

EU's subsidy move may hurt Indian dairy industry

Sops for milk products' export reintroduced

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The global meltdown is starting to unleash beggar-thy-neighbour policies. The latest instance of this is the reintroduction of export subsidies on dairy products by the European Union(EU)

Doubts over WTO Talks

The move , apart from raising fresh doubts over the future of the World Trade Organization's (WTO) now-stalled Doha Round negotiations, could also adversely impact the Indian Dairy Industry.

Indian companies have in recent times made a successful dent into the world dairy market, with 75,000-odd tonnes of skimmed milk powder(SMP) worth roughly rs1,000 crore being exported during the year ended September 2008. Much of this was facilitated by the dismantling of the EU's export subsidy regime.

But, only last week, the European Commission announced the reactivation of export subsidies, which were suspended since June 2007. The EU's executive body has fixed new subsidy rates at up to a maximum of €200 a tonne for SMP, with these being €500 in the case of butter and €580 for butter oil.

If that wasn't enough the Commission has also offered support to dairy producers through intervention purchases at guaranteed prices. The annual limit of such intervention, effective from March 1, is 109,000 tonnes for SMP and 30,000 tonnes for butter.

15% REFUNDS

At €200 or \$ 265 a tonne, the refunds offered on SMP exports work out to nearly 15 per cent of the current world price of \$1,800 a tonne. The subsidy of €580 or \$766 a tonne on butter oil would amount to over a quarter of the \$3,000 a tonne rate being quoted by Western European exports. Butter oil of New Zealand origin is said to be available even cheaper for around \$2,000 a tonne.

A major worry now is whether the EU's subsidy resumption policy would prompt a similar response from the US through its Dairy Export Incentive Programme (DEIP). The DEIP allows for subsidizing exports of almost 100,000 tonnes of dairy products.

MAKING IT WORSE

Making matters still worse for the Indian industry is the weakening of the New Zealand dollar. Since April 2008, the New Zealand dollar has depreciated by a third against the US currency, whereas the rupee has correspondingly fallen by slightly over 18 per cent.

"we are currently squeezed between European subsidies and the weakening New Zealand dollar. Our exports have, therefore, been rendered totally uncompetitive." Said Mr. R.G. Chandramogan, CMD of the Chennai-based Hastun Agro Product Ltd.

FEAR OF IMPORTS

In fact, forget exports, the domestic industry is now fearing a flood of imports taking place into the country. Last year, on April 29, the Centre had announced a reduction in the basic customs duty on SMP from 15 to 5 per cent (on imports of up to 10,000 tonnes under the tariff rate quota regime, with quantities beyond this continuing to attract 60 per cent) and on butter oil from 40 to 30 per cent.

“The Government should immediately restore the duties at the earlier levels, taking into account the latest global developments”, noted Mr. R.S. Sodhi, Chief General Manager of the Gujarat Cooperative Milk Marketing Federation (GCMMF).

GLOBAL RATES

World prices of SMP and butter oil scaled their peaks (\$5,000 and \$6,000 a tonne, respectively) around August-September 2007 before dropping to the current \$2,000-3,000 levels.

Of the total 12.50 lakh tonne (lt) estimated global trade in SMP last year, the US accounted for four lt, Followed by New Zealand (2.60 lt), EU (1.90 lt) and Australia (1.10 lt). The annual trade of 19 lt in whole milk powder is dominated by New Zealand (Seven lt), EU (4.3 lt), Argentina and Australia (1-1.10 lt each).

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