



Milking The Cow

Is the India European Union Free Trade Agreement an opportunity or threat for the Dairy Sector?

By Ahmed Saifee

The negotiations between India and the European Union (EU) on the Free Trade Agreement (FTA) have recently gained momentum with ministerial level meetings, and delegates from both the sides are now optimistic about reaching a conclusion in the coming months. The Indian dairy industry has raised concerns over allowing market access for dairy products citing the reason that it will flood the market with subsidised products from European dairy companies. This is seen as posing a threat to the domestic dairy industry, which is geared for strong growth in the coming years as well as to millions of dairy farmers dependent on the industry.

India has always protected the domestic dairy industry by means of high import duties on dairy products. In turn, the EU restricts access of Indian dairy products to their market through Sanitary and Phyto-Sanitary (SPS) measures which is nothing but a non-tariff barrier. Though these appear to be genuine concerns from the industry, a deeper analysis is required to assess the realistic impact of the free market access on the industry and

dairy farmers as well as on the consumers who are instrumental in driving the growth of the industry.

For any industry, the supply-demand situation plays a crucial role in shaping the future. Statistics released by the National Dairy Development Board reveal that India is the largest producer of milk with annual production of about 120 million tonnes. However, per capita consumption of milk in the country is only about 70 litres per annum which, apart from low milk consuming South and East Asian countries, is significantly lower than developed countries and even other emerging economies like Brazil, Turkey, Hungary and Pakistan. Even with the highest milch animal population and focussed effort by the National Dairy Development Board to develop the dairy sector across the country, milk production has grown at a meager CAGR of 3.9 percent over the last decade.

Clearly, the potential for further growth in milk production seems to be very low while demand for dairy products is expected to grow exponentially in the coming years. Studying the per capita consumption of some of the dairy products would substantiate such estimates. An average Indian consumes only 0.3 liters of ice-cream per annum as compared to a range of 15-25 litres by developed countries, most of which has subtropical weather, not even ideal for ice-cream consumption. Similar is the case with yoghurt with per capita consumption of 0.3 kg compared to an average of 17.8 kg in developed countries like France. The constant increase in price of dairy products that we experience today is primarily the result of a supply demand mismatch. It is quite evident

that domestic production will not be able to cope with the demand growth expected in the next five years and we would need external overseas sources for bulk shelf stable products like milk powder and butter oil, which can be converted into value added products locally. In the absence of such a source, prices would keep spiraling up and adversely affect consumption and industry prospects. The lower income group would be worst affected due to the increasing price of milk and milk products that are primary sources of nutrition for them.

The dairy industry has raised the concern that EU provides high subsidies for the export of dairy products and these, if dumped in India, would hurt millions of dairy farmers as they will not be able to compete with cheap imports. India produces 120 million tones of milk per annum. Milk production for the top 10 producers in the EU as per NDDDB statistics is as follows:

Country	Milk Production (MT)
Germany	29.7
France	24.2
UK	13.9
Poland	12.3
Netherlands	11.6
Ireland	5.2
Denmark	4.9
Austria	3.3
Sweden	2.9
Finland	2.4
Total	110.5

Even the total production of these countries is less than what India currently produces. So we can safely assume that subsidised

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export from these countries will not wipe out the dairy farms in India. Cost and viability of dairy farming in India also varies from region to region. States like Gujarat, home of the largest dairy brand in the country, Amul, provides a highly conducive ecosystem for farmers to engage profitably in dairy farming. However, in many regions, especially in the north eastern states, the high cost of input makes dairy farming unviable and many farmers are discontinuing the practice. These issues will intensify further with increasing prices of agricultural products. The import of dairy products could therefore act as a much needed buffer to alleviate the shortage of domestic dairy products in these regions.

It is also important to observe the product category wise impact of allowing the market access. Apart from liquid milk other major products consumed in India are *ghee*, *dahi*, ice-cream and traditional dairy products like *khoa*, *paneer*, *chhana* etc. Even with subsidised export, EU dairy companies cannot competitively import and market products like *dahi*, liquid milk and ice-cream in the Indian market due to the high cost of logistics associated with transportation through the cold chain. Neither do they have the expertise in producing and exporting traditional dairy products and *ghee* consumed in large volumes in the country. The only product where they pose a threat to the domestic processor is cheese. But again, specialty cheeses like Gouda, Limburger, Brie and Emmental from EU countries are high-value products for which the growth driver would be quality rather than price. Duty waiver on the import of cheese may therefore not be significant but it would be critical to see how Indian delegates would negotiate on the GI issue. If the EU is asking for GI protection of cheese varieties it is reasonable for India to ask for GI protection for ethnic Indian dairy products like *paneer*, *shreekhand*, *kheer*, *rasogulla* and other *khoa* based sweets.

Apart from cheese, milk powder and butter oil would be the major product which EU would be eyeing to export to India. Only a fraction of the milk powder can be expected to be value added products like dairy whitener or infant milk powder, the rest would be bulk skimmed milk powder or whole milk powder. This, in a



way would be good for the industry as it will provide good quality raw material for producing value added products especially to companies who are seeking to enter into this segment but are unable to access dairy farmers for the supply of raw milk. Easy availability of milk powder and butter oil at competitive rates for reconstitution will promote localised processing and value addition at remote locations where milk cooperatives and private dairy processing companies cannot reach due to unavailability of milk and immense cost of distribution. This will give a significant boost to the consumption and growth of the industry.

On the other hand, access to European markets can be of great advantage to domestic dairy processors. EU uses SPS measures as a barrier to the entry of products manufactured in India. Today there is a huge latent demand for ethnic Indian products in EU nations waiting to be unleashed provided these products are made available in the market. Like in the Middle Eastern nations, which are a major export destination for ethnic Indian dairy products, the Indian population in these countries can kick-start the demand.



According to the Agricultural and Processed Food Products Export Development Authority (APEDA) statistics, none of the EU countries figure in the top 20 export destinations for dairy products from India. UAE, with an Indian population of 1.7 million is the biggest importer of dairy products with a value of Rs1 billion. UK alone has an Indian population of 1.4 million with practically zero import of ethnic Indian dairy products which gives us an idea of the potential we are sitting on. Products like *ghee* drawn from cow milk, known to have great therapeutic value, *paneer* and *lassi* can be major drivers of exports from India to EU countries if the government is able to successfully negotiate on intricate issue like the relaxation of SPS barriers and GI protection.

So though on the face of it, the FTA looks to be a bad prospect for the industry, the reality is that millions of dairy farmers engaged in viable milk production activity in the country will continue to do so even with the import of subsidised dairy products from EU countries. And if suitable thrust is provided by Indian representatives on critical issues like the relaxation of SPS barriers and GI protection during negotiation, India can actually come out as winner in the proposed FTA. What is required is to critically examine elements of the proposed agreement and develop a plan which can be pushed during the negotiations rather than general opposition to the FTA. ■



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