High inland logistics cost makes Indian iron ore less competitive - KPMG

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BL reported that India will not likely to remain the most cost competitive source of iron ore. This is mainly because of inland logistics cost in India is 5 times that in Brazil and Australia. Only the Goa region has a cost of production comparable to that of global players

The FOB cash cost of production in Australia and Brazil is between USD 15 a tonne and USD 17 a tonne, whereas in Karnataka and Orissa it is between USD 50 a tonne and USD 60 a tonne.

The key market for India, the small steel mills is expected to shrink due to increased pressure on margins on the steel companies. This will force smaller and inefficient mills out of play and due to the fact that the Chinese Government is envisaging significant consolidation, leading to closure of small mills and expansion of large players.

According to official, the outlook for iron ore in the global market is still not very bright. Post 2009, iron ore is expected to be in potential over supply, mainly due to the expansion plans of leading global producers, including Rio Tinto, BHP Biliton and Vale. Going forward, iron ore trade will be more China-centric as demand continues to decline in markets like Japan and Europe. On the supply side, Indian iron ore imports into China may become difficult.

The research said that increase in imported coal based power generation capacity could help ensure steady growth of thermal coal imports in the medium term. Based on coastal power projects awarded by the Central and State governments, the imported thermal coal trade to India is expected to rise to around 65 million to 70 million tonne by 2012.

(Sourced from Business Line)