A PRE-BUDGET MEMORANDUM
FOR THE
CONSIDERATION
OF THE UNION GOVT.

FINANCIAL YEAR
2011-2012

Presented by
Indian Dairy Association
Sector-IV, R.K.Puram, New Delhi-110022

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SECTION — I
INDIAN DAIRY INDUSTRY — A PROFILE

1.1. Dairying in India is an integral part of the total farming system. Symbiotic relationship exists between agriculture and dairy farming. The agricultural by-products provide feed and fodder for the cattle, whereas cattle provide necessary draught power for various agricultural operations. Dairying in India is unique in more than one respect. It ranks first with its 185 million cattle and 95 million buffaloes accounting for about 51 percent of Asia and about 19 percent of world bovine population. We maintain 57 percent of the world's buffalo population. According to estimates of the Central Statistical Organisation (CSO), the value of output from the livestock at current prices was about Rs. 173350 crores in 2005-06. Milk accounted for 68 per cent of this output. It was higher than paddy (Rs. 70462 crores) and wheat (Rs. 48052 crores). In terms of value of output, milk is now the single largest agriculture commodity in India.

I.2. Dairying contributes close to the third of gross income of rural households and in the case of those without land, nearly half of their gross income. An estimated 70 million rural households, of which about three-fourth are landless, marginal or small farmers are engaged in milk production. The distribution of rural income, as reflected in the gini coefficient (the measure of inequality) is very low for the dairy sector in India, indicating that the ownership and the income is more evenly distributed and the progress in this sector will result in a more balanced development of rural economy.

I.3. Milk production has shown rapid growth of 4 to 5 per cent per annum during the last 25 years, now reaching a level of about 116 million tonnes (2010 Estimate). It has to be realised that unless milk group maintains a growth of five per cent, it would not be possible for the livestock sector to achieve the target growth of 6 to 7 per cent and unless livestock sector maintains growth of six per cent, the agriculture shall not have the growth of four per cent, since livestock accounts for 28-30 per cent of GDP of agriculture.

I.4. India has already entered in the international market in milk products, exporting 70,147 MT of milk products during 2008-09. Under the WTO regime, Indian exports will have to adhere to stringent quality and food safety standards. The dairy industry will have to upgrade itself to the international level. The international dairy industry is, however, highly protected through domestic support and export subsidies and does not provide an easy market access.

I.5. Indian Dairy sector, however, could not make significant inroads in the global market due to several impediments. The quality of milk is a matter of concern but it is now being addressed by all concerned and most of the Dairy units are seriously looking into the improvement of sanitary and hygienic conditions by adopting ISO certification as well as HACCP programmes. The Sanitary and Phyto-Sanitary (SPS) measures are becoming mandatory for export and serious efforts have to be made to achieve the international standards of quality.

I.6. Milk is, an essential nutritional requirements of human being. The children largely depend on milk for nutrition. Higher milk production, therefore, will also increase the health status of the farmers and people at large. Due to several inherent reasons, the cost of milk production is high. Because of high cost, the milk and milk products are not affordable to poor strata of the society. Milk is a perishable commodity. Hence, its conversion to products, such as, milk powder, butter and cheese, etc. is necessary. Considering these factors, it is reasonable that at par with agriculture produce, the milk products be also exempted from any excise duty, sales tax and similar other taxes. This gesture of the government would go a long way in accelerating the growth of the Indian dairy industry.

I.7. In recent times India has made considerable progress in dairy equipment manufacture as well . It is, however ,still confined to certain categories such as road tankers, storage tanks, Bulk milk coolers, small homogenizes, milk pasteurizers, milk vending machine and liquid milk packaging system etc. Equipment for packaging of butter, cheese, paneer and other traditional products needs attention with an eye on the industry's need for small and large-scale operations.

I.8. The conversion of excess milk to milk-products is a necessity. One of the reasons of higher cost of milk and milk products is the cost of packaging. To safeguard the quality and safety for human consumption, packaging of milk and milk product is necessary. The milk product manufacturing, therefore, should be construed as 'processing milk for preservation' and it should be exempted from all the taxes and duties like excise, central sales tax and octroi etc.

I.9. To enhance milk production as well as to address the issues referred in the foregoing paras, there is an imperative need of policy support from the government on the following core areas:

i) Enhance milk production and milch animal productivity
ii) Clean and quality milk production, processing and packaging
iii) Boost the exports of milk and milk products

SECTION II

DIRECT TAXES

2.1. INCOME TAX

In case of dairy cooperative societies, as per the existing income tax provision, the income of village level societies is exempt under section 80P (ii) (b) of the income tax act, but District level Milk Producers Cooperative Unions and State level Cooperative Dairy Federation are not exempt.

The dairy development programme in India is working on three tier cooperative structure- state level federation, district level milk union and village level primary societies. The district level cooperative societies are engaged in procuring and processing of milk supplied by the primary societies, while the state level federations are engaged in marketing of the milk collected by primary and district level societies. These bodies are not exempt from the payment of income tax. In the past IDA has taken up with the Government of India that the district and the state level dairy cooperative societies should also be exempt under income tax act.

2.2. VAT (VALUE ADDED TAX)

At present VAT is charged at 5 per cent on skim milk powder and chakka (basic raw material for shrikhand) and at 12.5 per cent on milk products like table butter, cream etc. It has been suggested that all milk products should be charged at a uniform rate of 5 per cent.

2.3. GST

It is widely expected that GST will replace VAT with effect from 1st April, 2011. GST is an amalgam of VAT, excise duty and some other state levies like Octroi, entry tax, mandi fee and cess etc. The lowest rate of GST, as contained in the draft bill, is 8%. Union Government has worked out this percentage factoring all the aforesaid levies. Since conventional dairy products do not attract any excise duty, the effective rate of GST, if introduced in the way it is being publicized currently, will be much higher than all the current levies taken together.

It is recommended that Government should create a special class of industries with a lower rate of GST say about 4% and this should be applicable to all such products which are currently not subjected to excise duty.

2.4. MANDI TAX, PURCHASE TAX ETC. ON MILK

Some states have imposed Mandi Tax and Purchase Tax on milk and milk products. The basic principle of introducing VAT was to absorb all such taxes in VAT and reduce unnecessary taxation. Continuation or reimposition of these taxes negates the very purpose of VAT.

Government of India should prevail upon all states to remove all taxes other than VAT on milk and milk products to mitigate the hardships faced by dairy industry and allow it to compete with global players.

SECTION — III
CUSTOM AND EXCISE DUTY

3.1 Exemption of Excise Duty on Dairy Equipments and Machinery

India is the top producer of milk in the world. From 17 million tonnes of milk in 1950 all the way to 116 million tonnes now the Indian Dairy Industry sure has come a long way. Today India is the second largest cow milk producer behind the US and largest producer of buffalo milk followed by Pakistan.

Inspite of largest milk producer in the world India has a share of only 2% in World Dairy Export due to relatively low quality and hygiene standards of our milk and milk products. Cold chain has become an integral part of the supply chain of perishable food items to provide consumer with safe and wholesome products. Milk and Milk Products being most perishable commodity needs to be handled hygienically, processed properly and transported maintaining the cold chain. Therefore, it is very essential to boost clean milk production and hygienic milk handling by adopting milking by machines, use of Aluminum or Stainless Steel (SS) milk cans, use of bulk milk coolers etc. However, due to excise, sales tax, octroi etc. the prices of these equipment become exorbitant.

The Indian Dairy Association in its Pre-Budget Memorandum for the year 2009-2010 had recommended to the Government of India to exempt Central Excise Duty on essential dairy equipments and machinery listed there in to facilitate clean milk production, processing and packaging in order to provide safe and whole some milk and milk products to the consumers. Although the Finance Minister in his speech during debate on budget for the fiscal year 2008-09 has announced that "Dairy Machinery are completely exempted from Central Excise Duty" , the notification to this effect has not been issued so far.

Indian Dairy Association, therefore, reiterates its recommendation for total exemption of Central Excise Duty on the following dairy equipments and machinery required essentially in clean milk production and processing /packaging of milk and milk products as well.

List of Machinery required for Dairy Industry which should be exempt from Central Excise Duty

		Chapter	Current Rate of Excise Duty (Basic Duty)
1.0	**Milk Procurement & Reception**		
1.1	Bulk Milk Cooler (Village level milk chilling plant)	84.18	16%

1.2	Milk chiller	84.18	16%
1.3	Road milk tanker	87.05	16%
1.4	Milk tanker weigh scale	84.23	16%
1.5	Milk weigh scale and bowl	84.23	16%
1.6	Milk cans	73.09	16%
1.7	Milk dump tank	73.09	16%
2.0	**Milk Processing & Pasteurization**		
2.1	Milk pasteurizer	84.19	16%
2.2	Milk clarifier	84.21	16%
2.3	Milk transfer pump	84.13	16%
2.4	Cream separator	84.21	16%
2.5	Cream pasteurizer	84.19	16%
2.6	Cream storage tank	73.09	16%
2.7	CIP System	84.51/84.19	16%
2.8	Milk Silo	73.09	16%
2.9	Pasteurized Milk Storage Tanks	84.34	16%
2.10	Pasteurized Milk Transfer Pump	84.13	16%
3.0	**Milk Packaging & Distribution**		
3.1	Milk packing-pouch form, fill & seal machine	84.22	16%
3.2	Milk Vending Machine	84.76	16%
3.3	Milk Silo with Agitator	84.79	16%
3.4	Bottling plant-bottle washer eraze Washer Tetra Pack	84.72	16%
4.0	**Ghee Making**		
4.1.1	Cream Transfer Pump	84.73	16%
4.1.2	Ghee Kettle	84.79	16%
4.1.3	Ghee Settling Tank	84.22	16%
4.1.4	Ghee packaging machine	84.22	16%
4.1.5	Ghee clarifier	84.21	16%
4.1.6	Cream tank without agitator	73.09	16%
4.2	**Butter Making**		
4.2.1	Butter churn without agitator	73.09	16%
4.2.2	Butter packing machine	84.22	16%
4.2.3	Positive Displacement Pump	84.13	16%
4.3	**Lactose Making**		
4.3.1	Separator	84.21	16%
4.3.2	Evaporator	84.19	16%

4.3.3	Dryer	84.19	16%
4.3.4	Packing Machine	84.22	16%
4.4	**Yoghurt/Curd Making**		
4.4.1	Standardization Tank	73.09	16%
4.4.2	Transfer Pump	84.13	16%
4.4.3	Culture Tank	73.09	16%
4.4.4	Transfer Pump	84.13	16%
4.4.5	Packaging Machine	84.22	16%
4.5	**Milk Powder Making**		
4.5.1	Multiple Effect Evaporator	84.19	16%
4.5.2	Spray Dryer	84.19	16%
4.5.3	Powder Conveying System	84.79	16%
4.5.4	Powder Milk Silo	73.09	16%
4.5.5	Fluid Bed Dryer	84.19	16%
4.5.6	High Pressure Pump	84.13	16%
4.5.7	Powder Packing Machine	84.22	16%
4.6	**Milk Collection/Transportation**		
4.6.1	Aluminium Milk can with lid in 5L to 50L capacities	76121010	16%
4.6.2	Aluminium milk can spares	76161000	16%
4.6.3	Stainless Steel Milk cans with lid in 5L to 50L capacities	73102110	16%
4.6.4	S.S. Milk can spares	73170019	16%
4.6.5	Stainless Steel milk testing equipments for village level societies	73170019	16%

3.2 Reduction in duty on packaging material and packaging machinery

Almost 46% of the milk produced in India is consumed as liquid milk. However, only 15% of the milk is processed and packed. This leaves major portion of liquid milk open for adulteration, unhygienic handling and distribution. It is, therefore, essential that only the pasteurised and packed or machine vended milk should be distributed. However, the huge costs of pouch filling machines, milk vending machines and polyethylene films prevent it. The adulterated milk poses major health hazards to the public. The cost of the packing and vending machines and packing materials can be reduced by exempting them from Central Excise Duty and CST/VAT.

In addition, it is recommended to exempt Pouch Filling Machines, Bulk Milk Vending, Aseptic Packing Machines, Polyethylene Film from Central Excise/CST/VAT.

3.3 Excise Duty on Refrigerated Vans

One of the fiscal incentives for dairy industry at par with Food Processing Sector announced by the Finance Minister was reduction in Custom Duty on Refrigerated Vans used in transportation of Milk and Milk Products from 16 per cent to 8 per cent.

Government is requested to notify the same immediately which is essentially required by the dairy industry in maintaining the cold chain.

The milk film used for packaging of milk should be given exemption from Excise duty.

The central sales tax presently charged at 2 per cent on dairy products should be reduced to 0 per cent.

3.4 Custom Duty on Dairy Processing Machinery and their parts

Similarly, reduction in custom duty on Dairy Processing Machinery and their parts from 7.5 per cent to 5 per cent at par with Food Processing Sector a part of fiscal incentives announced by the Finance Minister needs to be notified immediately.

SECTION — IV
EXPORT PROMOTION OF MILK PRODUCTS

4. EXPORT PROMOTION OF MILK PRODUCTS

The export of agriculture commodities including dairy products have traditionally been receiving export incentives. This include Vishisht Krishi Gram Udyog Yojana under which an incentive of 5 per cent of FOB value of export are provided. In addition small incentive under Focus Market Scheme and neutralization of taxes under DEPB was also available. The export incentives on dairy products were withdrawn in April 2008 to discourage exports keeping in view rising inflation but restored in December 2008, on recommendation made by IDA in the wake of factual position of accumulated stock of SMP. But again, on account of unexpected drought conditions in most part of the country last year, resulting in the low milk production, the Government has again withdrawn the export incentive on dairy products to discourage their export. This year, we had very good monsoon resulting in the increased milk collection. In the last few months, there has been surplus milk in different parts of the country.

It is therefore, suggested that the Government should restore the export incentive under DEPB scheme with immediate effect. This will enable the export of substantiated quantity of SMP lying with the dairy plants in the country.

SECTION — V

TERM LOAN AT CONCESSIONAL RATES

5.1. Establishment of a dairy plant capable to produce export oriented dairy products like SMP, Whole Milk Powder, Casein requires huge capital. A plant of this type with handling capacity of 5 lakh litres of milk a day would require an investment of about Rs.70 crore. The prevailing rate of interest charged by commercial bank and finance corporation is around 12 per cent per annum which makes the operation unviable.

5.2. The Agriculture sector is getting term loan at a concessional rate of 4 per cent for investment in processing and value addition. Dairy sector has large potential to generate rural employment and value addition. It is, therefore, recommended that an infrastructural Term Loan should be established for dairy plants and provided term loan at a concessional rate of 4 percent at par with crop sector.

SECTION VI

6.1 TREATING DAIRY SECTOR ELIGIBLE FOR THE BENEFITS PROVIDED TO FOOD PROCESSING INDUSTRY

Replying to the debate on budget 2009-10, the Finance Minister announced that the benefit of food processing industry would be extended to dairy and meat products also.

He said: "Sub-section (11A) of section 80-1B of the Income Tax Act provides for tax holiday in respect of profits derived from the business of processing, preservation and packaging of fruits and vegetables. Representations have been received requesting that this tax holiday be extended to all food processing units, particularly, those based on perishable items like milk, poultry and meat etc. With a view to preserving perishable food items like milk poultry and meat, AI propose to amend sub-section (11A) of section 8CMB to all provide tax holiday in respect of the business of processing, preserving and packaging of meat and meat products and poultry, marine and dairy products."

The Union Budget 2009-10 seems to have more specific sops for the food industry as compared to some other sectors of the economy. Consequently, the dairy industry would get the following Fiscal Incentives available to Food Processing Sector:

Excise Duty Rates

- Excise duty on condensed milk, ice cream, preparations of meat, fish and poultry is abolished, which was 16 per cent earlier.
- Excise duty reduced from 8 per cent to zero per cent on all kinds of food mixes, including instant food mixes.
- Excise duty on aerated drinks has been reduced from 24 per cent to 16 per cent.
- Excise duty on meat, fish and poultry products reduced from 16 per cent to 8 per cent.
- Excise duty on Reefer Vans (refrigerated motor vehicles) reduced from 16 per cent to 8 per cent.

Custom Duty Rates

- Custom duty on food processing machinery and their parts is being reduced from, 7.5 per cent to 5 per cent. Dairy machineries are completely exempted from Central Excise Duty.
- Custom Duty on packaging machine to be reduced from 15 per cent to 5 per cent.

- Customs duty on refrigerated vans reduced from 20 per cent to 10 per cent.

Income Tax relief

- Income tax rebate is allowed - 100 per cent of profits for 5 years and 25 per cent of profits for the next 5 years, for new industries to process, preserve and package.

While the notification to provide the above concessions has been issued in respect of meat and poultry products no such notification has been issued in case of dairy products, as a result of which the sector has been denied the benefit announced by the Finance Minister. This is probably because Ministry of Food Processing does not handle dairy development while the department of animal husbandry is not very serious to see that these benefits are made available to dairy.

SUGGESTIONS

1. Notification should be issued by Ministry of Food Processing clarifying that dairying is an item covered under the Food Processing and all concession and relief announced by the Finance Minister in June 2009 would be available to dairying industry.

2. A similar notification should also be issued by Ministry of Finance, GOI, clarifying that all concessions available to the Food Processing Industry would be made available to dairy production and processing.

SECTION VII

7.1 Reduction of VAT & Central Excise on use of Molasses in Cattlefeed

Over the last one year, there has been a severe increase in price of Molasses which is in an important ingredient in manufacturing of cattlefeed. This has put tremendous cost burden on the milk producers as evident from the figures below:

Main Ingredient of cattle feed	2005-06	2006-07	2007 08	2008 09	July 2009	% Increase 08 v/s 09	% Increase 06 v/s 09
	Price Rs/MT	Price Rs/MT	Price Rs/MT	Price Rs/MT	Price Rs/MT		
Molasses	3546	3685	4600	6288	8602	37%	143%

Source: Market data

India's sugar production is estimated at 260 lakh MT. Hence, the molasses production in the country is estimated at 115 lakh MT. It is estimated that at all India level, dairy cooperatives are producing more than 21 lakh MT of cattle feed and thus consuming approx 2.5 lakh MT of molasses, approx 2% of the total production.

Balanced cattle feed helps to reduce dependence on green and dry fodder. In the situation where droughts are frequent, balanced cattle feed becomes an important source of energy to milch animals.

Since, implementation of VAT from 1st April 2006, Molasses has been classified in 12.5% VAT category which is on higher side.

Molasses is produced in sugar mills and most of sugar mills in India are owned by farmer cooperatives. Just because they have organized themselves, their product (Molasses), to be used as ingredient in cattle feed, is subjected to excise and VAT, which is an anomaly, when other agricultural products are tax-free.

Further, Excise on sugar is Rs 97.13 per quintal (4% of ex-factory price) as compared to Molasses which is approx 11% of its ex-factory price.

Thus, total tax burden on Molasses is around 30% of its basic cost. If tax (excise and VAT) is removed from molasses being used for cattle feed, molasses would be cheaper by around 20%. This would lead to better health of animal, increase in milk production and ultimately reduction in milk prices.

It is therefore recommended that:

a. **The Government should fix a special quota for supply of molasses from sugar mills to co-operative cattlefeed plants**.

b. **The current Excise duty on molasses is Rs 750 per MT + 3% cess. This should be waived on Molasses for usage in manufacturing of cattle-feed.**

c. **The VAT on molasses should be removed completely for usage in cattle feed.**

SECTION — VIII

8.1 Export Duty on export of oil-meals, de-oiled cake, cattlefeed etc.

As it is known, over the last one year, there has been a severe increase in price of several cattle feed inputs like de-oiled cake, molasses, jowar etc. which has put tremendous cost burden on the milk producers. Details of input cost of these ingredients for cattle feed during last 4 years is given in the table below:

Main Ingredients of cattle feed	%age utilization in cattle feed	2005-06 Price Rs/MT T	2006-07 Price Rs/MT T	2007 08 Price Rs/MT T	2008 09 Price Rs/MT T	July 2009 Price Rs/MT T	% increase 08 v/s 09	% increase 06 v/s 09
De-oiled Rice Bran	25-35%	3483	4368	4750	5294	6384	21%	83%
Rapeseed extraction	10-12%	5141	5322	9050	9467	12093	28%	135%
Rice Polish Fine	10-12%	5612	7250	8650	8370	9384	12%	67%
Jowar	10-12%	5918	7364	7700	8110	9635	19%	63%
Molasses	10-12%	3546	3685	4600	6288	8602	37%	143%

The average price of cattlefeed has increased from Rs 6600 per MT April 2008 to Rs 8600 per MT in July 2009, an increase of 30%. The cost of major inputs in manufacturing of cattlefeed viz. De-oiled Rice bran, Rice Polish Fine, Jowar, Maize, Molasses etc. have increased by over 25-30% over the last one year.

It is irrational to note that India is exporting "NUTRITION" in large quantity in form of de-oiled cake which is rich in crude protein. The below data reveals the export of oil-meals out of India:

Year	Qty in Lakh MT	Value in Rs Crore
2004-05	36	3177
2005-06	60	4826
2006-07	66	5502
2007-08	67	7953
2008-09	70	10000

(Source : DGCIS)

These Oilmeals are extractions of sunflower, cottonseed, soyabean, groundnut, rice bran and rapeseed which are important ingredients in manufacturing of cattlefeed and even poultryfeed. They have very high levels of total digestible nutrients (about 60-70%) and the milch cattle can convert the crude protein roughage into high value nutritious food like milk. It is unfortunate that India chooses to export such valuable ingredient (and import other forms of edible protein like pulses etc.)

As it can be seen in above table, the export of Oilmeals has increased considerably in last two years out of India which results into increase in its prices (as shown on previous page) which ultimately increases feeding cost to the animal. Further, the escalation in feed cost leads to increase in production cost of milk and contributes to inflation in the consumer prices of milk. Hence, India should discourage export of de-oiled cake which will help in increasing availability of crude protein especially for cattle and will help reducing input cost to the milk farmers which will make milk production more competitive. This will also boost availability of nutrition in the country and will help exports of dairy products at more competitive prices.

It is therefore recommended that Government may impose 25% export duty on Oilmeals, De-oiled cake and cattlefeed which will help to reduce input cost to the milk farmer.