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Dairy and Products

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Report Highlights:

Post forecasts 2005 milk production to increase by 5 percent to 92 million tons, assuming a normal monsoon and continued higher demand for milk and dairy products. Easy credit and liberal licensing policies are expected to encourage private investment in the dairy sector, providing further impetus to milk production in coming years.

Includes PSD Changes: Yes

Includes Trade Matrix: No

Annual Report

New Delhi [IN1]

[IN]

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SECTION I - SITUATION AND OUTLOOK

Production

Assuming a normal monsoon, and continued higher demand for milk and dairy products, as a result of rising consumer income, Post forecasts 2005 milk production at a record 92 million tons, compared to an estimated 88 million tons in 2004. The 2004 milk production benefited from increased fodder availability thanks to a near-normal monsoon and higher returns from dairying. The share of "high fat" buffalo milk in total milk production continues to increase in response to the fat-based milk pricing in India (see PSD table – Dairy Milk Fluid), and is estimated at 57 percent in 2004. The average producer price for fluid milk in March 2004 was rs. 12.50 - 14.90/liter (\$271 - 324/ton) and for buffalo milk (7% fat, 9% Solid Not Fat (SNF)), compared with rs. 8.75 - 12.90/liter (\$190 - 280/mt) for cow's milk (4% fat, 8.5% SNF). Inadequate milk chilling and refrigerated transportation facilities lead to occasional milk supply shortages in some regions during the May – August lean period. "Reconstituted milk," using non-fat dry milk (NFDM) and butter oil, both domestic and imported, is typically used to tide over such seasonal shortages. Increased private investment in the dairy sector aided by easy credit and liberal licensing policies, is expected to provide a further impetus to milk production in coming years.

Production Developments

Total milk powder production in 2005 is forecast at 425,000 tons. Higher production is attributed to expanding private investment in the milk-processing sector, increasing demand for reconstituted milk during the lean season, and an increasing demand for milk products. NFDM used in the production of reconstituted milk is forecast at 270,000 tons in 2005, which is 64 percent of total milk powder production. Butter/ghee (melted butter) production is forecast to increase from 2.60 million tons in 2004 to 2.85 million tons in 2005 (*ghee* 1.90 million tons and butter at 950,000 tons, including about 55,000 tons of white butter for table purposes). An estimated 65 percent of total *ghee*/butter production occurs in the unorganized sector.

Compound feed consumption is estimated higher at 11.5 million tons during 2004, encouraged by higher returns from dairying, increasing commercialization of the dairy sector, and increased oil-meal availability.

Consumption

On-farm consumption accounts for about one-sixth of total milk production. The balance is marketed through village-level vendors, dairy cooperatives, and private dairies. The share of milk procured by cooperatives and private dairy processors has increased at the expense of local vendors and institutions. About 50 percent of the milk they procure is marketed as liquid milk, and the rest is processed into value-added dairy products such as *ghee*, milk powder, milk-based sweet meats, cheese, and ice cream. *Ghee* is used as a premium-cooking oil in India. NFDM is primarily used to make reconstituted milk at the institutional level and for confectionary purposes.

Per-capita milk consumption in 2004 rose slightly to 227 grams/day, below the World Health Organization-recommended level of 283 grams/day. A significant growth in dairy processing in the private sector and increasing household incomes are expected to lead to an increased demand for value-added milk products. Additionally, changing lifestyles and food habits, coupled with rapid growth in the urban population, are contributing to the growing demand for western-style milk products such as table butter and processed cheese. Ice cream

consumption is growing at 15 percent per year, and is estimated at about 140 million liters in 2004.

Trade

International trade in fluid milk is negligible due to infrastructure constraints. However, some dairy cooperatives have started marketing Ultra Heat Treated (UHT) milk in the Middle East, catering to the demand of region's ethnic Indian population. 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 all attract an import duty of 30.6 percent, with the exception of butter oil, the import duty of which is 40 percent. Effective June 2000, a tariff rate quota was established for skimmed milk powder, under which imports of up to 10,000 tons are allowed at a 15 percent tariff, and quantities above that level at a tariff of 60 percent.

Banking on the current high world prices for milk powder, industry forecasts 2005 milk powder exports to increase to 15,000 tons from 5,000 tons in 2004. Exports of butter are forecast to increase to 10,000 tons in 2005, due to the likely higher domestic production and lower prices. Indian exports of *ghee*/butter are mostly in branded, packaged form to cater to the ethnic Indian populations abroad.

Market Opportunities

India's stringent sanitary regulation for dairy products (see IN4024) currently prohibits market access to most U.S. dairy products. The stated sanitary justification for these trade restrictions are related to BSE and growth hormones. If and when this issue is resolved, there is potential to export of U.S. dairy products to India.

There is a potential for exports of U.S. NFDM and butter oil to India during "lean" summer months, provided prices are competitive. The demand for processed cheese and high quality dairy products by luxury hotels and fast-food chains is also expected to grow in India, which should provide an opportunity for U.S. exporters. The expanding health food segment and functional needs of the baking industry should provide increased export opportunities for products such as whey, imports of which are currently estimated at 5,000 tons and valued at \$8 million. Due to uncompetitive pricing, a steep increase in excise tariffs, poor cold-storage facilities, and stringent domestic regulations, imports of all ice cream have declined sharply over the last four years.

SECTION II – STATISTICAL TABLES

Table 1: Commodity, Dairy Milk Fluid, PSD

PSD Table							
Country:	India						
Commodity:	Dairy, Milk, Fluid						
		2003		2004		2005	UOM
	Old	New	Old	New	Old	New	
Calendar Year Begin		01/2003		01/2004		01/2005	(MONTH/YEAR)
Cows In Milk	36500	36500	37000	37000	0	38000	(1000 HEAD)
Cows Milk Production	36500	36500	37500	37500	0	38500	(1000 MT)
Other Milk Production	47500	47500	49500	50500	0	53500	(1000 MT)
TOTAL Production	84000	84000	87000	88000	0	92000	(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	84000	84000	87000	88000	0	92000	(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.	34000	34000	34500	34500	0	38500	(1000 MT)
Factory Use Consum.	50000	50000	52500	52500	0	53500	(1000 MT)
Feed Use Dom. Consum.	0	0	0	0	0	0	(1000 MT)
TOTAL Dom. Consumption	84000	84000	87000	87000	0	92000	(1000 MT)
TOTAL DISTRIBUTION	84000	84000	87000	87000	0	92000	(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

PSD Table							
Country:	India						
Commodity:	Dairy, Milk, Nonfat Dry						
		2003		2004		2005	UOM
	Old	New	Old	New	Old	New	
Calendar Year Begin		01/2003		01/2004		01/2005	(MONTH/YEAR)
Beginning Stocks	14	14	5	5	10	15	(1000 MT)
Production	200	200	230	235	0	270	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	0	0	0	15	0	0	(1000 MT)
TOTAL Imports	0	0	0	15	0	0	(1000 MT)
TOTAL SUPPLY	214	214	235	255	10	285	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	23	23	30	10	0	15	(1000 MT)
TOTAL Exports	23	23	30	10	0	15	(1000 MT)
Human Dom. Consumption	186	186	195	230	0	250	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	186	186	195	230	0	250	(1000 MT)
TOTAL Use	209	209	225	240	0	265	(1000 MT)
Ending Stocks	5	5	10	15	0	20	(1000 MT)
TOTAL DISTRIBUTION	214	214	235	255	0	285	(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, Butter, PSD

PSD Table							
Country:	India						
Commodity:	Dairy, Butter						
		2003		2004		2005	UOM
	Old	New	Old	New	Old	New	
Calendar Year Begin		01/2003		01/2004		01/2005	(MONTH/YEAR)
Beginning Stocks	0	0	0	0	0	0	(1000 MT)
Production	2450	2450	2600	2600	0	2850	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	1	1	1	10	0	5	(1000 MT)
TOTAL Imports	1	1	1	10	0	5	(1000 MT)
TOTAL SUPPLY	2451	2451	2601	2610	0	2855	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	2	2	5	2	0	10	(1000 MT)
TOTAL Exports	2	2	5	2	0	10	(1000 MT)
Domestic Consumption	2449	2449	2601	2608	0	2845	(1000 MT)
TOTAL Use	2451	2451	2606	2610	0	2855	(1000 MT)
Ending Stocks	0	0	0	0	0	0	(1000 MT)
TOTAL DISTRIBUTION	2451	2451	2606	2610	0	2855	(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)