



# *Technews*

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**For Efficient Dairy Plant Operation**

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## **INDIAN DAIRY INDUSTRY: NECESSITY FOR IMPROVEMENT**

This bulletin includes technical and latest development on products, systems, techniques etc. reported in journals, companies' leaflets and books and based on studies and experience. The technical information on different issues is on different areas of plant operation. It is hoped that the information contained herein will be useful to readers.

The theme of information in this issue is **Indian Dairy Industry: Necessity for Improvement**. It may be understood that the information given here is by no means complete.

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## 1. INTRODUCTION

India has maintained its position of number one milk producer in the world with 810 lakh tonnes of milk production in 2000-2001. Of around 50% marketable surplus milk, 25% is processed by the organized sector, whereas the balance is handled by the unorganized sector. The organized sector has 212 dairy plants in the cooperative sector, 390 plants in the private sector and 64 plants in the other sector (as on December 2000). The proportion of milk being handled by the organized sector has been increasing consistently. **In general, our production meets our demand.** It is very important, however, to take full cognizance of the likely impact of the several requirements arising out of the World Trade Organization (WTO) regime, and hence Codex standards (for details of WTO and Codex, please see Technews Issue No.22, September 1999).

As a signatory of the WTO Agreements, India has started implementing the various provisions of the Agreements since 1995. A close look on India's dairy export and import figures would reveal that our imports are higher than our exports, and that the rate of increase in imports is also higher than that for exports. During 1999-2000, the imports stood at Rs.180 crore, around four times higher than the exports of Rs.47 crore. **This is inspite of the fact that India does not need imports of dairy products.**

If this trend, unfortunately, continues, then obviously the worst sufferers would be our domestic dairy industry and our milk producers. Such a trend for a long term would most likely affect our milk production, and hence economy, adversely.

An obvious question then comes: can we not control the imports of dairy products?



The clear answer is: no, not directly; but yes, through

competition we can.

## 2. OPEN COMPETITIVE MARKETS

Some important provisions of Agreement on Agriculture (AoA) and Sanitary and Phytosanitary (SPS) Agreement are:

- All quantitative restrictions (QRs) on imports and exports should be removed. India has accordingly lifted QRs on all dairy products effective 1 April 2001.

- Imported products and domestically produced products should be treated alike with respect to product standards.

- All tariff rates are bound and cannot be raised without the agreement of trading partners.

- Countries are allowed to provide subsidies to producers and for exports according to set norms..

- To use international standards, guidelines and codes, such as those global trade and for resolving trade disputes.

- Countries have right to set their own health and safety standards, higher than those of international ones, or in their absence, provided they are justified on scientific grounds.

Thus, Indian dairy products have now to compete with the global trading countries such as European Union (EU), New Zealand, Australia and USA not only in the global market for exports, but also with the imported products in our domestic market as well.

The Indian consumer, as that of any country, prefers to buy quality product at competitive price, irrespective whether it is imported or indigenous. And

if the imported product is of high quality - as is the general perception of Indian consumer - and available at the competitive price - the subsidies provided by the exporting countries make it so, ever cheaper - then the Indian consumer will buy imported dairy products at the expense

of indigenous ones.

And this might be disastrous if our dairy industry does not prepare itself suitably and adequately to meet the twin challenges of price competitiveness and product quality.

### 3. IMPROVE PRICE COMPETITIVENESS

Complying with the relevant provisions of the AoA, several developed countries, especially EU and USA, provide heavy subsidies to their producers on milk production and to their exporters for export of dairy products. Thus, these products enter global markets at subsidized, low prices,

depressing the global market price making Indian products uncompetitive, as India provides no export subsidy and negligible producer subsidy. New Zealand and Australia, too, provide little subsidies, but are, nonetheless price competitive, as seen from the following table:

Table: Price of milk products in domestic and world markets during 2000

Country	Price Rs/kg*		
	Butter	WMP	SMP
Australia	52.07	66.31	61.86
Canada	205.59	-	151.75
EU	140.62	118.82	112.59
USA	130.83	123.71	99.24
Japan	-	321.29	224.73
India	115.00	140.00	60.00
World Market (FOB Western Europe)	65.86	84.55	86.78

\* Conversion rate: 1\$ = Rs 44.50

(Source: World Dairy Situation 2000, IDF Bulletin 355, 2000; Indian Dairyman, February 2000)



In this scenario, it is imperative that the Indian dairy industry pays utmost attention on taking measures to improve its price competitiveness not only in global market, but also in the domestic market. A comprehensive strategy should include, but not limited to, the following:

- To take steps to increase the productivity of dairy animals.
- To take steps to minimize the plant losses and

maximize recovery/ utilization efficiencies. These would include several important areas such as milk solids, energy consumption, packaging materials, detergents and chemicals, and water. This is an area which has great potential to reduce costs and hence to improve price competitiveness.

- To take steps to increase manpower productivity.

#### 4. IMPROVE QUALITY COMPETITIVENESS

The other tough challenge is to improve the quality of our milk and milk products to international level. The Codex Food Standards/ Codes/Guidelines are the accepted International Food Standards and systems with most of which our national food standards and systems would be harmonized in due course of time. They are, when required, based on risk assessment to ensure that the

food is safe for human consumption. These standards and codes consider chemical additives and contaminants (heavy metals, mycotoxins, pesticides and veterinary drugs residues) and microbiological contaminants in foods. These standards are quite stringent (refer to Technews Issues 24, January-February 2000; 25, March-April 2000).

Further, Codex Guidelines require that not only the finished products conform to the stipulated safety and quality standards but also that the measures be taken to control and minimize contamination in the entire milk-chain i.e., from milk production to retailing. The measures taken should be demonstrable through adequate documentation and results. To achieve all this, Codex advocates the application of the Hazard Analysis and Critical Control Point (HACCP) System. There are several Codex codes/guidelines - already approved or under consideration - to provide guidance to achieve safe food.

The dairy products of several countries such as EU, USA, Australia and New Zealand, which are also imported in India, meet the high quality and safety standards specified by Codex. **Where do our products stand in this respect? Do our products satisfy Codex requirements?**

Until recently, the Indian milk processors judged the quality of milk **only** on the basis of fat and solids-not-fat and to some extent on its acidity. **No attention was paid by them on microbiological quality of milk, the resulting higher toxins, acidity, off-flavours and less safe product, and chemical contamination.** Raw milk of high bacterial count has been common, and with high chemical contaminants not uncommon. This has already created unfavourable impression about Indian dairy products in the minds of consumers. **And now the consumer has alternative choices. And he has the right to safe and quality dairy products.**

Therefore, the Indian dairy industry urgently needs to become genuinely serious about improving the quality of its milk and milk products to the level of global standards. And without losing any time, lest the market control is lost to imported products and it gets too late.



The drive to improve quality must include every area of milk-chain. The NDDB has already initiated move in this direction with its comprehensive programme of 'Quality and Plant

Management' being implemented by the dairy cooperatives. An approach to quality raw-milk production was provided in the Technews Issue 24, January-February 2000.

## 5. FINAL WORDS

This issue has highlighted the necessity and urgency for Indian dairy industry to take adequate and suitable measures to improve the quality of milk and milk products and the price competitiveness. This is critical more for domestic market than export, as our milk production is dependent on the former. In the present era of WTO-regulated free market regime, the threat of

imported quality and subsidized dairy products dominating Indian market is real and is likely to become serious in years to come. The only way for the Indian dairy industry to remain present in domestic market, let alone in global market, is to become efficient and quality-oriented without losing any time. Its survival depends on how fast and seriously suitable steps are taken.

