

## Dairy in India: How can exporters crack the market?

Just food in UK, 30 September 2014

By Raghavendra Verma, Alan Osborn and Barbara Bierach

Overseas dairy companies talk of the potential India can offer their business but the market remains



Value-added products can be avenue for international dairy companies but tariffs and regulations can present obstacles

Challenging, not least when looking at its supply chain and infrastructure. However, there are ways international dairy players can gain a foothold in India's promising dairy sector. For international dairy exporters, India remains an attractive destination, but they face serious challenges related to supply chain and distribution networks. According to Rabobank, India's "informal fragmented supply chain, raw milk quality concerns, small base for value-added dairy products and ever-changing trade regulations, proved a challenge and a strong disincentive" for foreign companies.

And companies within the market issue similar notes of caution. "For an international company to come in and start from scratch, [it] has to struggle with the portfolio, procurement and distribution," says Siva Nagarajan, managing director of Mother Dairy Fruits & Vegetables, owned by government agency National Dairy Development Board (NDDB): It would, Nagarajan says, take at least ten years to build such a network.

At present, Nagarajan explains, international companies exporting dairy products to India have to restrict themselves to modern retail stores, as they lack the distribution capacity to serve the mass market. And, he argues, if they are niche players anyway, they are effectively looking for sales among only "10,000 families in Mumbai and 5,000 families in Delhi". Moreover, fresh products such as curd or yoghurt have to be made from locally-sourced milk and foreign producers will struggle to create that sourcing chain, Nagarajan says.

**However, according to Kuldeep Sharma, founder of New Delhi-based dairy industry consultants Suruchi Consultants, foreign companies need to probe the Indian market with ingredient-based value-added products, "driving and pushing internationally acclaimed functional foods".**

**One potentially successful method is to part-manufacture in India, using imported ingredients, rather than tangling with India's milk supply market. Sharma cites Japan-based probiotic group Yakult. The company entered the Indian market in 2007 and now has healthy sales, with a manufacturing facility in Sonipat in the state of Haryana. "It does not require any local raw material and is based on high-quality imported milk powder," he says.**

Even then, sales and distribution networks remain a challenge, especially for fresh, cold products. "Companies have to establish their own value chain," Sharma says. "They even have to supply their own small coolers to the shops to store their products." The attitude of local dairy co-operatives towards foreign investment can be mixed. Some regard milk imports as harming farmer interests. "Seventy per cent of members of our co-operative have only one or two animals and they can't compete with big farmers of developed countries who get subsidies," says Rupinder Singh Sodhi, managing director of Gujarat Cooperative Milk Marketing Federation, which owns the popular Amul milk brand. However, he says local manufacturing by foreign companies using Indian milk would be welcome.

In January, French dairy company Lactalis announced it was buying south India-based Tirumala Milk Products. However, experts warn acquiring just one company is not enough. "To be a national player, it would have to come in the north and will have to make two or three acquisitions," Nagarajan says. Away from direct investment into India, the EU is not at present a major exporter of dairy products to India. In 2013, it exported only US\$19m of dairy products (largely skimmed milk powder) and \$27m of lactose. However, according to a background report written jointly by European industry bodies Eucolait and the European Dairy Association (EDA), there is "enormous potential" for the bloc's exporters in India.

The report says India is already the world's largest dairy consumer and demand is growing at double the rate of production growth so the country "could become a consistent dairy product importer" However, there are at present ongoing and intermittent barriers to trade with India, including "restrictive rules" on food labelling and labelling of animal rennet in cheeses, says Alice O'Donovan, legal and policy adviser at Eucolait.

For example, changes brought in by India's food safety and standards regulations in 2011 provide a new definition for cheeses that would prohibit the use of animal-derived rennet. "Given that most EU cheeses are made with animal rennet, the new definition of cheese would seriously hamper the access of EU cheese in the Indian market," O'Donovan says. Referring to ongoing talks between the EU and India on forging a free trade agreement, the report notes how important it is "to include chapters on technical barriers to trade as well as on sanitary and phytosanitary measures in the EU-India FTA".

EU exporters do face competition. Australia and New Zealand, other key global dairy exporters, also have designs on India. Statistics from the Australian Bureau of Agricultural and Resource Economics and Sciences (ABARES) – the research bureau of Australian department of agriculture - notes how consumption of whole milk in India has grown by 26% since 1995 to 72.2 kilogrammes per person annually. Austrade, the Australian government agency promoting international business, estimates India's demand for milk will reach 200m tonnes by 2020. Production in India would have to grow at 6-7% a year would be needed to meet the forecasted demand but current growth is just 4%.

Industry group Dairy Australia said its country exported A\$1.3m worth of dairy products to India in 2013. Mani Iyer, programme manager of product innovation at industry body Dairy Australia, highlights the increasing buying power of the Indian middle class. "There is room for growth in imported dairy products such as cheese and yoghurt, especially in the varieties that are common in the western world."

New Zealand is looking to tap this opportunity, exporting \$12.1m worth of dairy products, mainly lactose and protein concentrates, according to the Global Trade Atlas. Cheese imports from New Zealand for example have risen from 18 tonnes in 2012 to 200 tonnes in 2013.

The biggest obstacles, though, are tariffs. According to the World Trade Organization, the standard tariff for imported fresh milk and cream, butter, yoghurt, cheese and sweetened milk powders was 30% in 2012. For dairy spreads and anhydrous milk fat, tariffs were 40% and 33.3% respectively. Iyer said free trade agreements would be valuable, but the Indian government is cautious. New Zealand's trade minister, Tim Groser, has said: "We have yet to convince some of our negotiating partners that there are not secret convoys of NZ milk tankers, hidden behind the Bombay Hills just waiting to flood their country with milk, given half a chance."