessment of such policies, Indian authorities have dug deep in venturing with business of agri trade.

This is the legacy of outdated baggage of socialist's regime (of 1960 to 1990) which should have been shed by now but Ministries still call the shots to target the business on a day-to-day basis.

The trade, which manages the market, tries to outsmart the system to ensure that its profits are sustained or incur minimal losses by inflating prices in the *bazaar* or paying farmers less. It also attempts to circumvent rules or duties by means that may not be legal. If traders fail to succeed, they default on the banks that fund them.

The public is be-fooled by the so called sanguine actions of the Government while nothing changes on the ground. The paradigm "the government has no business to be in business" is denied as a rule than an exception. Nation suffers economically at the cost of political patronage.

Oilseeds-pulses

This week (July 20), the Agriculture Minister announced higher sowing of pulses (134 per cent higher), oilseeds (up 234 per cent) than last year with probability of much higher output in FY16.

This pronouncement sends bearish signal in the trade especially when the crop is nowhere to be sighted while the sentiment of excess is created. The uncertainty of further progression of rains, pollination, maturity and harvesting

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still remains. It is for the trade to assess these activities than for the government to announce advance judgement on productivity.

Discrete intention of the agriculture ministry may be to depress the recent inflationary pressures on pulses and oilseed which will be harvested in October/November 2015. Trade will ignore such statements.

The current prices of pulses and oilseeds may therefore remain unchanged but future prices, commencing October for the farmers would take a beating. Thus farmers' earnings will be badly affected.

Wheat import

In June, the Food Minister announced that the government intends to impose 10 per cent import duty on good quality wheat contracted at cheaper prices from Australia by the millers/trade in South India for customised milling of maida/suji/rava/bakery, etc.

Lower quality of MP crop necessitated this limited import of 0.5-1 million tonnes. So far, the Ministry's proposal remains non-notified, but should it happen, market price of wheat will surely flare up by 10-15 per cent or □ 2/kg approximate.

It will also create counter party disputes/litigation between Indian buyers and foreign sellers. To compensate for the penalties paid for the defaulted contracts by Indian millers, the losses will be passed on to the consumers. It also tarnishes India's image as a responsible trader in the global village. WTO's adverse observations cannot also be ruled out.

Sugarcane pricing

Pricing of sugarcane at SAP/FRP by the State/Centre, unrelated to the market forces of the end product – sugar and by-products – has created a labyrinth of mess with piling up surplus.

Export subsidy is annually promised but not notified timely – thus untimed subsidy remains an authorisation on paper. Market volatility caused by Brazil

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and Thai sugar supplies can never be comprehended by officials and politicians. Annual financial reports of the millers reflect huge losses. Loans from the banks are either defaulted or stressed or both.

Arrears to farmers of □ 21,000 crore remain unpaid. None is accountable to the loss of resources of water, power, fuel, transportation, etc. How the industry is surviving and banks/government are reconciling with this oddity should be subject of a paper in Harvard Business School.

PSUs imports

Another example: Agriculture Ministry made official assertion to import pulses through PSUs that pushed up international prices by 50-100 per cent on year to year basis with speculative trend.

There are already heavy commitments of the private traders to import pulses which would depress prices in coming months, forcing PSUs to sell at a huge loss beyond the level of anticipated subsidy. Officialdom has no clue of the trading strategies of other market players.

Either the Government should not be in the business and if it wants, then it must learn the "trading" of agri-commodities by giving specialised training to the bureaucracy in assessing supply demand globally and domestically, current trading practices, working of commodity exchanges, shipping and banking practices.

The Government – even though may provide the data – yet should not be in a hurry in making wild statements.

No further import duty hike on steel, says Finance Ministry

The Finance Ministry has ruled out further raising the import duty on steel as it would be inflationary.

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"Further increase in import duty will affect downstream industry. It will raise the price, which in turn will have impact on inflation," a senior Finance Ministry official said here.

Last month, duty on various categories of imported steel was hiked between 33.3 and 50 percentage points. However, categories such as stainless steel (Flat) and CRGO (Cold Rolled Grain Oriented Electrical) Steel were exempted.

However, the industry demanded a greater hike and was backed by the Heavy Industry and Public Enterprises Minister Anant Geete.

In an interview to *BusinessLine*, he said, "Imports are not only hurting Indian steel companies but also workers who are associated with the industry. Today, Indian steel production has slumped to 50 per cent of the installed capacity."

His fear was that most import is from China, which offers about 15 per cent export subsidy to its manufacturers.

Rise in Chinese imports

Steel import rose 69 per cent during the April-January period of 2014-15 and reached 8.12 million tonnes. Of this, China's share was 2.9 million tonnes, up a whopping 205 per cent from 9,53,350 tonnes in the same period a year ago.

Considering this, even Steel Ministry also pushed for duty hike which was duly obliged by the Finance Ministry.

After the June 17 hike, barring exempted categories, steel products – ingots & billets, alloy steel (flat & long), stainless steel (long) and non alloy long products – with five per cent duty attracts 7.5 per cent.

At the same time, non-alloy flat products and other alloy flat products having 7.5 per cent duty have begun attracting 10 per cent.

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Kerala CM seeks cabotage relaxation for Vizhinjam Port

The Kerala Chief Minister, Mr Oommen Chandy, has urged the Prime Minister, Mr Narendra Modi, to clear the relaxation of cabotage for the proposed Vizhinjam seaport project.

In a letter to the Prime Minister, he stressed that easing the restrictive stipulation for the Rs 7,525-crore project was in 'the strategic and economic interest of the nation'.

Mr Chandy also said that the existing ratio of main line calls versus transhipment in west coast ports, on which the Centre's new policy draft on cabotage was based, is 'skewed'.

"This ratio is highly skewed since the period taken is too short and the number of main line calls mentioned in the data includes transhipment volumes from Colombo and Hambantota ports handled by feeder vessels owned by main line vessels," he said.

As reported earlier, the Adani Group's APSEZ recently received the Letter of Offer to develop and operate Vizhinjam Port.

Cabotage relaxation would allow foreign-flagged vessels to carry cargo between domestic ports.

Meanwhile, the state Ports Minister, Mr K. Babu, has said that the Kerala government would sign the agreement with Adani Ports on Vizhinjam on August 17.

"The agreement will be inked on August 17… Work on the port will begin on November 1, which is Kerala's Formation Day," Mr Babu said.