

INDIAN DAIRY UNDER THREAT FROM NEW TRADE DEALS



Lilabai Virkar milking her buffalo in Satara, Maharashtra, February 2019. (Photo: Medha Kale, People's Archive of Rural India)

India's 150 million small dairy farmers, local cooperatives and networks of small-scale vendors have made the country the world's largest producer of milk and ensured its self-sufficiency. The handful of transnational corporations that dominate the global dairy industry are still only marginal players in India, and only a tiny fraction of dairy products are imported into the country or exported out. But several new trade pacts that cater to transnational corporations, like the Regional Comprehensive Economic Partnership (RCEP) or the proposed deals pending with Europe, threaten to radically change the map and wipeout India's small dairy producers. This update from GRAIN assesses what is at stake with current trade talks for India's dairy farmers and vendors, and the consumers they supply.

"It takes a generation for a farmer family to set up a small dairy farm but the government will destroy this by the stroke of a pen when it signs the RCEP agreement, which will devastate India's dairy sector."
Ajit Nawale, a dairy farmer leader and CPIM activist who led protests in Maharashtra, India, in 2017-18¹

"India remains a massive opportunity for [us] once it inevitably shifts to being a dairy importer."
Fonterra, the world's number one dairy exporter²

India's dairy sector is larger and probably more important to its country than any other in the world. Today, India's 150 million dairy farmers produce more milk than any other country (when milk from all species are combined). The vast majority of these farmers are small land holders, owning just two or three cows or buffaloes. Although the average milk production per animal is very low (3 litres/animal/day) compared to industrialised countries (30 litres/animal/day), Indian dairy farmers nevertheless have managed to ensure the availability of a nutritious yet affordable food for an ever increasing Indian population. Per capita milk availability in India has increased from 130 grams per day in 1950 to 374 grams per day in 2018, considerably higher than the world average of 294 grams per day.³

Milk is the lifeblood for much of the Indian countryside. It is the number one farm product in value, generating US\$100 billion a year. And half of India's milk is either consumed by its producers or sold to non-producers in rural areas. The rest is marketable surplus, delivered to public cooperatives or private dairies, or sold directly to households. Thanks to India's extensive network of strong dairy cooperatives and small scale vendors, a large portion of the money paid by consumers goes to the primary milk producers. On average, farmers get more than 70 percent of what consumers pay. For producers affiliated with a cooperative, in which farmers control a large share of production, processing and marketing, this share increases to 80 percent.⁴ Today, around 17 million farmers belong to 186,000 village level cooperatives in India, and more than 32,000 of these cooperatives are led by women.⁵

Dairy is a particularly important source of income for Indian farmers with little access to land. Nearly one-quarter of Indian agricultural households with very small landholdings (less than 0.01 hectare) report livestock as their principal source of income.⁶

Moreover, beyond farming, dairy is the source of livelihood for millions of more people in India who bring milk from the farmers to consumers or who process it into yoghurts, cheeses and other foods for sale. These

1. Direct communication with the Ajit Navle.

2. Rebecca Howard, "Fonterra eyes India potential", New Zealand Herald, 23 October 2018, https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12147310

3. Department of Animal Husbandry and Dairying, "An overview of bovine breeding sector in India", <http://dahd.nic.in/about-us/divisions/cattle-and-dairy-development>

4. Govind Milk, "FDI in dairy industry in India", 15 January 2018, <http://govindmilk.com/fdi-in-dairy-industry-in-india/>

5. Department of Animal Husbandry and Dairying, "An overview of bovine breeding sector in India", <http://dahd.nic.in/about-us/divisions/cattle-and-dairy-development>

6. Department of Animal Husbandry and Dairying, "An overview of bovine breeding sector in India", <http://dahd.nic.in/about-us/divisions/cattle-and-dairy-development>



Smallscale cheese-making unit at Hilley Bhanjyang, 4th Mile, Rangbhag village in Mirik, Darjeeling, West Bengal, India, 2016. (Photo: GRAIN)

small-scale operators, often referred to as the 'unorganised sector', handle over 80% of India's milk supply and bring nearly twice as much milk to market as the private sector and cooperatives combined.⁷

Dairy in India and, indeed, in all of South Asia is much more than an industry (see box: *A similar story across South Asia*). It is the main source of livelihood for hundreds of millions of small and marginal farmers, landless labourers and pastoralists, and tens of millions more people involved in the collection, processing and sale of dairy products, many of whom are women. So far, these actors in India's dairy system have operated mainly out of the reach of the powerful global dairy giants that have destroyed small scale dairy farming and processing in other big dairy producing countries. They have been able to do so, in large part, because of tariffs and other trade barriers that the Indian government erected and has maintained to block imports of cheap dairy products.

But India is too big of an untapped market for the global dairy giants to give up on. Slowly and patiently

they have started to make inroads into India's dairy sector, while working behind the scenes with their home governments to push India into signing on to trade pacts that will fully open the flood gates to corporate control. India's dairy sector is at a crossroads, with the livelihoods and food security of hundreds of millions of people at stake.

Global dairy giants at the gate

Because of India's tariff and non-tariff barriers on dairy imports, the only entry for foreign dairy corporations is through joint ventures, mergers or acquisitions of local dairy companies. Even this, however, only became possible in 1991, when an effective ban on new private processing companies was lifted.⁸ Since then, the number and size of private dairy companies, many backed by foreign companies and private equity groups, has rapidly increased, with private companies now having a larger share of the dairy market than India's long-standing cooperatives (see box: *Private companies make*

7. Vishwanath Kulkarni, "Churning of the milk ocean," Hindu Businessline, 30 July 2018: <https://www.thehindubusinessline.com/specials/india-file/churning-of-the-milk-ocean/article24555781.ece>

8. Private sector entrants into dairy processing were effectively blocked through a licensing provision of the Industrial Development and Regulation Act of 1951. Source: https://shodhganga.inflibnet.ac.in/bitstream/10603/9835/12/12_chapter%204.pdf

A similar story across South Asia

The dairy sector in Pakistan, Bangladesh, Sri Lanka and Nepal is, more or less, similar to the dairy sector in India, which is largely in the hands of small scale farmers and vendors. In Pakistan, the fifth largest producer of milk, more than 90% of the milk production and distribution is handled by small scale vendors in the so-called unorganised sector. In Bangladesh as well, dairy farmers sell less than 10% of the total milk they produce to dairy cooperatives and the rest of the milk is sold in the local markets or directly to the consumers. Small farmers dominate the Bangladesh dairy sector, with more than 70% of all dairy farmers having just 1-3 cows and producing around 70-80% of the country's total milk. Dairy cattle rearing provides a critical cash reserve and steady cash income for many landless and marginal farmers in Bangladesh. Small-scale dairy farmers also dominate the Nepal dairy sector. However unlike India, Bangladesh and Pakistan, in Nepal buffalo milk is more important to the nation's dairy sector than cow's milk. Sri Lanka is no different as far as the dominance of small dairy farmers, but, unlike its other south Asian neighbours, the Sri Lankan dairy sector has a strong presence of dairy corporations like Nestle and Fonterra.



Checking boiled milk temperature at a smallscale cheese-making unit at Hilley Bhanjyang, 4th Mile, Rangbhag village in Mirik, Darjeeling, West Bengal, India, 2016. (Photo: GRAIN)

their moves into India's dairy market). The National Dairy Development Board says that the private dairies constructed as much processing capacity in the past 15 years as the cooperatives generated in over 30 years.⁹

The increasing shift from cooperatives to private companies as the lead actors in milk procurement in the so-called 'organised sector' has major implications for farmers. Under India's cooperative set-up, the state-level cooperative federation shares its profits with the milk producers at the end of the year. But the new private players do not share their profits with milk producers, nor will they provide additional services the way cooperatives do. In fact, the private players procure milk from the farmers only when prices of their end products, skim milk powder (SMP) and butter oil, are high and yield good profit.

Over the past two years, in the face of low global prices for milk products, the private dairies have drastically reduced their milk handling, leading to a glut in India. Whereas private dairies will withdraw from procurement and cut their prices in such conditions, cooperatives will take care of the interests of their farmers, even if they occasionally run into losses.

The entry of foreign dairy corporations is also leading to a greater industrialisation of livestock production and the Indian government has supported this tendency through a national dairy action plan that provides incentives to major dairy corporations like Fonterra, Lactalis and Nestle to import production and processing technologies. These technologies are not suited to the needs

9. NDDDB Annual Report 2010-11, page 8, <https://www.nddb.coop/sites/default/files/pdfs/nddb-annual-report-percent202010-2011.pdf>

Table 1: Top private dairy companies in India (2019)

Britannia Industries	A long-established biscuit company in India, Britannia, which is now owned by India's Wadia Group, has recently launched a heavy investment programme to expand its dairy operations.
Creamline Dairy	Creamline was acquired by Indian agribusiness major Godrej Agrovet in 2015 and has since expanded rapidly to become one of India's top dairy companies.
Dodla Dairy	Dodla is active in southern India where it is one of the largest private collectors of milk. The company is backed by the US private equity firm TPG and received US\$15m in financing from the World Bank's IFC in 2019.
Groupe Lactalis	The French dairy company Lactalis began its expansion into India in 2014 with the purchase of Hyderabad-based Tirumala Milk Products, which had received funding from the US private equity firm the Carlyle Group. Then in 2016 it acquired the dairy business of Indore-based Anik Industries and in 2019 it bought the milk products business of Prabhat Dairy, a company heavily backed by Rabobank and the World Bank's IFC, making Lactalis one of largest players in India's dairy business.
Hatsun Agro	Hatsun is an Indian-owned company based in Chennai that began as an ice cream maker and has expanded rapidly over the past two decades to become one of the country's largest private dairy companies, producing a range of dairy products.
Heritage Foods	Heritage is one of the largest private players in the southern India dairy business, but it has recently been expanding northwards through the construction of new plants and the acquisition of Vaman Milk Foods and the dairy business of Reliance Retail.
ITC Limited	ITC is an Indian tobacco-to-hospitality conglomerate that has recently begun investing in dairy, through a large processing plant in Bihar and plans to open another plant in West Bengal.
Kwality Ltd	Kwality is one of the largest milk procureurs in North India, with six processing plants. In 2016, it received an investment of \$US75m from the US private equity firm KKR. In 2018, KKR filed bankruptcy proceedings against Kwality, and several foreign and national companies are now looking to take it over.
Nestlé India	The Swiss food giant Nestlé is the largest private purchaser of milk in India, with nine processing plants spread across the country.
Parag Milk Foods	Parag is a new Maharashtra-based company that has received financing from the sovereign wealth funds of Norway and Abu Dhabi and the World Bank's IFC. It has its own 2,000 cow dairy farm, India's largest, and made a major move last year when it bought up Danone's processing plant in Haryana.
Paras	Paras is the dairy subsidiary of Indian food company VRS Foods.
Schreiber Dynamix	Schreiber Dynamix is a joint venture between US dairy company Schreiber Food (51%) and Indian firm Dynamix Dairies. It produces dairy products under contract for major food companies.

and traditional practices of India's small scale farmers, but to larger scale industrial farms, including mega factory farms, the first of which have started to appear in India.¹⁰ In these factory farms, thousands of animals, pumped with antibiotics and hormones, are subject to lifelong, indoor confinement in a single location, with devastating consequences for the environment, the climate, animal welfare, rural economies and workers, not to mention public health.

So far much of the focus of the private players in India's dairy sector has been on value-added products like cheese and yoghurt or processed foods. The companies market these products to urban consumers in fancy packaging, as a more hygienic choice than the milk

typically sold in metal cans by small vendors on their bicycles or motorbikes. Many are targeting wealthy consumers with expensive pro-biotic drinks, ice creams and other dairy products, and several small private dairies even sell high-end milks from indigenous breeds of cows like Gir, Sahiwal, Tharparker or Rathi that they claim to manufacture through a completely automated process, untouched by human hands, from milking to packaging. But there is nothing necessarily more "safe" about the products of the big dairy companies (see box: *Dairy giants and food safety*).

It is quite clear that the current actions by the giant dairy companies are just a prelude, or a "preparing of the groundwork" as Fonterra puts it, for when India fully opens up its market to them. This, the companies hope, will be achieved when India succumbs to the aggressive and ongoing pressure in trade negotiations to fully liberalise its dairy market.

10. Brighter Green, "Beyond the pail", December 2014, <http://brightergreen.org/wp-content/uploads/2014/12/dairypaperbrief-withsourcesfinal.pdf>

Private companies make their moves into India's dairy market

Private equity firms are playing a key role in facilitating the corporate take-over of India's dairy sector (see Table 2: Recent private equity deals in Indian dairy). One of the early private equity deals occurred in 2010, when the US-based Carlyle Group acquired a \$22 million stake in Tirumala Milk Products, a family owned private dairy company in southern India. Over the next three years, Tirumala expanded its supply chain by adding over 100 chilling stations, increasing the number of processing plants from five to seven and expanding its distribution northwards. Carlyle Group then sold its stake in 2014 to the French dairy company Lactalis, the world's third largest dairy processor, for US \$250 million- more than 10 times what it initially paid.

Table 2: Recent private equity deals in Indian dairy

Year	Investor (country)	Indian target	Deal value (US\$M)
2019	Danone Manifesto Ventures (France)	Drums Food International (Epigamia yogurt)	25
2017	TPG (US)	Dodla Dairy	50
2016	Motilal Oswal PE (India)	Dairy Classic Ice Creams	15.84
2016	Verinvest (Belgium), DSG Consumer (India)	Drums Food International	6.39
2016	KKR (US)	Kwality Limited	74.90
2015	TVS Capital (India)	Prabhat Dairy Ltd.	12.22
2015	Eight Roads Ventures (US)	Milk Mantra Dairy Pvt. Ltd.	12.63
2014	Westbridge Capital (Mauritius)	Hatsun Agro Products Ltd.	5.18
2013	Capvent AG (Switzerland)	Hangyo Ice Cream	4.79
2012	Cargill Ventures (US)	Dodla Dairy Ltd.	15.83

Source: GRAIN based on PricewaterhouseCoopers, Retail and Consumer Quarterly Newsletter Q2 FY 2017, <https://www.pwc.in/assets/pdfs/industries/retail-and-consumer/newsletters/retail-and-consumer-quarterly-newsletter-q2-fy-2017.pdf>

Numerous other financial companies have since entered the sector looking for similar payouts, such as US private equity group TPG and the Dutch agricultural lender Rabobank as well as the venture capital divisions of multinational food and agribusiness companies like Danone and Cargill. On many occasions the investments made by these companies are conducted jointly with investments from development banks, such as France's Proparco or the World Bank's International Finance Corporation (IFC).¹¹

Over the past few years, France's Lactalis has become one of the largest dairy companies in India, second only to Nestlé, which has been active in India since the 1960s. After acquiring Tirumala in 2014 and the dairy division of Indore-based Anik Industries in 2016, the French company acquired the dairy business of Prabhat Dairy as well as its subsidiary, Sunfresh Agro Industries, in 2019.¹² Prabhat Dairy has a network of more than 75,000 farmers in Maharashtra that collects around 200,000 litres of milk every day. The purchase of the Prabhat gives Lactalis two additional facilities in India, giving it a total of 13, and an overall procurement supply of 2.3 million litres of milk per day. Lactalis is planning to acquire one more company in northern India, as it aims to take a market share of 10 percent in each dairy category across the country.

New Zealand's Fonterra, the world's largest dairy exporter, also has its sights on the Indian market either through a preferential trade agreement or through collaborative ventures. In August 2018, Fonterra started a 50:50 joint venture called Fonterra Future Dairy Partners with the Kishore Biyani-led Future Group, Future

11. The IFC has invested in Parag Milk Foods Pvt. Ltd, Dodla Dairy and Prabhat Dairy (alongside Proparco), as well as the PRAN Group in Bangladesh.

12. Jitendra, "Lactalis to milk more in India. Why that may worry some", Down to Earth, 18 April 2019, <https://www.downtoearth.org.in/news/food/lactalis-to-milk-more-in-india-why-that-may-worry-some-64057>

Consumer.¹³ This will establish Fonterra in India and help fulfil its expansion agenda. As Fonterra chief operating officer Lukas Paravicini puts it, “It will allow us to prepare the groundwork and make the most of our expertise as we enter the world’s largest and fastest growing market.”¹⁴

The objective of Fonterra is clear. In the words of Teh-han Chow, who leads Fonterra’s ingredients business in China, South and East Asia, “India remains a massive opportunity for the New Zealand cooperative once it inevitably shifts to being a dairy importer.” He went on to say, “India is currently balanced in terms of supply and demand...As it continues to grow and production doesn’t keep pace there will eventually be a need for dairy imports into India. The question mark is when”.¹⁵

13. “Future Group enters to equal joint venture with Fonterra”, Dev Discourse, 8 August 2018, <https://www.devdiscourse.com/article/business/105928-future-group-enters-to-equal-joint-venture-with-fonterra>

14. “Future Group enters to equal joint venture with Fonterra”, Dev Discourse, 8 August 2018, <https://www.devdiscourse.com/article/business/105928-future-group-enters-to-equal-joint-venture-with-fonterra>

15. Rebecca Howard, “Fonterra eyes India potential”, New Zealand Herald, 23 October 2018, https://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=12147310

Dairy giants and food safety

Western dairy giants are not all clean and above reproach. A public health emergency erupted in China in August 2008, shortly after Fonterra bought a 43 percent stake in Sanlu Group, one of the largest dairy companies in China, and the two governments signed a free trade deal. High melamine levels were detected in Sanlu-Fonterra products, including infant formula. Over 300,000 infants became ill and six died due to kidney damage. The companies were quick to blame the farmers who sold them contaminated milk. In fact, “while Fonterra advised Sanlu on quality testing, the New Zealand company said that it never checked any of its partner’s products and was not aware of the practice of adulteration until one month before the incident erupted”.¹⁶ Fonterra has been linked to other food safety crises as well.

In France, Lactalis is well known for pushing farmers to the brink, refusing to share information about its operations and mishandling food safety problems. In 2017, a major salmonella outbreak in one of its French factories left dozens of babies ill and the company mishandled the recall, causing distress to consumers in many parts of the world.¹⁷

16. Ben Bouckley, “Fonterra Never checked Sanlu’s dairy products prior to deadly China melamine crisis, study warns”, Dairy Reporter, 20 June 2014, <https://www.dairyreporter.com/Article/2014/06/20/Fonterra-never-checked-Sanlu-s-products-in-China-melamine-scare-Study>

17. “France needs ‘food safety police’ to avoid new Lactalis crisis: report”, Reuters, 18 July 2018, <https://www.reuters.com/article/us-france-babymilk-lactalis/france-needs-food-safety-police-to-avoid-new-lactalis-crisis-report-idUSKBN1K824W>

Trade pacts could wipeout of India’s small scale dairies

The international dairy market has long been distorted. Essentially what happens is that heavily subsidised surplus production in a small number of industrialised countries is dumped on the international market, and mostly exported into developing countries. Big dairy companies based in these industrialised countries, not the dairy farmers who supply them, are the main

beneficiaries of this system (see box: *Tough times for French dairy farmers*).

Developing countries like India can only protect their dairy sectors from the ravages of this distorted global market by instituting high tariff and non-tariff barriers. Without these measures, their small scale dairies would rapidly be wiped out and taken over by global dairy giants. Even India’s Prime Minister Narendra Modi argued against opening the country to imports in 2013,



Dairy farmers protest in Maharashtra. (Photo: Image tweeted by @ANI_News, picked up from Newsclick Report July 16, 2018)

when he was Chief Minister of Gujarat, as the central government at the time was considering a free trade agreement with the European Union that would open up India's dairy sector to competition from subsidised EU exports.¹⁸

Today, India's dairy sector is protected by an import tariff of 30 to 60 percent. Since 2003, India has also imposed various sanitary and phytosanitary requirements on dairy imports, which have essentially served to block US dairy products from entering the Indian market.¹⁹ Delhi is now, however, under pressure to allow imports if US traders can certify that their dairy products are derived from animals not raised on feed made of bovine extracts.²⁰

Yet, despite these barriers to imports, dairy companies have found cracks in the system and have been

importing a growing amount of dairy components, like lactose and whey, from Europe and the US that are used in processed foods. These imports can have significant impacts on India's cooperative dairies and small scale dairy systems. According to India's largest dairy cooperative AMUL, "Every month about 1,500 tonnes of whey powder gets imported in the country. As a result we are forced to sell our stock cheap because the imported whey is cheaper," despite import duties of 40 percent.²¹

India's dairies are also entangled in the global glut of skimmed milk powder (SMP), which has depressed prices and is causing distress among dairy farmers across the globe. In New York, for instance, one of the US's top dairy producing states, the low price of milk has put about a quarter of its dairy farms out of business within the last decade.²² India also has a growing

18. "FTA with EU to hit dairy sector: Modi", The Hindu Business Line, 30 July 2013, <https://www.thehindubusinessline.com/economy/fta-with-eu-to-hit-dairy-sector-modi/article23102763.ece>

19. "US wants India to lift import ban on dairy products", The Hindu Business Line, 3 April 2012, <https://www.thehindubusinessline.com/economy/agri-business/us-wants-india-to-lift-import-ban-on-dairy-products/article20416523.ece1>

20. Kirtika Suneja, "India ready to allow US dairy imports with riders", Economic Times, 24 December 2018, <https://economictimes.indiatimes.com/news/economy/foreign-trade/india-ready-to-allow-us-dairy-imports-with-riders/articleshow/67236873.cms>

21. Rutam Vora, K.R. Srivats, "Makers of dry and powdered whey get more protection", The Hindu Business Line; New Delhi / Ahmedabad, 1 May 2018; <https://www.thehindubusinessline.com/economy/agri-business/makers-of-dry-and-powdered-whey-get-more-protection/article23731734.ece>

22. Natasha Vaughn, "Why low milk prices are really bad for New York farms", Democrat and Chronicle, 8 March 2018, <https://www.democratandchronicle.com/story/news/politics/albany/2018/03/08/why-low-milk-prices-really-bad-new-york-farms/38459200/>

Tough times for French dairy farmers

Even though dairy farmers in Europe still get subsidies, yet due to the over production and dairy price crash, they are not in a position to sustain themselves. For example, in France, total production cost before deducting subsidies in 2017 were US \$.56 cents/kg milk, with producers being paid US \$.39 cents. Direct aid from the EU to the tune of US \$.05 cents a kilo covers part of the deficit and the rest is carried as debt.²³ The increasing debt among dairy farmers is causing desperation, leading to a wave of suicides in farming communities. Hundreds of dairy farmers in France take their own lives each year. Dairy farmers have a suicide rate that is 50% higher than France's national average.²⁴

23. "Fewer agricultural subsidies necessitate framework for cost-covering prices", European Milk Board, 9 May 2018, <http://www.europeanmilkboard.org/en/special-content/news/news-details/article/fewer-agricultural-subsidies-necessitate-framework-for-cost-covering-prices-1.html?cHash=18ede5bf54d1a42b36209db7ea93c75d>

24. Claire Paccalin, Julie Dungalhoff, "The quiet suicide epidemic plaguing French farmers" 26 October 2018, <https://www.france24.com/en/20181026-suicide-epidemic-plaguing-french-farmers-loire-atlantique>

stockpile of SMP, due to increased milk production and lower exports of SMP due to the depressed price of SMP on the global market.²⁵ This national SMP surplus has impacted milk prices for farmers and procurement. Many dairies have simply stopped procuring cow's milk from farmers and prices paid to farmers have plunged. In mid-2018, the price of one litre of milk in Maharashtra, India's second most populous state, was below the price of one litre of bottled water, forcing farmers to dump their milk on the roads in protest.²⁶ The Indian government has tried to resolve the problem by subsidising exports of SMP and by freely distributing milk and milk products from dairy cooperatives to schools, child development services and railways network.²⁷ Meanwhile, the dip in milk prices has been pushing small farmers out of the market and

25. "Dairy Quarterly Q2 2018", Rabobank, June 2018

26. Priyanka Kakodkar, "For Maharashtra dairy farmers, milk is now cheaper than water", Times of India, 24 June 2018, <https://timesofindia.indiatimes.com/city/kolhapur/for-maharashtra-dairy-farmers-milk-is-now-cheaper-than-water/articleshow/64716085.cms>

27. Rajendra Jadhav, "India's milk powder exports to surge on subsidies, dampen global prices", Reuters, 27 July 2018: <https://www.reuters.com/article/us-india-milk-exports-exclusive/exclusive-indias-milk-powder-exports-to-surge-on-subsidies-dampen-global-prices-idUSKBN1KH0GQ>; "Important policy decisions taken and major achievements during the month of June", Ministry of Agriculture and Farmers Welfare, New Delhi, 2018: [http://dadf.gov.in/sites/default/files/Monthly percent20Summery percent20for percent20the percent20month percent20of percent20June percent20percent202018_0.pdf](http://dadf.gov.in/sites/default/files/Monthly%20Summery%20for%20the%20month%20of%20June%20percent202018_0.pdf);

enabling private companies and big farmers to use it as an opportunity to expand.

These impacts that India's small dairies and farmers are feeling from the limited connections with the global industry will get much worse if the Indian government makes any concessions to further openings of its dairy market in the numerous trade pacts that it is currently negotiating. Although India has not yet signed a bilateral free trade agreement (FTA) with a major dairy producing nation or block like New Zealand, Australia, Canada, the EU, the European Free Trade Association (EFTA), the US or China, it is engaged in trade talks with all of them. The Regional Comprehensive Economic Partnership (RCEP) talks are also ongoing.

In almost all of these FTA talks, dairy is an important component. All of these countries have aggressive interests in dairy and some have been trying hard for the last several years to get access to the Indian market. In terms of imports, India continues to insist that dairy products be derived from animals which have never consumed any feed containing internal organs, blood meal or tissues of ruminant origin. Most of the dairy exporter countries, with the exception of the US, have complied with this requirement, yet they still have not got past India's high tariffs. Thus, this mandatory requirement in honour of India's religious and cultural heritage, along with a tariff rate of 30 to 60 percent on dairy products, continues to shelter the Indian market from international dumping of dairy products.

However, once India signs an FTA with any of these countries, or even with RCEP, it is unlikely that these measures will remain in place. Back in 2000, when the EU exported a huge quantity of SMP and butter oil to

Dairy by country

(Countries in FTA talks with India are in bold, ordered by volume)

World's top milk producers: **India, EU, US, China**, Pakistan, **Brazil, Russia, New Zealand**

World's top milk exporters: **EU, New Zealand, US**, Belarus, **Australia, Saudi Arabia**

World's top butter exporters: **New Zealand, EU**, Belarus, **US**, Ukraine

World's top cheese exporters: **EU, New Zealand, US**, Belarus, **Australia, Saudi Arabia**

World's top skim milk powder exporters: **EU, US, New Zealand, Australia**, Belarus

World's top whole milk powder exporters: **New Zealand, EU, Uruguay**, Mexico, **Argentina**

Export data notes: Ranking is for 2017 using data from FAO.

FTA notes: India has expressed interest in FTA with US. Talks with NZ and Australia (RCEP) and Russia (EAEU) are ongoing. Talks with EU about to restart. India has trade deals with Saudi Arabia (Gulf Cooperation Council) and with Argentina, Brazil, Uruguay (Mercosur).

India to take advantage of a zero tariff, causing adverse impacts on the local dairy industry, India responded by increasing tariffs. However, under an EU-India FTA, such flexibilities will likely be lost and India will not be able to protect its farmers and dairies from future import surges.

Pakistan's experience also suggests that once RCEP or an EU-India FTA is signed, the dairy companies from Europe, Australia and New Zealand, who are already present in India, may stop procuring milk from Indian farmers and prefer to import SMP and reprocess it into milk for sale in India (see *box: Dairy giants use milk powder imports as a tool for control in Pakistan*). This will drive down prices for farmers, with enormous consequences for small farmers and India's dairy cooperatives and "unorganised" sectors. As a study by the Consortium for Trade and Development has found, the impacts will be particularly severe for women.²⁸

Beyond mere tariffs, and as leaks of negotiating drafts have shown, an India-EU, India-EFTA or RCEP trade deal is likely to include harmonisation of standards, national treatment of partner-country investors, sanitary and phytosanitary regulations, rules on technical barriers to trade, investment liberation, and an intellectual property rights chapter, all of which will have major impacts on India's dairy sector.²⁹

- *Harmonizing dairy rules and regulations* would be tragic for millions of small and marginal dairy farmers who

supply milk to dairy cooperatives and private dairies. Since at least 70 percent of the total dairy sector in India is unorganised, the growth of the private sector is based on capturing this sector's share of the market. To beat the competition from the unorganised sector, the large global dairy corporations, which are setting up shop in India, might demand harmonisation with their home country standards under a bilateral or RCEP FTA. These standards could touch on herd and farm operations, animal health and welfare, record keeping, sanitation, etc.

- *National treatment* provisions would ensure that foreign dairy companies investing in India have the same rights and privileges as domestic companies. That means that the government of India could not discriminate in favour of its small dairy farmers.
- *Geographical indications* would also be used to benefit foreign dairy corporations at the expense of Indian producers. Under its FTA with India, the EU is seeking protection for 130 dairy products.³⁰ Emmental, Feta, Gouda, Gruyere, Mozzarella and Parmesan are all examples of cheeses originating from the EU and whose names are protected. Indian dairy outfits that produce these cheeses, like Amul, will no longer be allowed to produce them under an India-EU FTA. Depending on how the agreement is negotiated, they may not even be able to label them "mozzarella-type".

28. Roopam Singh, Ranja Sengupta, "The EU India FTA in agriculture and likely impacts on Indian women", CENTAD, December 2009, <http://www.centad.org/images/download/Agriculture-Report-Finel-Printing-PDF.pdf>

29. See <https://www.bilaterals.org/?+-leaks->

30. Kavaljit Singh, "India-EU FTA: Where is the Europe's Trade Agenda Headed", Special Report, 23 February 2012, https://www.madhyam.org.in/wp-content/uploads/2014/07/India-EU-FTA-Where-is-the-Europe_s-Trade-Agenda-Headed.pdf

Dairy giants use milk powder imports as a tool for control in Pakistan

Pakistan's 'organised' dairy sector is heavily controlled by two multinationals: Nestlé Pakistan, a branch of the Swiss giant, and Engro Foods, a subsidiary of the Dutch giant Friesland-Campina. They have divided the milk collection and distribution markets between themselves, driving smaller players out of their respective domains. In order to control milk prices to their advantage, these corporates will sometimes completely stop collecting milk from local dairy farmers. Instead, they import powdered and liquid milk. Whenever prices for powdered milk drop in the international market, Pakistani milk-processing companies import it in huge quantities, spending less than what they would if they had collected milk from the local market.³¹

31. Saad Sarfaraz Sheikh, "Cash cows", Herald, 1 February 2017, <https://herald.dawn.com/news/1153231>

- *Sanitary and phytosanitary standards* are important provisions in trade deals which can restrict India's dairy exports. For example, the EU's high sanitary standards would prevent Indian dairy products from entering the European market due to India's supposedly insufficient traceability and market surveillance systems in dairy cooperatives. The Ministry of Commerce already lists 26 barriers to agricultural trade faced by Indian exporters to EU mostly arising from differences in sanitary standards. At present, the EU does not allow the import of dairy products from India alleging that Indian cattle are generally infected with foot and mouth disease and are not maintained as per EU norms. The EU-India FTA, the India-EFTA FTA and RCEP will likely make sanitary rules stricter than those currently in operation, pushing small producers out of business in favour of large operators.
 - *Investment liberalisation and investor protections*, which supposedly create a level playing field for investors of signatory states, are a central feature of today's FTAs. These include measures such as "fair and equitable treatment", compensation in the case of expropriation, "national" and "most favoured nation" treatment for foreign investors, freedom from local performance requirements, free transfer of capital and investor-state dispute settlement (ISDS) provisions which grant corporations the right to claim compensation from governments. Investment liberalisation in general would make it possible for all the major dairy multinationals to set up operations there. And depending on how far Delhi is able to push its own dispute settlement preferences, should India change its health or environmental laws in a way that affects these companies, they might have the right to sue the Indian government for any lost profits that result.
 - The removal of *export measures* is a key demand from the EU under the India-EU FTA.³² From time to time India imposes bans on the export of food products such as rice, wheat, sugar etc to maintain domestic food security. If Brussels gets its way, once an India-EU FTA is signed, India won't be able to restrict the export of dairy products in order to give preference to the needs of its population.
- The possible impact from RCEP on the dairy industry is a big concern for India, as New Zealand and Australia have aggressive interests in India's dairy sector. Compared to India's 150 million dairy farmers, there are only 12,000 dairy farmers in New Zealand and 6,300 in Australia. Yet New Zealand, exports around 19 million metric tonnes (MMT) out of an annual milk production of 22 MMT, while Australia exports 4 MMT out of its annual milk production of 15 MMT. For this reason, dairy corporations like New Zealand's Fonterra and Australia's Bega are hoping RCEP will give them access to India's massive dairy market.
- India's dairy cooperatives fear that if import duties on milk and milk products are eliminated under RCEP, it will severely hit not only the dairy companies and cooperatives but also the livelihoods of around 150 million dairy farmers. According to Amul Managing Director RS Sodhi, "Today, India is the only country in Asia that's

32. Afsar Jafri, Ranja Sengupta, "Trade and Investment Treaties: Implications for Agriculture & Food Security in India", September 2015, <http://isid.org.in/pdf/WTOpaper01.pdf>



A dairy farmer milking at home in Chamrajyanagar, Karnataka, July 2017. (Photo: K. Sunil, People's Archive of Rural India)

self sufficient in milk production. Granting any free market access to New Zealand will not only hit our farmers hard, but will also expose the consumers to volatility of world markets.”

“India could go the Chinese way,” says Mr. Sodhi. “Growth in [China’s] dairy sector has come down significantly after granting an FTA to New Zealand in 2008. China’s dairy sector growth has now been reduced to a mere 2 percent against 25 percent before granting the FTA.”³³

33. Vishwanath Kulkarni, “Dairy sector opposes free market access to New Zealand products”, 31 July 2014, <https://www.thehindubusinessline.com/economy/agri-business/Dairy-sector-opposes-free-market-access-to-New-Zealand-products/article20832738.ece>

Conclusion

The future of Indian dairy and millions of small dairy farmers and their indigenous cattle breeds is literally up for grabs. The small dairy producers are getting squeezed from all sides and increasingly so are India’s dairy cooperatives, especially from the growing presence of global investors and the standards of an international market controlled by these companies. If FTAs like RCEP, India-EU, India-EFTA and others are not challenged and stopped, we expect to see more and more small farmers leaving the dairy sector in the years to come.

India’s dairy sector is an important source of livelihood, nutrition and farm sustainability for more than 150 million people. It is therefore crucial to ensure their interests are defended against that of a few dairy multinationals who alone stand to benefit from these FTAs.

Going further:

- 📄 GRAIN and the Institute for Agriculture and Trade Policy (IATP) report 2018 “Big meat and dairy companies are heating up the planet”, <https://www.grain.org/en/article/5999-big-meat-and-dairy-companies-are-heating-up-the-planet>
- 📄 GRAIN 2017 report “Grabbing the bull by the horns: it’s time to cut industrial meat and dairy to save the climate”, <https://www.grain.org/en/article/5643-grabbing-the-bull-by-the-horns-it-s-time-to-cut-industrial-meat-and-dairy-to-save-the-climate>
- 📄 GRAIN’s 2017 “Highlights from the Peoples’ Summit against FTAs and RCEP”, <https://www.grain.org/en/article/5763-highlights-from-the-peoples-summit-against-ftas-and-rcep>
- 📄 GRAIN, IATP and Heinrich Böll Foundation 2017 “Big meat and dairy’s supersized climate footprint”, <https://www.grain.org/en/article/5825-big-meat-and-dairy-s-supersized-climate-footprint>
- 📄 GRAIN 2017 report, “How RCEP affects food and farmers”, <https://www.grain.org/en/article/5741-how-rcep-affects-food-and-farmers>
- 📄 GRAIN and Ashlesha Khadse, “RCEP in India: A creamy deal for transnational dairy corporations, growing resistance from farmers”, <https://www.grain.org/en/article/5815-rcep-in-india-a-creamy-deal-for-transnational-dairy-corporations-growing-resistance-from-farmers>
- 📄 GRAIN 2014 report, “Defending people’s milk in India”, <https://www.grain.org/en/article/4873-defending-people-s-milk-in-india>
- 📄 GRAIN 2011 report “The great milk robbery: How corporations are stealing livelihoods and a vital source of nutrition from the poor”, <https://www.grain.org/e/4259>



GRAIN is a small international non-profit organisation that works to support small farmers and social movements in their struggles for community-controlled and biodiversity-based food systems. GRAIN produces several reports each year. They are substantial research documents providing in-depth background information and analysis on a given topic.

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