

MARKETING OF TEA

REPORT ON A STUDY UNDERTAKEN
BY A TEAM OF EXPERTS
SPONSORED BY THE TEA INDUSTRY

PUBLISHED BY

THE CONSULTATIVE COMMITTEE OF PLANTATION ASSOCIATIONS

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This Report is the result of a study carried out by a specialist Team on Tea Marketing appointed by the Consultative Committee of Plantation Associations of India. The members of the Study Team were :

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January, 1975.

The views and opinions expressed in this Report are those of the Study Team and do not necessarily reflect the views of the Consultative Committee of Plantation Associations.

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Chapter I

INTRODUCTION AND TERMS OF REFERENCE

Over recent years the producers of tea in India have been faced with stagnant or declining unit values for their product coupled with rising costs, which was further complicated by a gradual eroding of India's share in the World markets. By 1972-73, things had come to such a pass that a large number of gardens (including those producing high quality teas and maintaining high standards of management) were finding it difficult to break even. Although a substantial rise in world and local market prices of tea in 1974 has temporarily saved the industry from acute crisis conditions, even this rise has barely allowed rising costs of production to be absorbed. The relief is in any case temporary and the return of acute crisis conditions is by no means to be ruled out.

Under the circumstances it is inevitable that there should be widespread concern—among the producers and others—about the adequacy of currently existing marketing arrangements for Indian teas. Producers want to be sure that the institutional arrangements under which teas are being presently marketed are actually enabling the producer to secure the best unit values consistent with the underlying conditions of supply and demand. Such concern is also heightened by the wide circulation of various types of criticism of the existing arrangements which (whether justified or not) are mostly based on incomplete understanding of the manner in which these very complex arrangements in fact do function.

It was, therefore, felt that there was an urgent need for an unbiased and fresh inquiry into :

- (1) the nature of existing marketing arrangements and of their suitability as an instrument for securing the best feasible price for the producers ;

- (2) the reasons behind the stagnant price levels in general and India's poor export performance ; and
- (3) the combinations of (a) institutional change and reforms, (b) changes in public policy, (c) changes and improvements in marketing and promotion strategies, and (d) new modes of international collaboration between producing countries—which may be necessary in order to secure good long-term prospects for the realisation of adequate unit values by the producers.

Accordingly, on the joint initiative of the UPASI, the ITA and the CCPA, a three-man Marketing Study Team was appointed in 1973 to go into the matters indicated above in detail. The Marketing Study Team was constituted by :

1. Prof. Amritananda Das of the Gandhian Institute of Studies (Varanasi)—an economist and systems analyst.
2. Dr. Peter Philip, erstwhile of the Indian Statistical Institute, New Delhi—an econometrician with some understanding of the tea trade.
3. Dr. S. Subramanian of the Indian Institute of Management, Bangalore—management consultant and marketing methods expert.

The Study Team was given an elastic brief and were free to choose both their fields of enquiry (within the broad outline as above) and also the methods of investigation they wished to employ. The results of their investigation are presented in the present document which represents their joint and unanimous findings.

The Study Team in presenting these results wishes to thank all those who have collaborated to make this study possible—the planters, the brokers, the buyers and other members of the tea community in India ; officials of the Indian Government ; research workers and journalists concerned with the tea industry and its problems and others in various relevant positions and occupations who patiently submitted to the interviewing by the Study Team and by their cumulative experience helped it to arrive at an understanding of the incredibly complex system involved in the marketing of tea ; thanks are due to the UPASI and ITA secretariats and the officers of the Tea Board who provided the Study Team with

the bulk of statistical data and also rendered invaluable services in arranging meetings and discussions between the Study Team and the experts on whose knowledge and experience the Team wished to draw upon. Special thanks are due to the UPASI for providing all possible facilities to the Study Team to write their report.

The Report of the Study Team on the Marketing of Tea, which is presented in the following pages is divided into the sequence of sections as below :

1. **The Marketing System :** (which deals descriptively with the existing organisational and institutional structure through which teas are currently marketed).
2. **Operation of the Marketing System :** Views, controversies and issues (which summarises the various views held concerning the functioning of this system or sub-systems thereof and the criticism raised about the inadequacies and abuses of the system).
3. **Auctions and their Functioning :** (which deals analytically with the functioning of the Indian and London Auctions which constitute centrally significant elements in the tea marketing system).
4. **International Marketing :** (which deals analytically with the problems faced by Indian producers in marketing their teas overseas).
5. **The Producers' Problems, General Diagnosis :** (provides a synoptic view of the problems faced by the Indian producer within existing arrangements in realising his marketing objectives).
6. **Institutional Reform :** (identifies, in the light of the foregoing general diagnosis, the institutional changes and reforms necessary to improve the means of solving the problems identified).
7. **Strategic Rethinking :** (identifies the combination of strategies by which producers as a group can benefit both within the current arrangements and more so in the reformed set up visualised).

Earlier Reports on the Marketing of Tea

There have been a number of reports made in India and elsewhere concerning the Marketing of Tea. One of the earliest such

reports is the Report of the Plantation Enquiry Commission which was issued in 1956. It is a measure of the change in the general picture concerning the marketing of tea to find that one of their important recommendations was to subsidise internal sales of tea by an additional cess on exports.

The Borooah Committee on the Tea Industry which issued its report in November, 1968 also dealt rather briefly with the Marketing of Tea. The report noted the changed export prospects of tea and suggested measures, but did not deal with them in detail, to help improve unit prices.

Besides the above there have been reports prepared by GATT for FAO on the organisation of the auctions in London and Colombo. This report however stopped short of a detailed evaluation of the efficiency and fairness of the auction system in general.

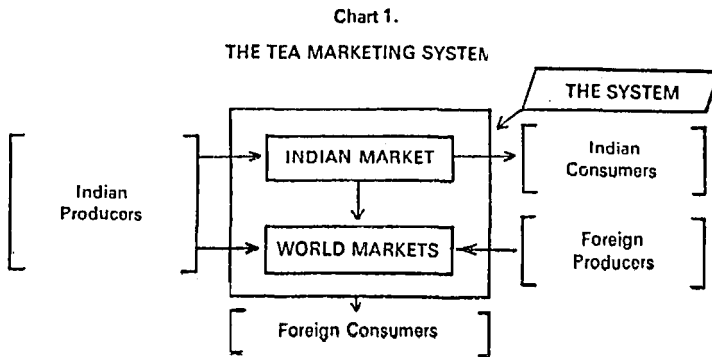
The Monopolies and Restrictive Trade Practices Commission of the UK investigated as far back as 1956 the distribution system of tea in the UK and concluded that "in general we consider that the tea trade in this country is conducted on keenly competitive lines. .". The Commission did not however, examine the working of the auction system except to outline some of the practices prevailing at the London auction centre.

In addition to the above there are a number of reports issued periodically by the FAO which deal with some aspects of the marketing of tea. There have also been a number of books written on the subject, of which one should single out a volume written by V. D. Wickizer on Tea Under International Regulation which deals with the experience of regulating the production and export of tea, and which will be useful for framing any such scheme in the future.

Chapter II

THE MARKETING SYSTEM FOR TEA

A. 1. By the “marketing system for tea” we refer to the complex system of institutions and operations which intervenes between the PRODUCER¹ of tea on the one hand and the ultimate CONSUMER who drinks his cup of tea. In simplified form the chart below presents the tea marketing system in our sense viewed from the point of vision of Indian producers :



A. 2. It is clear then that the ‘marketing system’ from the point of view of the Indian producers is a two-element interlinked system of which the two elements are :

1. The Indian Markets through which his teas reach the Indian consumers, and
2. The World Market(s), through which his teas reach the overseas consumers ;

1. Some confusion exists as to who is the “producer”. For our purpose, “producer” will refer to any firm or garden whose output is processed and sold as unpacketed teas. Makers of packeted tea will be called **PACKETEERS**.

the one-way interlinkage between the two elements being that Indian teas flow out of the Indian market (element one) to the World market but World market teas (i.e. those imputed by overseas producers) do not flow into the Indian market. Thus, the Indian producer has a protected domestic market plus a world market in which he competes with other producers of overseas countries, the two markets being interlinked one-way by outflows from the domestic market to world markets. India is **UNIQUE AMONG TEA PRODUCING COUNTRIES IN HAVING THIS TWO-ELEMENT STRUCTURE WITH A SIGNIFICANT DOMESTIC MARKET OF HER OWN**. This fact is recognised by the tea trade in terming the domestic market as a "cushion" or "cushioning factor" which protects the producer from the worst impacts of fluctuations in the international markets.

A. 3. It has been however, a finding of the Study Team that India's unique and favourable position in this matter has not been adequately utilised and has been in fact frittered away by a wrong conception (among export policy-makers) about the inter-relationship between the two markets. This has led to the visualisation of a (generally buoyant) domestic demand as an enemy of exports, rather than its utilisation as an essential element of our bargaining strength in international markets. For further comments on this see the Chapter on **STRATEGIC RETHINKING**.

A. 4. The task of analysing the "marketing system" then becomes one of analysing and uncovering the inner structure of the two black boxes of our chart presented above and this would have been the simple and scientific thing to do. However, this cannot be done because there are two channels by which outflow of Indian tea occurs ; (a) via **direct** consignment to London Auctions, and (b) via the buying of overseas importers' agents in the Indian market.

A. 5. As will be clear, the first type of outflow has the property of reducing supplies available in the domestic market and the second, the property of increasing demand in the Indian market. Even assuming (and this is by no means obvious) that avoidance of direct consignments to London will lead to an equal additional buying in the domestic market by British buyers' agents, the tea market does not react symmetrically to supply and demand increases/decreases. Consequently one cannot treat the Indian market as the first in a sequence of markets.



as shown in the chart above but has to take into account the non-serial linkage represented by consignment to London Auctions, thus



As is well-understood in system-analytic literature the presence of a non-serial linkage makes it impossible to analyse subsystems serially. It will be seen in what follows that non-seriality is a very strongly-marked feature even within the quasi-subsystems (Indian Market and World Markets) and that the non-recognition of these cross-level linkages are at the root of most prevalent misconceptions of the nature of the marketing system.

A.6. Faced with this analytical difficulty the Study Team decided to apply an explicit channel-flow-analysis technique to establish the true nature of the system. This involved considerable labour and recourse ultimately had to be had to computerisation. Facilities were made available for the use of the DLW computer at Varanasi through the good offices of the Gandhian Institute of Studies. While some of the results obtained are of technico-mathematical nature and require symbolic presentation, the basic results of the analysis are presented verbally below. (See also Appendix to this Chapter).

A. 7. The producer has at his disposal the following options of allocating his output to the system of interlinked disposal channels :

- a. Direct consignment to London auctions.
- b. Direct Sale by Forward contract to Overseas Buyer.
- c. Consignment to Local (Indian) Auctions.
- d. Direct Ex-factory Sales to Indian Buyers.
- e. Direct Sales by Forward contract to Indian Buyers.
- f. Direct Marketing (Loose tea chests) in wholesale Markets.
- g. Self-Packeting and Disposal through Packet-tea outlets in India.
- h. Self-Packeting and exports of Packets Overseas.

It is of course expected that the producer (being a rational decision-maker) will choose those channels of disposal which (after taking into account the risks and overheads of each channel of disposal) fetches him the best prices. Roughly speaking the costliness (initial layout, credit, etc.) and the riskiness (chances of not getting proper market value) can be estimated in terms of the following dual ranking table :

Table
COST-BURDEN AND RISKINESS OF OPTIONS

Alternative	Costs		Risk		Multiple
A.	3	×	2	=	6
B.	4	×	4	=	16
C.	2	×	1	=	2
D.	1	×	2	=	2
E.	1	×	3	=	3
F.	5	×	5	=	25
G.	6	×	6	=	36
H.	6	×	7	=	42

In interpreting the above table, Low figures (ranks) are favourable for producers. The options are ranked separately for costs and risks (lack of information and familiarity with market conditions

etc.) and the multiple of the two ranks is a rough estimator of the attractiveness of the option. It is interesting to observe that the low-multiple options,

- C. Consignment to Local Auctions (2)
- D. Direct ex-factory Sale to Indian Buyers (2)
- E. Forward contracts to Indian Buyers (3)
- A. Consignment to London Auctions (6)

are the most commonly-used alternative whereas middle-valued options,

- B. Direct contract with Overseas Buyers (16)
- F. Direct Marketing of Chests to Indian Wholesalers (25)

appeal only to strong producers with special cost and risk-bearing capacities. The high-valued (most unfavourable) options,

- G. Packeting and selling to Indian Packet Retailers (36)
- H. Packeting and Sales to Overseas Importers (42)

are utilised only successfully by those large firms which have made packeting their specialism and who (even if they own an estate or two) buy the bulk of their tea requirements from the market and need to be classified as PACKETEERS rather than as PRODUCERS.

A. 8. It was found that the major packeteers operating in the country (even when they were directly or through inter-linkages owners of tea estates) did most of their buying directly at auctions and did not cover most of their requirements from the produce of their own gardens. Neither did the sales of their estates mostly go to them, the bulk of it was bought up by others. Thus, the Study Team concluded that the packeteers (who were major buyers at auctions) tended to act primarily as buyers and their connection/linkages with estates did not lead them to function as vertically integrated producer-packeteers. Apart from information exchanges (which are of course beneficial for both sides) the producing (estate) and packeting sides of these companies operations were more-or-less partitioned and not managerially interlinked.

A. 9. Coming back to the consideration of the disposal channels, it has to be realised that the buyers at the other end of each separate disposal channel are not distinct groups. Rather there is

considerable overlap and intermixture among them. And this raises the important question of how far (from the point of view of the producers) these channels could be treated as genuine alternatives. The Study Team considered this question in some detail and it became fairly obvious that the number of really distinct disposal alternatives as distinct from channel alternatives was more limited. This does not mean, however, that the existence of multiple disposal channels (even if they are not genuine alternatives as to final destination and even if they interlink in complex non-serial manner) is not of benefit to the producer. The differences in speed of cash realisation, the producer's control or lack of control on the price realised, the differences in excise duties and rebates, the regulations or lack of them concerning the modes of packing, transport, warehousing and a host of other elements—including differences in marketing efforts—make the existence of multiple channels a distinct benefit for the alert producer. Of course, such opportunities become rapidly less significant as the producer becomes smaller, less-informed and less capable of exercising meaningful judgement.

A. 10. To describe the interlinkages that exist between the different channels, it is simplest to categorise the different types of buyers of (non-packeted) tea and where they appear on the several disposal channels. The main types of buyers can be classified as below :

a. Buyers representing Indian packeting interests. They appear as major buyers in bulk at the Indian auctions and also (though to a lesser extent) engage in buying through direct ex-factory sale and forward contracts. Thus, buyers of type 'a' appear on disposal channels C, D and E, not necessarily engaged in covering their own REQUIREMENTS, but also engage in considerable buying as agents of various overseas importing interests.

b. Established professional buyers who do not directly utilise any teas they buy but act as agents for various overseas and local buying interests. Basically, they operate at Indian auctions and also engage in considerable amount of ex-garden buying both forward and spot. As compared to buyers of type 'a'—who have buying strategies fixed primarily by their own packing and blending requirements—these specialist buyers tend to operate on the basis of a fixed commission and an upper limit price for a prefixed order (specified in volume and quality) and thus, their buying

pattern differs considerably from those representing the packeteer houses. Buyers of type 'b' utilise channels C, D and E.

c. Smaller and less-established professional buyers (usually called "bazar buyers") who buy small quantities of teas on their own for supplying various specialised local markets. They also buy as agents of both local wholesalers and overseas importers. They also buy some small stocks speculatively on their own in anticipation of realising gains on rising markets.

Due to their low volume and staying power the "bazar buyers" do not constitute statistically a significant element of buying power represented in Indian auctions. They are, however, important buyers of non-leaf grades and lower quality teas for supply to the domestic loose tea markets.

Auctions and fringe-auction (outlots etc.) constitute the main source of their buying but they also utilise the direct ex-garden sale channel for small amounts with expertise. Since their requirements are small and unpredictable they do not utilise the forward contract channel. Thus buyers of type 'c' appear on channels C and D.

d. The loose tea wholesaler buys through "bazar buyers" and sometimes functions as a "bazar buyer" himself at auctions. If he is located in a tea producing area or in an auction centre he also engages in direct ex-garden buying. He sells his loose tea direct to consumers and also through retail channels. Thus, this kind of buyer operates mainly through channels C, C₂ (i.e., buying from buyers in auctions) and D. Some large wholesalers (as distinct from bazar buyers) are strong enough to engage also in forward contract buying.

It has to be realised that the wholesaler is the focus (or central element) in the loose tea sales market which covers 60 to 65 per cent of domestic sales and that he also functions as the "blender" in the loose tea market. Among themselves, then, the wholesalers as a group marshal a very large column of purchasing power and their demand pattern and expectations form a strong determining element in Indian auctions in general and in non-leaf grades in particular.

The Study Team is of the opinion that this massive power of the tea wholesalers (as a group, although not as individuals) is a

neglected feature of the Indian tea market and which goes a long way towards explaining why there are in practice no dominant buyers in spite of the otherwise visible presence of large buyers in the form of blender-packers' representatives.

e. Overseas buyers operate on the Indian market through their buying agents who are buyers of types a, b or c. The commonest *modus operandi* is to specify to the buying agent volume, quality and upper limit price, and to leave it to the agent to execute the order to the best of his ability. Rupee trade country buyers (i.e. buyers from Socialist block or Middle Eastern countries operating on bilateral trade agreement basis) usually issue a tender and which is then divided among a number of buyers whose tenders are lowest. The USSR, however, operates on the basis of direct auction-to-auction instructions to its buying agents and even supervises their buying in the auction room itself at least at one auction centre (CALCUTTA).

It is interesting to observe that overseas buyers prefer to utilise the auction channel in preference to any other—although some of them also issue forward contracts to established estates through negotiation via buyers of type 'b'. This element, however, is not quantitatively significant.

It is of importance to realise that most overseas buyers (except rupee trade buyers) are also operating on most auctions of tea in the world including specifically the London Auctions. They can also buy (although it is difficult to estimate this amount) via switch deals with rupee trade countries. Thus, overseas buyers of Indian tea need to be categorised further as :

- (1) Rupee trade buyers, who do not generally operate on any channel except C_2 (buying through agents at auction) but who themselves function as possible sources of switch deals further on ;
- (2) UK buyers who buy primarily at the London Auctions, but also buy through agents in Indian Auctions, thus utilising channels A, C_2 and also B (direct forward contract buying) for getting their Indian teas ; and
- (3) Overseas (non-rupee) buyers who utilise channels A_2 (buying from agents at London Auctions), C_2 and also B.

Both UK and Overseas (non-rupee) buyers also operate on most major auctions all over the world. The following table will make clear which type of buyer appears at which point on each channel.

Chart

THE INTERCHANNEL LINKAGE MATRIX

CHANNEL TYPE :	A	B	C	D	E	F	
	A ₂		C ₂	D ₂	E ₂		
BUYER TYPE :	A	O	O	C	D	E	O
	B	O	O	C	D	E	O
	C	O	O	C	D	O	O
	D	O	O	C	D	E	F
			C ₂	D ₂	E ₂		
	E _A	O	O	C ₂	O	O	O
	E _B	A	B	C ₂	D ₂	E ₂	O
	E	A/A ₂	B	C	D ₂	E/E ₂	O

A. 11. After passing through the complex channel matrix described above, Indian tea will be at one of the following locations :

- (1) In the hands of an Indian packeteer.
- (2) In the hands of an Indian (loose tea) wholesaler.
- (3) In the hands of a Rupee country buyer.
- (4) In the hands of UK importer/buyer.
- (5) In the hands of non-Rupee overseas importer.

It is highly interesting to follow up the process of what may be called the secondary marketing system of tea by which it reaches the final consumer, the tea-drinker.

A. 12. The tea in the hands of the Indian packeteer will be blended and packeted and then marketed via channels of "shops"

which are usually of a multipurpose character, catering basically to a wide range of household demands. Beyond them lie household buyers, as well as various forms of retailers and commercial buyers like hotels and restaurants. *

A. 13. The tea in the hands of the loose tea wholesaler would be blended by him and sold to retailers (usually on a circulating one-sale-back credit basis) and would be then sold to various outlets like households, hotels, restaurants and corner tea shops. Some tea is also directly bartered by wholesalers with peasant households producing cash crops like groundnuts or spices.

A. 14. The tea in the hands of the UK buyer will pass either to the UK blender-packer who will packet it and market it in UK (and/or re-export in packet form to other countries), or it will be exported to blender packers/importers in other countries as the case may be. Similarly importers in rupee countries are likely to sell quite a bit of Indian teas indirectly to overseas (UK and non-UK) importers.

A. 15. After the international switchovers are complete non-UK importers will sell to their own packeteers and the packeted tea will be sold to their respective consumer markets and/or re-exported to other countries in packeted form. Thus, they will reach the final consumer. It should be noted that there will be also some import of packeted tea from India in some overseas markets.

A. 16. The complexities of the secondary marketing of tea (the cross-country deals both in loose and packeted teas) make it very difficult to follow exactly what is the final destination of Indian teas and who constitute its actual consumer population. The Study Team recognises that these intricate cross country dealings are normal international business practice and that it is not necessarily justified to read sinister meanings in them. It, however, implies that these dealings make it extremely difficult to establish a promotional image of Indian tea with the real consumers. Also it is not impossible that in these cross deals India loses foreign exchange although it is very difficult to set a figure for the exact loss.

* Indian packeted tea attracts a packet excise duty. Tea also attracts excise at the garden factory but the producer receives a rebate when that tea is exported.

A. 17. The above analytical description of the marketing system for Indian teas leads us to the following fairly simple conclusions :

(1) The marketing of tea is done as a two-stage process in which the first stage is the passage of Indian teas as a PRIMARY PRODUCT via the various channels described to (A) Indian blender-packers, (B) Indian (loose tea) wholesalers, (C) UK importers, (D) rupee country importers, and (E) non-rupee non-UK importers overseas.

(2) In the domestic market the second stage of tea marketing is a two-compartment affair, one of which is the marketing of packets in India by Indian blender-packers and the other is the loose tea marketing system.

(3) Overseas, after the cross-country deals between the various importers are completed, Indian tea (blended with non-Indian teas) are packed and sold either in the domestic or the overseas markets of packers.

(4) Although there are both some sales of Indian packeted tea abroad and some small-scale attempts to sell packeted tea in domestic market by Indian primary producers, none of the two phenomena are strongly developed primarily because of overhead costs and organisation of sales difficulties.

(5) The major demand influences affecting Indian tea prices, therefore, can be classified into (a) the domestic demand for loose teas as expressed through the buying of Indian wholesalers, (b) the domestic demand for packeted tea as expressed in the buying strategy of Indian blender-packers, (c) the demand by blender-packers abroad, channelised through overseas importers and their agents (as well as blender-packers' agents) in London auctions as well as in Indian auctions, and (d) the demand of UK blender-packers exercised through their buyers at London auctions primarily. The rupee-trade demand needs to be distinguished from the other non-UK overseas demand because it is a protected market demand appearing only in the Indian market.

(6) Beyond this the ultimate nature and level of consumer demand and how it is crystallised by the intervening mechanisms is largely difficult to decipher and while the Study Team is of the

opinion that it may pay the Indian producer to actually decipher this process, it will take a study of substantial time and cost dimensions, which could not obviously be undertaken by the Study Team.

A. 18. We have so far deliberately avoided discussion of one element of the tea-marketing system, viz. the "brokers" who constitute the central element of the auction system. This omission was deliberate since we propose to subject auctions (both London auctions and Indian auctions) to analysis in depth and we shall discuss in detail the role and function of brokers in that context. Here, for the sake of completeness, it is sufficient to note the following points :

(a) Brokers are agents through whom the seller appears at the auctions and the brokers are the ones who actually conduct the process of auctions on behalf of the sellers. In London auctions "buying brokers" (with functions similar to "buyers" at Indian auctions) appear on behalf of actual buyers.

(b) In addition to auctioneering the Brokers provide various services of which the most important are :

- (1) testing and sampling the teas and advising producers on grade proportions and manufacture ;
- (2) distribution of samples to buyers and posting of auction catalogues ;
- (3) valuing the lots to be sold ; and
- (4) serving as a source of general market information to the sellers.

The Study Team has noted that there has been widespread discussion and comment on the role of brokers and the character of their functioning. These will be dealt with in some detail in the succeeding two chapters ; here it is sufficient to comment that "brokers" represent an indispensable and positive service in tea-marketing as for the present.

A. THE OPERATION OF THE SYSTEM— VIEWS AND ISSUES

The Study Team spent a considerable part of its initial-phase activities in consultations with various participants in tea-market-

ing—producers, brokers, buyers, packeteers, officials of the Tea Board and concerned Ministries. The aim was to establish how the concerned knowledgeable persons appreciated the tea marketing system as a working arrangement. It was found that there was considerable divergence of opinions between various groups (and even within the same group) and there was no emergent consensus view concerning the operations of the tea marketing system. It has been decided, therefore, to group the points raised in such discussions in four broad groups :

- A. The System as seen by Producers,
- B. The System as seen by Brokers,
- C. The System as seen by Buyers,
- D. The System as seen by Official Policy-makers.

We present below these opinions in an orderly manner with the Study Team's brief comments on each of the issues raised. These constituted the opinions-matrix elements taken into account by the Study Team as a part of the evidence available to it.

B. SYSTEM AS SEEN BY PRODUCERS

While most producers seem to have taken little pains to acquaint themselves with the marketing arrangements they utilise (being content mostly to dump their output in some accepted channels in a mixed state of hope and fear), many of them were found to be harbouring deep suspicions of the marketing system in general and of the auctions (London and Indian) in particular. These fears amounted to a conviction that the auction system was being misused somehow to cheat them of prices they otherwise might have realised.

B. 1. One set of fears concentrated around the possibility of auctions being "rigged" by buyers' combinations. Of course, rigging was alleged to be present both in London and Indian Auctions. But, in general the levels of institutional information concerning the arrangement of London Auctions were so poor that there was no coherent account of what was meant by rigging and how it was carried out. While the Study Team conducted its own study of the auctions and their fairness, it saw no purpose in taking obviously ill-informed suspicions into account.

B. 2. Therefore, it was decided to concentrate on complaints concerning Indian Auctions of which the complainants had some experience and knowledge.

B. 3. The Study Team is also of the opinion that the widely-circulated view that the auctions are being 'rigged' against the producers by a combination of 'big' buyers to be generally without foundation. As the system is presently constituted, such 'rigging', if attempted, will benefit only those buyers who stay **outside** the ring. It is only in the special case where a single buyer emerges as the dominant buyer of certain particular grades of tea (e.g. the USSR for Darjeelings at Calcutta, or Sudan for cheap teas in South Indian auctions) that it becomes feasible for the buyers to exercise monopolistic power. The theory that the market, as a whole, can be monopolistically controlled and depressed is unsupported either by the analytical properties of the system of known facts about prices and buying behaviour.

B. 4. There is, of course, a considerable degree of similarity in the buying behaviour of major buyers (blender-packers) which particularly on a generally oversupplied and depressed market may create the impression that some collusive arrangement existed for depressing prices. Such behaviour, however, reflects not a collusive arrangement but

- (a) the basic similarities in the demand patterns of blender/packers (in any given price configuration) ;
- (b) the relative equality among such buyers about basic market information (crop conditions/stocks in pipeline/likely prices and supply conditions at forthcoming auctions) ; and
- (c) broadly similar ideas as to the right strategic reactions to such conditions which ensure a strong similarity in buying pattern and bidding behaviour. Under conditions expected/actual oversupply the similar "defensive" buying strategies adopted and the frequent access taken of the opportunities for "divisions" may create a superficial impression of collusive behaviour.

B. 5. An entirely different impression is produced, however, whenever the market is lively and (anticipating short supplies) the major buyers have shifted to "aggressive" buying strategies. At such

times the major buyers regularly out-bid one another and very little recourse is taken to the provision of lot divisions. This reversal of buying behaviour—which is a familiar phenomenon in auctions—would not occur if there had really existed a workable oligopsonistic arrangement for depressing prices.

B. 6. Basically, the Study Team found that both buying behaviour and price levels at auctions to be highly sensitive to small variations in stock (and estimated arrivals). This is exactly how an unrigged auction system is likely to behave and quite unlike the supply-insensitive behaviour theoretically to be expected of oligopsonistically controlled markets.

For the above reasons the Study Team holds that rigging of the auctions system (if it is attempted at all) would be infructuous for those who attempt it, monopolistic power is absent except in a number of grades for single-country buyers and the market behaves in general, as one would expect an unrigged market to behave.

Considerable suspicion has been expressed concerning the activities of the brokers. The Study Team noted

- (a) charges from the buyers' side that brokers tend to over-value the teas they offer at auctions ;
- (b) charges from the sellers' side that the broker, in collusion with major buyers, undervalues and sells tea at lower than realisable price ;
- (c) further charges from the sellers' side that brokers are interested in quickly selling teas and collecting their commissions rather than holding it till the right moment ;
- (d) further charges from sellers' side that (by extending credit to their clients) brokers tend to hold them 'captive' and that the interests of such clients suffer as compared to the more mobile ones ;
- (e) further charges from sellers' side that the practice of the broker ;
 - (i) receiving commission from sellers and buyers (at Calcutta auctions) ;
 - (ii) acting as an Agent for buyers (in all Indian Auctions) ; and
 - (iii) in negotiating outlot sales privately to buyers,

is contrary to the spirit of auctions and renders him untrustworthy as an agent for the sellers. These charges are investigated in Chapter VII.

B. 7. The Study Team noted the view that the Dutch system of auctions would be more favourable to sellers. This matter is treated separately in the Chapter on "Institutional Reforms".

B. 8. The Study Team concluded that in general the auction system was the most fair and most likely to secure to the seller a price reflecting objective supply-demand conditions. Without such a system acting as a source of indicator prices, it would also be impossible for the producer to secure a fair price on the non-auction disposal channels.

B. 9. While the Study Team was in favour of setting a substantial section of the output through auction channels, it recognised that for the producer the existence of other options was an asset. As far as major sellers, with good information/market intelligence, were concerned they tended to use alternative channels of disposal to good effect by utilising whichever was at the moment most remunerative.

B. 10. However, as far as smaller and less adequately informed were concerned, the attempt to utilise multiple-option selling was mostly counter productive. This was because buyers possessing information advantage would tend to buy whichever channel at that moment was offering lowest prices.

B. 11. Apart from forward contract and ex-factory sales, which are the more common methods of non-auction disposal—a similar disparity was found to exist among gardens who tried to utilise the option of selling their own tea (loose/packeted) to the consumers. Packeting in competition to major blenders/packers tended to run up against the fact of lack of adequate distributive systems. Because of his vast volume, the major blender/packer could operate on spread-out overhead costs and low margin of profit; both of which is beyond the capacity of small packeteers.

As to the option of selling a 'brand' blend of loose tea (chests/mini-chests) to the domestic loose tea market, this represents a more feasible operation. But even here it is only the

large and well organised group of gardens which can successfully take up the option.

B. 12. The Study Team concluded, therefore, that

- (a) While in principle each producer should have open to him all the options in marketing of his product and he should try to make intelligent use of them ;
- (b) Successful operation of multiple-option strategies of marketing were at present only within the capacity of gardens capable of independently developing an adequate system of market intelligence ;
- (c) That for others, less-well endowed, options were mostly pseudo-options leading to loss rather than gain ; and
- (d) that, in general, auctions were the safest and fairest disposal channel for the relatively uninformed producer.

B. 13. The Study Team decided that the Auction System was too important an element of tea marketing for doubts about the sub-system to be dismissed only on general considerations of economic and institutional logic as above. Accordingly, an independent study at depth was made both of London and Indian Auctions. This has been incorporated in Chapter III of the present study.

B. 14. In view of the importance for the producer of adequate market intelligence not only for the improved use of multi-option strategies, but also for securing better prices at the auctions, the Study Team is of the opinion that a co-operatively financed market intelligence system is an essential adjunct to the existing marketing arrangements. The details are worked out in the section on Strategic Rethinking.

C. SYSTEM AS SEEN BY BROKERS

As was perhaps natural, the brokers had less of complaints about the functioning of the system of auctions in which they play a central part. They were concerned with dis-abusing the Study Team of what (they felt) were uninformed suspicions of the unfair nature of the auctions system. While some of their comments were

in fact highly informative and useful for the Study Team, adequate note has been taken of them elsewhere and there is no need for repeating them here (see Sec. "A" in Chapter III on the "Auctions System").

The Study Team, however, found the brokers the relatively best informed on the technicalities of the currently-obtaining auctions system and the Team had very useful discussions with them on such matters.

The Study Team also found brokers very anxious to explain the role they played in the auctions system and to what extent this differed from the functions of a simple auctioneer.

C. 1. The brokers explained that they performed several functions other than the simple selling of the tea on the auction floor. According to them, the following were the additional services that they provided to the producer.

C. 1. (i) The brokers obtained preliminary samples from their clients of the tea they were producing. This master sample was then tasted by the tasting department of the broker and basing himself on the results of this tasting and his knowledge of the market value potential of different qualitative features of the tea, the broker sent a report advising the gardens on : (a) the required changes in their manufacturing practices, and (b) on the proportions of various grades that they should produce and such other matters. In this way they functioned as production consultants to the gardens and improved the saleability of their products. This service was backed up by garden visits by brokers' representatives who provided on the spot technical guidance.

While the brokers rated this services very high and claimed it was extremely important for the plantation managers, the Study Team found considerable differences on this matter when planters were queried about the significance of the service. While planters realised that they could not individually maintain tasting services and while they appreciated the advice that brokers provided, doubts were expressed

- (1) as to the quality of tasting services provided, and
- (2) the technical competence of the manufacturing guidance.

The Study Team feels that there is reason to believe that both tasting service and the managerial guidance service (while useful) were of a highly conventionalised type and did not significantly help the producer to produce for the market. Qualitative improvements were no doubt secured but the broker was in not a very good position to judge precisely what teas could be in good demand say, a month hence. The Study Team, therefore, stressed the importance of more and more-well-informed market-based production guidance for the producers than brokers now provide. Whether the brokers themselves are the best sources of such information and services would be considered later.

C. 1. (ii) Brokers also take samples when the consignments arrive and send them to prospective buyers and post the auctioning catalogues so as to inform buyers of the teas (quality and quantity) on offer. In discussion with the Study Team it became obvious that the practice of sending free samples was under fire and brokers themselves admitted that the arrangements were less than perfect. The Study Team noted with satisfaction, however, that the tea trade appeared to be well on its way towards independently tackling the abuses of this system.

C. 1. (iii) Apart from distributing samples, the broker also 'values' (i.e. sets an expected price on) the tea. These valuations—while they are conventionally not printed on auction catalogues—were freely available to the sellers as well as the buyers. It was found that certain sellers took strong exception to this practice and felt that these valuations should be treated as a contractually private matter as between the seller and his broker.

Commenting on this brokers asserted that the valuations were useful for the buyers (who independently taste and value it) to help them make up their minds as to whether it was worthwhile for them to bid for the tea. These valuations (according to the brokers) served as a sort of indicator norm for both the sellers and the buyers.

The Study Team found this contention relatively hard to accept. It was clear that to the extent buyers studied the 'valuations' it was to compare them with their own valuations and decide whether the tea was a good buy or a bad buy. The buyers' valuations were the final determinants of the bidding processes and the

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lot he would readily cut-bid even very big buyers and in that sense there was no real and effective collusion between bidders. The Study Team's own experience of watching auctions seems to bear out this judgement.

C. 5. Brokers were also consulted on commissions and whether it was best that they should receive commissions from sellers only or both from sellers (percentage) and buyers (per chest). In general brokers at each auction centre defended the practice of that centre. The Study Team's own opinions are presented in the chapter on "auctions". They, however, wish to put it on record that there was a need for securing uniformity in the regulation of auctions and that the tea trade should undertake urgent measures to do so.

C. 6. Brokers were also questioned as to the sources of the market intelligence. While brokers claimed to be experts on market intelligence, it was obvious to the Study Team that their information base was inadequate and their estimation procedures crude. In comparison with the more sophisticated buyers, the brokers are very much backward in terms of worthwhile market intelligence.

D. SYSTEM AS SEEN BY BUYERS

The Study Team was very impressed by the quality of the buyers' information and appreciations of the marketing system and its operations. In discussions with them the Team gained several valuable insights and while the Team did not propose to uncritically accept the buyers' judgement about either their own role and/or the functionings of the system, they could not help noting a refreshing absence of fuzziness in the replies obtained from this class of informants.

D. 1. As far as tea as a primary product is concerned it is a bewilderingly heterogeneous commodity varying by region, by elevation, by climate, by seasons, by methods of field practice, by methods of manufacture and a lot of other imponderables. Yet as far as the final consumer of tea is concerned he wants an uniform product, broadly distinguished into a small number of quality levels governed by the four classical factors of (a) flavour, (b) colour, (c) strength, and (d) cup quality. This means that BUY

ING, BLENDING AND FINAL MARKETING OF TEA IS A MATTER OF SELECTING FROM THE HIGHLY HETEROGENEOUS PRIMARY SUPPLIES AVAILABLE, A LEAST-COST COMBINATION FINALLY PRODUCING (IN MIX/BLEND) AN UNIFORM COMBINATION OF QUALITIES DESIRED BY THE CONSUMER.

D. 2. Since these operations are of considerable complexity and require the knowledge of and ability to utilise considerable masses of data, buying is a highly expert business and one where individual skill or judgement count very highly. Compared to any other section of the tea trade, therefore, the buyers have

- (1) more and broader-based information,
- (2) higher degrees of alertness and expertise,
- (3) and more accurate appreciation of the total conditions of tea marketing.

Thus, the skill with which they use the marketing system compares very favourably with other sections of the tea trade and confers on them a certain degree of economic advantage in dealing, purely based on skill/information differentials.

D. 3. Typically at an auction, the buyers who operate serve a number of interests. Even the major buyers for the blending/packing firms—who are usually identified as the buyer “for” such-and-such blending/packing firms—in fact, act for a very much more diversified clientele; foreign importers, overseas blenders and packers, single country buyers and others. Similarly, the smaller or ‘bazar’ buyers handle orders placed by domestic wholesalers and even direct retailers, but they also share in the handling of export orders.

D. 4. While buying for large blending/packing interests the buyer typically operates on the idea of getting his requirements below an ‘average’ price. While buying for foreign buyers the buying is done upto an instructed ceiling with the buyer being paid a fixed commission on volume.

The bazar buyer while acting for domestic traders operates on variable margins, the margin being higher the lower is the actual price secured as compared with the instructed margin.

Some bazar buying for the domestic (loose tea) trade is done on a speculative basis, the trader—if he has been clever in buying—offering the wholesaler his requirements at a price lower than currently ruling auction rates. Some wholesalers and retailers also buy directly at the auction and also from the associated bazar markets.

D. 5. Buyer behaviour at the auctions, therefore, is a highly complex phenomenon reflecting (a) who for the moment is buying for whom, (b) the anticipation of each buyer concerning how prices (and available supplies) are going to move and (c) the complex strategies of each buyer depending on the requirements he must cover and the commission income he must maximise.

D. 6. There are two primary targets of buying behaviour at the auctions : (a) trying to buy up one's requirements at the cheapest average rate possible, and (b) seeing that one's opponents, (buyers serving the same sector of ultimate demand) do not succeed in buying cheaper than oneself. It is the second factor which is the strongest reassurance against buyers combining to rig down prices at auctions, since each is unwilling to let his opponent 'cover' at costs lower than what he has been obliged to buy at.

D. 7. As far as the buyers are concerned, their attitudes to the auctions are favourable. In the general opinion of the trade, the auctions cannot be rigged and any attempt to do so is bound to react adversely on the buyers who form a ring. There is, nonetheless, a considerable difference in opinion among the two sections of buyers—the large organised buyers and the bazar buyers.

D. 7. (i). The organised buyers, it is alleged by bazar buyers, tend to accumulate a very large mass of buying power and regularly consult with one another about buying policy. According to the smaller buyers the common buying strategies of the major buyers exercise a dominant influence on auction prices.

As a bazar buyer in Calcutta put it, "the big buyers among themselves decide what the market is like. If they believe a shortage is coming, they outbid us all along the line. We have to operate to a fixed ceiling but they have the discretion. Again, if they decide that the market is going down, they stop bidding and prices collapse. We can outbid them on a few lots but there is

nothing we can do to hold up prices because our buying power is limited”.

According to such an assesment, big buyer expectations dominate the state of the market and the small buyers have to accept the verdict. It is only when big buyers differ in their assessments that the small buyer comes into his own.

D. 7. (ii). The larger buyers offer a different assessment of market behaviour. According to them, it is the activity of the small buyer, acting on uninformed “hunches” who makes it impossible to achieve an orderly marketing of teas. As one big buyer in Calcutta put it, “We organised buyers have a lot of information and we put it to use in devising our market strategies. The small buyer simply does not have that kind of information. Today the supply might be short, but we know that tomorrow a lot of arrivals will change the state of the market. But the bazar buyer who only sees the current market would be buying heavily on a rising market. The turnround when it comes is, therefore, all the more sharp”.

D. 7. (iii). By and large, however, in spite of these charges and counter charges, all buyers agree that auction prices are good indicators of the state of market forces and cannot be rigged in any significant sense.

D. 8. Both classes of buyers complain, however, that the market supply is largely insensitive to buyers requirements. “The tea that comes on the market”, as a prominent bazar buyer at Calcutta put it, “is determined by what the brokers say to the producers”. Unfortunately, “these brokers don’t have a clue to **what is going to happen**, only about **what has happened**”. The fact, for example, that clean black fannings were strong in the last auction does not mean there should be a brisk demand for them this auction. Things can have changed a lot in the meanwhile, but the broker keeps on advising producers to bring more and more clean black fannings to the market.

D.8. (i). Buyers who have (personal/financial) interests in various estates do pass on this kind of information to individual gardens to mutual benefit. The market system as a whole responds only with a lag to the demand pattern of buyers.

D. 8. (ii) Most buyers were in favour of setting up institutional arrangements by which producers could be informed in advance of the qualities and grades the buyers would want to buy, so that a better prior adjustment between what was required by buyers and what was required at the auctions could be secured.

D. 9. Most buyers also agreed that brokers' valuations have very little influence on the valuation the buyer is going to place on a tea. Each buyer forms his judgement—either by scientific tasting or by mere rule-of-thumb methods. He then compares his own judgement with the published broker's valuation and decides whether each lot is a 'poor' or a 'good' buy.

D. 10. The majority of buyers also regard the brokers as an un-informed lot. The general idea is that the broker is ignorant of both (a) the actual requirements and motivations of buyers in buying, and (b) the actual capacities of sellers to vary their products to suit the market. According to a Cochin buyer, "the advice given by brokers to clients is stereotyped, uninformative and of very little practical use to the garden who receives it".

D. 11. It was also argued that except for the pure purpose of auctioneering the broker had no useful function and that his excursions into the field of technical consultancy or market intelligence were both detrimental to the pure job of auctioneering which is his metier.

D. 12. Buyers tended to disagree with the idea that direct sales to buyers were undesirable or would tend to depress prices, at the auctions, as brokers had argued several times. They insisted that,

- (a) forward contracts were useful since they insured the producer against a falling market and the buyer against a rising one ;
- (b) ex-garden sales were useful for the domestic trade since they avoided the costs and delays of auction, as well as giving the producer a quicker return ;
- (c) the buyers were doubtful about the feasibility of direct packeting operations of gardens, but felt they would be happy to patronise a garden "blend" which remained reasonably uniform in quality over the year, both in and out of auctions ;

- (d) as far as direct consignment to London auctions was concerned, the buyers felt that the time wasted in consignment, etc, was unfairly long on the producer; and
- (e) that if India wished to have a suitable world indicator market, she could develop one of her own auctions (Calcutta) on the auctions at Colombo for the purpose.

D. 13. Buyers agreed in general that they were a relatively well-off section of the trade and had relatively good margins. They, however, insisted that these margins reflected their risks, information differential and buying expertise. They said that if producers cared to develop these skills (as some leading garden groups had done) the market accords them similar margins.

D. 14. Buyers also agreed that in general the system of lot divisions tended to favour competition. According to smaller buyers, the practice allowed them to bid upwards without fear of being burdened with a larger quantity of tea than they would absorb.

It was argued by some that on a falling (or depressed) market lot division was deliberately utilised as a defensive bidding strategy. Others argued that on a rising (or high) market, the major buyers tended to use the option of NOT dividing lots to artificially restrict competitive bidding. It was suggested that any small buyer outbidding a large buyer should be allowed to take a minimum of ten chests and dispose of the rest of the lot to the last large bidder at the price the bidder offered.

D. 15. On the question of outlot sales most buyers agreed that while the right to take a lot out should rest with the broker the present system of privately negotiated outlot sales was not perfect. A suggestion was made that

- (i) The price at which an outlot sale was made should be publicly posted and a set time allowed for other buyers to make higher bids, the highest bid made getting the lot; and
- (ii) if the highest bid made was still too low for the broker's satisfaction, the lot should be re-auctioned.

D. 16. Buyers in general felt that present marketing institutions were adequate and the fault lay in producers not getting enough market information.

E. SYSTEM AS SEEN BY OFFICIAL POLICY-MAKERS

The Study Team, in its consultations with official policy-makers with respect to tea-marketing (in the particular case the officials of the Tea Board, the Commerce and Finance Ministries and the Ministry of Agriculture) attempted to establish their attitudes and views concerning the present operations of the system and their ideas concerning how these should be improved. The Study Team, while impressed by the cogency of the opinions expressed by individual policy-makers as well as by their ideas as to how things should be changed, did not find in the sum any coherence or clear thinking as far as the approach of the policy-makers to the problems of tea marketing was concerned.

E. 1. The Study Team was concerned to observe that among certain influential sections of the policy-makers there persisted the idea that tea exports could be promoted only by restricting the domestic market. This way of 'promoting' exports suggests (a) that the **volume** of tea production would not be affected by restrictions on the domestic market and (b) that the forcing of export sales would not react adversely on the unit values realised. Indeed, it was observed that in planning export strategies ahead official calculations had envisaged falling unit values realisations and expected to realise their export earning targets by volume expansion alone.

E. 1. (i). The Study Team found no awareness of the extent to which sharply rising unit costs of production in the tea industry would make such a strategy unworkable in the long run even if the other underlying assumptions were true, which they were not.

E. 1. (ii). This strategy of demand restriction on the domestic market to push down prices therein and to force producers to export under distress sale conditions also did not match official concern with low unit value being realised and their recognition of the necessity of international marketing agreements to enable producers to control their offers on the international market in order to realise higher unit value. The Study Team was surprised to observe that such a direct contradiction in approach

- (a) to push up export volume in order to realise export earning targets at **LOWER UNIT VALUES**, and
- (b) to enter into agreements to **RESTRICT** export offers to secure **HIGHER UNIT VALUES**,

could exist in the thinking of official policy-makers. The Study Team would like to comment that approach (a) was both contradictory to common sense and sound economic reasoning and actions based on it tended to jeopardise approach (b), which was evidently the better of the two.

E. 2. The Study Team also found official thinking on the functioning of the marketing system unrealistic and self-contradictory.

E. 2. (i). On the one hand there was considerable suspicion that the auction system(s) particularly London Auctions were being rigged by buyers combines and at the same time suspicions persist of ex-garden sales and forward contracts as sources of abuse such as under-invoicing and clandestine profit transfers abroad. The Study Team would like it to be appreciated that an open auction system is the only objective check available on the abuse of ex-garden sales and similar privately-negotiated deals. Thus, to be simultaneously suspicious of both auction and non-auction channels is bad policy unless one is thinking of a totally new process for marketing tea. But (while themselves not opposed to radical solutions if they constituted an improvement on the current system) the Study Team was unable to discover any such ideas in existing official thinking.

E. 2. (ii). The Study Team was also puzzled by the simultaneous presentation of the charge that Sterling companies (in India) preferred the 'rigged' London Auctions as a method for transferring profits to their British associates ; and of the charge that there was a conspiracy in the London Auctions to offer higher prices for Kenyan teas as compared to Indian teas. It was difficult to appreciate why a buyer who wanted teas to be **UNDERSOLD** in one set of cases would want them to be **ARTIFICIALLY OVERPRICED** in another. In the first case the British buyer would be transferring profits **from** one primary-producing country and in the second case transferring profits **to** another producing country. **APART FROM THE FEASIBILITY OF THE OPERATION (OF WHICH THE STUDY TEAM HAS SERIOUS DOUBTS) WHAT WOULD BE THE PURPOSE OF SUCH INVOLVED TRANSACTIONS ?** It would only be possible if it was a politically-motivated operation and this would make out the British buyers to be a politically-oriented rather than a business-oriented group. This, to put it mildly, seems somewhat improbable.

E. 2. (iii). The Study Team was also puzzled by the element in official thinking which believed that by engaging in a state sector venture (in the particular case the Tea Trading Corporation of India) to engage in large scale packeting for domestic consumption as well as export, the situation could be changed for the better. While the Study Team has nothing to say about the benefit to the nation of a state sector packeting venture, should it be possible to run it profitably, it is highly unlikely that this should make any difference to the primary prices of tea EITHER IN INDIA OR ABROAD.

It should be fairly obvious that a packeting operation only shifts the ultimate form in which the tea reaches the consumer and does not add to or subtract from the level of primary demand for tea. Only if it proposes to outbid its packeting competitors and to pay a higher price for its teas would its existence make any significant difference.

In view of the fact that the Corporation would be at a disadvantage both as to per unit overheads and selling costs as compared to its competitors, it would be very difficult for it to propose to outbid existing packeteers on the auctions and at the same time to make reasonable profits. On the other hand if the intention is to operate at a loss and thus indirectly subsidise the producer, more direct ways of so doing should be utilised.

E. 3. Tied up with the idea of selling packets abroad was the idea of marketing a 100 per cent Indian pack as a promotional device, even if this meant operating at a loss. This seemed to the Study Team to reveal fundamental confusion about the whole subject of promotion. The consumer is (in general) unaware of the country-origin of the teas which make up the packeted blend which the consumer drinks. Thus, even if a 'national image' is built up with the CONSUMER, his preferences are unlikely to affect the primary sales of Indian teas. The sort of promotion which must be directed at the CONSUMER is GENERIC and not UNI-NATIONAL PROMOTION.

E. 3. (i). It may be more useful, however, for the Indian Government to persuade foreign governments that tea marketed as 'Darjeeling', 'Nilgiris' etc. as brand names should be statutorily required to contain a minimum portion of Indian teas whose names

are being in this way misused by foreign blender-packers. To the extent consumers have stable brand-preferences, this may promote sales of Indian tea.

E. 3. (ii). The trend of official thinking seemed also to be vague and confused on the subject of promotions as a whole. This was revealed by the tendency to rely on the promotional efforts of the Tea Board which have been so far demonstrably inadequate. In particular, the Study Team notes that official thinking is unaware of—

- (1) the common interest producers and blender/packers have in the generic promotion of tea and the possible use of foreign packers as a source of funds for generic promotion,
- (2) the necessity of directing ununational promotion to blender/packers and buyers abroad and doing it as a technical sales rather than consumer-marketing operation,
- (3) the necessity of adequate funds and expertise in running advertisement campaigns and leaving the design of such campaigns to competent professionals, and
- (4) the necessity of keeping the trade involved in and informed about the campaigns and the results secured.

E. 4. Last, but not the least, official thinking seemed to be confused and inadequate on the question of the needs of the producers which must be fulfilled if they are to emerge as scientific users of the tea marketing system. The Study Team found little awareness of

- (1) the need for altering plantation laws in order to allow the conversion of surplus (and unprofitable) areas under tea to more paying crops as an essential basis for the workability of any system of controlling output and maintaining floor prices,
- (2) the need for altering bank-credit regulations for providing producers with finance to hold their teas till the right moment and not to place them in conditions where they are forced to make distress sales,
- (3) the need for establishing an adequate system of international market intelligence in order to enable producers to adjust their supplies to likely patterns of demand ; and

- (4) the necessity for treating tea exports on a par with other forms of export earnings and not penalise it by categorising it as a traditional export item.

E. 5. In spite of the above noted serious confusions in approaches to tea marketing problems the Study Team found encouraging evidence in official circles of awareness of the serious nature of the problems confronting the marketing of Indian teas. It was also encouraging to find a great deal of sympathy for the purpose for which the Study Team was working and a considerable degree of openness to new ideas and suggestions.

In concluding this brief summary of opinions and ideas circulating among people connected in one way or another with the tea marketing system, the Study Team would like to make it clear that in spite of trying to evaluate the opinions expressed ad hoc as to their logical consistency and evidential backing, the Study Team's main purpose was not to evaluate but to listen and form its own opinions of the matrix of issues and policy-questions they would be called upon to deal with in the actual process of empirical study of the marketing system.

Briefly, the Study Team decided that its work was in two interrelated dimensions. First, there was the question of establishing the **facts**, as contradistinguished from **opinion** in two critical areas.

- (1) the functionings of the auctions subsystem, and
- (2) the workings of the international marketing system.

Based on such facts as could be unequivocally established in these areas, the second part of the Study Team's work followed. This constituted in making recommendations about

- (i) institutional arrangements for making the marketing system more orderly in the operations and a better reflector of underlying forces of supply and demand ;
- (ii) design of a strategy by which producers of tea in India (acting in collaboration with producers and marketing interests in other countries) could best utilise the marketing system in order to secure higher and adequate unit value for their teas.

Chapter III

THE AUCTION SYSTEM

A. THE NEED FOR AUCTIONS

A. 1. Technical Characteristics

(a) **Heterogeneity** : Tea is a commodity whose quality varies from garden to garden and season to season. Different elevations and different soil conditions affect the quality of the leaf. The agricultural practices have an impact on quality and quantity of leaf produced. Climatic conditions and finally the process of manufacture would all have impact on the type of tea produced. This is in contrast to other agricultural products like wheat and rice which are relatively homogeneous commodities.

(b) **Storage** : The quality of tea deteriorates on storage—particularly in tropical areas where it is produced. While proper packaging can slow down the deterioration, it has been the experience that really effective packaging is too expensive to be generally adopted.

The above two characteristics of tea will imply that an efficient marketing set up must be capable of handling a large volume of not just one commodity but a whole set of similar commodities (all of which serve the same function) and also that the handling must be rapid or else the quality of the products will deteriorate.

(c) **Consumer Tastes** : Since tea drinking is generally a habit, the consumer demands a quality of tea that is uniform throughout the year. Furthermore, he demands a uniform quantity of tea throughout the year. Thus, unlike the production of tea which varies widely in quantity and quality from season to season, at the point of final consumption the product needs to be of uniform quality and the quantity consumed remains more or less the same throughout the year. There are seasonal variations in the demand for tea, but these variations are small compared to the variation in production due to seasonal changes.

A. 2. These technical characteristics have important implications on the type of marketing system that is needed;

The consumed product needs to be homogeneous whereas the produced product is heterogeneous. Hence the marketing system must include a blender who is able to perform this operation. In a way the blending operation in tea is similar to the operation performed by a cattle feed producer. The cattle feed producer knows what the requirements of the cattle are in terms of protein, carbohydrates, vitamins etc. He also knows how much of each of these essential ingredients are contained in different products. The products have now to be chosen in such a way that the final feed contains the stated requirements of the cattle and this combination should be the least cost combination. The problem of the tea blending is similar, but has one additional complication which is not present in the case of cattle feed producer and that is that the final product should be uniform throughout the year. Cattle do not mind variations in taste, human-beings unfortunately do!

A. 3. Thus the tea blender in order to perform his operation efficiently requires a high degree of technical competence in the evaluation of tea. He must know how to evaluate different grades and the effect of variations on his hand blend. This fact that the buyer of tea needs to be technically competent has an important bearing on some of the criticisms levelled against the auction system, which shall be considered later.

A. 4. The auction system is able to offer blenders access to all the teas that are produced, so that the blender is able to take an intelligent decision on the type and quality of teas to buy. Basically there are two alternatives to the auction system.

A. 4. (i). Tea could be marketed like any other agricultural commodities like wheat or rice. Here the producer sells his product to the wholesaler. As long as there is some competition in the wholesale market, there will be a market price at which all producers can sell their commodity. This is the way most commodities, both agricultural and manufactured are marketed. The main requirement is that the product should be relatively homogeneous so that a single market price can be established.

In the case of tea, clearly this condition is not fulfilled. The quality of the tea produced by different producers and even the same producer from different areas of his estate will not be uniform and hence cannot command the same price. Since there

is no single market price, it would mean that each sale would be a test of bargaining strength for the buyer and the seller. Moreover, very little information will be available with the buyer and the seller on the price that similar teas command in other centres of the market and gathering this information will be expensive both in terms of money and time. Time is of importance in this case because of the deterioration in quality of tea during storage. Auctioning the tea on the other hand is liable to expose all the varieties of tea simultaneously to all the buyers. This will result in similar prices being paid for similar varieties of tea (assuming of course that there are no malpractices) and this is done at a comparatively small cost.

A. 4. (ii). The second alternative to auction would be for the producers to directly market the tea through a chain of distributors to the final consumer. This is generally the way that most consumer products are marketed—cloth for example. There are several varieties of cloth available and the consumer chooses that variety which suits his requirement most closely.

The same system in the case of tea will run into some trouble because unless the producing unit is very large so that a number of varieties of tea are produced within the same producing unit, the quality of tea cannot be uniform throughout the year. Moreover, however large the producing unit is, the blender who purchases from all producers would always have greater options open to him. Hence he would be able to sell a superior product at the same price or a similar product at a lower price, or most likely a better product at a lower price. In fact, it has been the experience of the few producing units who have attempted to market their product that they cannot compete with a blender who purchases from all producers.

A. 5. There are of course many other alternatives which involve combination of elements of both the basic alternatives mentioned above and some of these alternatives will be considered later, not so much as a replacement of the auction system but as a complement. One method which has been gaining ground (see table 2) has been sales from the garden directly to the blenders.

A. 6. This method of sale bypasses the auction, but the prices at which these ex-garden sales take place are fixed on the basis of auction prices. Without auction prices there to guide these sales,

the difficulties which we have previously listed in arriving at a price will be present and these transactions will begin to lose some of the advantages they now have.

A. 6. (i). There are two principal advantages to buyers and sellers who resort to direct sale. Firstly, some costs connected with the auction, e.g., broker's charges, warehousing and freight charges and some taxes are saved. The second advantage is that prices in these sales can be fixed for some period of time—which amounts to a forward contract. Thus, both buyers and sellers can use ex-garden sales as a hedge against fluctuations in auction prices.

A. 7. As explained in the previous section, there are no really acceptable alternatives to the system of auctions in the case of tea and it has been our impression that all sections of the market are unanimous on the inevitability of auctions, and on its utility as a forum where there is open bidding and competition among buyers. The criticism centres around the functioning of the auction and the existence of various malpractices which seriously threaten the impartiality of the auction system. We shall examine first the criticisms directed against the brokers and the buyers and then examine those against certain practices at the auction, for example, the division of lots.

B. THE BROKERS

B. 1. In an earlier section we had already briefly considered the criticisms directed against the brokers. They are dealt with at some length below. The principal conclusion that we can draw from a consideration of these criticisms is that the brokers by themselves cannot affect the impartiality of the auction system unless there is also collusion between the major buyers as well.

B. 2. (i) **The Commission :** The brokers receive a commission from the producers for selling their tea. Hence in the auctions, since the brokers' income depends on the price of tea, the brokers are supposed to represent the sellers. In Calcutta, the brokers additionally receive a commission from the buyers. The brokers' commission from the sellers is dependent on the price of tea but his commission from the buyers is independent of the price of tea. Hence there need not be any reason for the broker to sell the tea at a lower price than the market can pay.

B. 2. (ii) Notwithstanding this, there has been criticism against this practice of the brokers accepting a commission from the buyers. The argument is that the (number of) buyers is relatively few (particularly the major buyers) compared to the number of sellers, and thus the largest patrons of the brokers are the buyers. This makes the brokers vulnerable to pressure from buyers, who are their largest clients. To safeguard this relationship the broker may collude with the buyer to depress market prices.

B. 2. (iii) We shall note here only that brokers will be successful in depressing market prices only if the buyers collude not only with the broker but also themselves. If a broker colluded only with a single buyer in the auction where the tea has to be exposed to all buyers, there is no way the broker can allot tea to a particular buyer unless he is the highest bidder. All that the broker can do is to try to mislead the other buyers about the quality of the tea by issuing a false valuation report. This is not likely to mislead buyers who will be receiving samples of the same tea and who are equally, if not more, knowledgeable than the broker in judging the quality of the tea. Thus, other buyers seeing good tea being sold at a bargain price would bid up the value.

B. 2. (iv). This sort of broker-single buyer collusion will work only to the extent that other buyers can be misled—but this is unlikely given as we have seen in the previous section, the need for expertise on the part of the buyers. The case of the broker colluding with all buyers (or at least the major buyers) will be examined in a later section.

B. 3. Valuation of Tea

B. 3. (i). The Study Team is of the opinion that both cases of undervaluation and overvaluation undoubtedly occur. To a certain extent this reflects human error on the part of the broker since the valuation reflects not only objective properties of the teas but also the broker's judgement of the likely state of the market on the day of auction. Beyond this factor of human error there is also some deliberate overvaluation and undervaluation.

Deliberate overvaluation is utilised in a strong market in order to persuade buyers to start the bidding initially at a higher value and thus secure a better price. On a weak market deliberate

overvaluation is used in an attempt to persuade buyers that the lot is a good buy and, therefore, generate bidding interest.

B. 3. (ii). That such strategic use of valuations is a recognised part in the trade is shown by the practice of buyers who regularly make their own valuations to note on their catalogues each lot as overvalued (OV) or undervalued (UV). It also shows that this overvaluing or undervaluing—insofar as it does not reflect error—is part of the market strategy of the broker in this attempt to secure maximum income to sellers and thereby maximise commissions. There does not seem to be any possibility that the broker should either consistently overvalue (in trying to fool buyers) or consistently undervalue (and thus undermine sellers' interests). Any such attempt is bound to be frustrated by market forces and the fact that buyers are of necessity skilled at their job and cannot all be fooled consistently.

B. 3. (iii). The Study Team feels that consistent overvaluation is possible only when for a particular grade there is a single buyer and that buyer operates with both vast resources and also with politico-economic motivation. This seems to have been the case with the early phase of USSR's operation in the Indian auctions for Darjeelings and High Grown Nilgiris. However, in such circumstances—there being only one buyer and hence no competitive price mechanism operating—there is no objective price either and the buyer's decision to pay a high price may be an act of long-term strategy quite uninfluenced by the brokers' valuations.

B. 3. (iv). For the above reasons the Study Team feels that deliberate and consistent overvaluation/undervaluation occurs only to the extent it represents a market strategy by which the broker seeks to improve his sales performance.

B. 4. The question of whether the broker (in collusion with major buyers) undersells the teas is of course a separate question from whether he undervalues it. And it is also a more serious charge. The Study Team, therefore, analysed this possibility at length.

B. 4. (i). It must be recognised that (given the state of the market) an auctioneer has a certain latitude concerning the price at which he sells. This arises from his discretion as to whether to accept a bid which looks too low or to take the lot out. Similarly there is

the recognised practice of auctioneers coaxing buyers to 'touch up' their bidding on one lot and 'meeting them' at a lower price on subsequent lots. It follows, therefore, that the auctioneer has some (though not unlimited) control over the price at which he sells and could undersell—to a limited extent if it suited him.

B. 4. (ii). It is alleged that the brokers use this power **in collusion with major buyers** to sell teas at lower than realisable prices. For such a collusion to be effective it must (a) benefit both sides, and (b) be sustainable against corrective market forces.

The buyer's benefit from such collusion is clear. The broker (whose income depends on a commission *ad valorem* from the seller and a fixed per chest commission from the buyer) would be losing income from any deliberate under-selling. Thus, it is not clear why he should be interested in collusion with a major buyer.

To the extent some buyers are also major sellers, i.e. garden owners, it is of course possible for them to compensate the broker for his loss on commission by bringing him more business. The collusion, then, would be a seller-buyer-cum-broker collusion against other sellers and buyers. This will be investigated later.

B. 4. (iii). But even assuming for the sake of argument that buyers work out some method for compensating the co-operating broker for his loss, it still remains to be demonstrated that the collusion is workable. Since the actual selling must be done on the auction floor where other bidders are also at work, such a collusion between **one** major buyer and the broker will be frustrated by the bidding of **other** major buyers who have a **DEFINITE INTEREST TO SEE THAT THEIR COMPETITOR DOES NOT OBTAIN AN ADVANTAGE BY BUYING TEAS CHEAPER**. It follows, therefore, that unless **ALL MAJOR BUYERS** join the ring, the collusion will be unworkable.

B. 4. (iv). It is clear that the problem of compensating the collaborating broker is easily solved if the colluding major buyer is also a major seller. However, from such a collusion the only gain that the buyer-seller can secure is that of transferring profits **FROM THE GARDEN END TO THE BUYING FIRM**. **BUT IF THIS HAD BEEN THE WISH IT COULD HAVE BEEN ACHIEVED BY THE MUCH SIMPLER PROCESS OF**

DIRECT SALE OUTSIDE THE AUCTION. This would not have involved

- (a) Any costs of compensating the **broker,**
- (b) Any danger of counterbidding by competitors, and
- (c) Would have saved auction costs.

It is, therefore, incomprehensible why a more complicated and less certain method would be used to achieve a result which (if wanted) could be secured by simpler and more certain methods.

B. 4. (v). Consequently, the Study Team is of the opinion that the various charges of collusive underselling by broker/buyer communications are without foundation and reflect ignorance of the mechanics of the system of sale through auctions. The case of brokers separately colluding with all buyers is treated below :

B. 5. The Competition Between Brokers :

B. 5. (i). It is a fact that a very small number of brokerage houses control all the tea sold through auctions. The services rendered by each of them is uniform and the commission charged is fixed. The major brokers themselves admit that certainly less than 2% of their clients shift from one broker to another. The true figure is not available and if anything is likely to be lower and not higher. Hence, there appears to be substance to the view that there is not much competition between brokers.

B. 5. (ii). The point at issue, however, is not the absence of competition between brokers but the effect of such absence on the auction. Here we should distinguish between the two major functions that broker performs. One is the pre-sale help to the producers in keeping him informed about market conditions, helping with quality control etc. and the other is the actual sale of the tea at the auctions. What is crucial at the auction is competition between buyers, the broker is only passive in this part of the operation. The only control he has is to withdraw lots from the sale if the price realised is not adequate. Where competition between brokers helps is in the quality of service rendered to the producer before the auction and on this score there is little complaint.

B. 5: (iii). Thus, if there is any lack of competition between brokers this will be reflected not in the prices realised at the auction which is not under the control of the broker (except in the event of collusion) but in the services rendered to the producer. There is no evidence that such services have not been adequate.

B. 6. Distress Sales

B. 6. (i). The charge as to the tendency of the brokers being in a hurry to sell and realise their commission instead of holding on to the right moment to realise the best price, deserves more serious consideration. Undoubtedly certain errors of this type do occur. The question is whether they are avoidable. When the broker makes a decision to sell he has to take into account

- (i) the remunerativeness of the price currently offered ;
- (ii) the probability that prices will rise in the immediate future ;
- (iii) the relative preference of his principal (the seller) for an immediate return as against holding on to stock (and paying interest and warehousing charges) in the hope of a better price.

In exercising such a complex judgement brokers do make many decisions which (in the light of hindsight) may look like avoidable errors. This type of error, however, is the more likely the more financially embarrassed and eager to sell is the principal and the extent to which the broker has been lending the principal money.

B. 6. (ii). Evidently this ties up also with the practice of brokers extending finance to clients (gardeners) for short periods when normal bank finance is, for some reason, not available.

B. 6. (iii). The Study Team was, therefore, of the opinion that as far as gardeners in good financial condition and not requiring finance from brokers were concerned, the phenomenon of excessive hurry in selling was of minor importance and more the result of error than of intention.

B. 6. (iv). As far as gardeners seriously in debt to brokers were concerned, the problems both of immobility and subjection to

broker's pressure for selling quickly were undoubtedly serious. It is the judgement of the Study Team, however, that

- (a) the volume of lending by brokers is small, and
- (b) although, in principle, brokers extending loans to clients is an undesirable practice it cannot be summarily discontinued without the creation of alternative short-term finance arrangements.

B. 6. (v). The Study Team also agrees that the shortages of adequate finance at the warehousing/marketing stage was an important factor of bias against the seller and tended to weaken the efficiency of the auctioning system by generating a tendency towards distress sales. It should be noted, however, that the conflicting interests of the buyers will frustrate attempts to sell lots consistently at lower than normal prices. Moreover, in this matter the producer could also give the broker guidelines on the price at which the lot should be withdrawn from the auction.

B. 7. Market Information :

To the producers, the main source of information on the state of the market for his product comes from the brokers. All brokerage houses therefore, spend some effort in collecting and codifying information about the tea market. Some producers however, feel that the brokers have little or no information on the final market for tea, that is where consumers purchase their tea. The market information that the brokers pass on to the producers is that gained from informal contacts with the buyers. There is no doubt that periodic surveys to find out the type of tea, the form (e.g. packaged or loose) of tea and the prices at which teas are sold will be useful to the producers and will enable him to have some of the information that is now available to the buyer but not to him. This is something that can be organised quite easily by the brokers and made available to producers.

B. 8. From the preceding paragraphs it is apparent that the serious criticisms levelled against the brokers are not really directed at the brokers but against the buyers colluding with the brokers and this will be examined in the following section.

C. THE BUYERS

C. 1. The London Auction

In broad outline the organisation of the London Auction is similar to that of the Calcutta and Cochin Auctions. The differences are one of detail and since they have no substantive effect on what we shall deal with it is not necessary to detail these differences.

C. 1. (i). Approximately 60% of the tea consumed in the U. K. is bought from the London auctions, the remaining being bought from auctions in the producing countries or else directly from producers. Some of the major blender packeteers, particularly Brooke Bond have large estates of their own, but the bulk of even those teas are handled by the auction.

C. 1. (ii). The number of selling brokers has fallen sharply from 19 in 1956 to 5 in 1970. The number of buyers have become fewer. There were 113 members of the Tea Buyers' Association in 1956 and the number has fallen to 41 by 1970. This fall is consequent on the reduction of purchase by small buyers both for the domestic market and for re-export. The re-export trade from the UK has fallen due to increased exports to third markets by the producer-countries. In 1938 re-exports of tea amounted to 14% of total UK tea imports. By 1972, the proportion had fallen to a little over 9%.

C. 1. (iii). The major development has been the increase in concentration among the buyers. The demand for tea in the retail market has increasingly centred round the four nationally advertised brands to the exclusion of the small grocer brands. In 1970, the combined share of the market of the four leading brands was close to 90%, up from 70% in 1954. One company by itself accounted for as much as 43% of the total tea sold in retail in the UK in 1970.

C. 1. (iv). On the supply side, India, Ceylon and East Africa continue to account for the dominant share of UK imports. (see Table IV). East African teas have been increasing their market shares particularly at the expense of Indian teas but also of Ceylon (see Table IV).

C. 2. It is clear from the brief description we have given that the degree of concentration of the buyers in the London tea market

is high. It is alleged that this degree of concentration had a marked effect on the marketing system of tea as a whole. In particular the criticism has been that the buyers by acting in concert have been responsible for the artificially lower prices prevailing in the London auction. The Study Team has spent some considerable amount of their time on this question and one conclusion is that there is little substance in this criticism for the reasons offered below.

C. 2. (i). There are some market situations which are conducive to collusive activity. One of the most important of such conditions is that there are relatively few participants. As the number of participants increases the probability of deviant behaviour also increases which will upset the coalition. However, it is important to note that while fewness is a major pre-condition, it is not the only one. It is well known, for example, that product heterogeneity complicates collusive activity. In the case of tea, for example, there are multiple varieties of tea available at each auction, and from auction to auction the grades offered vary. Now a collusion agreement between buyers must be extremely complex to be able to specify who get what at what price. Such bargaining will need to be done before every auction as the grades offered change. Moreover, this has all to be done in secret as any overt-collusion is illegal. It is not that such an agreement is not possible to be worked out, but just that it is a rather complex arrangement and as such unlikely to prevail over the years without some participants upsetting this arrangement.

C. 2. (ii). Given the complexity of such an arrangement there has to be a very close degree of cooperation between the major buyers. One would, therefore, expect that this cooperation would extend to the selling operations also, particularly since there is strong evidence of a low elasticity of demand for tea at the retail level. This is ideal for collusion since prices can be increased with only small reductions in offtake. However, a detailed study by the Monopoly and Restrictive Trade Practices Commission in 1954 reported that there was vigorous competition among the packeteers in selling. As recently as in 1970, the Prices and Income Board, in examining a price increase by the major packeteers found no evidence of collusive behaviour. In fact, they found that over the years "the main area of increases in costs were in selling and promotion, including advertising. The companies are each endeavouring to increase its share of the falling market at the ex-

pense of its competitors, and are seeking to achieve this by continual increases in expenditure on advertising and promotions”.

C. 2. (iii). Such behaviour is surely incompatible with the existence of an agreement between the major companies on selling arrangements and if this is the case, as we have argued before, it is unlikely that there exists an understanding on keeping purchase prices down.

C. 2. (iv). There has been considerable study and analysis of the relationship between stocks of tea in London warehouses and the price of tea realised in the auctions. All the studies have concluded that there is strong evidence of a systematic relationship between the level of stocks and the prices of tea. A study made by the International Bank for Reconstruction and Development in April 1970, examined the relationship between 1956 and 1969 and estimated the following equation :

$$P = 75.301 - 0.3315S \quad (R^2 = 0.95)$$

where P = annual average price of tea sold in London in pence per pound

S = annual average end month stocks of tea in metric tonnes in bonded warehouses in London.

The meaning of the equation can be explained quite simply. An increase in stocks (a) by 10,000 tonnes in London will on the average decrease prices in the auction by 3.315 pence per pound. The R^2 being 0.95 indicates a very close correlation between stocks and prices.*

C. 2. (v). The level of stocks of tea in London indicates the supplies of tea available for the UK market. The supplies in the London market depends on both production variations and availability of shipping from producer countries. Both production and shipping of tea have been highly variable, the former due to a variety of reasons, particularly climatic changes, and the latter due to irregularity of shipping services from producer countries.

The demand for tea on the contrary remains stable. In a competitive market of this type one would expect prices to react

The estimating equation was $P_1 = 215 + 0.81P_2 - 0.12T$

P_1 = Price of North Indian leaf tea in London Auctions

P_2 = Price of North Indian leaf tea in Calcutta Auctions.

The coefficient for P_2 was found significant at the 95% level whereas the time variable was insignificant. ($R^2 = 0.46$).

to changes in supplies. When supplies increased prices would decline and when supplies decreased prices would increase.

C. 2. (vi). On the other hand if there is collusive behaviour one would expect that there would not be a systematic reaction of prices to stocks. The very purpose of collusive activity will be to reduce the effect supplies have on prices. Moreover, it would take time for the colluders to find out the level of stocks, agree on the conditions of supply and finalise the strategy to be adopted. Indeed in view of the human difficulties of collusion, one of the standard tests to detect the presence of oligopoly in a market is to consider the frequency of price changes in response to known changes in supply and demand. The less frequent the changes in prices, the less competitive the market. More importantly one would also expect an asymmetry in reactions. In a non-competitive market one would expect that increases in supply would lead to decreases in prices more frequently than decreases in supply would lead to increases in prices. There is no evidence to sustain this hypothesis either.

C. 2. (viii). Auctions of tea are held not only in London but also in other centres of the world and UK buyers account now only for 20% of the tea bought in the world (1965-67) average. London retains its name as the centre for the 'Indicator' price of tea not because it accounts for the major quantity of tea bought and sold (it does not) but because tea from all producer countries come to London to be auctioned whereas other auction centres, principally those in the producer countries themselves, specialise in tea from a particular country. London is not the place where the price of tea is set and it is not in that sense that the London price is the indicator price. The price is set in all markets jointly. If the price of tea in the Indian market for example rises because of strong domestic demand, the price in London must also rise or else the supply of Indian tea to the London market will fall. It is not the demand or supply in one market alone that sets the price but the total demand and supply in all markets. Clearly because of transport difficulties there may be dislocations in supplies to certain markets but these are temporary and do not influence the trend of prices.

C. 2. (ix). An examination of the behaviour of prices of tea in the London auction and Calcutta auction confirmed the hypo-

thesis that supplies of the particular markets were highly influenced by the relative prices. The correlation of prices of North Indian leaf tea in the London auction and the prices of leaf tea in Calcutta auction was found to be extremely close showing that developments in one market immediately affected the other market.

C. 2. (x). Once it is realised that the price of tea is set not in one auction centre but as a result of demand and supply forces active in all markets then even the strongest evidence in favour of collusion, namely fewness of buyers loses its strength. There may be only a few buyers in London but we have to compete not only with other London buyers but buyers in other markets as well.

C. 3. The Indian Market

In the Indian market the degree of concentration of buying is much less marked than in the UK. Exact figures are not available on this but there are some rough figures which give some idea of the degree of concentration. Approximately 60% of the tea sold in the retail market is by loose tea merchants and the remaining 40% in packets. Of the tea sold in packets approximately 60% is accounted for by one packeteer and a further 20% by another. Then altogether approximately one quarter (60% of 40%) of all the tea sold in the retail market is accounted for by one company and another 8% (20% of 40%) by another and the balance two-thirds is sold by a large number of relatively small companies. This compares with four companies accounting for 90% of the retail sales of tea in the UK, with one single company controlling 43% of the total tea market.

C. 3. (i) Even the above picture overstates the degree of concentration because a large proportion almost 48% (average of the last 5 years) of total production is exported. Of the tea exported 40% is to the UK and the balance 60% to other countries.

C. 3. (ii). Thus it is clear that the degree of concentration in the Indian market is considerably lower than in the U. K. market. Thus the strongest argument for the presence of collusion namely the presence of few numbers which control the dominant share of the market is much weaker in Indian auctions. In addition, all the other points we have noted in the case of the London market apply in this case also. It is, therefore, extremely unlikely that

market rigging by collusive activity takes place in the Indian auctions to any significant extent.

C. 4. A frequent complaint is not that there is any tacit collusion *between the major buyers* but an informal understanding on strategy. That is, the major buyers agree to bid strongly or weakly and because the other buyers are small, the former are able to *considerably influence* the level of prices in the auction. Suppose, the big buyers decide that the market is going down, then by keeping away from the market, the market will in fact go down because the small buyers cannot take up all the slack due to the absence of the big buyers.

C. 5. The point to be noted here is that if the big buyers are wrong the market will go up eventually and they will be losers. The big buyers cannot keep away from the market indefinitely. On the other hand, if they are correct, it only means that their buying strategy was superior to the small buyers. What is not correct is to say that the big buyers are able to rig the market by staying away or bidding strongly, they can have short term effects on market prices but since the major portion of tea is accounted for by other buyers this action cannot influence by itself the behaviour of prices over a longer period.

D. DIVISION OF LOTS

D. 1. Bidding proceeds until one bidder has outbidded all others for a lot. At this point another bidder may ask for a share in this lot. The highest bidder may or may not agree to this division. It is his choice. Depending on the size of the lot, the number of parties allowed to share is different. The exact rules differ from auction centre to auction centre, but the principle and the purpose remain the same.

D. 1. (i). The purpose behind allowing division of lots to occur is clear. Since lots come in various sizes and with increasing quantities of tea being produced, the average lot size is tending to increase, small buyers will not be able to participate in sales where the lot size is large. This would mean that competitive bidding for bigger lots would be restricted to bigger buyers only and this might tend to reduce the prices realised on large lots.

D. 1. (ii). One way of avoiding this problem would be to limit the lot size so that the majority of the buyers could afford to bid for all the lots without any fear of being landed with too much tea of a particular grade. This is evidently not feasible as it would slow down the auction procedure too much to be able to handle the volume of tea that is offered.

D. 1. (iii). The danger of allowing division of lots is that while there may be more people bidding for the lots, since divisions are allowed, there will be a tendency to share the lot rather than outbid all other buyers.

D. 1. (iv). On balance it is difficult to judge whether the gain of having a larger number of buyers competing for each lot outweighs the loss of not insisting on the bidder having to outbid all others.

D. 1. (v). One thing that needs to be studied is whether in fact lot divisions work out the way it is intended to—that is the sharing of lots is between big buyers and small buyers and not in general between big buyers alone. There is no published data on this hence we are not in a position to be able to comment on this. If it turns out that most divisions involve only the major buyers who can surely take an entire lot without any embarrassment, then we would incline to the view that division of lots ought not to be encouraged. There is however, no evidence that this is so and it is quite possible that division of lots takes place generally involving the smaller buyers, and the larger buyers.

E. OUTLOTS

E. 1. If at an auction the broker feels that the price offered for a particular lot is not a reasonable one, he can take it out of the auction. He then has the option to put it back for auction at a later date or to sell it privately outside the auction. All such lots which are withdrawn from the auction are open to offers. Immediately after the auction the offers come in to the broker who presumably accepts the highest offer or else decides to put it up for auction again.

E. 1. (i). There has been some misgiving about this procedure as these sales are private sales and some buyers may not even be aware of the price at which some lots were finally sold. While we

have not heard any serious complaints from producers or buyers regarding such sales, it may be worthwhile for the participants to inquire into the procedure and if need be frame some rules, principally with a view to giving information on the prices at which such outlots are sold. Further recommendations are made in the Chapter on Institutional Reform.

F. CONCLUSIONS

The Study Team concluded that there is clear evidence against any significant interference in the free play of market forces in the auctions. The causes for the stagnancy of prices of tea in the auctions cannot be traced to market rigging but to other factors which are discussed in the following Chapter.

Chapter IV

A REVIEW OF WORLD SUPPLY AND DEMAND FOR TEA

A. PRODUCTION

The world production of tea has been steady throughout the post-war period (See Table). The major share of the production (about 60% of world totals excluding China and the USSR) is accounted for by India and Ceylon but this share has been steadily falling. There has been significant expansion in production by East African countries whose combined share in world production increased from about 5% in the mid-fifties to 8% in the three year period 1965-67.

A. 1. The rate of growth of production during the last two decades has amounted to a little over 9% in East African countries and a little less than 2.5% in India and Ceylon resulting in an overall growth rate of approximately 3% per year. Hence in terms of output expansion, the East African countries, though they account for only 8% of the total production of tea, have been responsible for more than 25% of the output increase in the post-war period.

B. CONSUMPTION

B. 1. The two principal markets for tea in the world continue to be the UK and the Indian market. Together they account for over 40% of world consumption of tea (excluding China and USSR). During 1972 the latest year for which figures are available the Indian market had emerged as the largest single market in the world accounting for approximately 244,000 metric tonnes, whereas the UK consumption figure amounting to a little less than 200,000 metric tonnes.

B. 2. Growth rates of consumption have differed in different regions. The annual growth rate of consumption of developed countries has been only a little over 1% compared with over 5% in the developing countries. This has resulted in a change over

the years in the pattern of consumption in that currently the developing countries account for more than half of the total consumption of tea.

B. 3. Among developed countries also there have been some important differences. The Commonwealth countries like the UK, Australia etc. where tea consumption levels per capita have traditionally been high have shown a decline of per capita consumption. In the UK which still consumes the highest amount of tea per person, there has been a decline from 4.4 kgs. in 1955-57 to 3.64 kgs. in 1971-73. In Australia too per capita consumption of tea has been declining. On the other hand, in the USA, which is a coffee drinking country with a low per capita consumption level of tea, the per capita consumption has been increasing steadily.

B. 3. (i). Among developing countries per capita consumption levels are still quite low. In India it is about 0.40 kgs. However, in these areas as we have noted already, consumption has been growing relatively fast. African countries (mainly the UAR, Sudan Morocco and Libya) have increased their total consumption of tea from 52,000 metric tonnes in 1955-57 to 79,000 metric tonnes in 1968-70, an increase of 52% in this period.

B. 3. (ii). There is yet another distinguishing characteristic discernible in the demand for tea in developed countries when compared to developing countries. There has been a number of studies of the demand for tea in the UK. All of them have found that demand is not responsive to price changes nor to per capita income changes i.e., demand for tea in the UK is both price inelastic as well as income inelastic. This is not a very surprising result considering that tea is a very cheap beverage compared to any other (coffee, milk etc.) and reasonable variations in prices are not going to affect its relative cheapness. Moreover, the UK levels of income are high enough to permit anyone to have as much of tea as he would like to have without really affecting his standard of living.

B. 4. There has been an interesting study done by R. J. Ball and others which strongly indicates that the fall in tea consumption has been matched by an increase in the consumption of instant coffee in spite of the retail price of tea having declined and the price of instant coffee having increased during the period under

review. It is quite clear therefore, that the level of demand for tea in the UK does not depend a great deal on the price of tea but on habit and other environmental factors.

B. 5. The demand for tea in other developed countries also follows the same pattern—very low price and income elasticities indicating that neither price nor income were of great significance in explaining levels of consumption. The U. S. market was, however, a significant exception in that the response to income appears to be significant though not that of price. There are reasons to believe though, that the positive correlation between income levels and the consumption of tea is a statistical artifact and does not represent a casual relationship. In other words, per capita income appears to have an effect on consumption levels only because both rose constantly during the period under review and not because the income increase contributed to the higher consumption of tea. In that tea drinking in the US has gained at the expense of coffee which is a much more expensive beverage. Hence it is difficult to believe that the income elasticity of demand for tea is high.

B. 5. (i). One feature though of the US demand for tea is that consumption of tea in packets and loose form has declined but that of tea in the form of instant teas and tea mixes have increased so that overall consumption of tea has gone up.

B. 6. In the developing countries there have not been as many studies of the market except in India. The Indian consumption level of tea has proved to be highly responsive to income changes, less so to price changes. Nonetheless, tea has a significant price elasticity of demand. This result again is not a surprising one as tea though the cheapest beverage available, is still fairly expensive when compared to the average level of per capita income in India. One would expect that the same picture will emerge when the demand of other developing countries are studied, but as yet there are no studies available.

C. WORLD TRADE

C. 1. Export volumes have increased much more slowly than production and consumption increases, indicating an increase in consumption by producer countries. This is particularly true of

India where domestic consumption as a percentage of production has increased from a little over 30% in the mid-fifties to the current figure of approximately 51%.

C. 2. Ceylon and India continue to be the largest exporters. Ceylon has in fact increased its share of the world market from 33% in 1955-57 to 36% in 1965-67 whereas India's share has fallen from 40% to 33% during the same period. The East African countries have increased rapidly their exports from 6% to 11% of world exports. Thus, of the total increase of tea exports of 96,000 metric tonnes, Ceylon accounted for 50,000 and E. Africa for 41,000. India's exports actually declined, and various other countries like Indonesia, Turkey etc. accounted for the balance. (The world totals here exclude USSR, China and other countries of the Socialist Bloc. If these countries were included, Indian exports would have gone up and not down).

C. 3. On the import side the developed countries as a whole have increased the quantity imported by 30 thousand tonnes, or less than 10% during the ten year period, the bulk of the increase of 14,000 tonnes is accounted for by the USA, whereas the biggest importer, the UK actually reduced the quantity of imports. The developing countries on the other hand, increased their imports by a little over 50% during the same period. The major fraction of imports (72%) is still accounted for by the developed countries.

C. 4. The USSR has emerged as an important importer of tea. In 1971 it imported almost 43,000 tonnes of tea, up from 15,000 tons in 1961. Almost all the imports are from India. Hence, when the USSR figures are added to the world figures given previously, it is clear that India has done considerably better than what the earlier picture may have led one to believe.

C. 5. Along with the overall increase in the volume of exports there has been no corresponding rise in the value of exports—which was, of course, due to a decline in the average prices realised. This decline in the average prices reflects the continuous fall in prices of Indian and Ceylonese teas. Kenyan teas, on the other hand, have steadily increased in price. There was a difference of about 10 pence per kg. in the mid-fifties between Indian

and Kenyan teas. This difference had disappeared by the mid-sixties.

D. PRICE TRENDS

The fall in prices that we have referred to actually understates the real decline, since the prices that we were looking at are the nominal price. When we examine the real prices of tea, that is nominal price deflated by the general index of prices of all commodities, the decline is much sharper. There has been a continuous increase in the general index of prices and hence the price of tea relative to that of other commodities has declined sharply at an average rate of a little over 3% annually.

E. SUPPLY RESPONSE TO PRICE TRENDS

E. 1. The fall in prices of tea has not resulted in a reduction of world supplies—on the contrary, production has been increasing steadily. This has prompted most observers to say that prices have little effect on supplies of tea. This conclusion has some validity but as we shall see it is also slightly misleading. In any agricultural product the actual output depends not only on the inputs put in by the farmer but also on weather conditions. Thus when examining the effect of prices on supplies of agricultural commodities, economists generally focus on the effect of prices on area cultivated. In the case of tea if we examine the increase in area cultivated or replanted we come up with the following picture.

1	2	3	4
Country	Area in hectares	Average annual increase in area *	3 as a percentage of 2
India	358,421	4,280	1.8
Ceylon	241,667	1,978	0.9
Kenya	43,836	3,200	7.3

* Increase in area includes replanting.

Source : International Tea Committee Annual Bulletin 1973.

E. 2. India and Ceylon who have been faced with a decline in the price of tea have increased the area under tea only quite

slowly. (The increase in area includes replanting also). A large amount of the area under tea in these countries includes bushes which are very old. In 1966 approximately 31% of the tea bushes in India were over 50 years old, which has generally been considered the upper limit of the economic life of the plant. (There is some dispute on this question—we note it only to highlight the relatively slow rate of replantation-cum-expansion in India and Ceylon). In Kenya, however, expansion of area under tea has been proceeding rapidly and it is no coincidence that the price she has been receiving for her tea has also been increasing.

E. 3. It is still true that production is not dependent on price because the time lag between an increase in planting and the resultant increase in output is long. Thus the actual output does not depend on price but on weather conditions and various agricultural practices. In the long run, however, one cannot expect continuous increases in productivity per acre (as has been the case so far) without new planting which we have seen is dependent on prices.

F. DEMAND RESPONSE TO PRICE TRENDS

F. 1. We have already examined the available information on the pattern of demand responses in the various regions. The general conclusion that we have arrived at was that there was little demand responsiveness to price changes in the developed regions of the world and there was some evidence of demand increase due to price decline in the developing regions.

F. 2. The picture that emerges on consideration of the demand and supply situation is that there have been continual increases in supply with no comparable shifts in demand. The result has been inevitably a downward trend in prices. This downward trend has been moderated to some extent because of the effect of a decline in prices on offtake in the developing countries. This decline in prices therefore, is not due to the fewness of buyers or market rigging but due to the normal operations of the laws of supply and demand.

Between 1973 and 1974 there has been dramatic turn around in tea prices with average prices increasing by almost 50% compared to the previous year. There has been a reduction in supplies

of tea during this period because of unfavourable weather conditions in all the major producing areas (See Table for figures showing reduction in supplies in London auctions and the prices offered).

G. INDIA IN THE CONTEXT OF THE WORLD TEA ECONOMY

G. 1. The Indian tea industry has been faring quite poorly. Expansion of output has been slow and profitability has been poor. In fact, next to the jute industry, the profitability of the tea industry has been the lowest among the major industries in India. G. 1. (i). Our exports have been stagnant. There has been a reduction in our exports to traditional markets but this has been balanced by an increase in exports to non-traditional markets, principally the USSR. There has been some discussion about whether the diversification of our trade pattern has benefited us or whether it has just resulted in the replacement of old markets by new.

G. 1. (ii). Since output increases would have continued to take place irrespective of the new markets, if the new markets had not been found, the tea supplies to traditional export markets as well as the Indian market could have increased. This would have been absorbed only at a lower price. Thus, without the new markets, the tea industry would have been faced with some reduction in price ; hence from the point of view of the producing countries the development of new markets has been favourable. From the point of view of earning free foreign exchange, however, the position is less clear. Though there would have been some drop in export prices, as a result of increased exports, it is unlikely that the fall in prices would have completely wiped out the increase in volume. On balance, therefore, it appears that the diversion of tea from old markets to new markets has helped the tea industry to increase its earnings, but reduced free foreign exchange earnings.

G. 2. Through the fifties and the sixties, the prevalent view was that India being the dominant supplier of tea to the world markets, we could exploit this position. The Government had, therefore, levied, at different times, various export taxes to keep the price of tea up and thereby increase our foreign exchange earnings.

The assessment being that foreign demand not being very sensitive to the price would be forced to absorb the price increases.

G. 2. (i). This assessment that foreign demand (particularly the developed countries) was not sensitive to price, we have seen to be undoubtedly correct. What was not correct, however, was the assessment that there could be no substitute for Indian teas. Throughout the post-war period, other countries, particularly the East African countries, have been able to increase their supplies quite markedly. Thus the incidence of taxes levied on the exports of tea fell largely, not on the buyers on whom it was intended to fall but, on the producers.

G. 2. (ii). This experience is in line with other commodities entering into international trade. Short-term exploitation of the market encourages alternative suppliers to increase their share of the market and once this happens, it becomes difficult to recapture what has been lost.

C. 2. (iii). While such export taxes have hurt the export performance of tea over the whole period despite some short-term gains, we should not conclude that our poor performance has been due mainly or even principally to taxes. The causes unfortunately are deeper and more difficult to correct.

G. 3. One is undoubtedly the slow growth of demand, particularly in the developed countries which account for the bulk of the imports of tea. An expanding market gives opportunities for everyone, whereas in a stagnant market one party can gain only at the expense of some one else.

G. 4. Given the slow growth of the overall market for tea with one country being able to gain not from the growth of the market but at the expense of some other, the country whose costs are lower will have an advantage. Basically, this appears to be the case—East African countries in general and Kenya in particular—appear to be able to grow tea at a cheaper cost than we are. There are two principal explanations advanced for this. One is that the bulk of the tea grown in East Africa having been planted in the last fifteen years or so are superior to the ones in India (and Ceylon). Secondly, climatic conditions are ideal for tea in most of East Africa, particularly to produce more or less uniform quality of tea through the year which is preferred by blenders.

G. 5. While both these reasons may be part of the explanation, there is yet another whose importance is likely to grow over the time. The strategy of growth that we have adopted has been to encourage import substitution. This method of industrialisation involves many elements, but one component which has a bearing on our arguments is that exchange rates are kept below levels that would ordinarily prevail if market forces were allowed to operate and taxes (or bans) are imposed on imports to prevent cheaper imports, wiping out domestic industries. To the extent that export industries have to compete for the same pool of inputs as those protected industries, the export industries are at a disadvantage since cost increases cannot be passed on to buyers whereas domestic industries can do so. This is a phenomenon that economists have always recognised and is summarised in a theorem which shows that a general tax on imports has the same consequences as a general tax on exports.

G. 5. (i). This consequence has also been realised by policy makers in that various incentives, such as privileged access to imports, subsidies etc. are available to exporters. The tea industry has been a victim of this process. The prices of tea are fixed on world markets but its costs rise with costs in other domestic industries which can, however, pass on these cost increases to domestic consumers—the tea industry can do this as long as costs in other countries rise to the same extent. This has not happened. Hence the Indian tea industry has been having to absorb all increases in cost.

G. 6. The Ceylon tea industry has also been caught in the same crisis, if anything, more so since they have no internal market to fall on unlike India.

G. 7. The explanation, therefore, of the long-term trend of our tea exports and prices lies in the slow growth of international demand relative to supply and the rise in domestic costs which cannot be compensated due to competition from alternative suppliers.

G. 7. (i). The recent rapid increase in the price of tea may seem to contradict our explanation. However, this is not so. One cause of the recent increase in price has been the unprecedented increase in costs all over the world due to general inflation. This has not

only affected us but all other countries producing tea. Incidentally, because of this increase in costs, inspite of the rise in prices of tea, the profitability of the tea industry will improve, but not as dramatically as one would expect. Secondly, there has been a fall in output from East African countries because of unfavourable weather conditions. This has coincided with a fall in output in some other countries as well and hence supplies of tea to world markets have fallen quite sharply compared to the previous year.

G. 7. (ii). The short-fall in supplies is clearly temporary whereas the increases in the cost are not. Thus there will be some rise in the prices of tea, but as soon as supplies start becoming more normal we shall be caught in the same squeeze, between prices and costs that we have referred to.

G. 8. What can then be done? One thing is to do nothing at all in which case the tea exports will continue to fall and domestic consumption will continue to increase. When it finally becomes more or less primarily a domestic industry, the squeeze will not operate as then cost increases can be passed on to the domestic consumer. This is surely not a desirable course to follow—our foreign exchange earnings will diminish and furthermore as long as tea exports remain sizeable, and this may be so for some time, the tea industry will be operating in difficult conditions. (This picture will of course be altered if something unforeseen happens in some of the other countries engaged in the production of tea).

G. 9. Positive action will require steps to boost the demand and/or to restrict the supply of tea reaching world markets. In attempting to boost the demand for tea, we can take one of the two possible approaches. One is to divert the existing demand for teas in general towards Indian tea. This can be done in two ways. One is to directly market to the consumers in different countries blend of Indian tea in packets and thus replace some of the existing blender/packeteers, who are using blends of tea produced all over the world. The second way is to have a promotion campaign in promising markets for Indian tea. The other method of increasing the demand for Indian tea is to promote jointly with other tea producing countries the drinking of tea in general and to hope that at least some part of the resulting increase in the demand for tea is directed towards Indian tea. These alternatives will be further evaluated in the Chapter VI on Strategic Re-thinking.

Chapter V

THE PRODUCERS' PROBLEM, A DIAGNOSIS

The Study Team has found that by and large the producers' impressions that the tea marketing system in general and the auctions in particular have been somehow mis-managed or rigged to their detriment to be incorrect. Neither in the operations of the auction sub-system(s) nor elsewhere is there evidence of any systematic interference with the institutional arrangements by buying interests to the detriment of sellers. It is nonetheless true that producers have in general got very poor prices and that in a certain sense the present system can be regarded as being "stacked against" the producers.

A. 1. The main reasons for the poor performance of the present set-up as far as the producer is concerned have been identified by the Study Team as follows :

A. 1. (i). The producers are handicapped under the present marketing arrangements because of a chronic pressure to sell and realise their proceeds. In most cases, because of the lack of adequate credit arrangements neither the producer nor his agent, the broker, is in any position to hold back stocks and normalise the inflow into auctions consistent with available demand.

The Study Team considers it nothing short of deplorable that in spite of fairly long experience of their individual market weakness, the producers have not taken any serious steps to act in concert and bring to a stop the chronic pressure of the producers' to sell, without which there are no long-run hopes of maintaining good prices.

A. 1. (ii). The Study Team has also noted a critical poverty of scientific market intelligence as far as producers are concerned. In theory the brokers are supposed to provide the producers with this intelligence. However, it is the conclusion of the Study Team that even the brokers have no access to the type of intelligence required.

The lack of suitable market intelligence is of course, most prominent as far as the behaviour of overseas markets and the

behaviour of overseas buyers in Indian markets are concerned. There is no attempt on the part of producers or brokers (as their agents) to obtain really significant information about the nature of distributors' demands on blender/packers and the blender/packers' demands on their suppliers and how these factors are likely to affect the buying strategies of overseas buyers. This lack of knowledge of who makes the ultimate buying decisions and why has important implications also for the poor performance of promotional strategies.

A. 1. (iii). The Study Team is of the opinion that as far as Indian markets are concerned buyers are the best-informed concerning short-run market prospects. This level of information is least among the bazar buyers and greater among the large buyers representing blender/packer and overseas buying interests. Even better informed is of course, the overseas order-placer who has his finger on the pulse of a number of auction and non-auction markets all over the world and who is alert to the smallest change in demand-supply configurations.

A. 1. (iv). Under the circumstances, it is by no means remarkable (a) that the best advantage of the present arrangements is secured by the major international buying houses and next to them the buyers representing the major domestic packers, (b) that the ordinary buyer is forced more or less automatically to follow the lead set by the more informed buyers and an effective economic leadership devolves on the big buyers even at Indian auctions, (c) that only estates which have a certain degree of interlinkage with big buyers of the international market and share some of their information can operate successfully as sellers, (d) that in practice brokers' "market information" is reduced to looking at a few past auction prices, listening to market rumours and trying to obtain information from buyers about possible buying strategies (a situation which is thoroughly inadequate as far as the requirements of market intelligence for the producers' is concerned), and (e) that the producer who is isolated from the market and whose only informant is the broker is almost completely in the dark as to what sort of market his teas will encounter.

A. 1. (v) The Study Team has also felt that an auction system (or a marketing system in which auctions function as critical indicator subsystems) cannot be regarded as being satisfactorily organised unless

Information imbalance

(a) the sellers have the same basic information and the **same data** as the buyers (in tea, of course, the seller has no significant information, the broker has accurate but backdated information and only a certain class of buyers know what is currently going on),

Urgency imbalance

(b) the relative urgency of buyers to buy and sellers to sell should be roughly of equal urgency (in tea, of course, there is a critical imbalance here also),

Open versus closed strategies

(c) the relative awareness of buyers and sellers concerning the basis on which they decide to buy or sell respectively should be roughly equal (whereas in tea the strategy of producers is open and primitive whereas buyers strategy is both closed and sophisticated), and

Response capacity imbalance

(d) the relative lags of buyers and sellers in responding to changed demand-supply conditions in any one market and in a wider context to any change in price-demand configurations in any set of interrelated markets should not be too unequal (whereas in tea marketing the international buyer responds almost instantly and other buyers follow their lead with a small lag, the producer finds himself totally unable to cope with such matters even with the help of his broker.)

Under the circumstances the producer-buyer relationship is one of a sophisticated and well-informed buyer faced by an ignorant peasant (and his **only marginally** more sophisticated broker) and a peasant who moreover is financially embarrassed and under pressure to sell. The Study Team is of the opinion that as long as such a situation persists, the chances of producers' market performance being encouraging is remote. Unless the underlying realities are changed, it is useless complaining about an auction system reflecting the consequences of these underlying

severe imbalances.

A. 2. The Study Team is of the opinion that although as an institutional arrangement the auction system may not be perfect it is still better than any alternative presently in existence. The factors which we have noted above as vitiating the outcome of auction systems will apply **a fortiori** to other non-auction channels of disposal. Moreover, a system of open sales in which market supply and demand yield an indicator price is preferable to a system entirely based on private negotiations which, in the absence of openly-derived prices, can easily lend itself to various forms of abuse.

B. 1. The Study Team also noted that impact of another set of factors connected with the poor market performance of tea. These were concerned with the lack of success in tackling the problem of tea promotion on a scientific basis. The average producer is of course, unlikely to be aware of the intricacies involved in the problem of promotion of a product such as tea, but the Study Team was pained to observe a similar lack of awareness extending to those who were in charge of the national promotion effort.

B. 1. (i). The difficulty of the problem of tea promotion arises primarily because **WHILE THE PRODUCER IS CONCERNED WITH SALES OF TEA AS PRIMARY PRODUCT THERE IS NO WAY OF PROMOTING TEA AS A PRIMARY PRODUCT.** The demand for tea in the primary produce market is a derived demand emerging from

- (a) the tea-drinking behaviour of the consumer, and
- (b) the business-decision responses of the secondary marketing system (blender/packer plus distributor) to the demand revealed by the ultimate consumer.

B. 1. (ii) Of the secondary marketing system elements the distributor is a multi-product handler who operates on the basis of the ratio of monthly shelf-space rental and the monthly realisation from any product line. He is not particularly interested in promoting any product and is known to be impervious to sales pitches or appeals to sentiment.

The only reason why he might keep tea on his shelves is that it is profitable in comparison to what else he might have used the shelf-space for. Alternatively he may (and has been sometimes reported to be) use tea as a 'loss-leader' to attract customers whose other purchases give him his profit.

B. 1. (iii). The blender-packer is the one who will benefit from and is, therefore, most interested in the promotion of tea sales to the ultimate consumer. Thus, any scientifically planned promotional activity to boost sales of tea cannot work without the cooperation and participation of major blender-packers who would be the direct beneficiaries of a demand upsurge.

B. 1. (iv). This is, however, a fact extremely difficult for producers or even of official institutions of producing countries to appreciate, since as primary sellers they have been accustomed to regard the blender/packer as a buyer and consequently as a member of the "other side". After years of (basically unfounded) suspicion of the blender/packer as a manipulator and rigger of primary markets, it has been extremely difficult to accept that **AS FAR AS PROMOTIONAL ACTIVITY IS CONCERNED, THE FOREIGN BLENDER/PACKER MUST BE TREATED AS A FRIENDLY ENTITY.**

B. 1. (v). It has to be realised, of course, that the blender/packer (although he is interested in the promotion of tea drinking in general) has the habit of buying from several producing countries his requirements, so as to maintain his blend quality at the lowest unit purchase cost. Thus, while no difficulty arises as far as **GENERIC PROMOTION** is concerned in getting the blender/packers' collaboration, **UNINATIONAL PROMOTION** is another matter. The blender/packer is not basically interested in creation of consumer preference for the tea of any particular nation since this reduces his buying options.

B. 1. (vi). In general the Study Team believes that **UNINATION-AL PROMOTION** to the consuming public, given that the consuming public only buys packs of the supermarket shelf and is not even aware of the country-origin of the tea in the pack, is bound to be nugatory. The proper object of **UNINATIONAL PROMOTION** is the blender/packer and the buying experts he employs. At this level, of course, the sales problem changes from

one of influencing an uninformed customer to that of "technical sales" in which one expert talks to another. Given adequate expertise (backed by research) it is certainly feasible to persuade blender/packers that they should use more Indian tea in their blends or even market a 100 per cent Indian pack.

B. 1. (vii). Instead of scientifically looking into the inner structure of the promotional process, decision-makers in the field of tea promotion in India have made a number of serious mistakes which have very powerfully damaged the marketing prospects for Indian tea.

B. 2. The Study Team is of the opinion that the decision of the Indian Government to withdraw (1952) from the International Tea Market Expansion Board was a technical disaster and has led only to

- a. the loss of Indian markets to Ceylonese competition in the ITMEB target countries ;
- b. the involvement of India in individual agreements with some of the ex-ITMEB target countries on less favourable terms.

After extensive enquiries the Study Team is convinced that (i) overseas propaganda policy after withdrawal from the ITMEB did not cost the country less, (ii) the pattern of expenditure did not for quite some time follow any logical pattern but experienced random ups and downs, and (iii) results of the withdrawal in all ITMEB-influenced markets were dismal.

B. 3. The Study Team is also of the opinion that the amendment of the Tea Act by which the proceeds of the Tea Cess become payable to the Consolidated Fund of India, had the impact of robbing the newly constituted Tea Board of budgetary autonomy and therewith also the possibility of a scientific allocation of funds to promotional activity.

B. 4. The Study Team is also of the opinion that the level of involvement of the Tea Board with trade and producer representatives is very loose and whatever inter-action takes place is at the level of ritual mouthing of phrases. In particular the practice of

withholding promotional campaign reports from producers' associations and also from free public scrutiny is bad practice and needlessly creative of possibly unfounded suggestions.

B. 5. Apart from the institutional mis-structuring commented on above, the Study Team was also thoroughly disappointed with the understanding shown at official level about both the scale and nature of efforts required for securing a genuine impact on the promotional front. In particular the Study Team was disappointed to find

1. no clear analysis or understanding of who were the decision-making recipients of promotional effort,
2. no grasp of the nature of information that is needed for scientific promotional activity and no arrangements for such data collection and processing ; and
3. no realisation of the levels of expertise needed to design and evaluate promotional campaigns and no effort to secure such expertise.

B. 6. In the opinion of the Study Team much of this may be due (a) to the inadequate (and capriciously mutilated) budget on which the Board functions and which keeps it from thinking on an adequate scale, and (b) to the government department type administrative structure which forces concentration on irrelevant detail and prevents genuine management by results.

B. 7. The Study Team was also worried by the over-concentration in official circles (Tea Board, STC, Commerce Ministry) on the policy-aim of diversification (destinational) of tea exports. While the principle itself is good, it has been misapplied to the extent of encouraging the neglect of markets where competitive conditions prevail (hard currency markets) and the cultivation of markets in Rupee-trade countries. Since Rupee Trade Nations are engaging in bilateral deals, this enables the matter of promotion to be shelved and is also convenient since competitive marketing is not necessary. Nonetheless, the ideal of cultivating 'soft options' has not paid very well.

B. 8. After studying the volume and value figures of the decline in hard currency sales and the rise in rupee trade sales, the Study

Team was of the opinion that the policy of destinational diversification has failed to bring any net gain to the country. It has in fact, led to a loss of hard currency earnings.

Although it is possible that the equality in volume of the market gained in Rupee countries and that lost in hard currency countries is purely a coincidence, the Study Team is of the opinion that the 'coincidence' view is incorrect. This is so because—

1. there is evidence that Indian teas of grades (e.g. 'Darjeeling', 'High Grown Nilgiris' etc.) are being still utilised by blender/packers in hard currency countries in such volumes as to conclusively imply the existence of large-scale switch dealing ;
2. the artificially high value of the Indian Rupee has effectively excluded hard currency bidders from entering Indian auctions and to obtain their requirements through switch deals, and
3. the non-competitive nature of Rupee country buying (in the absence of hard currency competition) makes it likely that Rupee country markets are at least partially replacement markets.

B. 9. The Study Team was also worried by the efforts of the Government to try and promote the sale of Indian packeted tea on the basis of a State Sector unit. While the Study Team is in principle neither against State Sector units, nor against the promotion of packeted-tea exports, it was of the opinion that unless such an enterprise was carried out on a large scale (implying a joint sector collaborative effort of all Indian blender/packers in concert to market 100% Indian tea packs abroad with Government collaboration and participation) the overhead costs per unit would effectively rule out competitive capability.

B. 10. In short the Study Team's conclusions are that promotional efforts in India are (1) institutionally badly organised, (2) unimaginatively administered, (3) conceptually naive, and (4) inadequate in expertise, information or scale. This represents the second serious barrier to the effective promotion and good market performance of Indian teas.

C. 1. The Study Team also concluded that there were certain features of the over-all policy framework as applying to tea which were inhibitory of good marketing performance.

C. 1. (i). The treatment of tea as a 'traditional export' has inhibited producer interest in export sales. It has also led to anomalies such as tea chests (non-traditional exports) being sold under official encouragement to our competitors abroad while the Indian tea industry is suffering seriously from tea chest shortage.

C. 1. (ii). The involved system of once charging excise duty and then rebating it to the exporter after export through a time-consuming procedure has had inhibitory effects.

C. 1. (iii). The existence of a packet excise duty has made it difficult to build up the domestic packeting industry on a scale which can make it effectively competitive with international rivals. It has also been an effective deterrent to entry of more firms in the packeting field.

C. 1. (iv). General shortage of transport, warehousing and shipping facilities—as well as shortages of essential inputs—has had a strong inhibitory effect on marketing.

D. The Study Team has concluded, therefore, that the major causes of the poor functioning of the tea marketing system lie in

1. strong imbalances between sellers and buyers as to information, speed of response, relative urgency to conclude transactions and strategic conception, which ensure that the system operates with least advantage to the producer and maximum advantage to the large international buyer ;
2. poor institutional structuring, financial inadequacy, expertise and information deficiencies and lack of imaginative policy-making in the promotion of Indian teas ; and
3. a series of individually minor but collectively serious set of fiscal and other official regulations which have a strong inhibitory effect on marketing both internally and externally.

This should not be taken to mean that the marketing system (as system) is perfect or that no reforms therein are called for. But even when everything has been done by the way of market structure reform, the situation cannot be effectively dealt with unless these more serious problems are also tackled simultaneously.

Chapter VI

STRATEGIC RETHINKING

We have been so far discussing the reforms in the current system of tea marketing which in our opinion will

- (1) lead to a more orderly functioning of the marketing system,
- (2) relieve pressure on the producer to over-produce and to sell off his product too rapidly, and
- (3) enable the producers and their organisations to receive market information with sufficient accuracy and rapidity.

This, of course, only creates conditions under which marketing strategies for tea can be developed, they do not in themselves constitute such a strategy. In this Chapter we consider the basic strategic options and draw up our recommendations concerning an effective strategic framework.

The Study Team has identified the relevant issues as the following :

- (a) Should India direct her attention to increasing the demand for Indian tea or to tea in general ?
- (b) Should producers (so far concerned with primary marketing only) actively extend their operations into secondary marketing (i) as blender/packers or (ii) in other forms ?
- (c) Should producing countries form a coalition to control inflows (supplies) into the world market and, if so, what should be the character of such supply restrictions ?
- (d) What should be the aims, modi operandi and institutional base for tea promotion ?

These issues are considered serially below :

A. UNINATIONAL AND GENERIC PROMOTION

While there has been general agreement on the need for promoting the consumption of tea, there has been a great deal

of disagreement on whether such measures should be aimed primarily at promoting the consumption of tea made in India or the consumption of tea in general.

A. 1. In considering this question one should keep in mind that there are two markets for tea—(a) market for tea as a primary commodity, where unblended tea is bought by blenders, and (b) a market for tea as a consumable commodity. Measures which are appropriate to promote demand in one market may not be suitable for the other.

A. 2. Consider first the market for tea as a consumable commodity. Now suppose a promotion campaign is successful in associating Indian tea with a quality tea and to create a preference for Indian tea. This can be immediately satisfied by the blender/packeteers remaining on existing blend or coming up with a new blend (which contains no greater percentage of Indian tea) which they can legitimately claim as a blend using Indian tea. Then it will be all too easy for the results of this campaign not to benefit Indian exports in any way—unless we can create a demand for a 100% blend of Indian tea.

A. 3. (i). Promoting Indian tea in this market will be analogous to a producer of a raw material promoting it in the market for a commodity in which the raw material is used.

A. 3. (ii) Where Indian tea should be promoted is where Indian tea is to be used and this is to the blender/packeteer. He should be convinced that it is advantageous to him to have a greater percentage of Indian tea in his blend. Since, as we have stated before, the buyer for the blender/packeteer needs to have a great deal of technical expertise, the way to convince him to use more Indian tea in his blend is to have people experienced in the same profession explain the advantages of buying Indian tea. The idea here is to be in constant touch with the buyers—to be able to anticipate their needs and to arrange for suitable supplies of Indian tea to satisfy these needs. This is the type of promotion which may pay dividends.

A. 4. At the consumer end of the market, the idea should be to increase the consumption of tea, in general. This market is served by the blender/packeteer and his cooperation and his experience

will be invaluable. Recently there has been an experiment conducted in the UK with the participation of the major producing countries and the blender/packeteers to conduct a campaign to reverse the trend of declining per capita consumption of tea. The result of the campaign has not been altogether clear since it has been discontinued too soon. However, the way it was organised is a model for future campaign. The principal producer countries and the blender/packeteers all contributed towards the cost of the campaign—which was conducted, after the strategy was approved, by professional firms engaged in marketing and advertising.

B. PARTICIPATION IN SECONDARY MARKETING

In discussing the possibilities for tea producers diversifying and entering the secondary marketing process on their own, the Study Team wishes to make certain things clear.

B. 1. Participation in secondary marketing cannot benefit the primary tea producer by creating a better market for his teas at the primary-marketing level. This is of course **CLEAREST AT THE LEVEL OF THE DECISION TO ENTER THE PACKETING INDUSTRY**. By introducing a new packeteer into the market only the **FORM** in which the tea reaches the consumer is changed and therefore, cannot affect the total demand for tea as primary product. But even when a producer enters into the secondary marketing of loose tea, the case is essentially the same. The number of participants in secondary marketing having increased, the only impact (as long as final consumer demand does not change) is to increase the competitiveness of secondary marketing and to reduce profit margins in that market.

B. 2. Thus, there would be a benefit to the seller of primary tea only on the following assumptions :

1. the secondary marketing of tea is noncompetitive and there are substantial gross margins which can be cut into, and
2. the margins having diminished, the benefit would come to the tea producer (as higher prices) rather than as lower prices for the consumer.

The Study Team conducted a detailed examination of the various options available to producers for entering the secondary marketing process and nowhere found these assumptions to be justified.

B. 3. (i). The Study Team first considered the option of entering the loose-tea distribution process as a vendor of blended teas, either as seller of mini-chests to wholesalers or as a wholesaler of blended teas. Undoubtedly both options are feasible and are being presently utilised by some producers. The Study Team was less concerned, however, with the workability of such participation **AS AN INDEPENDENT BUSINESS VENTURE THAN WITH THE GAIN TO THE PRIMARY PRODUCER (AS A PRIMARY PRODUCER) FROM SUCH PARTICIPATION.**

B. 3. (ii). As is well known, the average gross margin between the price of teas bought at auctions and the price at which it is sold to the retailer is currently in the environment of 20-25 percent and that this figure has been rising slowly from around 10-20 in 1963 to its present levels. When compared with margins in other primary marketing operations, these margins or trends therein do not look either abnormal or too large.

Table

COMPARATIVE GROSS MARGINS IN SECONDARY MARKETING OF AGRICULTURAL PRODUCTS

Commodity	Gross wholsalers' margin in %	
	1963-64	1971-72
TEA	18-20	20-25
WHEAT	16-18	18-20
COFFEE	15-20	25-27
PULSES	18-20	20-23
KIRANA (spices etc).	25-30	30-32

As the above table shows there seems to be no ground for assuming that (i) the margin in tea is anyway out of line with the experience of secondary marketing, and (ii) that the slight uptrend therein is anything but a reflection of rising operating costs.

B. 3. (iii). Presumably such margins as exist could be cut by the entry of superefficient loose tea distributors into this market. However, such outcompeting of the present distributors is as likely to lower the prices to the consumer as it is to raise them for the primary producer. Indeed SINCE THE SECONDARY DISTRIBUTOR IS QUITE INDIFFERENT AS TO WHO GETS THE BENEFIT HE WILL PREFER TO PASS IT ON TO THE CONSUMER RATHER THAN TO THE PRODUCER SINCE THE FIRST GIVES HIM A COMPETITIVE ADVANTAGE.

B. 4. The Study Team next considered the option of an Indian consortium of producers manufacturing and exporting a 100 per cent Indian packet to overseas markets. The Study Team has already commented in Chapter II Sec. E. 2. (iii)/E. 3. The same sort of comments apply to such a venture.

B. 4. (i). The feasibility of mounting an operation of this type on an adequate scale is doubtful considering the immense costs of promotion and market development it will involve.

B. 4. (ii). A second doubt as to the competitiveness of such an enterprise arises because while the 100 per cent Indian packer will be buying tea only in the Indian market, his competitors would be buying all over the world and thus getting a comparative advantage in material prices.

B. 4. (iii). But even if the operation was financially successful the benefit to the primary producer would be negligible since it merely would change the form in which tea reaches the consumer and not his total demand.

B. 4. (iv). In view of the competitive handicap under which such an operation would start, it will not be feasible for such an enterprise to pay artificially inflated prices for Indian teas and still make profits.

B. 4. (v). The only element of foreign exchange saving would be the physical cost of packeting in India which is nothing compared to the foreign exchange outflow caused by sales and promotional expenses incurred abroad.

B. 4. (vi). The Study Team has already considered the idea of marketing such a pack at a loss as a promotional device and has found it of no value (Ch. II Sec. E. 3.).

B. 4. (vii). The only worthwhile suggestion concerning a 100 per cent Indian pack received by the Study Team has been that of persuading a foreign blender/packer abroad (by subsidising him on initial promotional expenses) to market a fully Indian pack. If this succeeds, other manufacturers may follow the lead and thus increase the Indian share in overseas markets. This will not affect unit values but can boost export earnings.

C. SUPPLY RESTRICTIONS

C. 1. Basically there have been three alternatives proposed to increase prices of tea realised in world markets.

1. An agreement between exporting countries not to sell any tea below a particular price.
2. An agreement to tax exports from each country at a uniform rate.
3. An agreement to limit the quantum of exports from each country.

C. 2. (i). The Floor Prices

We have already argued that the prices prevailing in international trade reflect the underlying forces of demand and supply. If this argument is accepted then any proposal to have a floor price of tea must include arrangements for absorbing the surplus of tea which will emerge if the floor price is effective. Logically there are two alternatives which can be considered—one an organisation which will enforce the minimum price by standing ready to purchase any quantity of tea at that price or secondly an agreement by producing countries to limit their exports so that no surplus emerges. The latter alternative we shall consider.

C. 2. (ii). Suppose an organisation were set up to purchase all tea offered to it at the minimum price and nothing was done to control supplies of tea reaching world markets, then it would be

inevitable that this organisation would have to continuously buy tea. Since the organisation will have to be funded by the producing countries, the gain from enforcing a minimum price will have to be set off against the loss incurred in running the purchase organisation.

C. 2. (iii). We should also note that in so far as there is success in planning the average price of tea, the growing of tea will become more profitable. One will, therefore, expect that replanting and even opening up of new areas will proceed at a faster pace particularly in India and Sri Lanka where the rate has been very low. This will mean that the surplus of tea to be absorbed by the controlling authorities will continuously increase. This must ultimately destroy the organisation which will not have unlimited funds to draw on.

C. 3. There are other problems associated with tea which further reduces the attractiveness of the idea of a floor price. There are a large number of grades of tea produced and there is no fixed differences between the prices of each of the grades. A floor price for each grade is quite impractical since there is a great deal of quality (and consequently price) variation within each grade. Thus a single floor price or even a set of floor prices for certain key grades may be effective in preventing teas of a particular grade not selling at a lower price than the floor price but may not be effective in raising the prices of other qualities of tea within those grades.

The conclusion then is that floor prices by themselves are unworkable and have to be combined with some form of supply restrictions to be acceptable.

D. EXPORT TAXES

D. 1. The demand for tea particularly in the Western countries is not responsive to price variations. If all exporting countries could be persuaded to raise prices simultaneously, there may only be a small loss of volume of exports but an increase in value. There has, therefore, been some interest shown to a scheme whereby all exporting countries put a uniform ad valorem export tax which in the prevailing set of supply and demand responses would be paid by importers.

D. 2. This proposal has one additional attractive feature which will help to make it acceptable. The export tax being an ad valorem tax will continue to allow those countries and estates which have some comparative advantage in production to continue to have the advantage. Only the average level of prices will be raised but the differential in prices between countries and estates need not be.

D. 3. There is however, one disadvantage which may make this scheme unworkable. The export tax will be collected by the Governments concerned and will not benefit the producers. Thus foreign exchange earning may be increased but the producing units will not share in this benefit, unless the tax proceeds are in some way handed back to the producers.

D. 3. (i). We can classify the export tax scheme into two broad categories ; one with benefits going principally to the government and, one with benefits going principally to the producers depending on whether or not the proceeds of the tax are kept by the government or handed over to the producer.

D. 3. (ii). In the event that the proceeds are kept by the government or handed back to the producers indirectly—as for example, an increased replanting subsidy—the basic problem remains. Most projections of demand and supply indicate that there will be a surplus of tea in world market and given this surplus, producing countries will be under great pressure to dispose of their tea production. This problem will be most acute in countries which have no substantial domestic market and rely on the export market. In such a situation the pressure on a government to try to dispose of the surplus by reducing export taxes will be immense and difficult to resist indefinitely. Once this happens the whole scheme will break down.

D. 3. (iii). In the event that the proceeds are handed to the producers directly, the same problem would arise except that one will expect producers who receive the increased prices to increase their investment in tea and thus increase production. This will of course, take time since the time lag between investment and output is long in the case of tea. However, the basic problem remains that there is too much of tea being produced for the market to absorb and the export tax scheme does not help solving this.

E. Restriction on Quantum of Exports

E. 1. From the discussion so far, it is clear that any scheme to increase prices must involve some restrictions on the quantity of tea reaching world markets. For the same sort of reasons outlined above, one should expect that restrictions on the quantity of tea exported from each country without restrictions on the quantity produced will run into similar problems. For shorter periods while the surplus of tea is not too large there may be no need to have restrictions on quantity produced.

E. 1. (i). The idea of restricting exports is not new. Through the 'thirties and 'forties, there was an agreement between the major producing countries to limit these exports. There is little doubt that this scheme was a resounding success in that the price of tea remained more or less stable during the period of the depression when prices of all other primary commodities fell sharply. Thus there was an increase in the price of tea relative to other commodities during this period which must be attributed to the scheme of export regulations.

E. 1. (ii). It is noteworthy that the scheme to regulate exports of each country also included restrictions to limit the production increases of each country. It is also instructive to note that the method used to ensure compliance did not require detailed administrative controls which would be expensive both in time and in money to operate.

E. 1. (iii). Individual countries allocated export quotas to individual gardens (or firms) and these export quotas were freely transferable at prices fixed in the open market. The total of all such individual quotas would be equal to the export quota of the country.

E. 1. (iv). Production increases were controlled by a committee consisting of various interests of tea producing and consuming countries. There is however, no reason why this also cannot be decentralised by fixing a quota of production increase for each country and each country can police this quota increase by penalising gardens which produce more than their quota. In this case the degree of administrative control will be minimised but cannot be eliminated altogether.

E. 1. (v). There is one serious drawback with this scheme of raising prices, which is common to all cases where there is a restriction on output. The output restrictions will of necessity, be based on historical and current output rates of the major producing countries. If market forces are left free to operate, it is more than likely that these market shares will change over time with countries who have advantages either natural or otherwise gaining at the expense of the others. Thus unless the output restrictions are changed from time to time so that market shares are not too far out of line from what they would be in a free market, the agreement will tend to break down. In other words, it should not be in the interest of any country to break the agreement. This will imply that some agreed guidelines will have to be adopted to change market shares over time.

All this will need close cooperation from all producing countries or at least of the major producing countries, but as long as the dangers are recognised and corrective action is taken in advance, there is every reason to be hopeful that such a scheme will be successful in raising the price of tea.

E. 2. There have been some preliminary discussions between India and Sri Lanka on the need to adopt some output restrictions so as to ensure higher foreign exchange receipts.

E. 2. (i). In Chapter IV, Para C. 2, we had noted that while India and Sri Lanka were the dominant exporters, if only the increase in exports during the last decade were examined, East African countries accounted for just under 50%. The Study Team therefore, feels that an output restriction agreement, which excludes such an important set of producing countries would only accentuate the competitive advantage they already enjoy. There would surely be some increases in price but the exclusion of the East African countries would mean that they would be able to increase their share of the market even faster than previously.

E. 2. (ii). The Study Team therefore, notes that such a scheme, while it may enjoy some temporary success, will be disastrous for India in the long run. It will of course, be another matter if this agreement is to be viewed as only a preliminary step in getting other producing countries to join the agreement. This is a tactical matter which depends not only on the economic environment but more importantly on political considerations.

F. Mechanics of Supply Control

So far we have been considering the advantages and disadvantages of various broad methods of supply control and we concluded that output restrictions needed to be an essential feature of supply control. On the details of the operation of such a scheme, the Study Team is of the opinion that such details should be worked out by organisations like the FAO which have already some experience with operating commodity control schemes with active help from producer-organisations and trade organisations who have been involved with the tea trade.

F. 1. There are, however, some broad outlines which need to be kept in mind when the scheme is put into operation.

F. 2. The objectives of the supply restriction should be clear to all parties concerned. Tea not being a standard commodity, it is not enough to state an objective of increasing the price of tea by 25% or 50%.

F. 3. First the question of what is tea should be settled and which varieties of tea should come under the scheme and which should be exempt. Moreover, some agreement should also be reached on grading and classification of tea. It would be useful if the number of grades could be reduced to a manageable number.

F. 4. The idea of having a relatively small number of grades is that one can then fix a range of price averages for each grade which may be considered to be the objective of the scheme. Then by monitoring prices of these grades the supply control can be operated.

F. 5. Since actual prices may be different from target prices because of temporary disruptions in supply and/or unforeseen changes in demand there should be an international body to monitor these price changes and to be able to take effective action to move prices in the desired direction.

F. 6. For this to be effective it will be necessary that the international body be allowed to buy and sell tea. For example, if there is a shortfall in supplies to the market of a particular grade of tea due to unfavourable weather conditions or shipping difficulties,

the monitoring authority should be able to make supplies to the market. If the shortfall in supplies is permanent, then approximate changes in supply restrictions will need to be made. But since it will take some time for longer run changes to be perceived and acted on, it is necessary to have a buffer stock to absorb temporary shocks, so that the system can run smoothly.

Chapter VII

INSTITUTIONAL REFORMS

The Study Team in arriving at its recommendations on institutional changes for improving the marketing of Indian teas were guided by the following considerations :

1. A properly designed marketing mechanism should function in an orderly manner to reflect the underlying demand-supply configuration without distortion.
2. The marketing system should also provide the producer with adequate accurate information about the state of demand in various markets in time for him to respond effectively to such information.
3. Legal and fiscal regulations bearing on the producer in his marketing activities should not be such as to reduce his capacity to effectively utilise the market mechanism.

Beyond this, of course, lies the more important question of how the producer utilises his marketing opportunities. This is a question of STRATEGY in which the most important elements are (a) promotion to stimulate demand, and (b) rational control of supply and of its inflow into the market. The Study Team considers the STRATEGY OF MARKETING TO BE A MORE IMPORTANT DETERMINANT OF UNIT VALUES REALISED THAN ANY INSTITUTIONAL CHANGES AND IS CONVINCED THAT UNLESS FUNDAMENTAL CHANGES ARE MADE BY THE PRODUCERS IN THEIR MARKETING STRATEGY, NO AMOUNT OF INSTITUTIONAL REFORM IS LIKELY TO SECURE ANY ADEQUATE AND SUSTAINED IMPROVEMENT IN MARKETING PERFORMANCE.

It has to be realised, however, that certain institutional features of a marketing system may not be suitable for realising a particular strategic approach which may otherwise be seem to be necessary. Thus, in making recommendations as to institutional changes, the Study Team has constantly borne in mind the strategic

framework spelled out in the end of this chapter and have been concerned with optimally designed the institutional structure to be the vehicle of that strategy. Thus, unless the argument of both chapters are considered jointly, the scope and meaning of our recommendations may not be fully appreciated.

A. IMPROVING THE ORDERLINESS OF MARKETING

The first consideration we are concerned with is to improve the orderliness of marketing and to ensure that the underlying considerations of supply and demand are fully and accurately reflected by the marketing system. The Study Team, therefore, considered what other options were available as alternatives to the present system of marketing and whether they would be superior to current methods in this respect.

The following alternatives were available

1. Marketing tea like any other primary commodity like wheat or pulses,
2. Marketing tea by a pool arrangement as presently done in coffee,
3. Replacing the present Auctions System by Dutch Auctions, and
4. Retaining the present system but making certain significant changes in its rules and regulations.

A. 1. Although tea can be marketed like wheat or pulses by direct privately negotiated sales in marketing points, the results are unlikely to be an improvement on the present system.

A. 1. (i) It is well known that in this type of marketing arrangements the individual agro-producer, acting without information as to be the total state of market demand is at the mercy of the buyers' expertise, particularly if the buyer is an agent of a well-informed and well-financed large company.

A. 1. (ii) It is also well known that in such markets benefits of demand increases are mostly absorbed in middlemen's profits and little of it comes to the actual producer.

A. 1. (iii). In privately negotiated deals through this type of marketing arrangement it is impossible to avoid multiple prices for the same type of product and this not only goes against the less-informed producers' interest, but also lends itself to various abuses including tax-evasion.

On the basis of the above considerations, the Study Team considers that the substitution of Type A marketing for the present system will not in any way improve the processor outcome of marketing.

A. 2. The pooled market arrangement (similar to the one operating in coffee at present) was also found unsuitable for tea.

A. 2. (i). In the first place the number of agro-processing (curing) units in the coffee industry is few and since all the output is processed in a small number of units both the grading and the pooling of the product is easy. In the tea industry on the contrary, agro-processing units are very many and the output is extremely heterogeneous and subject to unpredictable variations. Under such circumstances it would be very difficult to operate a pool type arrangement in a way fair to producers.

A. 2. (ii). In the second place, Coffee Board type of marketing arrangement, since the process of payment is more or less mechanically by quantity, would tend to restrict quality-improvement efforts on the part of the producer. Since we have elsewhere argued that quality-improvement is an essential part of tea marketing strategy, the Coffee Board type arrangement would be definitely unsuitable.

A. 2. (iii). Further, an arrangement of the type visualised isolates the producer from both information of and chances of responding to the demand configurations of the market and changing the pattern of his output to suit emergent demand conditions. Since the Study Team expects considerable gains from such adjustment behaviour on the part of the producers, a Type B arrangement would act as an inhibitory factor.

The Study Team, consequently, does not consider Type B arrangement to be an improvement on currently-existing ones.

A. 3. The question of whether or not Dutch Auctions would be a significant institutional improvement on the present type of auctions was considered by the Study Team in detail. The enquiry was split up into two separate elements :

1. Are Dutch Auctions institutionally a viable option for tea-marketing ?
2. Can Dutch Auctions be expected to improve the ability of the market to reflect the underlying supply-demand conditions ?

A. 3. (i). On the question of whether "Dutch Auctions" was a viable process for selling tea, the Study Team saw no reason why it should not be. As far as the institutional impact of the Dutch Auction go they will be the following :

a. Since the operation of the Dutch auction is mechanised, the role of the auctioneer and his autonomy in deciding whether or not a bid was acceptable and whether or not to take the lot out would disappear. The seller (in consultation with his broker) could of course, pre-programme into the computer controlling the auction process, but the role of the auctioneer as such is effectively abolished by such an arrangement. From this point it is easy to understand the vehement and often incoherent objections of brokers to Dutch Auctions and of their determination to oppose the introduction of the system.

b. Since the Dutch Auction (during its actual operation) is totally anonymous and no buyer has any idea who else in the room may be willing to bid for the lot, the process of lot division on the floor becomes impossible. To accommodate small buyers, therefore, each buyer pressing the button will have to be allowed to take his share and the rest of the lot will have to be re-auctioned. This may result in parts of the same lot being sold at different prices. This is likely to create fairly serious confusion.

c. The Study Team also considered Dutch Auctions as an 'anti-rigging' instrument. Not only did it find why buyer-combines should be any less feasible under this arrangement, it discovered that complaints about rigging were vocally expressed by sellers (in markets where Dutch Auctions were operative) whenever

demand became slack and prices slumped. Thus, the Dutch Auctions are about as likely to be rigged (or to be suspected to be rigged) as the conventional auctions.

d. Institutionally the Dutch was a suitable system when the commodity was highly perishable and consequently there was about equal pressure on the buyer to buy as on the seller to sell. Tea being less perishable and consequently it being less feasible for either buyer or seller being made to come under compulsion to transact, the basic institutional superiority of the Dutch System—its capacity to rapidly and effectively conclude a large volume of transactions at prices acceptable to buyers and sellers—is not of any relevance to the buying and selling of tea.

The Study Team found no reason to believe, however, that should producers for some reason (such as wishing to eliminate the auctioneer as an element of auctions decide to sell tea by the Dutch method, they would find it any less workable than the present system, Equally the Study Team found little reason to believe that it could be a significant improvement.

A. 3. (ii). What is more important to assess, however, is the gain or loss of implementing this system of auction as a strategic alternative to the present one. Proponents of the alternative argue that there are two important benefits for the producer in that (1) collusion between buyers will be prevented, and (2) buyers, in order to get their supplies, would tend to bid closer to their limit price. The buyers cannot afford to wait or else the entire lot for sale will go to some other buyers.

A. 4. (i). As far as (1) is concerned, we have argued before that there is little evidence to support the thesis that collusion is a major problem in the auctions and available evidence strongly indicates the absence of collusion. However, be that as it may, there is no reason changing the system of bidding will result in parties who are already acting in concert to give up such an arrangement. Surely if collusion exists and the parties are able to agree on a strategy and a set of prices to allocate supplies, this collusion will continue when the system of auction is changed. The mechanics of collusion in the case of auctions is a complex affair as explained above but the Dutch Auction does not make it any more complex—neither of course, does it make it any less complex.

A. 4. (ii). On the second point the reasoning by which higher prices are to be realised is not quite clear. As far as one can make out from what has been written the argument goes as follows: the buyer comes to the market with an idea of the limit he is prepared to go on each lot to be able to get it. In conventional auctions he may or may not be forced up to the limit depending on whether the competition is strong or weak. In the Dutch Auction system he is forced to make a decision before he is able to gauge the competition and hence more often than not he will purchase the lot at or close to his limit bid. Thus if all buyers act this way the average price will be at or close to the limit bids decided before entering the auction and hence auction prices would tend to rise.

Those opposed to Dutch Auction argue that instead of the buyer bidding at his upper limit he may wait to see what happens and the price at which the tea is sold might be less than what it would have been otherwise.

A. 5. Clearly both lines of reasoning are plausible but both are wrong. The proponents of Dutch Auction view the sale of each lot as a unique sale and the necessity of a buyer purchasing the particular lot which is put up for sale, whereas the opponents of the Dutch Auction seem to consider it a matter of complete indifference whether the buyer gets that particular lot or not.

A. 5. (i). Coming first to the view of the proponents, it is true that those buyers come to the auction with an idea of the average price they should pay for their supplies and also the limits which they are prepared to go to for ensuring purchase of some particular lots. This does not however, mean that they will bid to the limit of every lot they are interested in—this would simply mean that there is no difference whatever between the limit price and the average price.

If they are forced to the limit prices in some lots they will not bid as high on other lots, so that the average price on all their purchase is close to their estimate. It is no disaster not to be able to get every lot they are interested in—there are other lots which will be close substitutes and there will be later auctions at which the deficit can be made up.

A. 5. (ii). On the other hand it is not a matter of complete indifference whether a particular lot is bought or not. If the buyer

waits for a bargain price on a lot that he is interested in, it is more than likely that some other buyer will bid before him. After all other buyers who are also experts will recognise a bargain when they see it. If a particular lot is lost in this way it will only mean that the buyer will have less options to choose from in the later sales and would have to bid just that much more strongly to ensure that he gets the supplies that he requires.

In other words, both strategies are faulty and will be pursued consistently by no intelligent buyer. The upshot of this discussion is that there is no reason inherent in the Dutch Auction which compels prices to be higher or lower than they would be in a conventional auction. Indeed it would be quite surprising if it were so. After all it is the basic forces of demand and supply that set the average level of prices and the Dutch Auction does not offset either of the forces and hence cannot affect the average level of prices.

B. WEAKNESS OF THE PRESENT SYSTEM

In the opinion of the Study Team one of the most serious defects of the present institutional arrangements was that it tended to create on the producer a tremendous pressure (1) to produce more, and (2) immediately sell whatever has been produced irrespective of market circumstances which (put together) effectively rule out any marketing strategy on their part to raise unit value realisations. Unless this was changed it is impossible to visualise any possibility of strategic thinking on the producers' part.

B. 1. Present plantation laws make it impossible for the tea planter to convert a part of his tea-bearing areas to other plantation crops. The Study Team holds that this makes it difficult for the producer to rationally decide how much tea he should produce and market and creates a pressure on him to produce as much tea he can because anything else would increase his per unit costs (many of which contain statutory fixed elements). The team, therefore, CONCLUDES THAT AN AMENDMENT OF THE PLANTATIONS ACT TO ENABLE CONVERSION OF AREAS PRESENTLY UNDER TEA TO OTHER PLANTATION CROPS WILL BE OF ADVANTAGE. The Government should be requested to set up a Committee for this purpose and ensure that the provisions are suitably framed so as to avoid their abuse and

possible conflicts with land reform laws. In spite of the complexity of the task the Study Team considers this one of their most important recommendations and would urge its acceptance by policy-makers.

B. 2. There is at present no provision for the producer to secure bank credit to hold back his stocks in order to sell them on the most favourable market at the current moment. Since the producer is anxious to realise at least a part of the value of his product rapidly this creates a tremendous pressure to sell off the tea as fast as possible. The Study Team is AWARE THAT IN RECOMMENDING THE SETTING UP OF CREDIT ARRANGEMENTS TO HELP THE PRODUCER TO HOLD ON TO HIS STOCKS THEY ARE GOING AGAINST THE ENTIRE LINE OF THINKING IN THE GOVERNMENT WHICH IS OPPOSED TO FINANCING THE HOLDING OF COMMODITY STOCKS. However, they strongly urge that circumstances require an exception to be made in the case of tea. Unless this is done the aim of higher unit values and higher earnings from tea export would be impossible to realise.

B. 3. This sort of institutional arrangement would also obviate the necessity for brokers advancing money to sellers as against deliveries at auction warehouses. This will relieve both producers and brokers of financial embarrassment contingent on mounting warehousing charges and interest on commercial credit.

B. 4. The Study Team also notes with alarm that under the new credit squeeze policy the practice of lending under the Export Credit Guarantee arrangement has been modified with the result that a significant advantage for Indian tea export has been given with the rise in interest rate to 14/15%. This would be a serious blow to the competitiveness of Indian teas on the world market and react adversely on export earnings. The Study Team therefore, recommends the speedy restoration of the relevant credit facility.

B. 5. The Study Team is also of the opinion that the marketing of tea has been seriously hampered by treating tea as a traditional export item. The Study Team would urge on the Government serious reconsideration of the rationale of the distinction traditional and non-traditional exports and to see if the export of tea can be relieved of the penalties now imposed on it.

B. 6. The Study Team also recommends that (subject to the reaching of international supply restriction agreements as recommended at the end of this Chapter) the Government should re-introduce the system of export quotas and should auction the quotas openly to the highest bidder. This would yield substantial revenues to the Government which should be earmarked for the strengthening of tea marketing activities.

B. 7. The Study Team is of the opinion that the process of paying the tea cess into the Consolidated Fund of India (CFI) should be discontinued and its proceeds should be made directly available to promotion activity.

B.8. The original tea cess was imposed in 1903 with a view to promoting the consumption of tea. In 1953 the Tea Act introduced two substantial changes. The proceeds of the tea cess were remitted to the CFI and the second was the incorporation of a number of other functions besides promotion of the Tea Board which was chaired by an appointee of the Government of India.

B. 9. The result of the procedure to remit the proceeds of the cess to the CFI meant that the allocation for tea promotion had to come from budgetary funds.

B. 10. The tea Board, in preparing its budget, estimates under two broad heads, (i) the administrative expenditure, and (ii) promotional activities within India and abroad.

B. 11. These budget estimates are scrutinised by the Commerce Ministry and the Finance Ministry and cuts are made in the budget estimates. It has invariably been found that all the cuts fell on the promotional activities of the Board and none on the establishment which is treated as part of the Government establishment.

B. 12. Moreover, even this truncated expenditure on promotional activity, while subject to the routine audit that all Government expenditure is subject to, is not accountable to the representatives of the tea producers who are vitally interested.

B. 13. It is because of these considerations that the Study Team strongly feels that the proceeds of the cess not be channelled to

the Board through such a cumbersome procedure but directly less the cost of collection as was done for fifty years prior to the introduction of the Act of 1953.

C. IMPROVEMENTS ON THE PRESENT SYSTEM

Having reviewed the above facts, the Study Team came to the conclusion that (a) there existed no major alternative to the present marketing arrangements both in terms of greater orderliness or greater accuracy and (b) there was consequently a need for a detailed examination of the present system to see where it could be improved.

C. 1. The Study Team was of the opinion that auctions should continue as the central (core) institutional arrangement for the marketing of tea.

C. 2. In the opinion of the Study Team the practice of brokers 'valuing' the tea leaves much to be desired. There are two parts of the job of valuing (a) determining the qualitative features of the tea (done by 'tasters') and (b) judging what prices tea of the given quality is likely to fetch on the market. In doing this last job brokers go by (1) last few auction prices, (2) market gossip, and (3) the relative urgency or pressure they feel for selling the tea. It was held by the Study Team that there was no need for informing buyers about factors (2) and (3) which happens through the practice of posting valuations to buyers. It was, therefore, the conclusion of the study team that—

- (a) valuation of teas should be done by a single organisation paid for and maintained by the sellers
- (b) that such valuation should be based on an agreed formula based on last four auction prices appropriately weighed.

This would lead to the buyer getting one public estimate and evaluation of the quality of the 'lot' and would also give the seller a fair indication of what he is likely to get for it. Beyond this the relative urgency of the seller to sell his lot would be a secret between the seller and his broker as it should be as a matter of good business practice.

C. 3. In case it should be objected that this procedure of valuation would be mechanical and inaccurate, it requires to be pointed out that a computer study carried out by the Team showed that for a given grade of tea (the study team studied prices for the month of June at Calcutta over six years 1966, 1967, 1968, 1969, 1970 and 1971 for six well-defined grades of tea) a formula of the type :

$$ap_{t-4} + bp_{t-3} + cp_{t-2} + dp_{t-1} = P_t$$

$$(a + b + c + d = 1)$$

(where p_t is the current auction price (predicted) and p_{t-4} ; p_{t-3} ; p_{t-2} ; p_{t-1} are prices realised (actual) in four previous auctions and a, b, c, d are “best linear estimator weights” derived by computer analysis) is in fact, a very much better estimator than brokers’ valuations as posted in the market catalogue.

C. 4. Apart from valuations other functions of brokers “master sample analysis”, “garden advice”, etc. were found to be of some service, at least to the smaller and worse-equipped gardens. If these services were offered as ordinary management consultancy services, the gardens most needing such services would be unable to benefit from them. Thus, the present system (by which brokerage charges paid by larger gardens indirectly subsidise these services for smaller clients) should be retained.

C. 5. The Study Team also found that the practice of brokers advancing money to sellers as against warehouse stocks was bad practice as it tended to create unnecessary pressures to sell. Since commercial credit is presently available only at 15-16 per cent, this pressure is considerable. Alternative arrangements to deal with the problem of the producer are considered in Sec. B above.

C. 6. The Study Team also found it advisable that producers should cooperatively set up a small market intelligence bureau of their own at each auction centre for guiding them (a) as to the amounts they should send down, and (b) the type of teas likely to get best prices. This involves credit arrangements for producers to hold back stocks on their estates. This is dealt with in Sec. B above.

C. 7. Considering out-of-auction primary sales the Study Team is of the opinion that these options were useful to the producer.

C. 8. However, the Study Team is of the opinion that producers should agree on a floor price at which teas could be sold on non-auction channels based on the average prices for the last three to four auctions of the garden's teas. This will make the market more orderly and eliminate much abuse. The exact connecting formulae could be worked out by producers' associations.

C. 9. The Study Team is also of the opinion that the producers should get together with the trade to reduce the number of grades and normalise the nomenclature of the grades so that lot description become more informative. It would also be useful to include in the catalogue description a series of 'index' numbers of important features like colouring, cup quality, appearance, flavour etc. of the teas in the lot provided by the "public valuation service" mentioned in Sec. C. 2 above. This would be of great service to smaller buyers whose buying performance would thereby improve.

C. 10. The Study Team noted that there were serious allegations of abuse of the practice of posting samples to buyers. It however, noted that the matter was being dealt with by the trade and therefore, does not feel that comment in detail was desirable.

C. 11. On the disputed matter of the division of lots (and their alleged misuse by buyers) the Study Team concluded that some form of lot divisions was essential in order to enable small buyers to participate in auctions. To allow the lot repartitioning to be done (post-auctions) as private deals would not prevent the abuse of the system to any great extent. However, relatively best seems to be the practice of getting the highest bidder to offer all other buyers a chance to divide the lot (less the buyers requirements) on the "5 nP on" basis. This seems to be relatively the best among such arrangements.

C. 12. On 'outlots' the Study Team came to the conclusion that private negotiated sales of outlots lent itself to possible abuse. The Team, therefore, recommends that there should be a single bureau (set up by producers) at which buyers will—up to some specified time—register their offers for any outlot they are interested in. The broker could then enter into negotiations with the buyer posting the best offer.

C. 13. On all other matters the Study Team found the present arrangements fairly suitable. It recommends, however, that the tea

trade should organise a process by which uniformity in auction rules at all centres in the country could be secured. It is the opinion of the Team that the Cochin Auction rules should serve as a model in this respect. This would help also in settling the disputed matter of brokers receiving commissions from buyers. Although the Team did not find that such commissions were a significant influence, it is bad practice. Producers and brokers should negotiate some method for compensating the brokers for the loss of buyers' commissions, however, before the present practice is abolished.

D. STRENGTHENING THE INFORMATION SYSTEMS

The Study Team is of the opinion that the marketing process as presently constituted does not get to the producer or the agencies concerned with the promotional activities the kind of information they need either with sufficient accuracy or with sufficient speed. In assessing the information needs of the system we have found the following facts :

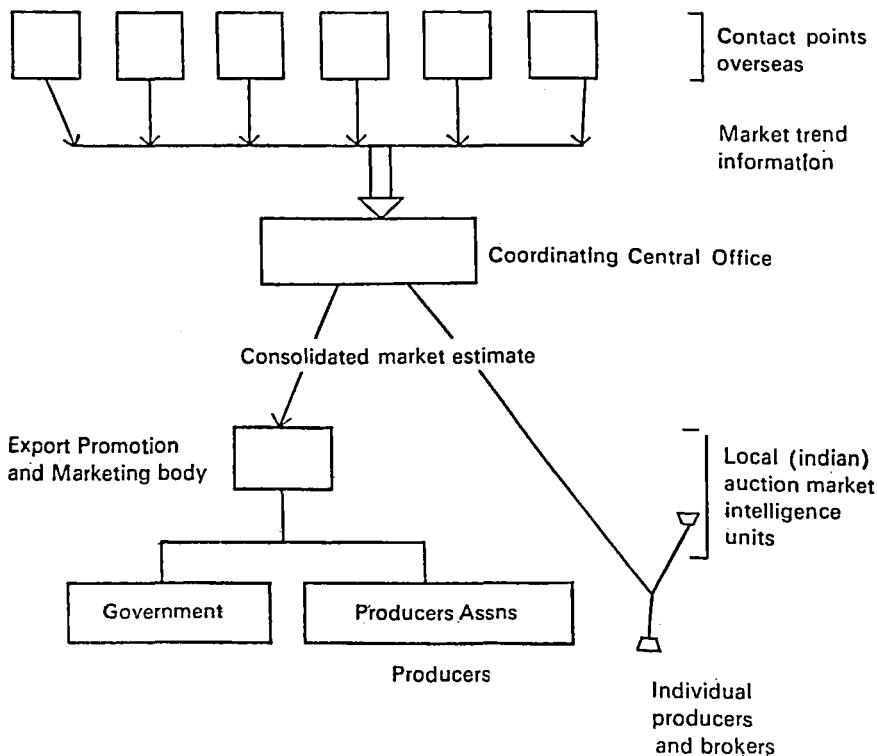
D. 1. The producers in India should have information concerning the emergent pattern of demand in the World Markets in time to be ready with appropriate offers by the time the demand actually materialises. THIS INFORMATION COULD BE SECURED ONLY IF CONSTANT CONTACT WAS MAINTAINED WITH BLENDERS/PACKERS AND IMPORTERS ABROAD so that the producer could have without significant lag information on market trends and buyers requirements even before the buying orders had been placed.

Of course it would not be possible to set up a market information system purely as a market information system. Both on cost-economy and efficiency grounds it will have to be linked up with the organisation of promotional efforts directed at overseas blender/packers.

This type of institution would be of the form of a small but technically highly qualified bureau—in each of the major buying centres overseas—manned only by experts either in blending packing or buying and backed up by funds to engage the services of local promotional expertise. Each such bureau should be telex-linked to a central coordination office which would pass back the information to the producers' associations in India.

D. 2. We have already mentioned the market intelligence bureaux at each Indian Auction Centres. These should be linked up to the central coordination bureau but there should be basically a one-way flow of information FROM THE CO-ORDINATION OFFICE TO THE LOCAL (INDIAN) UNITS. These units should utilise the information to advise individual producers and brokers of the emergent demand patterns.

A DIAGRAM OF THE INFORMATION SYSTEM



Utilisation of the above sort of information system will allow (a) producers to obtain all their short-run information requirements individually through the local intelligence units of the auctions (Indian) that they use, and (b) to obtain the information, channelised through the Export Promotion and Marketing Body on which both the Government and the Producers' Associations participate, concerning the items on which fairly long-term collective decisions need to be taken.

D. 3. For the sake of completeness (although this has been already implied in several places) there should be an Export Promotion and Marketing Body set up by Producers' Association with Government participation. This will be the body making the long-run decision on—

- (1) the nature of promotion efforts overseas, and
- (2) the nature of long-run decisions to be taken by producers in responding to trends in the World Market.

D. 4. Other institutional arrangements for promotion are being dealt with in the following paragraphs.

A DIAGNOSIS :

The Study Team came to the general conclusion that the basic reason for low prices realised did not lie in the institutional arrangements for the marketing of teas, but lay in a fundamental imbalance between supply and demand forces in the market for tea. In particular the Study Team found that the present system of disposing teas, through auction did not function to the detriment of the producer and while some of its features needed reform, it faithfully reflected the underlying configuration of forces of demand and supply. While Dutch Auctions constituted a workable alternative to the present system, there was no substantial gain to be expected by a shift to it. In the post-auction marketing of teas the secondary system is in general competitive and the margins although comfortable were neither excessive nor a typical for-agricultural product marketing. The Team found no evidence of any international rigging arrangements to keep tea prices down and, on the contrary, found ample evidence that international market prices function, much as theory would expect inter-linked competitive markets to behave. In fact the auctions (particularly an internationally linked system of auctions) represented the most natural and fair system of disposal and that it was more important to strengthen this system rather than to find alternatives to it. The Team came to the view that the fundamental difficulty experienced by the producer (and especially the Indian producer) derives from the fact that he has not been able to work out and implement a concerted strategy for altering the underlying supply-demand configurations in his favour. The basic strategy involved should constitute in (a) regulation of output and inflow into world

markes (supply control), and (b) promotions for building a better consumer market (demand improvement). There are two necessary elements in the process of supply controls : (i) reduction and normalisation of tea grading and the exclusion of what is "non-tea" from the tea market, and (ii) establishment of an "indicator price" system in order to manage the process of flow control on a scientific basis. In order to enable the producers to participate in and manage such a system effectively, there is an urgent need for improving the information system in order that the producer can get advance information of how consumer demand for tea in various markets are moving and how blender/packers are going to respond to these demands. Apart from this, the institutional arrangements (both fiscal and credit arrangements) need to be of such a type that the producer is not pressurised to over-produce or to sell off his teas quickly. The Study Team identified several reforms that are urgently needed to strengthen the Indian producer and make him a viable participant in the sarategic environment visualised. On promotional strategies the Team noted a number of confusions and organisational defects in the system by which Indian tea was promoted. As far as the diagnosis of the problem of why the producer failed to get satisfactory prices is concerned, THE DEFECTS LIE NOT IN THE ORGANISATIONAL STRUCTURE OF MARKETING BUT IN THE UNDERLYING CONFIGURATIONS OF SUPPLY AND DEMAND. THE PRODUCERS (AND PRODUCING) COUNTRIES MUST TAKE ADEQUATE STEPS TO INFLUENCE THESE UNDERLYING CONDITIONS AND THEY CAN DO SO ONLY WHEN (A) THEY HAVE ARRIVED AT A SUITABLE SUPPLY CONTROL MECHANISM, (B) THEY HAVE SET UP AN EFFECTIVE PROMOTIONAL STRUCTURE, AND (C) THEY HAVE WORKED OUT AND ESTABLISHED AN EFFECTIVE SYSTEM OF MARKET INTELLIGENCE IN ORDER TO SCIENTIFICALLY MANAGE SUCH ACTIVITIES. IN ORDER THAT INDIAN PRODUCERS CAN BENEFIT ADEQUATELY FROM SUCH ARRANGEMENTS THE LEGAL, FISCAL AND CREDIT STRUCTURES WHICH AT PRESENT PREJUDICE THEIR RATIONAL BEHAVIOUR SHOULD BE SUITABLY CHANGED.

The basic defect found in the marketing system as an information-generating device is that there exist no mechanism by which producers can obtain information as to :

- (a) how consumer demands have been changing, and
- (b) how buyers and blender/packers and distributors have been reacting to it.

Unless such information is available, neither supply control, nor demand promotion is likely to be effective.

Effective control of supplies would require the setting up of an International Producing Countries' Agreement. Such an agreement should specify in detail the arrangements for nationally controlling the production and outflow of tea into the world market. It should provide for the establishment of target prices for all teas after the rationalisation of tea grades and the definition of 'non-tea' has been settled. No system of pricing can hold up unless, (a) there is a rational device for out-flow control, and (b) for compensating producers affected by such controls. The floor control process should involve a considered judgement arrived at by, (i) a cybernetic device constituted by indicator prices for various grades, and (ii) the inflow of information from the market intelligence system.

The process of compensation could be worked out by each producer country and operated by them in accordance with the conditions therein. The process, however, must be backed by International Financing (preferably through the IMF) and contain rules for the internationally equitable distribution of such finances.

PROMOTION :

The Team holds that promotion should be directed primarily at two distinct sorts of clients : (a) the ultimate consumer who is the most appropriate recipient for generic promotion, and (b) the blender/packer who is the most appropriate target for uninational promotion.

The matter of generic promotion should be handled by an international body, which should review, evaluate and control promotional activities in each major importing country.

In generic promotion, blender/packers have a common interest with producing countries which will have to be strength-

ened and utilised. Uninational promotion should be primarily a matter of expert technical sales to buyers (importers) and blender/packers. The same units which do the promotion can also cover the national market-intelligence needs. This will lead to both economy and efficiency. While various suggestions that producers directly enter the secondary markets of tea as blender/packers and sellers of their own tea were considered, the Team found no significant benefits to be gathered therefrom and as far as primary prices for tea were concerned they were unlikely to be affected thereby.

STATISTICAL TABLES

Table : I
PRODUCTION TRENDS
(In '000 Kgs)

Year	India	Sri Lanka	East Africa	Total World*
1950	278,212	138,897	19,554	556,948
1951	285,399	147,997	19,850	589,063
1952	278,671	143,717	20,151	584,141
1953	278,777	155,597	18,344	595,794
1954	295,519	166,349	25,418	654,138
1955	307,704	172,371	27,837	709,052
1956	308,719	170,359	31,188	710,452
1957	310,802	180,428	30,495	729,350
1958	325,225	187,404	36,465	769,537
1959	325,955	187,393	39,484	784,249
1960	321,077	197,181	43,020	800,506
1961	354,397	206,488	47,112	861,550
1962	346,735	211,850	49,783	876,697
1963	346,413	219,798	49,815	889,213
1964	372,485	218,513	55,113	927,906
1965	366,374	228,236	57,800	944,484
1966	375,983	222,312	72,783	986,475
1967	384,759	220,742	72,459	992,050
1968	402,489	224,803	82,911	1039,343
1969	393,588	219,639	95,414	1063,080
1970	418,517	212,210	103,491	1108,000
1971	433,322	217,773	99,864	1122,000
1972	454,403	213,475	128,764	1204,000
1973	468,038	211,380	132,846	1226,541

Source : ITC Annual Bulletin of Statistics

Note : *Excluding production of China for all years and U.S.S.R. for 1950 to 1954.

Table : II

TEA EXPORTS—SHARE OF MAJOR PRODUCING COUNTRIES IN THE WORLD MARKETS

Year	Total World Exports	Exports from India		From Ceylon		From East Africa		From Indonesia	
		Total Qty. ('000 Kgs)	% to Total	Total Qty. ('000 Kgs)	% to Total	Total Qty. ('000 Kgs)	% to Total	Total Qty. ('000 Kgs)	% to Total
1950	399,161	182,905	45.82	135,215	33.87	16,098	4.03	28,581	7.16
1951	458,128	205,980	44.96	133,423	29.12	16,802	3.67	40,630	8.87
1952	417,250	188,170	45.10	142,652	34.19	16,576	3.97	31,831	7.63
1953	471,736	227,097	48.14	152,205	32.26	15,814	3.35	29,289	6.21
1954	497,728	203,195	40.82	163,866	32.92	22,613	4.54	40,416	8.12
1955	452,186	166,708	36.87	164,307	36.34	23,278	5.15	32,790	7.25
1956	536,056	237,484	44.30	157,909	29.46	27,585	5.15	36,523	6.81
1957	514,646	200,786	39.01	166,800	32.41	28,559	5.55	38,855	7.55
1958	563,453	229,503	40.73	186,323	33.07	31,326	5.56	37,730	6.70
1959	540,600	213,680	39.53	173,950	32.18	35,480	6.56	32,341	5.98
1960	530,000	193,062	36.43	185,875	35.07	38,515	7.27	36,140	6.82
1961	546,000	206,292	37.78	193,104	35.37	42,345	7.76	33,393	6.12
1962	565,600	211,826	37.45	204,857	36.22	46,168	8.16	30,857	5.46
1963	576,300	223,543	38.79	206,781	35.88	45,575	7.91	29,022	5.04
1964	571,800	210,523	36.69	206,508	36.12	50,046	8.75	32,139	5.62
1965	601,400	199,365	33.15	224,281	37.29	52,712	8.76	32,285	5.37
1966	568,100	179,205	31.54	200,048	35.21	67,289	11.84	33,244	5.85
1967	608,500	213,676	35.12	216,537	35.58	66,727	10.97	26,607	4.37
1968	622,700	208,440	33.47	208,671	33.51	76,830	12.34	36,280	5.83
1969	580,000	168,709	29.09	201,394	34.73	90,180	15.55	32,472	5.60
1970	646,000	208,430	32.26	208,277	32.24	92,567	14.33	36,897	5.76
1971	681,000	206,704	30.26	200,798	29.48	93,616	18.75	40,202	5.90
1972	695,000	207,445	29.85	190,088	27.35	115,275	16.59	38,529	5.54
1973*	703,000	183,760	26.14	205,515	29.24	119,910	17.06	36,000	5.12

(*Provisional)—Source : ITC Bulletin of Statistics for Exports from countries other than India, and Tea Board for exports from India (E. Africa, Kenya, Uganda, Tanzania, Malawi and Mozambique).

Table : III

SALE OF INDIAN TEA THROUGH VARIOUS AUCTIONS

Year	Production (.....In '000 Kgs.....)	Quantity sold through all auctions*	Sales through auctions as % of total production
1950	278,212	114,242	41.06
1951**	285,399	158,669	55.60
1952	278,671	226,452	81.26
1953	278,777	235,423	84.45
1954	295,519	223,801	76.73
1955	307,704	225,267	73.21
1956	398,719	264,312	85.62
1957	310,802	250,451	80.58
1958	325,225	262,638	80.76
1959	325,955	278,837	85.54
1960	321,077	249,041	77.56
1961	354,397	283,476	79.99
1962	346,735	278,017	80.18
1963	346,413	283,079	81.72
1964	372,485	297,347	79.83
1965	366,374	296,662	80.97
1966	375,983	298,797	79.47
1967	384,757	275,832	71.69
1968	402,489	308,486	76.64
1969	393,588	310,838	78.98
1970	418,517	272,022	65.00
1971	433,322	305,991	70.62
1972	455,903	305,129	66.93
1973	467,719	307,580	65.76

* Auction centres at London, Calcutta, Amritsar, Gauhati, Cochin and Coonoor

** Due to War-time interruption, London Auctions were suspended from 24th August, 1939 to 16th January, 1951

Source : For London and Calcutta—ITC Annual Bulletin of Statistics. For others—Tea Statistics.

Table : IV
IMPORTS OF TEA INTO UNITED KINGDOM

Year	Total Imports	Imports From			Percentage to Total		
		India	Sri Lanka	East Africa	India	Sri Lanka	East Africa
		(.....in thousand kgs.....)			(in percentage)		
1950	167,181	108,459	42,527	4,731	64.9	25.4	2.8
1951	210,519	125,224	49,986	8,231	59.5	23.7	3.9
1952	225,393	138,065	53,186	12,369	61.3	23.6	5.5
1953	223,522	143,032	52,679	9,799	64.0	23.6	4.4
1954	245,918	145,826	60,925	12,504	59.3	24.8	5.1
1955	226,480	128,545	55,325	17,558	56.8	24.4	7.8
1956	232,963	136,348	57,076	21,412	58.5	24.5	9.2
1957	269,473	158,060	63,387	23,081	58.7	23.5	8.6
1958	266,840	147,766	73,012	21,761	55.4	27.4	8.2
1959	234,836	128,995	62,306	23,600	54.9	26.5	10.0
1960	238,495	116,791	68,195	26,545	49.0	28.6	11.1
1961	252,000	127,779	72,476	26,644	50.7	28.8	10.6
1962	252,808	122,507	79,316	31,974	48.5	31.4	12.6
1963	242,943	120,126	75,489	29,974	49.4	31.1	12.3
1965	253,433	114,432	79,642	29,396	45.2	31.4	11.6
1966	232,760	97,212	70,433	43,063	41.8	30.3	18.5
1967	247,235	109,479	78,484	40,456	44.3	31.7	16.4
1968	269,613	113,028	76,160	49,319	41.9	28.2	18.3
1969	212,158	68,324	63,984	58,230	32.2	30.2	27.4
1970	252,727	82,902	70,797	66,148	32.8	28.0	26.2
1971	226,264	79,414	49,202	57,711	35.1	21.7	25.5
1972	212,235	62,286	34,775	69,957	29.3	16.4	33.0
1973	211,201	56,223	30,159	67,614	26.6	14.3	32.0

Table : V
TEA OFFERED AT LONDON AUCTIONS

	Month & Date		Packages Offered		Average Price of All Teas (Pence Per Kg.)	
	1973	1974	1973	1974	1973	1974
January	5	4	59,561	48,181	43.86	48.55
	12	11	59,162	47,884	43.95	49.90
	19	18	53,872	47,518	44.00	50.16
	26	25	54,658	46,816	43.99	50.41
February	2	1	50,154	47,613	43.31	52.13
	9	8	55,707	46,311	43.42	52.80
	16	15	54,746	45,825	43.80	52.74
	23	22	52,437	45,526	43.29	54.48
March	2	1	48,845	52,859	44.30	61.21
	9	8	54,502	40,946	44.03	65.44
	16	15	58,247	39,155	44.10	67.81
	23	22	54,457	40,965	43.77	66.99
	30	29	53,769	38,822	43.78	66.80
April	6	5	48,787	36,369	43.66	62.38
	13	11	43,326	41,810	43.77	62.27
	19	—	45,127	**	43.47	—
	—	26	**	43,216	—	61.88
May	4	3	57,218	41,910	43.21	61.24
	11	10	52,889	41,785	42.53	59.44(4)
	18	17	44,957	50,016	42.70	59.27
	25	24	51,627	NA	42.24	NA
June	8	7	50,258	36,603	42.27	60.53
	15	14	49,427	26,163	41.79	59.01
	22	21	54,824	27,221	40.59	60.02
	29	28	58,711	30,894	39.80	58.28

(**No Sale)

Source : Tea Market Report—Tea Brokers' Association of London.

Table : VI

TEA
Average Monthly Stocks in the U.K. and the average Price of All Teas at London Auctions

Year	Stock* (’000 Kgs.)	Price of all Teas (Pence/Kg)
1952	55,778	33.6
1953	55,150	40.2
1954	51,615	58.1
1955	62,363	55.9
1956	50,517	53.3
1957	67,715	48.9
1958	61,474	50.6
1959	66,902	50.1
1960	64,829	50.7
1961	67,136	48.6
1962	66,147	49.0
1963	72,032	46.5
1964	69,002	47.2
1965	75,804	46.0
1966	79,378	44.8
1967	73,950	45.7
1968	87,786	43.5
1969	92,452	40.5
1970	73,361	45.7
1971	80,633	43.3
1972	70,902	42.2
1973	64,894	43.3

Source : ITC Annual Bulletin of Statistics
*Excluding primary wholesalers stock
London Auctions were resumed on 16th April, 1951, after the break from 24th August, 1939.

Table : VII

TEA STOCK AT THE END OF EACH YEAR IN THE UNITED KINGDOM AND AVERAGE PRICES REALISED AT LONDON AUCTIONS AT THE END OF EACH YEAR

Year	Stock at the end of December (M. Tonnes)	(.....Average Prices Realised—Pence Per Kg.)								
		N. India	S. India	Sri Lanka	Kenya	Uganda	Tanzania	Malawi	Mozambique	All Total
1950										
1951*	32,148	40.3	39.0	42.3	—	—	—	—	—	40.3
1952	57,994	33.0	30.4	42.4	21.6	19.6	35.5	19.4	19.3	33.6
1953	54,396	39.9	37.9	44.2	36.3	37.1	38.7	36.6	33.7	40.2
1954	57,336	58.8	57.3	58.3	55.2	56.0	53.8	50.5	54.3	58.1
1955	56,520	58.4	49.3	59.1	41.1	46.7	50.9	41.3	35.7	55.9
1956	40,964	56.1	47.0	60.8	39.1	39.3	43.1	34.5	31.1	53.3
1957	66,812	52.0	41.4	53.4	37.9	39.6	40.9	34.3	32.8	48.9
1958	81,058	54.1	42.1	54.3	42.7	40.4	43.9	35.5	33.9	50.6
1959	65,931	53.4	40.8	55.8	43.1	38.9	42.8	32.5	31.9	50.1
1960	63,856	54.4	43.8	55.0	47.0	43.4	43.8	36.5	35.1	50.7
1961	67,373	51.4	42.6	50.9	46.0	43.2	45.7	37.0	36.1	48.6
1962	70,774	55.7	40.5	51.3	49.4	42.6	46.4	32.0	27.9	49.0
1963	76,433	51.1	39.8	48.0	44.7	40.5	42.2	32.2	28.8	46.5
1964	69,722	50.1	42.1	49.4	46.7	40.8	43.6	30.8	29.8	47.2
1965	83,144	48.0	41.1	47.0	45.2	42.6	44.7	37.4	34.8	46.0
1966	74,376	47.9	37.7	46.7	46.3	41.5	45.0	33.8	27.8	44.8
1967	77,338	49.3	39.0	48.0	47.8	44.4	46.1	33.4	28.1	45.7
1968	103,296	44.7	38.8	40.2	44.7	39.5	42.5	37.3	36.1	43.7
1969	76,764	41.5	31.6	44.5	44.2	36.7	39.9	25.7	23.8	40.5
1970	90,394	46.7	40.4	46.9	48.6	46.8	48.4	39.8	35.4	45.7
1971	79,758	42.1	39.9	45.3	47.3	43.6	45.4	39.5	36.8	43.3
1972	71,437	42.9	37.9	45.5	43.6	41.0	41.7	37.4	33.9	42.2
1973	60,321	45.6	37.8	45.4	44.2	41.9	42.6	37.8	34.5	43.3

(*Auction resumed on 16th April, 1951)

Source : ITC Annual Bulletin of Statistics 1967, 1972 and 1973.

Table VIII
TEA PRICES
(Rs. Per Kg. Exclusive of Excise Duty)

Seasonal Year	CALCUTTA AUCTIONS			COCHIN AUCTIONS			
	Leaf	Dust	Leaf & Dust Combined	Calendar year	Leaf	Dust	Leaf & Dust Combined
1949-50	4.25	3.28	4.23	1950	4.58	3.61	4.40
1950-51	4.51	3.72	4.50	1951	4.33	3.94	4.28
1951-52	3.78	3.54	3.73	1952	3.52	2.88	3.45
1952-53	3.10	3.04	3.06	1953	4.20	3.28	4.08
1953-54	4.38	4.05	4.28	1954	6.20	4.71	5.84
1954-55	6.80	5.24	6.31	1955	5.06	4.29	4.84
1955-56	4.44	4.27	4.39	1956	4.88	3.83	4.60
1956-57	5.21	4.47	5.01	1957	4.25	3.54	4.05
1957-58	4.62	4.09	4.58	1958	4.63	3.44	4.26
1958-59	4.73	4.36	4.61	1959	4.83	3.97	4.59
1959-60	5.05	4.67	4.94	1960	4.70	4.32	4.59
1960-61	5.34	5.09	5.27	1961	4.68	4.45	4.61
1961-62	4.66	4.63	4.65	1962	4.58	3.75	4.28
1962-63	5.26	4.91	5.15	1963	4.65	4.25	4.53
1963-64	5.16	4.79	5.03	1964	4.75	4.42	4.65
1964-65	4.95	4.74	4.88	1965	4.85	4.53	4.74
1965-66	5.44	5.01	5.29	1966	4.80	4.51	4.70
1966-67	5.74	5.24	5.56	1967	5.79	5.04	5.51
1967-68	5.98	4.86	5.58	1968	5.26	4.67	5.06
1968-69	5.47	5.03	5.32	1969	5.12	4.63	4.93
1969-70	5.88	5.18	5.62	1970	5.71	5.34	5.57
1970-71	6.36	5.36	6.03	1971	6.23	5.69	6.04
1971-72	6.50	5.63	6.25	1972	5.87	5.73	5.82
1972-73	6.26	5.35	6.23	1973	5.53	5.56	5.54
1973-74	6.93	5.88	6.59	1974			

Source : Tea Board Statistics & Market Reports.

Table IX
PRICE OF NORTH INDIAN AND SOUTH INDIAN TEA AT AUCTIONS
(LEAF GRADES)

YEAR	CALCUTTA		COCHIN	
	Rs. Per Kg.	Pence Per Kg.	Rs. Per Kg.	Pence Per Kg.
1952	3.10	23.3	3.52	26.4
1953	4.38	32.8	4.20	31.5
1954	6.80	51.0	6.20	46.5
1955	4.44	33.3	5.06	38.0
1956	5.21	39.1	4.88	36.6
1957	4.62	34.6	4.25	31.9
1958	4.73	35.5	4.62	34.7
1959	5.05	37.9	4.83	36.2
1960	5.34	40.0	4.70	35.2
1961	4.66	35.0	4.68	35.1
1962	5.26	39.4	4.58	34.4
1963	5.16	38.7	4.65	34.9
1964	4.95	37.1	4.75	35.6
1965	5.44	40.8	4.85	36.4
1966	5.74	27.3	4.80	22.9
1967	5.98	31.7	5.79	30.7
1968	5.47	29.0	5.26	27.9
1969	5.88	31.2	5.12	27.1
1970	6.36	33.7	5.71	30.2
1971	6.50	34.4	6.23	33.0
1972	6.26	33.2	5.87	31.1
1973	6.93	36.7	5.53	29.3

Source : Tea Board Statistics & Market Reports

Conversion Factors :

1952 to 1965	...	1ℓ = Rs. 13.33
1966	...	1ℓ = Rs. 21.00
1967 to 1973	...	1ℓ = Rs. 18.87

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