Impact of globalisation on Indian dairy industry

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Even though India is the largest milk producing country in the world (accounting for about 13 per cent of total world milk production), it has very little experience in the international trade of dairy products. Indian dairy farmers and processors will be affected by the changes in agricultural trade policy necessary to comply with commitments made under WTO.

High levels of government intervention and regulations have characterised dairy sector around the world. The intervention has been put in place for many social, political and economic reasons such as supporting the incomes of politically influential farmers. They have influenced the levels and locations of dairy production and consumption around the world; prices paid for dairy products in both domestic and world markets, levels and volatility of world trade and international market prices. The incidence of such protective policies has been highest in the developed countries in general and the European Union, Japan, and the United States in particular. The global dairy market has been changing dramatically in the last few years as international restrictions on trade in dairy products are easing and protection for domestic dairy industries is declining in the wake of General Agreement on Tariffs and Trade (GATT) negotiations. This opens the door for potentially dramatic changes in trade patterns as industries around the world adjust to the new competitive environment.

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In India, developments with respect to international agricultural policies will affect the competitiveness of its dairy industry. The Uruguay Round of GATT now vested in WTO has resulted in commitments to open their dairy sector to the world markets. This, combined with a restructuring of Indian domestic agricultural policy under the macro-economic reforms in the 1990s, has begun to reconstruct the environment in which the Indian dairy industry will operate. For example, the dairy industry, which was reserved mainly for the cooperative sector, was delicensed in 1991 and private sector companies including multinationals were allowed to set up milk processing and product manufacturing plants. Moreover, the import and export of dairy products, which was restricted through quantitative measures (canalisation, licensing, quotas, etc.) and other non-tariff barriers, was brought under the Open General License and import tariffs for most dairy products were significantly reduced. This will expose the Indian dairy sector to an open economy.

Provisions of WTO Agreement on Agriculture include Market accesses, Export competition and Domestic support. Market access provisions of the Uruguay Round Agreement on Agriculture established disciplines in trade distorting practices while maintaining historical trade volumes and assuring some increased access to highly protected markets. Most importantly, non-tariff barriers were banned, including quantitative restrictions, variable import levies, discretionary import licensing, non-tariff measures maintained through state training enterprises and similar border measures other than ordinary customs duties.

Disciplining export subsidies, which are used by many countries to bridge the gap between high domestic prices and lower world market prices, was one of the most significant accomplishments of the new trade regime. Export subsidies allow countries to export goods in the world market at prices lower than those in their domestic markets do.

One of the most significant achievements of the Uruguay Round was securing the Agreement on the Application of Sanitary and Phytosanitary measures (SPS). It imposes controls on the use of national laws and regulations to protect humans, animals and plants from pests, diseases, and harmful additives. SPS pertains to laws or regulations to protect against exposure to insect pests, to microorganisms and to additives, contaminants, and toxins in food for humans and foodstuffs for animals. Although the SPS agreement can serve to improve public health, the main motivation for this treaty was to prevent the use of unnecessary health measures that impede foreign exporters.

The tariffication and minimum access requirements promise to have made noteworthy impacts on world dairy markets and prices. Many developed countries' dairy markets are highly protected. For example, US dairy markets are protected by Section 22 of the Agricultural Adjustment Act of 1933, which prevents dairy imports and affect the USDA's dairy price support programme and product prices are substantially above world prices. For example, during 1992 and 1993 US prices for skim milk powder, cheese and butter averaged 50 per cent, 51 per cent and 21 per cent higher, respectively, than world prices for these products. The relationship was similar during the post-WTO period, when SMP, cheese and butter prices exceeded world prices.

Looking at individual import markets and products within the dairy sector, it appears that in the developed countries, the bound tariffs are normally over 100 per cent and as high as 370 per cent for yogurt in Japan and 300 per cent for butter in Canada. In contrast, the tariffs are as low as zero and do not exceed 65 per cent in developing countries.

Generally the interventions in the developed countries have taken in the form of policies to support the income level of the producers and shield them from impact of price variability in international markets. The incidence of these protective policies have been highest in developed countries including the European Union, Canada and the United States, while Australia and New Zealand have relatively low protection. In case of dairy products, the United States and the European Union are the main subsidizing countries.

Canada's two-tier price system for milk, established in 1995, prices milk cheaper when used in exported manufactured dairy products than when used domestically. Canada represents only about one per cent of global trade in dairy products, but it's dairy exports have grown significantly in recent years. Butter prices, which had maintained their level better than other dairy products in 1998, fell sharply in the last half of 1999 reaching a level of US $1225 per ton. Much of the downturn has occurred recently as demand from Russia (the main market for butter, which traditionally imports most of its butter requirements between December and February) has failed to materialise. The world cheddar cheese prices also showed a declining trend in the post-WTO period. The European Union has become the price setter for international trade in the dairy products. One reason for this was the devaluation of Euro against the US dollar. In addition, the European Union and United States have been aggressive in raising export subsidies on milk products to enhance competitiveness.

The global dairy market has been changing dramatically in the last few years. The dairy industry in the European Union, the United States and many other developed countries have historically been insulated from volatility in the world dairy market through use of various import restrictions. As a result, the domestic prices of dairy products in these regions have been supported at levels above the world price.The domestic market price of dairy products has a significant impact on the competitiveness of dairy sector. An increase in domestic price reduces the competitiveness of dairy industry while fall in domestic price increases its competitiveness. Since the international prices of dairy products and exchange rate are highly volatile and are outside the direct influence of government and the Indian dairy industry, the only way to increase the competitiveness of Indian dairy sector is through reducing the domestic market prices of raw milk. The domestic prices can be reduced either by raising the milk yield or reducing the cost of milk production. Since, reduction in cost is not possible, the option available to reduce cost of milk production through raising the yield level of dairy animals. The average milk yield per animal in India is one of the lowest in the world. Therefore, in order to remain competitive in the international market, there is need to enhance productivity of milch animals and introduce measures to improve sanitary standards with legal back-up in the milk production and processing sectors in the global free trade regime.

Thus Indian dairy industry is highly competitive, if all government export subsidies given by the developed countries in general and the European Union and United States in particular, are eliminated in line with the current WTO rules for industrial products. The experience of the first five years of implementation of the WTO Agreement on Agriculture suggests a mixed picture, both in terms of implementation of its various provisions and its impacts. Many distortions in agricultural markets still remain and not all the expected benefits have materialised.

The main reasons for the high level of protection to major dairy products in India were: (i) the international prices for most dairy products declined significantly in the post-WTO period, and (ii) export subsidies on these products (mainly by the European Union and United States) increased substantially. International price of dairy products and exchange rate are the two important international level parameters which have a major influence on the competitiveness of this industry, but the industry and even the country have no control over these parameters.

Moreover, the world dairy prices are highly distorted with heavy export subsidies and domestic support, which depress the domestic prices and create unhealthy and unfair competition for domestic industry. Therefore, some protection should be provided to our domestic industry in order to safeguard the interests of milk producers and processors. Recently India renegotiated the zero tariffs with the United States, Australia and European Union under *TRQs* provision of WTO, but took almost six months for notifying these tariffs. Such delays can have significant adverse impacts on the sensitive commodities like milk powders.

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BAN ON MEAT AND BONE MEAL FEEDING INCREASES DEMAND FOR OILMEALS

The total ban on meat and bone meal as well as fish meal feeding introduced by France and other EU member countries increases demand for other protein sources, primarily oilmeals.