



POLICY PAPER

IMPORT OF MILK & WHEY POWDERS IN PAKISTAN



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A. INTRODUCTION

Agriculture sector contributes about one fifth in country's GDP and is believed to be the backbone of the rural economy as it provides employment to 42.3% workforce of the country. Livestock is an integral part of the agriculture sector and contributes 58.3% of the agricultural value added, and approximately 11.3% in the national GDP. More than 7.5 million farming families are associated with livestock sector and majority of them are smallholders and landless. This depicts the critical dependence of 40 to 50 million rural people on the livestock sector. Historically, majority of the livestock farming has been fragmented into smallholders smaller herd sizes (1-6 animals). As a result of various dairy development initiatives since 2005, tremendous improvement had been witnessed in dairy farming where commercial and corporate sector in dairy farming has emerged. The country has seen phenomenal growth in investment in dairy farming during last one decade. The emerging commercial scale farmers had positively influenced the whole livestock farming sector in terms of transforming practices, sharing modern knowledge and skills and attracting international service providers. The trend of investment into the dairy farming continued until 2013; since then the growth started declining and has brought the sector at the verge of devastation due to non-enabling environment for the dairy farming.

Among several other factors, import of milk and whey powders in the country at very low percentage of custom duty, has played a vital role in sabotaging the growth of local dairy sector. Low prices of milk powders in international market, in absence of high tariff of custom duties in Pakistan, enabled local dairy processors to import powder and heavily replace it with the fresh milk purchase from the farmers. Furthermore, the increasing trend of selling tea-whiteners and dairy liquid products instead of milk by the processors also substantially contributed in decreasing demand of locally produced fresh milk. On top of this, influx of powder also triggered its massive consumption in informal/unorganized loose milk segment where quality parameters have no existence at all. This whole situation on one hand damaged dairy farmers while on the other hand it adversely impacted the consumers being supplied with white liquids in the name of milk. Seeing unviability of milk production, dairy farmers at rural level started panic sale of their milking animals leading towards decrease in number of milk producing animals, as witnessed by Punjab Livestock & Dairy Development Department. This situation is quite alarming as it is likely to impact the overall socio-economic balance.

B. MILK POWDER AND WHEY POWDER IMPORTS

Despite of having one of the largest animal population-base and huge local production of milk, the import of powders indicates manipulation in the value chain resulting in net economic loss both for producers and consumers. The use of SMP&WP in the dairy processing industry, dairy related products, biscuits, sweet making, confectionary industry and tea whitening segment has deprived the local farmers from getting right price of the milk and eventually triggering the discouraging wave into the developing dairy farming sector. On top of this, unregulated cheap powders have deeply penetrated in loose milk segment that is neither organized nor regulated with any quality checks leading to severe issues of food safety and consumer health.



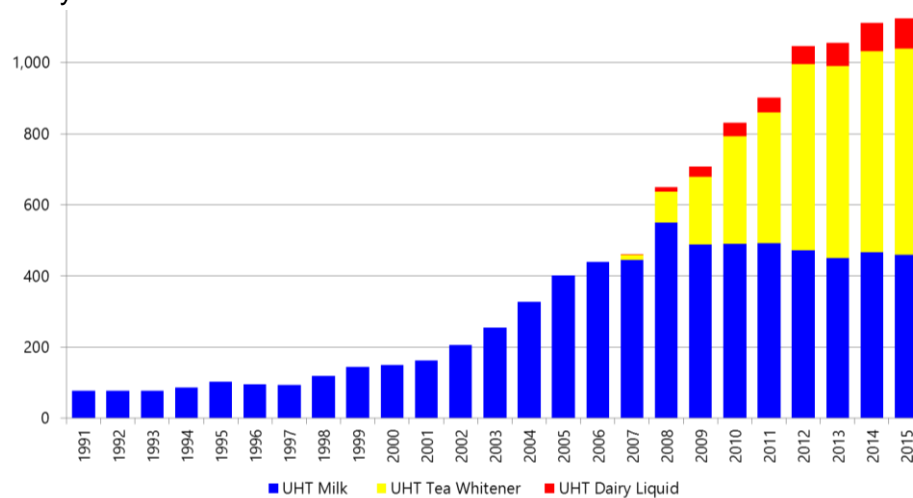
1. Import of SMP and WP

According to the United Nations COMTRADE database, import of milk and whey powders in Pakistan during last few years is given below:

Year	Skimmed Milk Powder		Whey Powder	
	Quantity	Value	Quantity	Value
2011	27,706 Tons	\$ 89.1 Million	27,540 Tons	\$ 18.8 Million
2012	30,412 Tons	\$ 87.9 Million	20,086 Tons	\$ 14.5 Million
2013	18,888 Tons	\$ 62.2 Million	18,474 Tons	\$ 15.61 Million
2014	30,441 Tons	\$ 108.6 Million	21,681 Tons	\$ 21.0 Million
2015	44,226 Tons	\$ 167.3 Million	26,954 Tons	\$ 25.7 Million

1.1. Changing Dynamics of Dairy Industry:

From 2007 onwards there has been a shift in focus of Pakistani dairy processors from selling milk to selling recipe products - made out of SMP&WP and Vegetable fat etc. These products are generally called Tea Whiteners and Dairy Liquids. According to estimation by dairy industry experts, in 2015, the share of recipe products (other than milk) in liter-age term has gone up to 59% in total UHT sales while plain white milk is only 40%. Since these recipe products are made using SMP&WP and vegetable oils; for dairy processor the cost of production of these products is far below the raw milk prices, which ultimately deprive dairy farmers of a better price for their raw milk. The below graph represents the historical growth in UHT sales (million liters annually) and depicts that how the share of other than milk products have substantially increased.

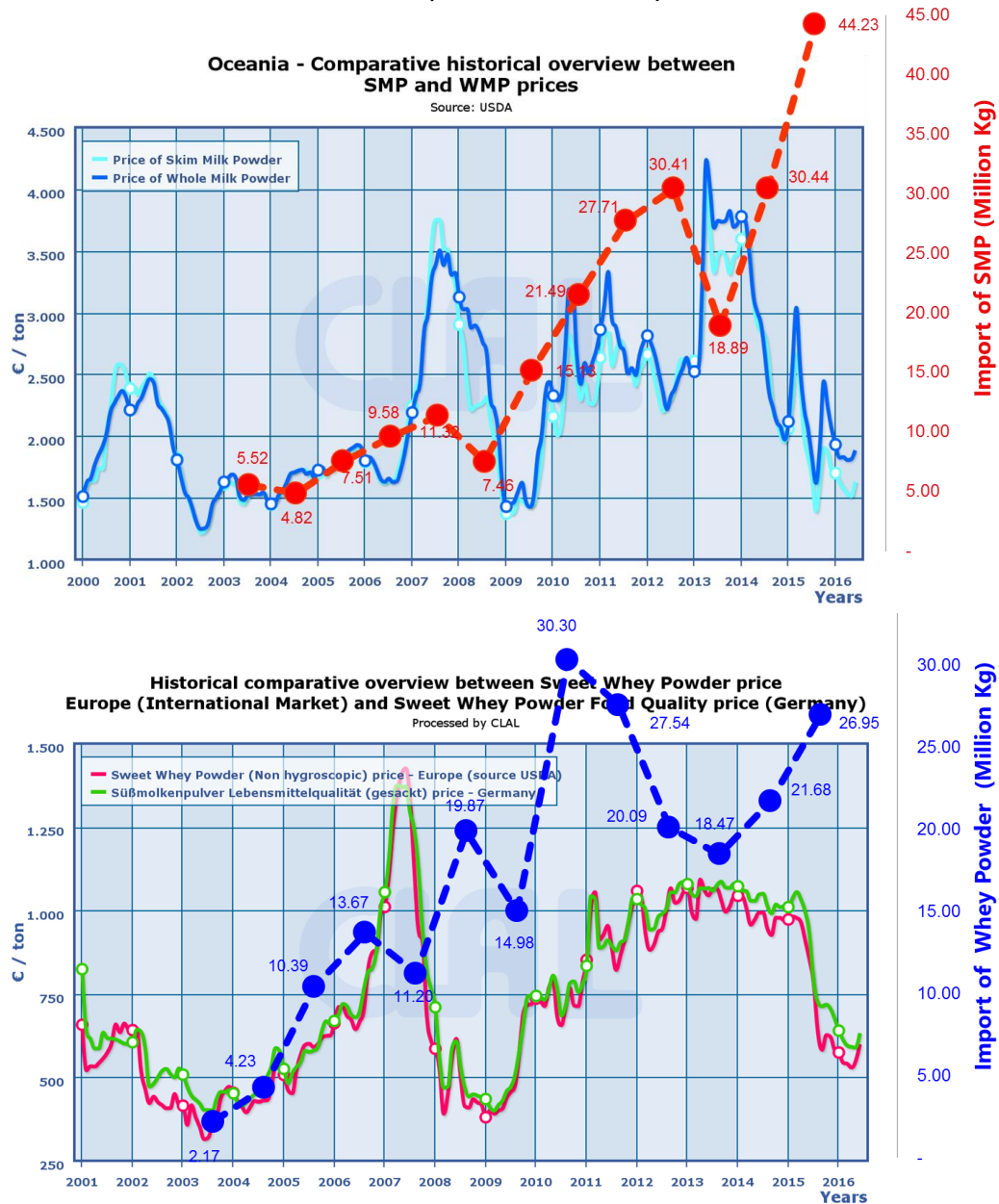


1.2. Powder Import Correlation with International Prices

It is observed that powder imports in Pakistan has a clear link with price in international market, i.e. when prices are low in international market, the import increases substantially and vice versa. For example when price was low at 2300 Euro



per Ton in 2012, about 30 Million Kgs of SMP was imported in Pakistan while in 2013 when price went up to 4200 Euro Per Ton, the import of SMP decreased to 18.8 million Kgs. In 2014, the price again decreased to 2000 Euro per Ton, and the SMP import jumped to 30.4 million Kgs and in 2015 when price was lowest at 1600 Euro per Ton, the SMP import increased to 44.2 Million Kgs. The below chart further clarifies the direct correlation of import volumes and prices in int'l market.



2. Impact of Powder Import

In last few years import of SMP has increased drastically and some of the local milk sellers have started to fabricate the milk using SMP&WP, fertilizers and other prohibitive ingredients. Confectionary and sweat makers have shifted to cheaper and low quality SMP&WP replacing local raw milk. The fluctuating prices of milk powders in international market coupled with subsidies and other factors and complemented with low percentage of



import duty (20%) results into dumping of these powders in Pakistan. As a consequence, it has been witnessed that:

- Farm gate milk price has seen very less increase as compared to consumer milk prices such as UHT milk. Small farmers have been adversely affected with increasing cost of production and little to no increase in milk selling price. Therefore a negative wave of discouragement leading towards panic sale of animals was observed. This will lead to milk deficiency in the medium to long term.
- Investment in dairy farming has considerably decreased. Many commercial level farms were closed down during 2013-16 period. Increasing trend in corporate/commercial farming during 2008-2013 was also sabotaged.
- This is likely to make Pakistan milk deficit and promoting manipulation in dairy supply chain whereby increasing rural unemployment and risking food security particularly comprising the kids' nutrition who are already malnourished.

C. RECOMMENDATIONS & WAY FORWARD

The farming communities and the stakeholders have been raising their voice to highlight this situation and urging the government to take necessary steps by imposing 100% custom duty on import of milk and whey powders in order to protect local dairy farmers. Unfortunately, this genuine demand by the farmers has long been ignored by the government. On high demands, the government finally imposed an additional 25% regulatory duty on the imports of powder milk during last budget (2016-17) thereby elevating overall duty level from 20% to 45%. However, at the same time, Govt converted dairy sector tax status from zero-rating to exempt category, leading to increase in cost of production for milk and milk products. Since, this impact of increased cost could not be passed on to the consumers, hence is hitting backward to the farmers.

It is recommended that:

- 100% custom duty is immediately imposed on import of whey & milk powders as slight increase in duty is insufficient to control damages and revive sinking dairy sector. It is worth-mentioning that India has protected its dairy farmers by imposing 65% duty while Turkey has revamped its dairy sector by imposing 180% duty.
- Sales tax status for dairy sector is immediately brought back to zero-rating instead of exempt as this has substantially increased cost.
- Focus on public awareness on differentiating between genuine milk products and non-dairy products like tea-whiteners, dairy liquids etc.
- Regulating loose milk with serious quality and food safety checks in order to ensure public health.

D. REFERENCES

United Nations Comtrade | International Trade Statistics | Duty Calculator | CLAL Italy | Pakistan Dairy Association | Corporate Dairy Farmers Association | Market Sources