

DYNAMICS OF MILK MARKET AND POLICY ALTERNATIVES IN INDIA: AN EXPLORATORY ANALYSIS

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Abstract

Present growth rate of milk production in India is considered insufficient to meet the growing domestic requirement. Sharp and continuous rise in the price of milk in the recent years is an indication of the mismatch between demand and supply. Allowing export of milk powder and butter with zero export duty may also have affected the domestic buffer stock of skim milk powder and butter used to stabilise milk price. Growth in milk production is constrained by policies that affect the factors of production. Furthermore, there is disconnect between demand signals of milk in terms of its consumer price and the production system due to the oligopolistic market structure for milk market. This structure has led to a linear increase in consumer price while the farm gate price has become more uncertain with increasing variation. We begin by understanding the determinants of the milk supply and demand in India analysing their prices at the aggregate level. Analysis of wholesale Price of SMP, butter, beef and cattle feed reveal that they may not have a long-run relationship as stipulated by theory and hence difficult establish a direct cause-effect relationship between them. Examining the impact of milk price incentive policy in the state of Karnataka we find that farm gate milk price and cattle feed sale have a long-run relationship with that of the milk supply to the dairy cooperative but not significant. Direct intervention by the state government may have actually disrupted the established eco-system of milk market and resulted in delay in milk payment to farmers and forced the dairy cooperative to absorb part of the incentive intended for the dairy farmers. Lastly, we find that animals are yielding less than optimal quantity of milk due to insufficient feeding and poor management. This indicates that there may be scope for enhancing productivity in the short and long run. Hence, emphasis on short-term policies to improve profitability of dairy farmer could bring significant change in the milk production system.