

Submission to A New Roadmap for Australia's Economic Engagement with India

August 2024

Introduction

The Australian Dairy Industry Council (ADIC) and Dairy Australia welcome the opportunity to present this submission to the Department of Foreign Affairs and Trade on the benefits of the Australia-India economic relationship for the Australian dairy industry, to inform the *New Roadmap for Australia's Economic Engagement with India*.

The dairy industry is the third largest rural industry in Australia and is a key sector of the agricultural economy. Dairy generated AU\$6.1 billion in farmgate value in the 2022-23 financial year with the sector's exports totalling AU\$3.7 billion for the same period. Australia is a significant exporter of dairy products. It ranks fifth in terms of world dairy trade, with a five per cent market share behind New Zealand, the European Union (EU), United Kingdom, and the United States (US).

ADIC is the peak national representative body of the Australian dairy industry, representing the interests of dairy farmers and processors through its two constituent bodies, Australian Dairy Farmers (ADF) and the Australian Dairy Products Federation (ADPF). It aims to create a more prosperous and sustainable future for the local industry and the regional communities that rely on it.

Dairy Australia is the national services body for dairy farmers and the industry. Its role is to help farmers adapt to a changing operating environment, and achieve a profitable, sustainable dairy industry. As the industry's Research and Development Corporation, it is the 'investment arm' of the industry, investing in projects that cannot be done efficiently by individual farmers or companies.

Recent years have seen strong growth in the trading relationship between India and Australia, fuelled by the many complementarities between the two economies. In 2023, India was Australia's fifth largest trading partner with two-way trade in goods and services worth \$48.9 billion in 2023. India is Australia's fourth largest export market, worth \$35.2 million in 2023, predominantly driven by coal exports. The value of Australian dairy exports to India have increased from under \$300,000 in 2014 to \$8.9 million in 2023. However, the Australian dairy industry is not fully able to capitalise on the gains of the wider Australian economy in its trade with India, as the Australia-India Economic Cooperation and Trade Agreement (ECTA) excluded mainstream dairy products.

Recognising the enormous potential of the Indian market, the Australian dairy industry seeks Government support for the following:

1. Commercially meaningful outcomes: Australian dairy products are included under an ambitious Australia-India Comprehensive Economic Cooperation Agreement (CECA), prioritising specialty dairy products such as whey protein and lactose.
2. Strategic negotiation: Recognition of the complementarities of the Australian and Indian dairy industries and commercial opportunities for safe, quality, nutritious Australian dairy products and exchange of industry expertise and knowledge to India.
3. Sustainability prowess: Recognition of the sustainability credentials of the Australian dairy industry and dairy products, positively informing policy reforms in India.
4. Support for the Overseas Agriculture Counsellor Network: Continued funding of the Overseas Agriculture Counsellor Network to combat non-tariff trade barriers.

1. India's dairy industry and dairy consumption

Unlike most Asian markets that are in the early stages of their dairy consumption journey, India is a massive dairy consumer. India is a majority Hindu country and around 40% India's population adhere to a lacto-vegetarian diet and rely on dairy for protein. Despite over 60% of the population being non-vegetarian, India has the second lowest meat consumption per capita in the world and dairy serves as a vital source of protein even amongst non-vegetarians.

Dairy is India's largest single agricultural commodity, contributing to 5% of the national economy with a growth rate of 3.83% in 2022-23. India is the world's largest dairy producer, providing around 212 million tonnes of dairy and contributing 23% to global output. However, India has little impact on the world dairy market as it consumes most of its dairy domestically. Its national dairy herd was estimated to be approximately 307.5 million head of cattle in 2023, of which over a third were water buffaloes.

India's dairy imports are currently minimal and largely driven by production shortages during seasonal gaps. Total imports of dairy products into India reached close to 121,000 tonnes in 2023 and total values of dairy products imported into India have fluctuated between US\$125 million and US\$404 million over the last 10 years. The major suppliers of dairy products into the Indian market are USA, Germany, France, Netherlands and Turkey. New Zealand ranks 6th as a supplier while Australia does not appear in the top 10.

As India's population grows, urbanises, and becomes wealthier and more health conscious, dairy demand is expected to increase – specifically for functional dairy products. According to United Nations estimates, India overtook China as the world's most populous country in 2023, with a population of 1.423 billion people. However, the local dairy industry may face limitations in expansion due to several challenges. Low milk yield per animal, inadequate access to high-quality feed and veterinary services, and underdeveloped infrastructure, particularly in cold chain facilities, hinder productivity. Additionally, small-scale farming practices, environmental and climatic factors, and economic constraints limit farmers' ability to invest in modern technologies. Regulatory and policy issues, along with competition for land and water resources, further exacerbate these challenges. Price volatility and inconsistent market access also discourage investment in dairy farming, making it difficult for the industry to meet growing demand.

While per capita consumption of fresh dairy products is more than five times the global average, per capita consumption of processed dairy products is about one-third lower than the global average. Therefore, demand for processed dairy is anticipated to grow, especially as more of India's population is projected to live in urban areas over the next decade. Significant investment in cold chain distribution will be essential to meet the challenges of supplying dairy to the growing urban populations.

2. Australia's dairy trade with India

In 2023, Australia exported US\$8.2 million worth of dairy products, mainly whey powder, cheese and lactose, to India. In the last 10 years, the total value of whey powder, cheese and lactose exports to India has been US\$15.2 million, US\$2.0 million and US\$1.2 million respectively. All these products face significant tariffs, with lactose facing 25 per cent, cheese 30–40 per cent and whey powder facing a 40 per cent tariff.

Australia exports some whole milk powder and skim milk powder to India, generally because of supply shortages in the Indian market. However, the exports of these two product categories

are highly sensitive and market access is very much dependent on the internal circumstances of the Indian market.

3. Areas of opportunity for the Australian dairy industry

India's dairy sector faces significant challenges over the next decade, as outlined in the OECD-FAO Agricultural Outlook 2022-2031. While milk production is expected to increase by 39% between 2021 and 2031, the consumption of fresh dairy products is projected to grow even faster at 41%. This rising demand will constrain the supply of local Indian milk available for conversion into dairy ingredients, **necessitating strategic sourcing from outside India to support the growth of value-added processing.**

India's pharmaceutical and food processing sectors have substantial requirements for high-quality whey products and lactose. The lack of significant local cheese production capacity, which generates whey and lactose as co-products, combined with increasing demand for fresh dairy products, creates an opportunity for Australian dairy products to fill this gap. India's imports of lactose have grown at a compound annual rate of 10% over the past decade, driven by its pharmaceutical and bakery industries, predominantly sourced from the northern hemisphere with minimal product from Oceania.

For whey, per capita consumption in India is 75 times lower than in China and 576 times lower than in Australia. However, if Indian per capita consumption were to reach China's level over the next 10 years, consumption would grow from 9,100 tonnes (valued at USD\$20.2) to approximately 745,000 tonnes (valued at USD\$1.4 billion) per annum. Australia, being a major producer of cheese and butter, generates significant volumes of whey and its derivatives as co-products. These large volumes pose economic and environmental challenges due to limited utilisation options and associated costs. However, these challenges also present opportunities for Australian dairy processors. By learning from other nations that have successfully converted whey into value-added products, they can enhance the economic viability of their operations and potentially increase farmgate milk prices.

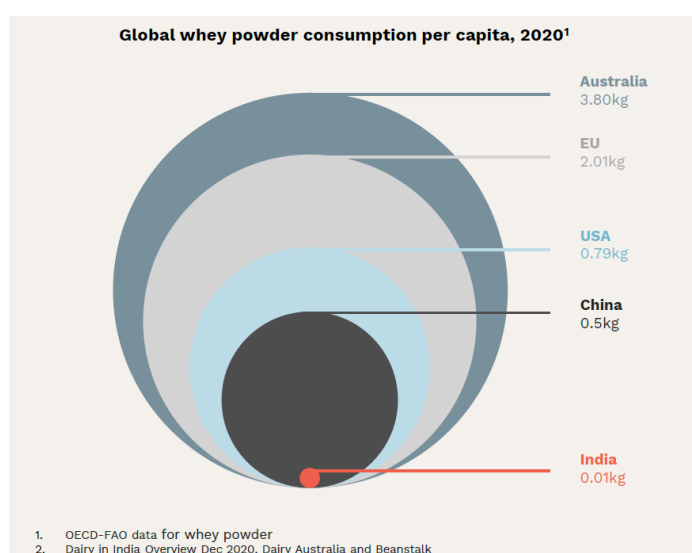


Figure 1: Diagram comparing whey powder consumption per capita in 2020 globally.

Despite producing only about one-twentieth of India's milk volume, Australia's dairy industry can serve as a valuable complementary partner. With world-class capabilities, a diverse product range, and extensive industry expertise, Australia is well-positioned to provide high-value inputs and knowledge to India. Australia's reputation for quality and safety, built through robust economic, scientific, and commercial partnerships globally, underscores its ability to meet the growing demand for dairy ingredients in India. Australia's counter-cyclical milk production, which is less seasonal than other major exporting regions, allows for greater consistency and predictability in dairy product and ingredient availability year-round.

The competitive landscape in Australia, featuring a wide range of dairy companies from major multinationals to smaller regional players, ensures flexibility and agility in meeting customer needs and specifications.

Australia has played a crucial role in developing dairy processing expertise globally. By leveraging its reputation for quality and safety, Australia has engaged in joint ventures and provided technical expertise, funding, and management services to countries like Indonesia, Thailand, the Philippines, Malaysia, Japan, China. Initiatives such as the Dairy Australia Scholarship Program facilitate knowledge exchange by inviting international professionals to visit Australian farms and processing facilities, fostering a strong alumni network. These efforts reflect Australia's commitment to enhancing global dairy processing capabilities and meeting the increasing demand for high-quality dairy inputs.

Moreover, Australian dairy products comply with India's import requirements, providing a competitive advantage over other exporters. Indian regulations mandate that dairy products be derived from animals that have never been fed bovine-derived feed preparations, such as blood meal, which is commonly used in the US. This effectively restricts US market access to India. In contrast, the Australian Ruminant Feed Ban prohibits Restricted Animal Material (RAM), including blood meal, meat meal, and meat and bone meal, from being fed to ruminant livestock. This compliance ensures that Australian dairy products meet Indian standards, offering a significant competitive edge in the Indian market.

India's food processing sector, one of the largest globally, and its pharmaceutical industry, the world's largest supplier of generic medicines, present substantial opportunities for Australian dairy exporters. **Collaboration with India offers an opportunity to diversify export opportunities and contribute to the success of India's dynamic and rapidly expanding dairy processing sector.** Australian dairy processors have a long reputation for supplying safe, high-quality, nutritious dairy products to over one hundred export destinations. While Australia is currently not in the top 10 suppliers to India, a **commercially meaningful outcome in the Comprehensive Economic Cooperation Agreement (CECA) negotiations would help Indian food manufacturers access high-quality Australian inputs**, capturing value from an increasingly sophisticated consumer base.

Food processing

India's food processing sector is sophisticated and diverse, and one of the largest in the world. Its output is expected to reach US\$535 billion by 2025-26. The Indian Government has highlighted the food processing sector under the "Make in India" initiative which was launched by Prime Minister Modi in 2014. The initiative is designed to facilitate investment, foster innovation, enhance skill development, protect intellectual property, and build a good manufacturing infrastructure. The food processing sector has emerged as an important segment of the Indian economy in terms of its contribution to gross domestic product, employment and exports. Additionally, initiatives like World Food India 2024 and India Food 2025 further highlight India's commitment to showcasing its food processing capabilities on a global stage, fostering international collaborations and investment opportunities in the sector.

Ready to eat (RTE) foods are a key component of India's food processing industry. Exports of RTE foods from India has grown from US 765.80 million in 2018-19 to US 1,425 million in 2022-23, growing at a compound growth rate of 13.39%. It is projected to grow annually at 9.23% CAGR during 2024-28.

Biscuits and confectionary form the major share of this, contributing 52.9%. India is the second largest producer of biscuits in the world and there is a projected compound annual growth of 9.1% to 2025. Edible lactose is imported for bakery, confectionary, chocolate and infant formulas. Domestic production of lactose is largely within vertically integrated companies who do not supply to the market. This presents a clear opportunity for Australian dairy exporters to supply lactose and other dairy ingredients to support India's booming food manufacturing sector.

The Australian dairy industry, known for its high-quality products, is well-positioned to supply essential inputs such as cream cheese and butter to the Indian food processing sector. Australian dairy processing comprises numerous smaller regional processors, each contributing to its operational agility. This agility allows Australian dairy processors to meet the specific requirements of their customers by offering customised quantities of ingredients, ensuring that food processors in India receive precisely what they need for their products. The industry's ability to adapt and deliver tailored solutions underscores its potential as a reliable partner in India's growing food processing market.

Additionally, increasing health awareness among Indian consumers is driving the consumption of functional foods, such as sports drinks and supplements, with sports nutrition forecasted to grow at a 17% current value CAGR (13% at constant 2020 prices) from 2020-2025, reaching approximately \$530 million AUD. Research commissioned by Dairy Australia indicates a significant gap in the supply of high-grade whey protein concentrate (WPC) and whey protein isolate (WPI) in India, with local production unable to meet spec-specific requirements. As a result, 99% of the supply comes from imports, highlighting a lucrative opportunity for Australian dairy exporters to fulfill this demand.

Pharmaceuticals

India's world-leading pharmaceutical industry provides Australian dairy exporters avenues for diversification. India is the world's largest supplier of generic medicines and vaccines, labelling itself as the "pharmacy to the world". India aspires to become the world's largest supplier of drugs by 2030 and aims to increase its industry revenue to USD 120-130 billion from a current revenue of USD 41 billion, at a compound annual growth rate of 11-12%. Notably, India boasts the highest number of US Food and Drug Administration (US FDA) approved plants outside the US.

The pharmaceutical sector's demand for high-quality lactose, primarily used as a binding agent in pharmaceuticals, presents a key opportunity. Lactose is India's largest dairy ingredient import by volume, and while it is not an active pharmaceutical ingredient it must meet specific quality requirements. Given that lactose is derived as a co-product of high-protein whey powder and India lacks substantial cheese production capacity, Australian products are well-positioned to fulfill India's lactose demand. The import market for lactose in India has grown at a compound annual rate of 10% over the last decade, with European imports gaining traction over those from the US. In 2023, the Indian lactose market was valued at US\$130 million, which was almost double the value of the whey market. While expected to grow slower than whey, Australian exports of lactose derived from high-protein whey powder would enhance the value chain of whey production.

Value-added dairy products

Over the past decade, there has been a marked shift in dairy consumption patterns in India, with a growing preference for value-added dairy products such as cheese, yoghurt, ultra-heat-treated (UHT) milk, and flavoured milk. This trend has been predominantly driven by high-income urban populations and the increasing influence of Western cuisines. As a result, the value of the Indian cheese market soared to US\$1 billion in 2023.

The surge in demand for cheese can be attributed to its versatile use in a variety of popular food items. Processed cheese, mozzarella, and cheddar are the most sought-after types, frequently used in making pizzas, burgers, sandwiches, wraps, and cakes. This shift reflects not only a change in dietary habits but also a broader acceptance and incorporation of global culinary trends into Indian cuisine. The growing cheese market highlights the potential for further growth and diversification, presenting opportunities for the Australian dairy industry to cater to the evolving tastes of Indian consumers.

4. Barriers to growth in India

India is highly protective of its dairy industry due to its significant economic, cultural, and social importance. Dairy farming provides livelihoods for millions in rural areas and is crucial for food security, particularly given the dietary reliance on dairy products among a large vegetarian population. Cows hold religious and cultural significance, further cementing the industry's importance. Politically, supporting dairy farmers aligns with agendas focused on rural development and poverty alleviation, key concerns for Indian policymakers. Protective measures such as tariffs and non-tariff barriers aim to stabilise local milk prices, ensuring fair compensation for domestic producers and maintaining market stability.

Consequently, Australia faces significant barriers to entering the Indian dairy market. High tariffs pose a significant hurdle, with products like lactose facing a 25% tariff, cheese taxed at 30-40%, and whey powder encountering a 40% tariff. These tariffs make Australian exports less competitive compared to local or other imported products.

In its negotiations with the European Union, India's minister for commerce and industry has advised that it will protect the interests of farmers and its dairy sector. This reluctance to grant market access outcomes for dairy has been mirrored in negotiations with Australia to date.

While the Australian dairy industry had been seeking equivalent access to the Indian market as ASEAN-India Free Trade Area members, the current Australia-India Economic Cooperation and Trade Agreement (ECTA) provided limited liberalisation for Australian dairy products. The exception was infant formula, which was given duty-free access over a seven-year period. It is important to note that Australian dairy farms operate without subsidies, ensuring competitive pricing and quality assurance in international markets. In addition, even if Australia was able to direct all milk destined for export (30% of production) just to India it would equate to just 1.5% of the Indian milk pool. Australian dairy will continue to work closely with the Australian Government to highlight key priorities to influence and progress negotiations.

Secondly, logistics and infrastructure challenges, particularly in maintaining a cold chain for dairy products, add complexity and cost to distribution. Inadequate cold storage and transportation networks significantly contribute to food waste in India. The cold chain sector is highly fragmented, with over 90% privately owned and lacking standardisation, leading to inefficiencies. The shortage of reliable refrigerated vehicles exacerbates inventory disruptions and losses, while high fuel costs further inflate logistics expenses.

Frequent power outages, driven by coal shortages, disrupt cooling systems and risk contamination of stored goods. Additionally, the sector's reliance on manual processes increases error rates and slows innovation adoption. Regulatory hurdles and bureaucratic delays further complicate operations. These challenges impact Australian dairy exports to India by increasing costs, risking product quality, and creating logistical complexities. However, there is potential for improvement through technological advancements and government support aimed at improving infrastructure and reducing food wastage.

Non-tariff barriers, such as an ambiguous regulatory environment further complicate market access for Australian dairy product into India. A recent example of this has been the new certificate negotiation in response to the Indian Department of Animal Husbandry and Dairying (DAHD) and Food Safety and Standards Authority of India (FSSAI) implementing a new integrated certificate for exports of milk and milk products to India. After being advised that Australia's current health certificate for exporting milk and milk products to India would no longer meet India's importing country requirements as of 30 June 2024, the Department of Agriculture, Fisheries and Forestry (DAFF) commenced negotiations with DAHD and FSSAI on a new certificate. Negotiations on a new certificate are ongoing and there is currently no certainty of products being accepted for Australian dairy exporters exporting to India. Currently, exporters are being advised that any consignments departing Australia after 31 July 2024 are at commercial risk and there is a strong likelihood that Indian port authorities will reject these consignments.

The complexity of the Indian market highlights the need for DAFF's Overseas Agriculture Counsellor Network to build strong connections with government and industry stakeholders in India to support market negotiations. The in-market presence provided by the network is imperative for efficiently dealing with disruptions and providing real-time market intelligence. Consequently, the **Australian dairy industry strongly urges Government to ensure the retention and enhancement of the network.** While the Australian dairy industry anticipates that the certificate issue will be resolved, this ambiguity is reflected in negotiations on dairy market access under the CECA. The lack of coordination between the Ministry of Commerce and Industry, responsible for free trade negotiations, and DAHD hinders progress. This disjointed approach necessitates efforts from the Australian dairy industry and the Australian Government to facilitate communication and alignment between the two agencies.

5. Opportunities for partnership

The Australian dairy industry is eager to replicate the successes realised in other Australian agriculture industries, such as wine, lamb cotton and wool, following the enhancement of market access for these commodities. The ECTA between Australia and India has paved the way for new opportunities and strengthened bilateral industry relationships. For example, this agreement has enabled the export of Australian cotton and wool to India, where they are further processed into garments and subsequently exported by India to international markets. The Australian dairy sector aims to leverage similar benefits by improving market access and fostering collaboration with Indian counterparts, ultimately enhancing trade, processing capabilities, and global market reach for products utilising dairy ingredients, such as Indian processed foods and pharmaceuticals. **The Australian dairy industry seeks to progress a comprehensive deal which delivers meaningful market access by working closely with the Indian Government and industry to improve their understanding of how their industry sectors can benefit from opening trade.**

As is the case in Australia, sustainable dairy production in India is crucial for ensuring food security, reducing environmental impact, and improving the livelihoods of millions of small-scale farmers. In Australia, the dairy industry has been a pioneer in setting sustainability goals and targets through the Australian Dairy Industry Sustainability Framework (ADSF). This framework highlights the industry's focus on key sustainability priorities, including climate change, animal welfare, human health and nutrition, food waste, and industry profitability. With over a decade of data, the ADSF showcases the Australian dairy industry's commitment to and progress in sustainability. Leveraging this experience, the Australian dairy sector can support India in achieving its specific sustainability objectives, whether economic, social, animal care, or environmental. Australia has already engaged in numerous bilateral collaboration programs with India, sharing advancements in cattle breeding, livestock management, agtech, and other technologies. As two-way trade increases, Australia looks forward to further strengthening its cooperative relationship with India to promote sustainable dairy production practices.

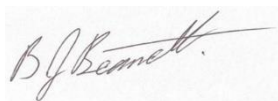
Conclusion

In conclusion, the Australian dairy industry recognises significant opportunities to enhance its relationship with India by addressing key challenges and leveraging existing strengths. By improving market access and fostering collaboration, Australia can support India's growing demand for high-quality dairy ingredients.

Sustainable dairy production remains a priority for both nations, ensuring food security, reducing environmental impact, and improving livelihoods. Through shared knowledge and technology, Australia is well-positioned to assist India in meeting its sustainability goals while simultaneously benefiting from increased trade and cooperation.

The Australian dairy industry advocates for free and fair trade, recognising the economic and social benefits that free trade agreements bring, such as enhancing global competitiveness and contributing to broader societal gains. The industry seeks commercially meaningful outcomes from CECA negotiations to bolster the trade relationship between India and Australia, whilst also recognising India's sensitivities towards dairy products competing against their local fresh milk industry (i.e., liquid milk, skim and whole milk powder). The CECA needs to deliver enhanced access across a wide range of dairy products, and ensure Australia will be at a distinct market access advantage for products that present strong commercial opportunities – such as whey protein and lactose. As the global dairy market continues to evolve, the partnership between Australia and India holds great promise for mutual growth and success.

Yours sincerely,



Ben Bennett
Chair
Australian Dairy Industry Council



John Williams
Deputy Chair
Australian Dairy Industry Council

Contact

Shehara Pillai – Policy Lead – Economic Sustainability and Competitiveness, Dairy Australia
T: 0405 584 440
E: Shehara.pillai@dairyaustralia.com.au
Dairy Australia, Level 3, HWT Tower, 40 City Road, Southbank, Victoria