



A good for the dairy sector

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(Mains GS 2 : Bilateral, Regional and Global Groupings and Agreements involving India and/or affecting India's interests.)

Context:

Last year, India's withdrawal from the Regional Comprehensive Economic Partnership (RCEP) was a major victory for the farmer's organisations, trade unions, associations of small and medium industrial producers and civil society groups, which had organised widespread agitations against the free trade agreement.

Tariff clauses:

- The key fear of the dairy sector was that tariff clauses for agriculture in the RCEP are much more severe compared to the existing World Trade Organization (WTO) agreement.
- While the WTO allows a country to fix tariffs up to a certain maximum, or bound tariff, for a given commodity line, the RCEP binds countries to reduce that level to zero within the next 15 years.
- Currently, India's average bound tariff for dairy products is about 63.8% while its average applied tariff is 34.8%.

Self-sufficiency:

- A key feature of India's dairy sector is the predominance of small producers which provides livelihood to about 70 million households.

- In 2017, if the average herd size in a dairy farm was 191 in the U.S., 355 in Oceania, 148 in the U.K. and 160 in Denmark, it was just 2 in India.
- Yet, due to Operation Flood after the 1960s, India's contribution to world milk production rose from 5% in 1970 to 20% in 2018.
- Today, India is largely self-sufficient in milk production thus, it does not import or export milk in any significant quantity.

Deep interest in RCEP:

- Considering global milk trade, developed countries account for 79% of the total world export of milk and major players among them are the U.S., the EU, Australia and New Zealand.
- On the other hand, developing countries account for 80% of the world's total milk imports like China imports about 30% of its milk requirement.
- Thus, some of the major players in the global milk trade are in the RCEP region.
- About 51% of the global trade of milk, 45% of the global trade of skimmed milk powder (SMP), 38% of the global trade of butter oil, 35% of the global trade of cheese and 31% of the global trade of butter takes place in the RCEP region.
- This is why Australia and New Zealand, deprived of the lucrative markets in the U.S. after the demise of the Trans Pacific Partnership (TPP), have had a deep interest in the RCEP agreement.

Growth of private players:

- Over the last 25 years, Indian policy has consciously encouraged the growth of private milk companies and milk cooperatives, which played a major role during Operation Flood, are no longer seen as engines of growth.
- Policy has also favoured the entry of multinational dairy corporations into the Indian dairy sector, through joint ventures, mergers and acquisitions.
- Multinational milk firms have opened shop in India in the hope that the Indian dairy sector would soon be opened up. For instance, the Swiss firm Nestlé was the largest private purchaser of milk in India in 2019.

False arguments

- It was argued that India would soon become a milk-deficient country and be forced to import milk; However, Forecasts from Niti Aayog show that this argument is wrong.
- In 2033, India's milk production would rise to 330 MMT while its milk demand would be 292 MMT. Thus, India is likely to be a milk-surplus country by 2033.
- It was also argued that the quantity of milk imports from New Zealand to India are unlikely to exceed 5% of their total exports which will not impact India significantly.

- But as data put together by Amul show, 5% of New Zealand's exports in this sector is enough to flood India's domestic market.
- It is enough to account for 30% of the Indian market for milk powders, 40% of the Indian market for cheese, and 21% of the Indian market for butter oil.

Conclusion:

The government did well by not joining RCEP and began work on correcting the imbalances of existing free trade agreements.