Death of Small-Farmer Dairies amidst India's Dairy Boom

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Amul has begun to do to the informal dairy sector what the European Union threatened to do to the Indian dairy sector: dump milk and milk products, capture the market and then drive down procurement prices as well. India's dairy sector increasingly shows signs of corporatisation with foreign firms and venture funds investing in cooperatives and then building chains with forward and backward linkages. The cooperative spirit that drove dairy development in India until the mid-1990s is fast disappearing.

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Amul has entered the Hyderabad market with a bang, accompanied by a massive advertising blitzkrieg, announcing to the citizens of Hyderabad the sale of milk at incredibly low prices (Rs 38/litre for toned milk as compared to Rs 45–47/litre sold by other dairy processors), much lower than any other cooperative dairy (for example, Vijaya Dairy—Rs 46/litre), private dairy company, or independent milk producer in town. Independent milk producers are those who either sell milk produced directly from their own animals, or small milk vendors who market milk from villages in and around Hyderabad to individual customers, hotels, tea shops, and *mithaiwallas* (sweet shops). Amul is marketing reconstituted liquid milk from skim milk powder (SMP) and butterfat that is being processed and packaged by the Nalgonda-Ranga Reddy Milk Producers Mutually Aided Cooperative Union (NARMAC), Mother Dairy (*Deccan Chronicle* 2015). Reconstituting liquid milk from SMP and butterfat is nothing new, and almost all organised dairy processors today, whether cooperative or private corporation, sell such reconstituted milk at some point during the year (usually summer months or lean periods of fresh milk).

Amul also decided to bypass the traditional milk vendors in Hyderabad, who distribute milk of different companies, directly supply their produce to shops and hotels, accusing milk vendors of unfair sales practices that result in higher milk sales prices (*Hindu* 2015a). The milk vendors, unionised under the Twin Cities Milk Vendors Welfare Association of Hyderabad protested this marketing strategy of Amul, which they felt would negatively affect their livelihood and result in a ripple effect, affecting various other dairy processors (cooperative and private companies), and ultimately small dairy producers/farmers (*Hindu* 2015b).

It is obvious that Amul selling its milk at these reduced prices will have a snowball effect on other dairy processors, forcing them to reduce their sale price of milk, if they are to compete with Amul. To sustain their own profit margins, they would most likely reduce procurement prices paid to farmers, ultimately threatening the livelihoods of farmers in Telangana. If they still cannot survive and sustain their business by lowering procurement prices, they would have to close-shop and leave, or alternatively merge their operations with the dominant brand. Finally, when it is down to a couple of brands in the market, the dominant company can raise its sales price at will, as there will be no others left in the market! At the procurement end, this company will have total "freedom" to decide the price it will pay to farmers, or whether it will procure milk at all from farmers in the regions where they sell milk.[1]

Today Amul is doing to Telangana, precisely what it opposes globally—dumping milk at reduced prices.

Amul took the lead in India to oppose the European Union (EU) in its efforts to force India to cut its tariff rates on dairy product lines such as SMP and butterfat to "0", as this would allow EU to dump its highly subsidised milk and milk products (SMP and butterfat) in India, via the EU–India Free Trade Agreement being negotiated by the Government of India and the EU since 2007. Amul rightly pointed out that this would immediately depress local milk prices, and challenge the business of domestic dairy cooperative processors such as Amul (*Economic Times* 2013). Many of us applauded Amul for taking this public stance, and believed this arose from the cooperative's genuine concern that subsidised EU dairy products would cause small milk producers to lose their livelihoods (Paasch et al 2011: 4–5).

Why Is Amul Doing This?

Why then should Amul behave in this way domestically?

The answer to this question lies in the inherent institutionalised structural madness of today's globalised, industrialised commodity-style food production system, which includes milk and milk products. Increasingly corporations, in order to increase their profits, have complete control over the entire chain of production, procurement, processing, and retail. For companies, corporations, and cooperatives, such as Amul, and several so-called cooperatives in Europe and the United States (US), which have virtually become corporations, milk is no longer a "need" of the people or a livelihood, but a commodity to be bought and sold through which a company can "grow" and reap profits.

Returning to Amul and its forays into Telangana, the media reported (*Business Standard* 2015) a slump in the global prices of SMP in the middle of 2014, resulting in a significant decline in SMP exports from India (*Business Standard* 2014a), with a consequent reduction by private dairy processors (*Business Line* 2014) and milk powder manufacturers of procurement of fresh milk from primary milk producers/farmers. This, in turn, resulted in a fall in procurement prices of milk, mainly in North India. Winter is also the season of higher milk production in the north. The outcome: lots of fresh milk in the market with no buyers. Media reports suggest that cooperative dairy processors such as Amul were thus under pressure to increase procurement of fresh milk. Amul said that all excess milk would be converted into SMP.

With the global slump in SMP prices in 2014, Amul and other dairy companies which have been exporting SMP projected that they would be unable to export SMP and would focus on the domestic market (*Business Standard* 2014b). The logic of this commodity market is that Amul has to dispose of its fresh SMP stocks, and Hyderabad with a daily average consumption of 40 lakh litres of milk (25 lakh in the morning and 15 lakh in the evening), appears to be a prime spot to offload its excess stocks in the form of reconstituted liquid milk. The Amul Group controls one-third of India's organised dairy sector, and has monopolised milk markets in 11 Indian states. The organised dairy sector comprises 30% of India's milk market. In 2014, Amul was ranked 15 amongst the top 20 Global Dairy Players (IFCN 2014). It is clearly no longer a "cooperative" but functions as a corporation primarily driven to protect its interests, its growth, and its regular suppliers (for example, farmers in Gujarat). Its actions reflect indifference to the small farmers of Telangana or for that matter, small farmers in any other part of the country or a neighbouring country, where it sells its cheap milk, in turn driving out local milk producing small farmers.

Global and Local Forces

In 2013, in Europe and the UK, milk prices were the highest they had ever reached in a long time. Farmers responded by rapidly increasing milk production, mostly by expanding their herd sizes and further intensifying production, with the very large industrialised farms getting even bigger. The price crash towards the end of 2014 led to very low procurement prices, and consequently pushed a lot of small farmers into debt and forced them out of dairying (Harvey and Smithers 2015), whereas large farms have been cushioned by their banks, and are only expanding and intensifying production. EU is poised to abolish its quota system of production where member states had restrictions on the total volume of milk produced. Lifting the quota system will unleash massive milk production. The lifting of quotas will lead to a greater need for EU to dump its milk in the Global South (Beck 2015).

The EU needs markets like India, just as Amul needs the markets in other Indian states (and neighbouring countries). Amul is doing to other states, what corporations of EU do globally. An identical outcome results, and ultimately the market works in such a way that small producers (farmers, vendors, or businesses) are forced to leave their livelihoods, as they are unable to cope with these cycles of highs and lows. And the system (including government policy support) favours big producers, who only become bigger and bigger. The logic of the system pushes big companies to buy out the smaller ones to monopolise production, procurement and distribution, that is, control the entire supply chain.

Public policy decisions taken over the past four decades, in the name of improving access and quality of milk in India, have systematically destroyed localised, non-centralised, systems of milk production, procurement and distribution. Between the 1970s and 1990s, large-scale public investment has built the centralised cooperative dairy system, protected producer prices, and regulated consumer prices. This was completely disbanded by the mid-1990s with the onset of India's neo-liberal capitalist economic reforms, where it identified dairy as one of the countries high-growth engines, and implemented policies to liberalise the sector. (For those who remember—in the 1990s, N Chandrababu Naidu's *Vision 2020* for the then united Andhra Pradesh scripted by McKinsey & Co identified dairy as one of the eight growth engines of the state.)

Simultaneously in the 2000s, India amended domestic legislation,[2] which had thus far restricted the entry of private dairy processors into the business of dairying. This resulted in an explosion of private dairy processors establishing their businesses to procure, process, and sell milk—driven entirely by the logic of maximising company profits, and paying producers far below their cost of production. This was best illustrated by the collapse of the much hailed Chittoor District Cooperative Milk Producers' Union with the withdrawal of state support, and the parallel phenomenal rise of the private Heritage Dairy Company. Heritage Dairy, believed to be controlled by the family of the present chief minister of Andhra Pradesh, N Chandrababu Naidu, virtually captured the entire supply chain and producer base of the cooperative. The second wave of reforms allowed foreign direct investment (FDI) into dairy processing, and several big global dairy players and investors entered the fray to profit from the projections of huge growth in India's dairy sector. The organised dairy market is expected to more than double from the current \$10 billion (approximately Rs 60,000 crore) to \$24 billion (Rs 1,44,000 crore) by 2020, largely driven by the growing demand for value added milk products (ice-cream, yoghurt, etc). Business mergers and acquisitions are also very much part of this projected growth story.

The massive demand for high-value milk products stems from a small class of wealthy Indians, whose rising consumption of milk and meat products is alarming—both from a health and environment perspective. This consumption drives an industrial corporate production system, which, in turn, forces farmers into monocrop/animal production and masks the huge hidden subsidies in the form of energy, land, water, labour, being accorded to these companies per litre of milk produced. The argument that economies of scale makes cheap milk available for poor urban consumers may be true only as long as international prices are low.

Today several "local dairy processor companies" that we think are "Indian" have actually been bought up and merged with huge international dairy players. Carlyle invested $12 million in Tirumala Milk Products in 2010, and in three years, Tirumala expanded its supply chain by adding over 100 chilling stations, and its distribution to Gujarat, Maharashtra and Rajasthan apart from its traditional stronghold in southern states like Tamil Nadu, Karnataka and Andhra Pradesh (http://www.aurumequity.com/agriculture-food-dairy.html). In 2014 the French Dairy Processor Le Groupe Lactalis (The Lactalis Group), which stood third in the list of top global dairy processors (according to IFCN), acquired Tirumala Milk Products Company. Danone ranked eighth globally, is expanding its network for procurement in India through linking up to producers and specialising in high-end products such as yoghurt. They have a tie-up with Schreiber Dynamix Dairy that processes most of its milk in Baramati. Schreiber Dynamix in turn procures its milk from Baramati Dairy Cooperative! Similarly companies like Creamline Dairy with its brand Jersey are exploring mergers with multinational corporations (MNCs).

It is evident that India's dairy growth aspirations are centred around corporations capturing the space of the so-called unorganised market. Whether Amul or Danone, Heritage, Nestle (the latter intends to expand its operations in Telangana), or Reliance, the "unorganised" sector and the livelihoods of small farmer producers who own one–two animals, small vendors, and small dairies are at risk of being totally destroyed.

Need to Protect Small Dairies

Recent studies have confirmed that the increasing deregulation of India's dairy sector poses a threat to small farmers (Paasch et al 2011: 31–41). There is an urgent need to change state policy to protect the livelihoods of small dairy farmers and producers.

(i) It is critical that the state plays a proactive role to stabilise the system with a guaranteed minimum procurement price to farmers which covers their cost of production (critical milk price), which it will execute through its public-sector cooperative (for example, Vijaya Dairy recently increased its procurement price by Rs 4/litre).

(ii) In the light of the Amul blitzkrieg, it is evident that there is need for regulation of sales prices, which shall forestall the depressive effect on procurement prices that will ultimately follow, while ensuring that milk prices for poor consumers are affordable.

(iii) The need for public support to small producers to self-organise into non-centralised and localised milk production and consumption cooperatives.

(iv) Operationalise the National Food Security Act with its commitment to revitalise agriculture (including dairy), through non-centralised local dairy markets.

(v) Exclude resources (land, water, air, forests, biodiversity, seed), agriculture produce and the dairy and milk sector from all Bilateral Trade Agreements and Free Trade Agreements being negotiated by India with various countries.

(vi) Prevent the reduction of import tariff duties on milk and milk products.

(vii) Build pressure on the EU, US, Australia, and New Zealand to withdraw their subsidies that distort global milk markets.

(viii) Revoke FDI in dairy and dairy processing.

NOTES

1 In the case of Hyderabad, the Telangana government says it will not object to Amul if it procures milk from Telangana families. It is probably economically illogical for Amul to procure milk from Telangana farmers to supply to Hyderabad, as they already have huge surpluses of milk powder stocks, of milk procured from their stable farmer producer base in Gujarat.

2 Chief amongst these was the Milk and Milk Product Order, 1992 S O 405 (E) dated 9 June 1992. Issued under Section 3 of Essential Commodities Act, 1955 (10 of 1955). Sixth Amendment Order SO No 335(E) dated 26 March 2002.

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