Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network

Required Report - public distribution

Date: 10/18/2002

GAIN Report #IN2066

India

Dairy and Products

Annual

2002

Approved by:
Chad Russell
U.S. Embassy
Prepared by:
V. Shunmugam

Report Highlights:

India's 2003 milk production is forecast to increase by 5 percent, estimated at 85 million tons, decreasing its external dependence on imports for NFDM and butter oil which are estimated to decline to infinitesimal quantities. However, increased production is expected to lead to a 67 percent and 50 percent increase in exports of butter oil and NFDM.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
New Delhi [IN1], IN

Table of Contents

Situation and Outlook

Production

Reduced fodder availability caused by a prolonged drought in major dairy areas this summer is likely to result in a slower growth in milk production this year, estimated at 82 million tons compared with 81 million tons in 2001, still retaining its " largest milk producing country" status. Assuming a normal monsoon next summer, 2003 production is forecast at 85 million tons. Continuing large private investment in the dairy sector and relaxed government norms on processing capacity creation have led to higher farm gate prices for milk, which will have a positive bearing on next year's milk production prospects. Higher milk prices have encouraged dairy farmers to improve their milch animal feeding practices. However, factors constraining future growth of the dairy sector include state levies on milk and inadequate infrastructure such as bulk transportation and cold chains facilities.

Historically, dairying in India was a backyard venture, dominated by low milk yielding "zebu" cows, thriving mostly on farm byproducts and household wastes. However, with increased private investment in the dairy sector, supported by liberal government policies and dairy cross-breeding programs, modernization of the dairy industry started in the late 1980's. Despite a lower milk yield, Indian dairy cows are low-cost producers of milk due to low maintenance and feeding costs. The fat-based milk pricing system has encouraged buffalo milk production, with the share of buffalo milk in total milk production now accounting for 56 percent. The average farm price for fluid milk in March 2002, was rs. 11.70 - 13.80/liter ($261 - 313/mt) for buffalo milk (7% fat, 9% SNF) and rs. 7.50 - 11.75/liter ($170 -267/mt) for cow's milk (4% fat, 8.5% SNF).

Production Developments

Selective breeding of dairy animals rather than cross-breeding with exotic breeds is now gaining popularity in the government-sponsored dairy herd improvement programs due to the better adaptability of the selectively bred progenies. However, cross breeding with exotic breeds is still popular in some states. Artificial Insemination (AI) is the most preferred technique in the government's herd improvement program. Use of embryo transfer technology is limited to research labs due to its high cost. Improved profitability and increasing commercialization in the dairy sector has led to higher usage of compound feeds in the dairy sector, estimated at around 9.0 million tons, formulated from domestic oilmeals and grains.

Consumption

A fifth of total milk production is consumed by producer households with the balance being marketed through village-level vendors, dairy cooperatives or private dairies. The share of milk purchased by cooperatives and private dairy processors has increased at the expense of local vendors and institutions. Roughly 55 percent of total production is currently procured by the cooperatives and private entrepreneurs for further processing and for marketing as fluid milk. While 55 percent of total milk procured by cooperatives is marketed as fluid milk, private dairies market only 45 percent in fluid form with the rest being processed into value-added dairy products such as *ghee* (melted, clarified butter), milk powder, milk-based sweet meats, cheese and ice-cream. *Ghee* is used by most households as a premium cooking medium. Non-fat-dry-milk (NFDM) is largely consumed at the institutional level for making confectionary and reconstituted milk to cater to the lean season demand for fluid milk. Retail marketing of skimmed milk powder is around 30,000 tons, roughly 10 percent of the total milk powder production in 2001. NFDM used in the production of reconstituted milk is estimated at 175,000 tons in 2001 and is likely to increase to 185,000 tons in 2002. Combined butter and *ghee* production is estimated to increase from 2.25 million tons (1.75 million tons ghee and 500,000 tons butter) in MY 2001 to 2.40 million tons in MY 2002 and is forecast at 2.5 million tons in MY 2003. An estimated 60 percent of total *ghee*/butter production occurs in the unorganized sector.

Per-capita milk consumption in 2001 is estimated at 220 grams/day, below the WHO recommended level of 283 grams/day. Demand for western-style milk products such as table butter, processed cheese, and ice cream is increasing due to improved living standards and increased urbanization. Many national and multi-national food processing majors have started appending value-added dairy products to their product portfolio. Consumption of ice cream is growing at 10 percent per annum, with the 2001 consumption estimated at about 90 million liters.

Trade

Trade in fluid milk is negligible due to lack of storage and transportation facilities and limited export demand. However, some large dairy cooperatives have started marketing Ultra Heat Treated (UHT) milk in the Middle East, largely to cater to the demand from ethnic Indian populations. Imports of NFDM, butter oil, whole milk, butter milk, yoghurt, curdled milk, whey, grated cheese, and blue veined cheese are permitted without quantitative restrictions but attracts a tariff rate of 35.2 percent. Effective June 12, 2000, a Tariff Rate Quota (TRQ) was established for Skimmed Milk Powder (SMP) imports under which imports of up to 10,000 tons are allowed at 15 percent tariff and any quantities above that level would attract a higher tariff of 60 percent.

Exports of NFDM increased to 7,665 tons in 2001 from 4,506 tons in 2000 due to increased production and low domestic prices. Exports were mostly to countries in the Middle East and South Asia. Banking on current high world prices for milk powder, the industry expects 2002 milk powder exports to reach 10,000 tons. Exports of *ghee*/butter are mostly confined to packaged, branded products to cater to the ethnic Indian populations living abroad. Butter exports during 2001 were 1,635 tons compared with 1,695 tons in 2000. Butter exports are forecast at 3,000 tons and 5,000 tons during 2002 and 2003, respectively.

Higher world prices coupled with increased domestic supplies have led to lower NFDM imports during 2001, estimated at a meager 50 metric tons. Imports are unlikely in 2002. Imports of butter/butter oil during 2001 declined to 3,343 tons compared with 10,255 tons during 2000 and are estimated to decline further to 2,000 tons in 2002.

Market Opportunities

There is likely to be a limited market for processed cheese and high quality dairy products by luxury hotels and fast food chains. However, due to uncompetitive pricing, a steep increase in excise tariffs and numerous domestic regulations, the imported ice cream market is slowly vanishing with most imported ice cream market players closing down their operations. Imports of flavored US yoghurt is a distant possibility following its import liberalization as India has a large and growing middle class. However, exporters from Australia and New Zealand have a cost advantage due to their geographic proximity.

Tariffs on Major Dairy Products

HTS Code	Item Description	Total Tariff (Percent)
0401	Milk and Cream, not concentrated nor containing added sugar or other sweetening matter	35.2
0402.10	Milk Powder (NFDM), Fat content not exceeding 1.5 percent by weight 1/	60.0
0402.21	Milk and Cream, concentrated but not containing added sugar or other sweetening matter 1/	60.0
0402.29	Other	35.2
0403.10	Yoghurt	35.2
0404.10	Whey Products	35.2
0405.10	Butter	45.6
0405.20	Dairy Spread	35.2
0405.90	Other	35.2
0406	Cheese and Curd 2/	35.2
1702	Lactose and Lactose Syrup	50.8
1806	Chocolates	56.83
1901.10	Preparations for infant use containing milk	80.96
2105	Ice Cream	56.83
2106.90	Beverages ready for consumption such as those containing milk and/or cocoa	35.2
3502.20	Milk Albumin including concentrates of two or more whey proteins.	56.83
3504	Peptones and their derivatives; other protein substances and their derivatives, not elsewhere specified or included	56.83

1/ A TRQ of 10,000 tons is applicable on imports of Non Fat Dry Milk. In-quota tariff is 15 percent.

2/ 0406.90 - Other Cheese attract a higher tariff of 45.6 percent

Statistical Tables

Table 1: Commodity, Dairy, Milk, Fluid, PSD Table

PSD Table							
Country:	India						
Commodity:	Dairy, Milk, Fluid						
		2001		2002		2003	UOM
	Old	New	Old	New	Old	New	
Calendar Year Begin		01/2001		01/2002		01/2003	(MONTH/YEAR)
Cows In Milk	35900	35900	36000	36000	0	36500	(1000 HEAD)
Cows Milk Production	36400	36400	36500	36200	0	37000	(1000 MT)
Other Milk Production	44600	44600	46500	45800	0	48000	(1000 MT)
TOTAL Production	81000	81000	83000	82000	0	85000	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	0	0	0	(1000 MT)
TOTAL Imports	0	0	0	0	0	0	(1000 MT)
TOTAL SUPPLY	81000	81000	83000	82000	0	85000	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	0	0	0	0	0	0	(1000 MT)
TOTAL Exports	0	0	0	0	0	0	(1000 MT)
Fluid Use Dom. Consum.	33300	33300	33500	33500	0	34000	(1000 MT)
Factory Use Consum.	47700	47700	49500	48500	0	51000	(1000 MT)
Feed Use Dom. Consum.	0	0	0	0	0	0	(1000 MT)
TOTAL Dom. Consumption	81000	81000	83000	82000	0	85000	(1000 MT)
TOTAL DISTRIBUTION	81000	81000	83000	82000	0	85000	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Table 2: Commodity, Dairy, Milk, Nonfat Dry, PSD Table

PSD Table							
Country:	India						
Commodity:	Dairy, Milk, Nonfat Dry						
		2001		2002		2003	UOM
	Old	New	Old	New	Old	New	
Calendar Year Begin		01/2001		01/2002		01/2003	(MONTH/ YEAR)
Beginning Stocks	49	49	36	34	16	14	(1000 MT)
Production	175	175	200	185	0	210	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	2	0	5	0	0	0	(1000 MT)
TOTAL Imports	2	0	5	0	0	0	(1000 MT)
TOTAL SUPPLY	226	224	241	219	16	224	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	10	8	15	10	0	15	(1000 MT)
TOTAL Exports	10	8	15	10	0	15	(1000 MT)
Human Dom. Consumption	180	182	210	195	0	205	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	180	182	210	195	0	205	(1000 MT)
TOTAL Use	190	190	225	205	0	220	(1000 MT)
Ending Stocks	36	34	16	14	0	4	(1000 MT)
TOTAL DISTRIBUTION	226	224	241	219	0	224	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Table 3: Commodity, Dairy, Butter, PSD Table

PSD Table							
Country:	India						
Commodity:	Dairy, Butter						
		2001		2002		2003	UOM
	Old	New	Old	New	Old	New	
Calendar Year Begin		01/2001		01/2002		01/2003	(MONTH/ YEAR)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	2250	2250	2600	2400	0	2500	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	5	3	15	2	0	1	(1000 MT)
TOTAL Imports	5	3	15	2	0	1	(1000 MT)
TOTAL SUPPLY	2255	2253	2615	2402	0	2501	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	10	2	10	3	0	5	(1000 MT)
TOTAL Exports	10	2	10	3	0	5	(1000 MT)
Domestic Consumption	2245	2251	2605	2399	0	2496	(1000 MT)
TOTAL Use	2255	2253	2615	2402	0	2501	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	2255	2253	2615	2402	0	2501	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Table 4: Commodity, Milk, Nonfat Dry, Export Trade Matrix

Export Trade Matrix			
Country:		Units:	Tons
Commodity:			
Time period:	Jan-Dec		
Exports for	2001		2002
U.S.	43	U.S.	NA
Others		Others	
Bangladesh	3017		NA
UAE	1016		NA
Belgium	605		NA
Angola	600		NA
Oman	596		NA
Malagasy	256		NA
Srilanka	190		NA
Yemen	173		NA
Nigeria	160		NA
PRChina	135		NA
Total for Others	6748		0
Others not listed	874		NA
Grand Total	7665		0

Table 5: Commodity, Dairy, Butter, Export Trade Matrix

Export Trade Matrix			
Country:		Units:	Tons
Commodity:			
Time period:	Jan-Dec		
Exports for	2001		2002
U.S.	239	U.S.	NA
Others		Others	
UAE	828		NA
Kuwait	110		NA
Singapore	105		NA
Hongkong	76		NA
Bahrain Is	75		NA
Nepal	65		NA
Oman	61		NA
Saudi Arabia	26		NA
Philippines	22		NA
Ukraine	10		NA
Total for Others	1378		0
Others not listed	18		NA
Grand Total	1635		0

Table 6: Commodity, Dairy, Milk, Nonfat Dry, Import Trade Matrix

Import Trade Matrix			
Country:		Units:	Tons
Commodity:			
Time period:	JAN-DEC		
Imports for	2001		2002
U.S.	39	U.S.	NA
Others		Others	
Russia	8		NA
Netherlands	1		NA
UAE	1		NA
Australia	1		NA
			NA
			NA
			NA
			NA
			NA
			NA
Total for Others	11		0
Others not listed	0		
Grand Total	50		0

Table 7: Commodity, Dairy, Butter, Import Trade Matrix

Import Trade Matrix			
Country:		Units:	Tons
Commodity:			
Time period:	Jan-Dec		
Imports for	2001		2002
U.S.	0	U.S.	NA
Others		Others	
New Zealand	2416		NA
France	504		NA
United Kingdom	208		NA
Australia	194		NA
Japan	20		NA
Denmark	1		NA
			NA
			NA
Total for Others	3343		0
Others not listed	0		NA
Grand Total	3343		0