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Milk and Dairy Sector

World Scenario

The annual world trade in milk products (excluding intra-EU) amounts to 33 million tonnes, valued at US\$ 10 billion. Barely 6 to 7% of the world milk production is traded internationally. The bulk of the world dairy trade is in cheese, butter and powders. A growing shift towards cheese is expected in the near future. Two dynamic products with a substantial projected growth in the coming years are yoghurt and dessert.

The international dairy trade is dominated by four players - EU, New Zealand, Australia and USA - which together account for 85% of all exports. New Zealand and Australia export as much as 80 and 50% of their milk production respectively. The Asia-Pacific region has been and will remain a net milk importer in the foreseeable future. It accounts for the bulk of milk powder imports and half of the imports of condensed and evaporated milk. In contrast, most cheese imports go from developing countries to developed countries such as Japan and the United States.

The dairy industry is regulated in most countries through various ways. Imports are commonly restricted, and exports frequently subsidised. High dairy price supports in many countries are put in place to stimulate production to the extent that subsidies for exports are necessitated to maintain domestic dairy programmes.

With substantial and continued investment in building up milk production, India can emerge as a major exporter of dairy products and technologies in the next few decades.

In the **United Kingdom**, all the milk produced by farmers is procured by the cooperatives. Private dairies are required to buy their milk requirement from cooperatives. New Zealand has no private sector dairy plants. As many as 90 per cent of dairies in the erstwhile West Germany and 100 per cent in Denmark, Netherlands and Sweden are in the cooperative sector.

In the **United States**, 70 per cent of the dairy industry is cooperative. Dairy programmes are subject to more Government participation or regulation than most other domestic agricultural industries in the USA. There are also Federal Milk Marketing Orders and movement barriers in the USA for "orderly marketing control, which is associated with stabilising fluid milk prices, providing secure and dependable markets for individual dairy farmers, primarily for the fluid market and improving the balance of market power between farmers and handlers.

In the emerging liberalised global scenario, trade-distorting agricultural policies have been the focus of the GATT multilateral trade negotiations. With the liberalisation of agricultural trade under the new GATT regime, the heavy subsidies prevalent in the dairy sector in the countries of the EU as well as in the USA will have to be brought down in the next few years. The competitive advantages of the Indian dairy industry are then considered to be substantial. With substantial and continued investment in building up milk production, India can emerge as a major exporter of dairy products and technologies in the next few decades.

Indian Scenario

India has one of the largest livestock population in the world. Fifty percent of the buffaloes and twenty percent of the cattle in the world are found in India, most of which are milk cows and buffaloes.

Dairy development in India has been acknowledged the world over as one of modern India's most successful developmental programme. Today, India is the largest milk producing country in the world.

Milk and milk products is rated as one of the most promising sectors which deserves appreciation in a big way. When the world milk production registered a negative growth of 2 percent, India performed much better with 4 percent growth. The total milk production is over 72 million tonnes and the demand for milk is estimated at around 80 million tonnes.

By 2005, the value of Indian dairy produce is expected to be Rs. 1,000,000 million. In the last six years foreign investment in this sector stood at Rs. 3600 million which is about one-fourth of the total investment made in this sector. Manufacture of casein and lactose, largely being imported presently, has good scope. Exports of milk products have been decanalised.

The milk surplus states in India are Uttar Pradesh, Punjab, Haryana, Rajasthan, Gujarat, Maharashtra, Andhra Pradesh, Karnataka and Tamil Nadu. The manufacturing of milk products is concentrated in these milk surplus States.

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The production of milk products i.e. milk products including infant milk food, malted food, condensed milk & cheese stood at 3.07 lakh tonnes in 1999-2000. Production of milk-powder including infant milk-food had risen to 2.25 lakh tons in 1999-2000, whereas that of malted food is at 65000 tons. The trends in production of milk products in India is given in **Annexure 1**.

Cheese and condensed milk production stands at 5000 and 11000 tonnes respectively. Some plants are coming-up for producing lactose, casein and improved cheese varieties.

Livestock Population

India is rich in its livestock wealth. It accounts for nearly 15.8% of the world cattle population, more than half of the world buffalo population. As per FAO production year book 1998, the population of cattle, buffaloes, sheep and goats in the world and in India is given in **Annexure 2**.

As per the 1992 livestock census of Ministry of Agriculture, highest cattle population was reported in Madhya Pradesh (28.68 million nos.) followed by Uttar Pradesh (25.63 million nos.) Bihar (22.15 million nos.) Maharashtra (17.44 million nos.) and West Bengal (17.45 million nos.). According to livestock census the highest population of buffaloes is reported in U.P. (20.08 million nos.) followed by A.P. (9.15 million nos.), M.P. (7.97 million nos.) and Rajasthan (7.74 million nos.).

Production of Milk and Milk Products

The milk production was almost stagnant between 1947 to 1970 with an annual growth rate of merely one percent

which has since registered a vigorous growth of over 4.5% per annum after the year 1970. The production of milk in India has been increasing steadily as shown in **Annexure 3**.

The major milk producing states are UP, Punjab, Rajasthan, M.P, Maharashtra and Gujarat. Number of milk products manufacturing Plants have come up in these states for Processing of milk.

Present Status

The Indian dairy industry achieved substantial growth during the 8th Five Year Plan, achieving an annual output of over 60 million tonnes of milk. This not only places our industry second in the world after the United States, but represents sustained growth in real availability of milk and milk products for our burgeoning population. Most important, dairying has become an important secondary source of income for millions of rural families.

Improved genetic material achieved primarily through cross breeding of cattle and upgrading of the national buffalo herd has played a significant role in increasing the productivity. Gradual extension of improved husbandry practices; increase in consumption of balanced concentrates made possible, in part, through innovations in the field of nutrition; expanded area under fodder; greater access to veterinary care; and advances in the fight against endemic and epidemic cattle diseases have also contributed to increased production and productivity.

About three quarters of the milk produced is consumed at the household level. Of the milk supplied to the market, about 9-11 percent is processed in over 275 dairy plants and

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About 45% of milk production is consumed as fluid milk. About 35% is processed into butter or ghee; about 7% is processed into Paneer (cottage cheese) and other cheeses, about 4% is converted into milk powder; and the balance is used for other products such as Dahi (yoghurt) and sweet meats.

83 milk product factories operated by cooperative, private dairy processors, and government milk schemes in the organized sector. Milk channeled through Operation Flood cooperatives is generally processed in dairy plants located in the rural areas and then transported into cities and towns. Operation Flood Milk productions account for about 10% of total milk production or 40% of the marketed output. The balance (about 90% of total production) is handled by the private traders and processors.

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Industry Segments:

1. Cheese

The organised cheese market including its variants like processed cheese, cheese spreads, mozzarella, flavoured and spiced cheese, is placed at around Rs 3 bn. Processed cheese at 50% of the overall market is Rs. 1.5 bn strong. The next most popular variant is cheese spread claiming a share of around 30% of the total cheese market. The market is primarily an urban phenomenon and is known to be growing at around 15%. The market for cheese cubes slices and tins is growing. The flavoured cheese segment has been declining.

In India, Gujarat Cooperative Milk Marketing Federation (GCMMF) with the Amul brand continues to be the main

operator in the branded cheese market in India with about 60% market share in the branded market. It pioneered the market for processed, branded cheese. What GCMF did was to develop the technology to make cheese from buffalo milk. World over it is made from cow milk. **Annexure 4** gives the market size of cheese in India.

Other cheese manufacturers are : Britannia Industries, Dynamix Dairy Industries (DDI), Hiranandani, ETA and Metro.

2. Ice Cream

The ice cream market in India is estimated to have reached the level of Rs. 10 bn per annum, of which the organised sector is about Rs. 6 bn. The unorganised market has been shrinking. The per capita ice cream consumption in the country is extremely low at 250 ml per year compared with that of the US, which is about 22 litre.

The organised market for ice creams of about 60 mn litres, has been growing at around 15% per annum. The ice cream industry has, in a short span of time, undergone a structural transformation. **Annexure 5 (a)** and **5 (b)** shows the growth of market size of Ice Cream in India and the market structure of this segment respectively.

3. Chocolates

The Chocolates market is estimated at 35,000 tonnes valued at approximately Rs. 8.0 bn. The chocolate counter market is worth nearly Rs. 2.5 to 3.5 bn and the rest is made up of chocolate bars. Chocolates in fact make up less than a fourth of the sweet-tooth products including sugar boiled confectionery mints and chewing gums. Sugar confectionery is by far the largest segment with a share

Market growth rates indicate that the cheese market in India is growing steadily.

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exceeding 60%. **Annexure 6 (a)** and **6 (b)** gives the market size and structure of chocolate market in India.

4. Dairy Whiteners

The organised dairy industry processes an estimated 15% of the total milk output in India. The industry has maintained a high growth profile, especially in the wake of the Operation Flood, colloquially also termed as White Revolution, initiated in early 1980s. Today India produces over 80 mn tonnes of milk annually. In terms of value, the total milk economy is estimated at Rs. 1200 bn.

The market for dairy whiteners (commercially known as beverage milk powders and condensed milk) and creamers is around Rs. 2,750 mn. The growth of market size of dairy whiteners in the last 10 years is given in **Annexure 7 (a)** and **7 (b)**. Apart from MNCs like Nestle and companies like Britannia, the Indian enterprises have also made perceptible progress. Names like Amul, Sapan, Vijaya, Mohan, Parag and several others have been seen in the marketplace with their whiteners.

Aseptically packed creamer in miniportions is widely used in the west, but has yet to enter the Indian market. Aseptically packed creamer involves techniques to impart a longer shelf life to the product. It is packed in small cups ready to be poured into a cup of tea or coffee. Creamer is fresh milk with increased fat content (upto 12%) and is aseptically packed after undergoing Ultra Heat Treatment (UHT) at 140°C. Its introduction will affect the existing whitener market as a natural milk product with a longer shelf life.

The potential for exports; especially to neighbouring countries and the countries in the Middle east, the Gulf and Africa, also exist and could be exploited.

5. Baby Foods

Conventionally, foods (solids, semi-solids and liquids) administered to babies of upto two years of age are classified as baby foods. In some cases, however, baby foods are continued to be given to children older than of two years depending on socio-economic, health-related and geo-societal conventions.

The concept of packaged baby foods is relatively recent in India. The traditional homemade foods have dominated this sector until the induction of packaged foods mostly from multinational companies. Baby foods have assumed special significance in the recent years because of greater awareness of hygiene and health and constraints on time of busy mothers. A reliable, healthy, convenient and ready-to-use baby food is the requirement of the day. India is catching up with the rest of the developed world in this area rater fast. A comparison of growth rates over the last 10 years shows that these has been a steady rise of market size. **Annexure 8 (a)** and **8 (b)** gives the market size and the market structure of baby foods in India.

The packaged food products for babies are broadly classified into a) cereal-based such as Nestum; b) cereal-based with milk such as Farex, Cerelax, c) milk-based such as Lactogen, d) ready-to-feed liquids, and e) rusks and biscuits. Infant milk foods constitute the most significant segment.

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6. Biscuits and Bakery Products

The Indian bakery industry is dominated by the small-scale sector with an estimated 50,000 small and medium-size producers, besides the 15 units in the organised sector. Apart from the nature of the industry which gravitates to the markets and caters to the local tastes, the industry is widely dispersed.

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The two major bakery products, biscuits and bread, account for 82% of all bakery production. The unorganised sector accounts for about two-thirds of the total biscuits production estimated at 1.3 mn tonnes. It also accounts for 80% of the total bread production which is estimated at 1.5 mn tonnes and around 90% of the other bakery products estimated at 0.6 mn tonnes. The last includes pastries, cakes, buns, rusks and others. **Annexure 9 (a)** and **9 (b)** gives the growth of market size of biscuits over the last ten years.

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Biscuit is estimated to enjoy around 37% share by volume and 75% by value of the bakery industry. The organised sector caters to the medium and premium segments, which are relatively less price-sensitive. The organised sector is unable to compete at the lower price range due to the excise advantage enjoyed by the informal sector.

The organised segment in biscuits has witnessed a steady growth of about 6%, conforming broadly to the growth rate of GDP. The production crossed the one-million tonne mark in 1995-96 which has now grown by estimated 30%.

The size of the bread market is estimated at Rs. 13 bn. There are a number of producers in both sectors, organised and unorganised. From a low priced commodity, bread has

graduated into a branded product with discriminating prices.

7. Confectionery

The Indian confectionery market includes sugar boiled confectionery, hard-boiled candies, toffees and other sugar-based candies. In 2000, sugar boiled confectionery had penetrated an estimated 15% of the households only, suggesting a large potential for growth. There are about 5,000 units catering to the local markets.

The total volume of the sugar boiled confectionery market in the organised sector (comprising plain / hard-boiled candies, toffees, eclairs and gums) is around 125,000 tonnes. Add to this the unorganized sector and the market for all types of confectionery is of the order of 250,000 tpa. That translates into 66% market share of the unorganized sector by volume. In value terms it is less than 50%.

The sector's expansion at a rate of 25% in 1998 had dropped to 17% in 1999 and registered a negative growth of 2% in 2000. In the long run it is slated to grow at 8 to 10% annually. The growth in the size of the confectionery market is gives as **Annexure 10 (a)**.

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Exports

Export of certain milk products like milk powder, ghee and butter was canalised upto 1993. With the objective of promoting exports of milk products, the Govt. have dechannelised the export of these milk products with effect from mid 1993. According to the EXIM Policy for 1997-2002, the policy for export of these milk products is as under :

Powder milk (skimmed or full Cream) whole and infant milk food, pure milk Ghee and Butter, except when exported as branded products in consumer packs, not exceeding 5 kgs in weight, will be exempted from the following conditions :

- i) Quantitative ceiling as may be notified by the DGFT from time to time.
- ii) registration-cum-allocation certificate issued by agricultural and processed Food Products Export Development Authority (APEDA).

The Director General of Foreign Trade, Ministry of Commerce vide Public Notice No. 48/RE-98/1997-2002 dated 13th October, 1998 have removed the quantitative ceiling for export of powder milk and ghee and their export is now freely allowed. However, butter, if exported in packaging exceeding 5 kg. in weight, continues to be under the quantitative ceilings.

Products for exports - Skimmed Milk Powder, Whole Milk Powder, Ghee, Butter, Cheese, Condensed Milk, Casein etc. are some of the milk products being exported from India.

The export figures of dairy products during the last five years are given in **Annexure 11**.

Major Destinations- UAE (43%), Nepal (19%), Bangladesh (12%)

Future Markets

South East Asia, Russia and Africa will be the emerging market for Indian dairy products. In the immediate future, there is prospect of an additional demand of over 3 million tonnes of milk products in the ASEAN region alone. The EU dairy exports will become limited by GATT agreements, while Australia-New Zealand do not have adequate production capacity. Equally significant is the rise of Russia as the world's biggest dairy importer. Although by far the biggest milk producer in Europe, the Russian output has declined by more than 25 percent in the past five years. The shortfall in milk production is estimated to be 13 million tonnes a year.

These major deficits in milk availability offer an opportunity for India to fill this vacuum and to become leading dairy exporting nations.

Potential for value added products

Ethnic Indian dairy products like Sweets Shreekhand, Rusgulla, Khoya and Ready-to-Eat-Kheer, Haluwa, etc. have good demand in the countries where ethnic Indian population is settled. For promotion of these products, we require export worthy consumer packing, which also improves the shelf-life of the product.

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Steps Initiated by APEDA

APEDA has initiated following steps to increase export of dairy products:

Standards have been laid down for export of dairy products APEDA is offering subsidies for implementation of HACCP and ISO 9000, installation and upgradation of laboratories and market promotion through sending of samples, printing of catalogue brochures and brand publicity through advertisement etc. under its plan scheme. Export market development will depend on ensuring the quality. This will require that exporters ensure quality from the milk animals to the port and beyond. To build the quality, mechanized dairy farming requires encouragement with export oriented processing facilities. Manufacturing units linked by contract with large scale producers, can ensure of quality raw material necessary to enter and maintain the position in the international market. It is the cow milk which is recognised in the international market. Since India is producing more of buffaloe milk, there is a need for generic promotion of buffaloe milk. Many countries in the world do not import milk products from India since India is reporting many livestock diseases particularly FMD. Efforts are, therefore, needed to control and eradicate FMD at least in major milk producing States. Creation of chilling facilities at block level/ village level and transportation of liquid milk to processing units in reefer units.

A SWOT Analysis of Dairy Industry in India

Strengths

- Enhanced milk production with consequently increased availability of milk processing.
- Improved purchasing power of the consumer.
- Improved transportation facilities for movement of milk and milk products.
- Increasing availability of indigenously manufactured equipment.
- Large number of dairy plants (252) in public and cooperative sector besides several others coming up in the private sector.
- Vast pool of highly trained and qualified manpower available to the industry.
- Country's vast natural resources offer immense potential for growth and development of dairying

With our strengths we have to be aware of our weaknesses also.

Weaknesses

- Tropical climate conditions.
- Seasonal fluctuations in milk production pattern.
- Species-wise variation (buffalo, cow, goat etc.) in milk quality received by milk plants.
- Lack of marketing avenues for the dairy produce.

Threats

- Introduction of foreign products in Indian market.

Vast pool of highly trained and qualified manpower available to the industry.

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Increasing demand for fluid milk as well as value added products.

- Increasing chemical contaminants as well as residual antibiotics in milk.
- Poor microbiological quality of milk.
- Export of quality feed ingredients particularly cakes under the liberalization policy.
- Deficiency of molasses, a rich source of energy and binding agent in feed industry and constituent of urea molasses mineral lick.
- Excessive grazing pressure on marginal and small community lands resulting in complete degradation of land.
- Extinction of the indigenous breeds of cattle due to indiscriminate use of crossbreeding programme to enhance milk production.
- The liberalisation of the Dairy Industry is likely to be exploited by multi-nationals. They will be interested in manufacturing milk products which yield high profits. It will create milk shortage in the country adversely affecting the consumers.

In spite all these problems and threats we have clear cut and tremendous opportunities before us

Opportunities

- Great improved export potential for milk products of western as well as traditional types.
- Established and expanding market for traditional dairy products.
- Increasing demand for fluid milk as well as value added products.

- By product Utilization for import substitution.
- Employment generation.
- Growing demand for milk and milk products.
- Liberalised policies in dairy sector.
- Availability of large resources of unconventional feeds and fodders
- Availability of diverse germplasm with unique features like heat tolerance, disease resistance, draftability and ability to survive and produce under stress conditions.
- Availability of animal production technologies for faster development and effective implementation.
- There should be an integrated structure of marketing for milk and milk products.
- Integrated structure for livestock marketing through regulated markets.
- Improved collection of data on contract basis through agencies.
- Market information intelligence system for milk and milk products.
- Development of software for project fomulation for dairy enterprise.

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Policies in Milk & Milk Products

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All the milk products except malted foods are covered in the category of industries for which foreign equity participation upto 51% is automatically allowed. Icecream, which was earlier reserved for manufacturing in the small scale sector, has now been dereserved. As such, no license is required for setting up of large scale production facilities for manufacture of ice cream.

Subsequent to dechannelisation exports of some milk based products are freely allowed provided these units comply with the compulsory inspection requirements of concerned agencies like: National Dairy Development Board, Export Inspection Council etc. Bureau of Indian standards has prescribed the necessary standards for almost all milk based products, which are to be adhered to by the industry.

Regulatory Environment in the Dairy Processing Sector in India

The Indian processed dairy industry has grown and diversified enormously in the last few years. To ensure the proper development and growth of this industrial sector, the Government of India has instituted various laws and regulations. The various regulations that govern the dairy processing industry can broadly be classified into:

Compulsory Legislation

Prevention of Food Adulteration Act, 1954

This Act is the basic statute that is intended to protect the common consumer against the supply of adulterated food. This specifies different standards for various food articles. The standards are in terms of minimum quality levels

intended for ensuring safety in the consumption of these food items and for safeguarding against harmful impurities and adulteration. The Central Committee for Food Standards, under the Directorate General of Health Services, Ministry of Health and Family Welfare, is responsible for the operation of this Act. The provisions of the Act are mandatory and contravention of the rules can lead to both fines and imprisonment.

Milk and Milk Product Order (MMPO) 1992

The Milk and Milk Product Order (MMPO), 1992, issued on June 9, 1992 seeks to ensure the supply of liquid milk, an essential commodity, to consumers by regulating its processing and distribution. Within eight years of its operation, the Central/State Registering Authorities have till December 2000 registered 666 units with a total processing capacity of 65.8 million litres per day (mlpd).

Salient Features of the MMPO Order include the following:

- Registrations for units handling up to 75,000 litres of milk per day are granted by the State Governments and units with more than 75,000 litres per day capacity are registered by the Central Registering Authority.
- The Certificate also specifies the milkshed area, which, under the order is defined as a geographical area demarcated by the Registering Authority for the collection of milk by the registered unit.
- Maintenance of specified hygienic conditions in the premises where milk and milk products are handled, processed, manufactured or stored.

The collection, transportation and processing of milk normally centres around the operations of a processing plant. The region from which the marketable surplus of milk production finds its way to a processing plant is called a 'milkshed'. The concept of milkshed areas is pivotal to the MMPO. For an orderly development of the dairy industry, a proper assignment/allocation of milkshed is critical.

**Standards on Weights and Measures
(Packaged Commodities) Rules, 1977**

These Rules lay down certain obligatory conditions for all commodities that are packed form, with respect to declarations on quantities contained. These Rules are operated by the Directorate of Weights and Measures, under the Ministry of Food and Civil Supplies.

a) Voluntary Standards

There are two organizations that deal with voluntary standardization and certification systems in the food sector. The Bureau of Indian Standards looks after standardization of processed foods and standardization of raw agricultural produce is under the purview of the Directorate of Marketing and Inspection.

b) Bureau of Indian Standards (BIS)

The activities of BIS are two fold, the formulation of Indian standards in the processed foods sector and the implementation of standards through promotion and through voluntary and third party certification systems. BIS has on record, standards for most of processed foods. In general, these standards cover raw

materials permitted and their quality parameters, hygienic conditions under which products are manufactured and packaging and labelling requirements. Manufacturers complying with standards laid down by the BIS can obtain an "ISI" mark that can be exhibited on product packages. BIS has identified certain items like food colours/additives, vanaspati, containers for packing, milk powder and condensed milk, for compulsory certification.

d) Directorate of Marketing and Inspection (DMI)

The DMI enforces the Agricultural Products (Grading and Marketing) Act, 1937. Under this Act, Grade Standards are prescribed for agricultural and allied commodities. These are known as "Agmark" Standards. Grading under the provisions of this Act is voluntary. Manufacturers who comply with standard the laid down by DMI are allowed to use "Agmark" labels on their products.

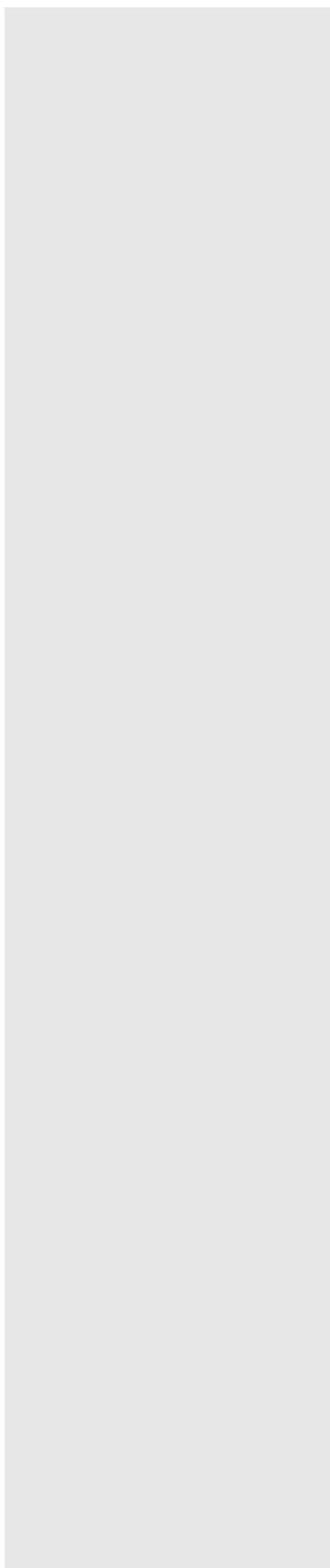
Other Government Regulations :

1) Industrial Licence:

No licence is required for setting up a Dairy Project in India. Only a Memorandum has to be submitted to the Secretariat for Industrial Approvals (SIA) and an acknowledgment is to be obtained. However Certificate of Registration is required under the Milk and Milk Products Control Order (MMPO) 1992.

2) Foreign Investment :

Foreign Investment in dairying requires prior approval from the Secretariat of Industrial Approvals, Ministry of Industry, as dairying has not been included



in the list of High Priority Industries. Automatic approval will be given upto 51% Foreign Investment in High Priority Industries. In case of other Industries, proposals will be cleared on case to case basis. Government may allow 51% without enforcing the old limit of 40% applicable under Foreign Exchange Regulations Act at its discretion.