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A VICTORY FOR THE DAIRY SECTOR

Relevant for: International Relations | Topic: RCEP and India

India’s withdrawal from the Regional Comprehensive Economic Partnership (RCEP) is a major victory for the farmer’s organisations, trade unions, associations of small and medium industrial producers and civil society groups, which had organised widespread agitations against the free trade agreement. The Indian government has bowed to their demands. In this article, I attempt to discuss why joining the RCEP would have proven suicidal for India’s dairy sector.

The key fear of the dairy sector was that tariff clauses for agriculture in the RCEP are much more severe compared to the existing World Trade Organization (WTO) agreement. While the WTO allows a country to fix tariffs up to a certain maximum, or bound tariff, for a given commodity line, the RCEP binds countries to reduce that level to zero within the next 15 years. Currently, India’s average bound tariff for dairy products is about 63.8% while its average applied tariff is 34.8%.

India’s dairy sector provides livelihood to about 70 million households. A key feature of India’s dairy sector is the predominance of small producers. In 2017, if the average herd size in a dairy farm was 191 in the U.S., 355 in Oceania, 148 in the U.K. and 160 in Denmark, it was just 2 in India. Yet, due to Operation Flood after the 1960s, India’s contribution to world milk production rose from 5% in 1970 to 20% in 2018. Today, India is largely self-sufficient in milk production. It does not import or export milk in any significant quantity.

If we consider global milk trade, developed countries account for 79% of the total world export of milk. Major players are the U.S., the EU, Australia and New Zealand. A country like New Zealand exports 93% of its milk production. On the other hand, developing countries account for 80% of the world’s total milk imports. Though India is self-sufficient in milk production, China imports about 30% of its milk requirement.

Thus, some of the major players in the global milk trade are in the RCEP region. About 51% of the global trade of milk, 45% of the global trade of skimmed milk powder (SMP), 38% of the global trade of butter oil, 35% of the global trade of cheese and 31% of the global trade of butter takes place in the RCEP region. This is why Australia and New Zealand, deprived of the lucrative markets in the U.S. after the demise of the Trans Pacific Partnership (TPP), have had a deep interest in the RCEP agreement.

Over the last 25 years, Indian policy has consciously encouraged the growth of private milk companies. Milk cooperatives, which played a major role during Operation Flood, are no more seen as engines of growth. Policy has also favoured the entry of multinational dairy corporations into the Indian dairy sector, through joint ventures, mergers and acquisitions.

Multinational milk firms have opened shop in India in the hope that the Indian dairy sector would soon be opened up. For instance, the Swiss firm Nestlé was the largest private purchaser of milk in India in 2019. The French milk firm Lactalis entered India in 2014 and has taken over Tirumala Milk Products in Hyderabad, Anik Industries in Indore, and Prabhat Dairy. Another French firm, Danone, has invested 182 crore in the yoghurt brand Epigamia. New Zealand’s Fonterra Dairy has a 50:50 joint venture with Kishore Biyani’s Future Consumer products.

In other words, multinational dairy firms had been building a strong presence in India even prior to the RCEP talks. At present, these firms are forced to buy milk from Indian farmers. The reason is that the applied tariff for dairy products in India is about 35%. The bound tariff would have fallen to zero if the RCEP had come into effect. It would have then been far more profitable for firms to import milk from New Zealand or Australia rather than buy it from Indian farmers. The sale price of milk received by Indian farmers would have fallen sharply.

The export price of SMP from New Zealand is about 150 per kg. The domestic price of SMP in India is about 300 per kg. An average dairy farmer in India receives 30 per litre of milk. According to estimations made by Amul, if free imports of SMP from New Zealand are permitted, the average price for milk received by an Indian dairy farmer would fall to 19 per L.

The unit cost of milk production is relatively low in countries like New Zealand because of extensive grazing lands (which reduce feed costs), mechanised operations and the advantages of economies of large-scale production, and the high productivity of milch animals (about 30 L/day). In addition, New Zealand government policy has consciously helped its major company, Fonterra, to become the dairy giant that it is. Fonterra, which controls 90% of the New Zealand milk market and one-third of world trade in milk, is feared even by large American and European dairy firms. A key demand of American dairy firms during the TPP negotiations was that New Zealand should break up and end the monopoly of Fonterra.

Two arguments were raised in favour of India signing the RCEP. First, it was argued that India would soon become a milk-deficient country and be forced to import milk. Hence, it would be better if India enters the RCEP today rather than later. Forecasts from Niti Aayog show that this argument is wrong. In 2033, India’s milk production would rise to 330 MMT while its milk demand would be 292 MMT. Thus, India is likely to be a milk-surplus country by 2033.

Second, it was argued that the quantity of milk imports from New Zealand to India are unlikely to exceed 5% of their total exports. As a result, its impact on Indian prices would be insignificant. This too is a false argument. As data put together by Amul show, 5% of New Zealand’s exports in this sector is enough to flood India’s domestic market. It is enough to account for 30% of the Indian market for milk powders, 40% of the Indian market for cheese, and 21% of the Indian market for butter oil. These numbers are significant, and enough to ensure that Indian dairy prices plummet.

If there are 70 million households dependent on dairy in India, the corresponding number is just 10,000 in New Zealand and 6,300 in Australia. Reasoned analysis shows the socio-economic costs of India becoming a party to the RCEP agreement. India’s farmer’s organisations did well to keep the government on a short leash this time. On its side, the government would do well to be guarded against the temptations of joining such free trade agreements in the future. It should also begin work on correcting the imbalances of existing free trade agreements.

R. Ramakumar is NABARD Chair Professor at Tata Institute of Social Sciences, Mumbai

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