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## Chicken legs 45% more expensive, trade disputes prevent imports

Nidhi Nath Srinivas, Economic Times

20 August, 2012, New Delhi: How often have you stood at the counter of a fast-food outlet and hollered because your tub of chicken did not have a single leg piece? Quite often, isn't it? That's because Indians love chicken legs, and everybody is asking for the same pieces. Also, chicken, like their loving consumers, have only two leg pieces each.

Indians share this love for legs with their neighbours across the Himalayas: the Chinese. Europeans and Americans, in contrast, love chicken breasts. So, what do the Americans do with their leg pieces? Like true capitalists, they make money by exporting them.

The US, by far, is the world's leading supplier of king-size chicken feet, mainly to China where they are a prized delicacy. These wings and feet, which are worth only a few cents a pound in the US, fetch 60-80 cents a pound in China. The legs are packed off to the Middle-East and Asia.

Indian consumers, however, do not have access to these juicy drumsticks. Why? The country's doors are firmly bolted to protect the domestic poultry industry. That probably results in Indian consumers paying a lot more for their favourite bite of tangdi kebab.

Here's how the economics of chicken leg trade could work. A kilo of drumsticks in the neighbourhood supermarket today sells for at least Rs 200. A kilo of drumsticks from the US would be available in the same supermarket for Rs 110 after adding air freight, import duty of 37%, all taxes and retailer margins. That's a cool saving of 45%.

### *Americans Licking their Chops*

"Until there is a change in the Indian market, the food industry will continue to pay a heavy price for chicken legs. Import will immediately ease this burden, improve supply and allow us to sell products to consumers more affordably," says Bhupinder Singh, CEO, Vista Processed Foods Pvt Ltd, which supplies McDonald's with chicken and vegetable products.

Given the size of the Indian market, it's hardly surprising that the Americans are licking their chops. The US' National Chicken Council, National Turkey Federation, and USA Poultry & Egg Export Council have pegged the value of US poultry exports to India each year at more than \$300 million. The timing would also be perfect. Consumer demand for poultry is tapering off in the US, pushing local companies to increasingly depend on exports.

Global trade in these not-needed bits is expanding fast, driven primarily by multinational fast-food chains. These chains use the leftover trimmings, low-value cuts (in the US) and other bits and pieces to make patties, frankfurters and finger foods.

The most aggressive exporter is Brazil, followed by the US, EU and Thailand. However, the Indian poultry industry isn't ready to welcome the competition yet.

"The US and Brazil will start dumping cheap cuts, which will eventually wipe out our small farmers and nascent industry. It will be one-directional trade because these countries will use sanitary and phyto-sanitary rules to bar us from exporting breast meat. Since India is self-sufficient in poultry, there is no need to allow such unfair practices for short-term gains," says an official at Venky's, a top player in the Indian market.

The industry's hostility is not unfounded. Under the threat of rising poultry imports from the US, Chinese producers asked for an investigation into chicken prices. The investigation led to anti-dumping duties on US chicken imports in 2010, ranging from 43% to 105%.

More barbed wire has been placed in the form of stiff food safety norms. India lifted its four-year-old ban on US poultry imports after the country declared that it was free of avian influenza in September last.

But no orders could be placed because India restricts imports from any country that faces the risk of even low pathogenic avian influenza. Despite these barriers, there have been five outbreaks of avian flu in the last two years. Not surprisingly, this has sparked a trade row.

Thwarted out of business, in April, the US dragged India to WTO's dispute settlement body, alleging what US Trade Representative Ron Kirk called "a case of disguising trade restrictions by invoking unjustified animal health concerns".

In its defence, India says low pathogenic avian influenza could mutate into highly pathogenic strains. Moreover, it is allowed to prohibit trade in poultry under the Terrestrial Animal Health Code of the World Organisation for Animal Health.

The US disputes this assessment, arguing that international standards for avian influenza control only support the imposition of import bans in outbreaks of high pathogenic strains. Washington, therefore, claims that there is no basis for imposing an import ban, as only low pathogenic strains of avian influenza have been detected in the US since 2004.

For now, protected from direct competition, India's poultry industry is growing rapidly. Within a decade, output has jumped 370%. Farms make profits in the years when chicken are healthy and their feed is cheap. But that is nothing compared to the money retailers are making, with margins as high as 40%.

Sticker prices remain high because the market has shifted from traditional cost-based pricing to demand-based pricing. Retailers can be brazen about it because they know consumers have few shopping options.

Indian industry has clearly nothing to worry while the WTO dispute drags on. But consumers desperately need a break from protein inflation.

A recent informal survey done by industry body Poultry Federation of India shows demand is rising fastest among consumers at the bottom of the pyramid, such as daily wage earners like rickshaw pullers, because 250 gm of chicken at Rs 40 turns out cheaper than most vegetables. The threat from foreign competition is overdone anyway, say industry watchers.

Imported poultry products cannot enter India's wet market, which has a 95% share of total sales and thus will not be in direct competition with local industry or small farmers, says Pawan Kumar, an analyst with Rabobank.

The challenges of distribution and marketing will make it tough for foreign companies to make heavy inroads while taste may be another hurdle as American and Brazilian chicken are not raised on the same feed as desi poultry.

Kumar is convinced that opening the market to trade would prove beneficial because a sustainable supply of legs would provide confidence to the food service industry and attract more FDI. This could eventually lead to Indian meat products coming into compliance with US and EU norms.

"Broadly, Rabobank believes that the international arbitrage of meat products represents one of the most attractive opportunities available to the poultry industry," Kumar says.

The average Indian today eats almost three times more chicken than he did nine years ago. But as this is mainly because all other meat choices are unaffordable, he can do with some help. Quickly opening the market to competition would be a good start.

But even the supply of cheaper chicken parts from overseas are no longer guaranteed, as the global recession is changing tastes. Retail chain Sainsbury's is teaching British families on a budget how to use drumsticks for a hearty family meal.

In the US, the price differential between legs and breasts is narrowing rapidly as consumers shift to cheaper cuts. The whole chicken has finally crossed the income divide.

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## Export of milk products may see more relaxation

Anindita Dey , Business Standard

17 October 2012, Mumbai : The department of animal husbandry under the Union ministry of agriculture is considering additional relaxation in the export of milk products. After the directorate general of foreign trade decided to pursue a free export policy for skimmed milk powder in June, it has now been proposed that export of whole milk powder (WMP) and dairy whiteners also be freed.

In February 2011, the government had banned the export of all milk products, including skimmed milk powder, WMP, dairy whiteners, infant milk, casein and casein products. The list of items prohibited from being exported also included milk and concentrated cream containing added sugar and other sweeteners.

This financial year, the demand for milk powder in India is estimated at 88,000 tonnes, against the availability of 112,000 tonnes. It is estimated in 2011, milk production in India, the world's largest producer, stood at about 121 million tonnes (mt).

According to a report by the National Council for Applied Economic Research, from 66.2 mt in 1995-96, milk production has increased to 121.8 mt in 2010-11. The average annual growth in milk production from 2000-01 to 2010-11 stood at four per cent. The Planning Commission has said India's annual milk requirement in 2021-22 would be about 180 mt.

In India, Tamil Nadu, Uttar Pradesh, Rajasthan, Maharashtra and West Bengal are the major producers of cow milk, while Uttar Pradesh, Andhra Pradesh, Rajasthan, Punjab and Gujarat are the major producers of buffalo milk. The wholesale price index for milk rose 76 per cent between 2004-05 and 2010-11, while the wholesale price index for dairy products rose 52 per cent during the same period. This is primarily due to the fact that in the last decade, per capita monthly consumption expenditure on milk and milk products doubled in rural areas.

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## Avian Flu in Karnataka hits poultry exports

PK Krishnakumar & Madhvi Sally, Economic Times

1 November 2012, Kochi / Ahmedabad: As the poultry industry is rocked by yet another avian flu attack in Karnataka, major companies and states are taking precautionary measures fearing a ban on sales and exports.

Kerala has imposed a ban on poultry products from Karnataka. The disease has occurred when the industry is gearing up for peak winter consumption in India and overseas.

The birds have been culled in the Central Poultry Development Organisation, near Bangalore, where the avian flu was detected among turkeys, ducks and emus. "Our egg exports are just recovering from a ban imposed by the Middle East when the last incident of avian flu occurred over a year ago. From 300 containers a month, it had hit a low of 50," said PV Senthil, Secretary of Livestock and Agri Farmers Trade Association.

The annual egg export from India is worth Rs 250 crore and the winter months are usually the peak season. According to Senthil, almost the entire lot of shipments is going from Tamil Nadu and each shipment is being certified by the Animal Quarantine Department.

"But since most of the foreign countries consider India as one region, we have asked the Central government to pass on the information that the incident has occurred in a small region in Karnataka, which has been cordoned off," he said.

The poultry prices have not been affected in general except in some regions close to Karnataka. "In border areas, the wholesale rates have dropped by Rs 5 to Rs 45 per kg," said Ram Reddy, president of Andhra Pradesh Poultry Breeders Association.

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## Avian flu impedes India's Rise to the top in egg export

P K Krishnakumar, Economic Times

21 November 2012, Kochi: A spate of avian flu outbreaks in the last few years has dashed India's hopes of becoming a major egg exporter. Oman, the largest buyer of Indian eggs, has now imposed a second ban on Indian shipments this year following the avian flu incidence in a research farm in Karnataka.

The earlier embargo on Indian eggs enforced by Oman in March was only lifted in September. Oman accounts for over 60 per cent of the 100-crore egg export turnover from India. West Africa and Afghanistan are the other major buyers of Indian eggs.

India has been in the egg export business for nearly two decades and the export turnover swelled to around 450 crore six years ago. Since the first outbreak of avian flu in India in 2006, egg exports have been showing a downward trend.

"We used to export ten containers a day, each container containing 4 to 4.5 lakh eggs. It has dropped to four or less containers now. In the last four years, we have been having nearly two avian flu outbreaks annually," said Dr P V Senthil, secretary of Livestock and Agri Farmers Trade Association.

Often the ban is imposed not knowing that the places where the avian flu occurred are far away from the exporting centre.

Namakkal in Tamil Nadu is the egg export hub of India.

Two incidents of avian flu outbreaks happened in Tripura and Karnataka. "We need to impress this upon the importing countries, who consider India as one region, about this and also there should be a national guideline on how to deal with such incidents," Dr Senthil said.

"Though export accounts for a small part of the egg production in India, a ban affects the sentiment. There is also an excess production in the country which has pushed the prices down," said K G Anand, general manager of Venkateswara Hatcheries, a major exporter of eggs.

Any setback to exports hits egg prices in the domestic market. "Egg prices have fallen from Rs3.30 to 3.10 apiece at a time when consumption is rising to a peak. Egg consumption increases during winter in India and abroad," said Dr P Selvaraj, chairman of Namakkal Egg Co-ordination Committee.

Farmers now get prices below the cost of production which is around 3.10 per egg. To stabilise the prices, the poultry industry in Namakkal is planning to cull birds for a longer period.

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## Dairy product prices to rise globally

Business Standard Reporter

Mumbai, 22 December 2012: In a major boost for Indian exporters of dairy products, their prices are likely to go up in the coming quarters, due to reduced supplies from major producing countries.

A recent Rabobank study said dairy products are likely to become costlier by a little over 10 per cent in the current quarter ending December 31. The trend would continue in the next two quarters, to see a further rise of a little over 20 per cent until June 30, 2013.

The government lifted a ban on export of dairy products on November 21. It lifted this on export of milk and cream, whole milk powder, dairy whitener and infant milk foods. It also revised the quota on skimmed milk powder to permit import up to 10,000 tonnes and at a 15 per cent tariff.

A slow recovery in international dairy prices which began in August continued into the final quarter of this year but failed to gain much momentum, according to Rabobank's latest dairy market report. Consumption remains weaker than anticipated and key buyers have accumulated solid forward coverage. Rabobank expects milk production growth in key export regions to continue to fall below the prior levels in the first half of 2013. While current buyer inventories will provide temporary protection from supply shortages, the market will inevitably tighten further if there is even a modest improvement in demand for imports from key buying regions, and this appears highly likely.

Tim Hunt, Rabobank's food and agribusiness research and advisory global dairy strategist, commented: "The fact that the first contraction in milk supply in export regions in two and a half years failed to generate a stronger rise in prices in the international market in Q4 suggests two things — weaker consumption and solid forward coverage of key import buyers. While consumption is likely to continue to grow at a slow pace into 2013, current forward coverage will provide only temporary insulation for buyers from what we anticipate will be a worsening supply-side situation. As such, the fundamentals still point towards a market tightening as we progress into the New Year."

For most European dairy farmers, 2012 has been a difficult year. During the cold and wet summer in Western Europe, cows needed supplementary feeding and, in some cases, shelter. Farm input prices also rose as feed markets reacted to the news of the US drought. Higher year-on-year fertiliser and energy costs further exacerbated the troubles of farmers. This forced up the cost of producing milk, creating year-on-year reduced production in all the main European dairying states in the second half of the year. Rabobank expects European Union milk production to, more or less, track prior year levels through the first half of 2013.

In the US, milk supply growth is expected to lag year-ago levels in the first half of 2013 (-0.9 per cent year-on-year). The collapse of US dairy market premiums to the world market will bring lower milk prices in nearby months, imposing another reduction in profitability. Weaker supply, and some domestic market growth, will leave the US with reduced supply for the world market in the first half of 2013, with most of the reduction likely to come in powders.

Milk production in key export regions is likely to remain below prior year levels through at least the first quarter of 2013. Globally, a weak back-end to the southern hemisphere season is likely to coincide with low production levels through the northern hemisphere winter, as farmers respond to unexciting margins.

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## US-India row over poultry, steel shifts formally to WTO

Amiti Sen, Business Line (The Hindu)

5 March 2013: The US and India are all set to begin their formal fight against each other at the World Trade Organisation over a poultry import ban imposed by New Delhi and penal duties on steel charged by Washington.

The panels for deliberating on the two cases have been now finalised and the hearings will begin soon, a Commerce Department official told Business Line.

The decision of the poultry panel would determine if India can continue to stop import of cheap chicken legs from the US citing the risk of avian influenza or bird flu.

The panel on steel duties, on the other hand, would look at the validity of the penal duties imposed by the US on hot-rolled steel sold by Indian companies on the ground that these were subsidised by the Indian Government.

### *Strengthening arguments*

“Both countries had sought the establishment of dispute settlement panels in the middle of last year, but things got delayed due to disagreements over who would be included in the panels,” the official said.

The countries involved have to approve the panels as they have to be assured of their neutrality.

India has used the last few months “productively” to further strengthen its arguments in both cases and has also sought help of other Ministries and Departments, a Ministry official said.

“The Animal Husbandry Department is working on risk assessment studies on individual products to further strengthen our case for banning poultry from countries affected by bird flu,” the official said.

The US, which is battling for its domestic poultry industry that sees a market worth \$300 million in India, has argued in preliminary discussions with India that its measures are inconsistent with the relevant science, international guidelines and the standards India has set for its own domestic industry.

While the US is currently allowed to export poultry to India, it is not able to ship anything as India’s strict avian influenza regulations increase the risk of import curbs and importers don’t feel confident to place long-term orders.

The Indian poultry industry will be hit badly if the US starts exporting its cheap chicken legs as it would drive down prices drastically.

India is on a firmer wicket on the steel case where it has complained against the countervailing or penal duties, as high as 500 per cent in some cases, imposed by the US on companies such as Essar, Tata, SAIL and Jindal.

These companies have not been able to export hot-rolled steel products to the US for the past few years due to the levy.

“The US argument that the iron ore sourced by Indian steel makers from NMDC is supplied at subsidised rate because it is a public body is completely baseless as ore is sold at the prevailing market prices. We have enough proof to substantiate our case,” the official said.

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## Amul wants protection for dairy farmers

Anand, Business Line (The Hindu)

27 March 2013: Amul, the iconic milk brand of the country's largest dairy co-operative, Gujarat Cooperative Milk Marketing Federation (GCMMF), on Tuesday, urged the Union Commerce Ministry to take care of farmers' interests while negotiating the proposed free trade agreement with the European Union. It urged the Government to have a re-look at the proposed EU-India FTA.

### *Import duty*

Amul strongly opposed for providing any advantage in import duty on certain dairy products. R.S. Sodhi, Managing Director of GCMMF that which markets Amul, has written to the Union Minister of Commerce along these lines recently.

In a statement here, Amul said it is important to note that the EU does not permit import of dairy products from India in the name of SPS (Sanitary and Phyto Sanitary) measures, saying that Indian milch animals are not maintained, according to the EU standards and, hence, the dairy products are not safe for consumption.

Interestingly EU also subsidises its milk farmers by giving various incentives on export of their dairy products which actually make their products cheaper than the cost.

EU wants to export such subsidised dairy products to India, without giving access to the Indian dairy products to its own market which has a large NRI population, he said.

### *GI protection*

The EU demands also reveal that it wants protection of some of the cheeses such as Gouda, Feta and Emmenthal under the Geographical Indication (GI) protection, meaning that Indian cheese producers cannot give such names to their cheese.

At the same time, the EU wants to sell Indian ethnic products such as paneer and lassi in their own market without giving any similar protection to India.

It is also noteworthy that in areas where India is richer, for example in traditional knowledge such as Ayurvedic medicine and genetic resources such as neem, the EU is refusing to take the measures to stop bio-piracy (i.e., protect biological resources by patenting them without paying royalties).

Essentially, Sodhi said, the EU is asking India to give more monopoly protection in the areas (GIs) where it has more intellectual property.

This will cost Indian consumers (who have to pay higher prices) and Indian producers (who will no longer be able to clearly identify their products and so are highly likely to lose sales) who are already in nascent stage of agro food processing industry.

He pointed out that the EU is actually anticipating a huge market opportunity in India once the comprehensive FTA is ratified. India needs to be "extremely cautious" at this approach of the EU to ensure that the country's interests are not hampered.

Sodhi requested the Ministry to take up the matter 'very strongly' against this protection, especially when majority of 80 millions Indian farmers (many of whom are marginal and landless) are very much dependent on milk business by keeping one or two cattle which provide their daily livelihood.

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## WTO's dispute panel to take up India-US poultry row

Nayanima Basu, Business Standard

New Delhi, 12 April 2013: India and the US have finally brought the imbroglio over poultry imports to the doors of the World Trade Organization's (WTO)'s dispute settlement body (DSB), a year after the US filed a complaint accusing India of violating global trading rules.

A consultation process that ended in December 2012 failed to reach a solution. "The US was not satisfied with the consultations. Now, the case has started formally. We are very clear on our position. This is a matter which concerns public health and safety. We are going to retaliate very strongly," a senior commerce department official told Business Standard.

According to WTO norms, after a complaint is filed, consultations are held between the two sides involved. If a settlement is reached, the case is dismissed. However, if consultations fail, both sides are asked to form a panel, after which the case is initiated.

India had imposed a ban on importing chicken legs from countries that had recorded cases of avian influenza. The decision was based on a notification issued by the Department of Animal Husbandry last year. The notification stated the import of poultry products would be restricted from countries that had cases of avian influenza, even if those were under the low-pathogenic category (not serious). However, the notification was country-neutral and didn't mention the US separately.

Till September 2011, the US had recorded low-pathogenic cases.

The notification was termed unscientific by the US; it accused India of violating sanitary and phytosanitary measures. In its complaint, the US said India had imposed a non-tariff barrier on its imports. The Indian poultry industry was apprehensive of the fact that cheaper poultry products from the US might affect its business, as it would be compelled to revise prices, the US said.

Another trade dispute between the two countries, one concerning a solar programme, is yet to be taken up by the DSB, as the consultation process for the dispute has just been concluded. "Now, it is the US that has to decide whether it wants to seek a panel or is satisfied with our explanation," the official said.

Early this year, the US had filed a complaint against India at the WTO, alleging discrimination against American products by India's National Solar Mission. It said under the programme, India was discriminating against US solar equipment manufacturers by offering subsidies to those who procured cells locally.

In March 2012, the US commerce department had imposed countervailing duties of 286 per cent on specific steel rods imported from India, arguing these products were heavily subsidised and, therefore, led to an unfair pricing mechanism. After consultations in this case failed, the issue was taken up by DSB. However, the US has asked for more time to structure its case. India had already informed WTO the US had arbitrarily imposed countervailing duties on its steel products, as the steel manufacturers' lobby in the US wasn't able to compete with India's competitive pricing, the official said.

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## WTO hearing on India-US poultry import dispute this week

Amiti Sen, Business Line (The Hindu)

New Delhi, 21 July 2013: India and the US are set to lock horns on the validity of import restrictions by New Delhi on poultry and poultry items from areas afflicted by the bird flu virus at the first panel hearing at the World Trade Organisation this week.

Senior officials from the Commerce Department and the Animal Husbandry Department, with a supporting team of top advocates, will give a presentation to the WTO Dispute Settlement Panel explaining why restrictions on poultry from areas afflicted with even mild strains of the avian influenza virus were necessary to protect the country from the disease.

The decision of the panel will determine if India can continue restricting import of cheap chicken legs from the US – which poses a serious threat to the domestic poultry industry – citing bird flu fears. “Since this is the first panel hearing, we have to argue our case with conviction, as it would contribute hugely to the panels’ final verdict,” a Commerce Department official told *Business Line*.

The hearing on July 24-25, where both sides will present their case and answer queries, will be followed by a second hearing at the end of the year, after which the panel will give its draft report.

Once the draft report is discussed and argued by both sides, the panel will give its final judgement. The US had disputed India’s decision last year for banning import of poultry and poultry products on unscientific grounds.

It had argued that the ban imposed on countries' reporting outbreaks of low pathogenic notifiable avian influenza had no basis in science and was not supported by the World Organisation for Animal Health.

While there is no ban on import of chicken or poultry products from the US at the moment, there is a high risk of low-pathogen virus getting detected in one of its remote farms that would trigger the ban once again.

Because of the unpredictability of supply, Indian buyers are not willing to source US chicken despite the fact that it is available at less than half the domestic price.

According to estimates by the US poultry industry, including the National Chicken Council, National Turkey Federation and USA Poultry & Egg Export Council, the potential market in India for US poultry products is over \$300 million a year.

India, on the other side, has argued that its restrictions were completely scientific and low pathogen virus also posed a serious risk.

The Animal Husbandry Department has worked on risk assessment studies for individual products to establish how the virus threatens different products at different levels.

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