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Dairy and Products

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Report Highlights:

India's position as the world's largest milk producer continues to strengthen as 2004 milk production is forecast at 87 million tons, due to a good monsoon in 2003. Liberal policies for setting up new dairy processing facilities led to increased private investment in this sector and increased consumption of processed dairy products, estimated at 55 percent of total marketed milk.

Includes PSD Changes: Yes
Includes Trade Matrix: No
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Section I - Situation and Outlook

Production

A good monsoon in 2003 and resultant increased fodder supplies are expected to raise the forecast milk production to 87 million tons in 2004. Drought conditions in 2002 are expected to contribute to stagnant milk production, estimated at 84 million tons in 2003, compared with 82 million tons in 2002. Increased private investment in dairy processing facilities and dairy units (assisted by liberal credit policies), aided by relaxed government norms on capacities, are expected to provide an additional impetus to India's milk production. Underdeveloped chilling facilities and cold containerized bulk transport of fluid milk lead to occasional regional shortages. However, "reconstituted milk" using Non-Fat Dry Milk (NFDM) and Butter Oil is normally used by liquid milk suppliers to meet this demand.

Encouraged by the fat-based pricing system in the country and the growth in buffalo meat exports, the share of buffalo milk in total milk production continued to increase to 56 percent during 2003. The average price for fluid milk received by producers in March 2002 was rs. 12.30 - 14.50/liter (\$267 - 315/mt) for buffalo milk (7% fat, 9% Solid Not Fat (SNF)) and rs. 8.50 - 12.50/liter (\$185 - 272/mt) for cow's milk (4% fat, 8.5% SNF).

Production Developments

Continued expansion of private sector milk processing capacities, the need to sustain fluid milk supplies during the lean season, and firm 2003 prices are forecast to increase total milk powder production, estimated at 355,000 tons in 2004. Production of NFDM that is used in the production of reconstituted milk is forecast at 230,000 tons during 2004, forming 65 percent of total milk powder production. Butter/ghee production is forecast to increase from 2.45 million tons in 2003 to 2.60 million tons in 2004, with ghee production (melted butter) estimated at 1.90 million tons and butter at 700,000 tons (including about 50,000 tons of white butter for table purposes). An estimated 70 percent of total ghee/butter production occurs in the unorganized sector. Improved profitability of dairying, increasing commercialization, and increased oil-meal availability led to higher usage of compound feeds, which is estimated at 10.5 million tons in 2002.

Consumption

Producer households consume a fifth of total milk production and market the balance through village-level vendors, dairy cooperatives, or private dairies. The share of milk purchased by cooperatives and private dairy processors has increased at the expense of local vendors and institutions, and they procure about half of total production for further processing and for marketing as fluid milk. The rest is processed into value-added dairy products such as ghee, milk powder, milk-based sweet meats, cheese, and ice-cream. Most households use ghee as a premium-cooking medium. NFDM is largely consumed at the institutional level for confectionary purposes. About 19 percent of total milk powder production, estimated at 35,000 tons in 2002, was sold through retail.

Per-capita milk consumption in 2003 is estimated at a stagnant 225 grams/day, below the World Health Organization-recommended level of 283 grams/day. Rapid growth in the private sector dairy processing facilities and increasing household incomes are expected to lead to increased demand for value-added milk products, estimated at 55 percent of total marketed milk products. Changing lifestyles and food habits, coupled with rapid growth in the urban population, contributed to the growing demand for western-style milk products such as table butter and processed cheese. Consumption of other value-added dairy

products, such as ice cream, is growing at 15 percent per year, and is estimated at about 120 million liters in 2003.

Trade

Except for some informal cross-border trade, trade in fluid milk is negligible due to lack of storage, transportation infrastructure, and effective demand. However, with the growing acceptability of Ultra Heat Treated (UHT) milk in the domestic market, some cooperatives involved in this part of the business started marketing it in the Middle East to cater to the 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 under the Open General License at a tariff rate of 30.4 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. Luxury hotels can import all types of food products, against their foreign exchange earnings, at a lower tariff rate of 25 percent.

Banking on the current competitive world prices for milk powder, industry forecasts 2004 milk powder exports to increase to 30,000 tons, and Post concurs. Exports of NFDM in 2003 are estimated to rise to 23,000 tons, compared with 10,000 tons exported in 2002, due to low domestic prices and increased production. Exports of butter are forecast to remain stagnant at around 1,000 tons due to firm domestic prices. Indian exports of ghee/butter are mostly confined to packaged, branded products that cater to the ethnic Indian populations.

Market Opportunities

As the lean season demand-supply gap remains, imports of US NFDM and butteroil are a possibility during the summer months provided that US prices compare with Oceania prices. Demand for processed cheese and high quality dairy products by luxury hotels and fast food chains is also expected to grow, with increasing average income levels and exposure to western style foods. This could lead to increased potential for US cheese imports. Due to uncompetitive pricing, a steep increase in excise tariffs, and numerous domestic regulations, imported ice cream is slowly vanishing from the market. Imports of niche value-added dairy products such as flavored US yoghurt are a possibility to cater to the growing market of quality conscious consumers. However, exporters from Australia and New Zealand have cost and geographical advantages over US dairy product exporters, as most dairy products involve relatively costly refrigerated transportation.

Section II – Statistical Tables

Table 1: Commodity, Milk Fluid, PSD Table

PSD Table								
Country:	India							
Commodity:	Dairy, Milk, Fluid							
		2002		2003		2004		UOM
	Old	New	Old	New	Old	New		
Calendar Year Begin		01/2002		01/2003		01/2004	(MONTH/YEAR)	
Cows In Milk	36000	36000	36500	36500	0	37000	(1000 HEAD)	
Cows Milk Production	36200	36200	37000	36500	0	37500	(1000 MT)	
Other Milk Production	45800	45800	48000	47500	0	49500	(1000 MT)	
TOTAL Production	82000	82000	85000	84000	0	87000	(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	82000	82000	85000	84000	0	87000	(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.	33500	33500	34000	34000	0	34500	(1000 MT)	
Factory Use Consum.	48500	48500	51000	50000	0	52500	(1000 MT)	
Feed Use Dom. Consum.	0	0	0	0	0	0	(1000 MT)	
TOTAL Dom. Consumption	82000	82000	85000	84000	0	87000	(1000 MT)	
TOTAL DISTRIBUTION	82000	82000	85000	84000	0	87000	(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, Butter, PSD Table

PSD Table								
Country:	India							
Commodity:	Dairy, Butter							
		2002		2003		2004		UOM
	Old	New	Old	New	Old	New		
Calendar Year Begin		01/2002		01/2003		01/2004	(MONTH/YEAR)	
Beginning Stocks	0	0	0	0	0	0	(1000 MT)	
Production	2400	2400	2400	2450	0	2600	(1000 MT)	
Intra EC Imports	0	0	0	0	0	0	(1000 MT)	
Other Imports	2	2	2	1	0	1	(1000 MT)	
TOTAL Imports	2	2	2	1	0	1	(1000 MT)	
TOTAL SUPPLY	2402	2402	2402	2451	0	2601	(1000 MT)	
Intra EC Exports	0	0	0	0	0	0	(1000 MT)	
Other Exports	3	3	3	2	0	5	(1000 MT)	
TOTAL Exports	3	3	3	2	0	5	(1000 MT)	
Domestic Consumption	2399	2399	2399	2449	0	2596	(1000 MT)	
TOTAL Use	2402	2402	2402	2451	0	2601	(1000 MT)	
Ending Stocks	0	0	0	0	0	0	(1000 MT)	
TOTAL DISTRIBUTION	2402	2402	2402	2451	0	2601	(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, Non-Fat Dry Milk, PSD Table

PSD Table								
Country:	India							
Commodity:	Dairy, Milk, Nonfat Dry							
		2002		2003		2004		UOM
	Old	New	Old	New	Old	New		
Calendar Year Begin		01/2002		01/2003		01/2004	(MONTH/YEAR)	
Beginning Stocks	34	34	14	14	9	5	(1000 MT)	
Production	185	185	210	200	0	230	(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	219	219	224	214	9	235	(1000 MT)	
Intra EC Exports	0	0	0	0	0	0	(1000 MT)	
Other Exports	10	10	10	23	0	30	(1000 MT)	
TOTAL Exports	10	10	10	23	0	30	(1000 MT)	
Human Dom. Consumption	195	195	205	186	0	195	(1000 MT)	
Other Use, Losses	0	0	0	0	0	0	(1000 MT)	
Total Dom. Consumption	195	195	205	186	0	195	(1000 MT)	
TOTAL Use	205	205	215	209	0	225	(1000 MT)	
Ending Stocks	14	14	9	5	0	10	(1000 MT)	
TOTAL DISTRIBUTION	219	219	224	214	0	235	(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)	