Bleak Future for Goan Ore Exports to China

Haresh L Melwani, B.E.(elect.) is CEO of H.L. Nathurmal, a trading firm established by Late Shri Nathurmal in 1919 with multifarious trading activities in various commodities. He is an active member with the Goa Chamber of Commerce and Industry, Confederation of Indian Industry and other trade associations.

Recently we have seen a sudden ban by the Govt. of China on low grade iron ores below Fe 60 percent content; and that has perturbed the entire Iron Ore mining and the different perspectives need to be examined, to understand the genesis and the need for such a ban by the Chinese Authorities.

Iron Ore business from Goa was traditionally oriented towards the Japanese Steel Mills, which had historically taken ore from Goa and some even invested in the development of Goan Mines and infrastructure under the now famous 'Chowgule Formula', wherein a lumpsum advance was provided to the Iron Ore mining company with a certain understanding on the rate and the duration of supply (typically one year) and a deduction was made per tone shipped.

Thus the Japanese partook a percentage of the risk, although well calculated, given the shrewd business acumen of the Goan pioneers like Chowgule, Dempos, Salgaoncars, Timblos, etc., and it was an annual ritual to fix the prices for the forthcoming year under the JSM formula.

With the emergence of China as a major producer of Steel, and the normalisation of political relations coupled with the increasing banking relationship between our countries, encouraged us to take the first delegation of mine owners sponsored by CII in July 2004.

China market entry had a number of problems, major being that the Chinese L/c's were unknown to Indian Banks so confirmations were not added and also the Chinese import laws required that the imported cargo be analysed by CIQ (China Inspection and Quarantine Agency) while the inspection reports for the cargoes issued by SGS, Italab, SK Mitra etc., were not recognised by the Chinese authorities to permit payment.

Eventually the business grew and touched 120 million tons per annum of export of Iron Ore from India; catering mainly to the smaller mills, who cannot afford to open the big L/c's required to import the larger shipment parcels of 1 lakh metric ton and above normally shipped on cape size vessels by Australia, South Africa and South American Mines.

Since the Chinese were recent entrants into the market, and the Goan mining logistics infrastructure was already developed since so many years, there was no scope for further investment and consequently no long-term arrangements were worked out. The entire business was committed only on shipment to shipment basis for quantity and price, since the opacity of China did not permit the evaluation of their requirements and quality standards.

Due to higher prices offered by Chinese, the traditional contracts with Japanese were either cancelled or refused and about 95 percent of Goan Iron Ore was destined for China.

Three years ago saw enormous

speculative activities in the spot market and the Chinese authorities had to intervene to regulate the business to a limited number of authorised importers, which number a year later was reduced to extend the control further.

The year 2009 saw Iron Ore prices and vessel charter rates at historic lows due to the global meltdown and financial crisis with all mills staying away from purchases due to economic uncertainities. Also due to sour past experience and their own problems kept the Japanese steel plants away.

However, the resilience of the Chinese economy was underestimated by all and we have seen the emergence of China as a leader in the renewed growth, with next years GDP growth targeted at 10 percent.

Meanwhile, the internal laws of China prompted the shut down of smaller blast furnaces below 1,200 cubic metre capacity, and most Chinese steel mills restarted with larger capacities and right in time to catch the wave of growth.

Simultaneously China came under increasing international pressure to reduce Greenhouse emissions, which it hoped to do with better economics of larger production units.

A number of financially well geared Chinese traders and speculators entered the markets, and the Chinese Mills which had to suddenly embark on the capital expansion, or close down due to government diktat, had to take recourse to the credit offered by these importers-vendors of iron ore, since their working capital funds were diverted to ensure the capacity expansion before the deadlines stipulated.

As a consequence, the mill gate prices of the iron ore spiraled as the vendors realised the mills dependence on their supply, and the reduced ability to buy directly.

This process went into a upward spiral with the ASEAN region global economic recovery and pretty soon the same was reflected in upward trend in the steel prices, causing further upward spiral in the iron ore prices.

The current clampdown is accompanied by a diktat that only larger traders who had last years imported over 1 million tons of iron ore and has a link with steel mill will be permitted to import ore, and have clamped down the import of Iron ore below Fe 60 percent content with a view to curb the Greenhouse Gases.

However, due to the opacity of the process, till date of writing this article, no clarity is forthcoming.

The problem faced by Goan iron Ore producers is that the excess liquidity which ensued due to the higher price realisations was sucked away by taxes in the form of export duties, higher royalties, transport cess, so that in my estimate about Rs 3,000 crore got sucked out of the Goan Iron Ore mining financial circuit, in the last two years, which would have otherwise gone into investments in better benefication facilities, better handling infrastructure, etc., and would have resulted in enduring competitiveness in the open global environment.

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At stake are the livelihoods of over 50,000 people involved directly or indirectly in the iron ore trade and associated activities and the massive investment in expansion of the Mormugao Port which has handled over 40 million tons of cargo last fiscal.

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