Potential Threat to Indian Dairy Sector through proposed Free Trade Agreement

Dairying has become an important secondary source of income for millions of rural families and has assumed the most important role in providing employment and income generating opportunities particularly for marginal and women farmers. Most of the milk is produced by animals reared by small, marginal farmers and landless labourers. While more than 75 million households in India are engaged in dairy farming, about 15.4 million (a little more than 20%) of them have been brought under the ambit of 160000 village level dairy corporative societies up to March 2014. India ranks first in the world in milk production,
which has increased to 146 million tonnes in 2014-15 from 17 million tonnes in 1950-51. About 70 percent of national milk production comes from major eight milk producing states, viz. Uttar Pradesh, Rajasthan, Andhra Pradesh, Gujarat, Punjab, Madhya Pradesh, Maharashtra and Haryana. Gujarat is a leading state in terms of its quality milk animals and milk production. Gujarat harbours some of the elite breeds of livestock like Gir and Kankrej Cow & Mehsani, Surti, Jafarabadi and Banni buffaloes, which have high milk yields. Gujarat ranks fourth in terms of milk production in the country with the milk production of 116.91 lakh tonnes which is about 8.00 Percent of entire country in 2014-15 (please find the graph at the end).

Dairying is not only a subsidiary source of livelihood in rural India, it is a major economic activity, especially in the arid and semi-arid regions of the country, like Gujarat and Rajasthan. This sector has significant impact on employment generation in the country.

In view of above, India’s decision to join the proposed mega-FTA (Free Trade Agreement) called Regional Comprehensive Economic Partnership (RCEP) has raised serious concerns among those intimately linked with the dairy sector of the country. Their apprehensions that such a move may open up the Indian dairy sector to increased, if not unfettered, competition from countries like Australia and New Zealand and thus may go against sustaining the livelihood of millions of small and marginal milk producers in India, appear to be prima facie rational. Indian dairy industry, unlike its counterparts in Oceania countries, has served fundamentally the purpose of generating both primary and secondary livelihood opportunities to small and marginal farmers along with the huge army of landless agricultural laborers dotting the country side. Creation of an institutional infrastructure like federated cooperatives that got engaged into milk processing in conjunction with developing a milk chain linking milk producers from far off areas deep into the countryside away from the processing units, helped the tiny primary producers earn a significant share of the value created through processing and thereby sustain their livelihoods. The Australian and Kiwi milk farmers, on the other hand, are engaged in private profit maximization of large enterprises, which are, on their own, capable of negotiating with the market forces.

RCEP is a proposed free trade agreement (FTA) between the 10 member countries of the Association of Southeast Asian Nations (ASEAN) (Brunei, Burma (Myanmar), Cambodia, Indonesia, Laos, Malaysia, the Philippines, Singapore, Thailand, Vietnam) and the 6 countries with which ASEAN has existing FTAs (Australia, China, India, Japan, South Korea and New Zealand).

During the recently concluded Ministerial level meet on Regional Comprehensive Economic Partnership (RCEP) at Laos, India officially communicated its position to consider similar yardstick for elimination in number of tariff lines for all the members of RCEP, which is a significant shift from her earlier position of a three-tiered approach to tariff reduction. In return, India is pushing for liberalization of trade in 120 services – an area in which she apparently enjoys comparative advantage over other members of RCEP. The new dispensation of equal treatment by India to all 15 members of RCEP in terms of elimination of import tariff potentially opens up a much larger possibility of Indian milk producers facing strong competitive pressure from the dairy sectors in New Zealand and Australia. The recent round of negotiation has completed in Ho Chi Minh City, Vietnam in third week of August, 2016.

The elimination in tariff lines (through three tier approach) proposed by India earlier divided the 15 members of RCEP into three groups. While the first group consisted of the existing members of ASEAN – three of them considered as low income countries as per the World Bank classification – namely, Cambodia, PDR Lao and Myanmar, the second group includes Japan and Korea – countries which have simultaneous free trade agreements (FTA) with ASEAN and India. The third group includes Australia, New Zealand and China. These three countries have FTAs with ASEAN but are yet to sign such agreements with India.

New Zealand and Australia are the leading exporters of milk and dairy products in the world and both of them apparently enjoy a high degree of comparative advantage globally over their competitors. Both countries have recorded a self-sufficiency index of more than 500 and 127 respectively in 2013, indicating considerable excess production of dairy products over and above domestic consumption requirements. The corresponding figure
for India was 101 indicates production as per domestic requirement thus no export and import is needed. On the other hand, Chinese estimate of the same index stood at 81 – indicative of a significant deficit in domestic production compared to internal consumption requirements. Incidentally, the rest of the RCEP members are yet to be self-sufficient in milk and milk products.

In a competitive world that prevails today, exports are conditioned by capacity to produce beyond domestic production. The gap between cost of production, on the one hand, and the price of the products – both in domestic and international markets, which are often not free from manipulation or distortion of one kind or the other, also are important determinants of the capacity of a country to export. Incidentally, India is self-sufficient in milk production. However, per capita annual milk consumption in India is not very healthy compared to global standards. This is in spite of the fact that India is the largest producer of milk in the world. India is not export competitive in any of the 21 dairy products traded globally. However, the Indian dairy sector is surely capable of taking care of the present domestic consumptive requirements. With milk production increasing at a healthy rate, the country is well poised to maintain its self-sufficiency with per capita consumption of milk in India steadily increasing at more than 2% per year. Thus, thanks to “Operation Flood”, we have been quite successful in pursuing an import-competitiveness strategy to safeguard the interests of our vast millions of resource-poor milk producers as well as that of our domestic consumers. Being a large country with high impact of domestic shortfall on international prices, India is yet to acquire enough commercial intelligence to handle unforeseen fluctuations in global trade and undertake large scale domestic institutional reforms including handling of import quality to establish herself even as a small global player in the dairy sector in the years to come.

As cost of production of milk in New Zealand and Australia is more or less similar to that in India, so milk and milk products from these countries will emerge considerably price competitive vis-à-vis domestic products, if existing tariffs are altogether or even partially eliminated. Given the excess production capacity prevailing therein, they can engage in large scale export without having any impact on domestic price levels. Thus it is imperative that the domestic dairy sector is considerably protected from exports from other countries through appropriate policy instruments till the required domestic reforms are initiated.

The high share of consumer rupee flowing into the hands of the primary milk producers is unique feature of Indian dairy sector. This share was estimated at 71% in 2013 for India, the highest among the big milk producing countries around the world. The corresponding figures were 33% in New Zealand and 25% for Australia. Chinese dairy farmers received around 37%, Brazilian farmers’ share was 29% and the American milk producers chopped in with a share of 47%. For an interesting comparison, Pakistan enjoys a self-sufficiency index of 100, with a per capita annual consumption of milk recording a healthy 253 kgs of milk equivalent. However, the share of consumer rupee going to milk farmers stood at 40%.

Another important feature of the Indian dairy sector, which has questionable implications for a policy of cheaper and easier imports, is its mass base in the country side – mostly belonging to the economically, if not socially, marginalized sections of the society. A rough estimate puts this figure at around 75 million households with small landholding, mostly owning 2-3 cattle or buffaloes. Opening the milk sector hastily to competition from outside world will be a recipe for disaster unless the small producers are provided with necessary policy support – the most important of them being access to cheaper credit and other support services through institutional sources and integration with extended value chain in dairy products.

Further, India recently ratified the declaration aimed at achievement of Sustainable Development Goals (SDGs) by 2030. Incidentally, the dairy sector can play a very effective role in achievement of almost all of the 17 goals identified for this purpose – especially in reducing poverty, hunger and gender inequality. Providing a hasty and over-enthusiastic access to apparently cheaper imports of globally traded milk and milk products may permanently jeopardize India’s efforts at attaining the SDGs.

Therefore, the shift in India’s strategy in favour of opening up the goods sector uniformly to competition
from all other signatories of RCEP is necessary to be considered with a larger perspective. A concentrated gain for one small organized group is likely to be accompanied by pervasive loss to a much larger but relatively unorganized group—dairy sector, in particular. In case the dairy sector is hastily opened up to external competition, specially from New Zealand and Australia, the number of losers would be disproportionately higher—a phenomenon either the country or its political masters can ill afford.

(Based on Chakrabarti, Milindo (2016), “Trade talks that could milk India dry”, The Hindu Business Line, August 14, 2016)