

Eucolait considerations on trade negotiations with India

Back in May 2021, Eucolait warmly welcomed the news that the EU would restart trade negotiations with India, after FTA talks stalled in 2013 and ultimately led to a prolonged hiatus which lasted for more than eight years. In 2020, India became the world's sixth-largest economy and is frequently labelled as the world's fastest-growing major economy.

In Eucolait's view, there is margin for the negotiation of an ambitious agreement delivering real market access for the EU in the dairy sector. In the current situation, EU and India dairy trade flows are hampered by high duties and technical barriers to entry. A comprehensive trade agreement could bring great opportunities for increased dairy exports to India, in particular for high value products for which there is no local equivalent on the Indian market.

Indian dairy sector

India, with a population of over 1.35 billion people, is the world's largest producer of milk and dairy is the single largest agricultural commodity contributing to 5% of the national economy. The dairy sector is mainly comprised of small farmers and most of the milk is consumed through informal channels, however India also has a modern and robust dairy processing industry. India follows a policy of self-sufficiency and has a protectionist approach towards imports to shield its producers from international competition. The Indian dairy sector is a significant contributor to farmers' income, as approximately 70 million farmers are directly involved in dairying, and it accounts for approximately one-third of rural household income in India. Milk production is dynamic and is growing fast in line with the rising consumption.

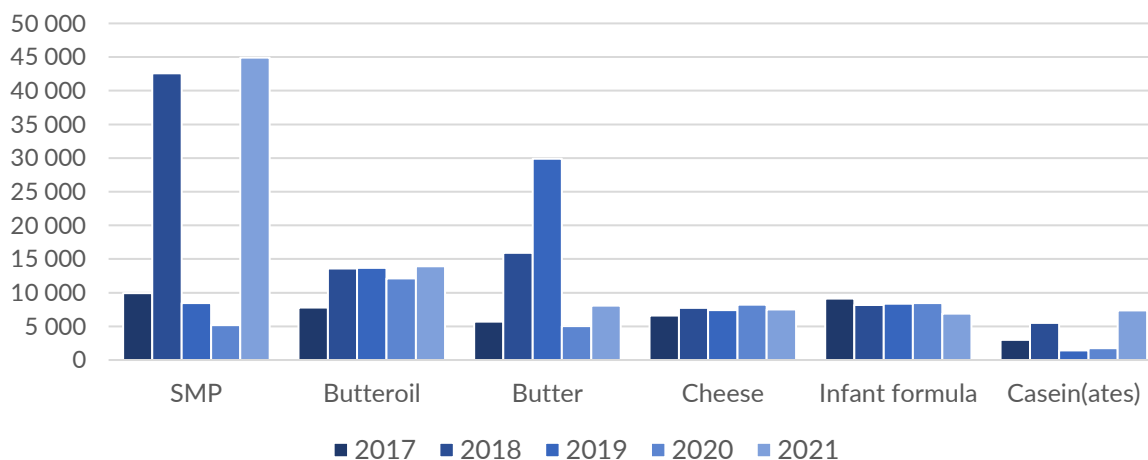
As a result of the self-sufficiency policy and tough border protection, imports play a very minor role on the Indian dairy market and are largely limited to ingredients, in particular whey derivatives. The MFN tariffs applied to dairy are sufficiently high to discourage imports, albeit considerably lower than EU tariffs.

Indian tariffs on certain dairy products

DESCRIPTION	CN CODE	RATE OF DUTY
Whole milk powder	04 02 21	60%
	04 02 29	30%
Skimmed milk powder	04 02 10	60%
Whey powder	04 04 10	40%
Butter and butteroil	04 05 10	40%
	04 05 90	
Fresh Cheese and Blue-veined cheese	04 06 10	30%
	04 06 40	
Other cheese	04 06 90	40%
Lactose	17 02 11	25%
Casein	35 01 10	30%
Caseinates	35 01 90	30%
WPC	35 02 20	20%

For the same reasons, India is only a sporadic player on the global dairy market. Due to the size of India's dairy sector, the exported surplus volumes can however be considerable, with for instance 45 000 tonnes of SMP exported in 2021. India's dairy exports are mainly destined to neighbouring countries and the Middle East, with geographical proximity certainly playing a role.

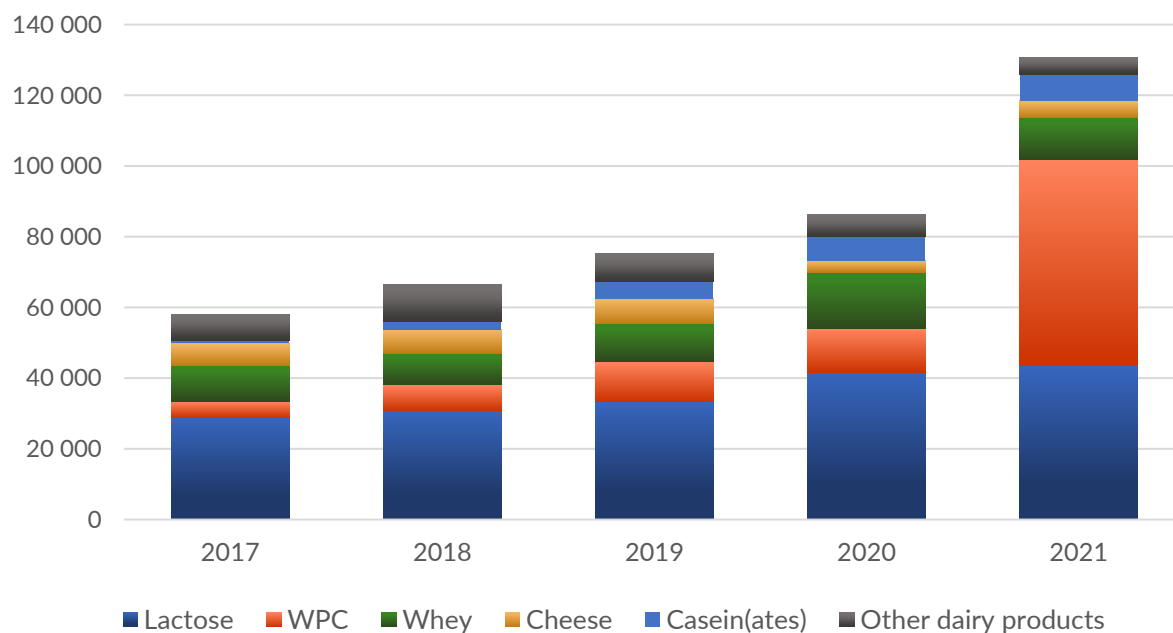
India exports of main dairy products (in tonnes)



EU dairy exports to India

EU dairy exports to India are rather modest but have more than doubled in value in the last 5 years, reaching € 130 million 2021. The bulk of exports in volume terms remains lactose (26 000 tonnes in 2021), but whey protein concentrates (WPC) have become the most important category from a value perspective with less than 8 000 tonnes of product. Exports of standard whey powder have also increased over the past years, amounting to some 9 000 tonnes in 2021. The exported quantities of other dairy products are very low and overall the amount of EU dairy exports to India is negligible, if compared to the size of the market, or to exports to other Asian countries.

India imports from EU27 in values ('000 EUR)



Opportunities

A successfully concluded FTA should result in improved market access for EU dairy exporters in the form of reduced duties and/or tariff rate quotas. The resulting trade opportunities must be meaningful and proportional to the size of the market.

India's middle class is growing exponentially, especially in large urban centers. This is supporting increasing demand for high quality dairy products. EU demands should cover all dairy lines, with a particular focus on cheese and certain specialty ingredients such as caseinates and various whey derivatives.

Eucolait is not opposed to granting improved access for India to the EU market and believes that a more trade friendly environment would create opportunities on both sides and synergies between our dairy sectors.

Non-tariff barriers

In addition to tariffs, EU exports are restricted by high import scrutiny and various technical barriers. It has at times been reported that access is deliberately being limited to products that are not available on the domestic market.

A recent development has been the introduction of a facility registration requirement and a new veterinary certificate for the export of dairy products by the Food Safety and Standards Authority of India (FSSAI). The new certificate makes reference to numerous Indian standards which are mostly based on Codex Alimentarius Standards. While there are minor discrepancies between the Indian and European legislation for instance in relation to microbiological criteria, contaminants and additives, these divergences should be manageable. The main concern from an EU export perspective is the poor communication and the speed of implementation. The certificate was supposed to be applied to products arriving in India on or after 1 January 2023 after having been notified just a few months prior, creating significant difficulties for businesses and competent authorities. Some EU Member States veterinary authorities have confirmed that they are currently not in a position to sign the new certificate. The FSSAI has in the meantime postponed implementation to 1 March 2023. In addition, a list of HS codes which are covered under the new certificates was published by the FSSAI in late December 2022 but the status of products not included on the list remains unclear.

In terms of longer term SPS issues, companies have experienced problems related to the use of animal rennet in cheese. In fact, India's 2011 Food Safety Standards Regulation defines cheese as 'animal rennet free', distinguishing it from the definition contained in the relevant Codex Alimentarius standard.

EU exports have also struggled with the classification of lactose as a dairy product requiring a health certificate for export: noting that India is a significant consumer of lactose for pharmaceutical manufacturing purposes, mandatory certification has the potential to hamper exports while favoring Indian domestic production.

Moreover, there is occasional uncertainty about the labelling requirements for products on the Indian market (e.g. indication of vegetarian products etc.) disrupting trade flows due to difficulties in setting up a specific and separate packaging line for food items exported to India.

A clear and ongoing dialogue on SPS and TBT requirements and close co-operation on non-tariff barrier issues would therefore be a desirable outcome of these trade talks.

Conclusion

We hope the negotiations can progress despite the persisting gap between the positions of India and EU on a large number of issues and ultimately lead to a successful outcome within a reasonable timeframe. Eucolait fully supports the efforts of the European Commission going forward and remains available to answer any questions or queries related to dairy trade which may arise.