

A REVIEW OF TEA PRICES

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A COMMODITY with extreme qualitative variations and a wide range of consumers, tea is best sold through auctions, and though the mechanism of price formation in the tea auctions does not rigorously conform to the equilibrium model of economic theory, the auction prices very closely reflect the prevailing supply-and-demand conditions for the commodity.

The "world price" of tea is determined by conditions of world supply and demand. Prior to the second world war, London was the major international market for tea, and tea prices registered on the London auctions could be looked upon as the "world price". In this respect London was an ideal world market for tea as much as Liverpool was for wheat prior to 1939. The following observation of V. P. Timoshenko regarding the Liverpool market for wheat is equally applicable to the pre-war London market for tea :

"...prices are little affected by special conditions in one or another of the producing areas, but in which, on the other hand, the general tendencies in all producing areas are reflected."¹

In the post-war period, however, it is difficult to speak of a "world price" of tea, as of most other commodities. The importance of the two Far Eastern auction markets — Calcutta and Colombo — has increased significantly in comparison with London.

The average volume of handling at these two auctions (including the handling of exportable teas) increased by 150 and 235 per cent respectively in 1960-63 as compared to 1936-38, while, in fact, it decreased by 16 per cent over the same period in London.² The following Table 1 is indicative of the changing relative importance of the three auction centres.

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¹ TIMOSHENKO, V. P., "Monetary Influences on Post War Wheat Prices", *Wheat Studies*, Food Research Institute, Stanford, 1938, p. 267.

² Same as the source materials for Table 1.