

**REPORT
OF
THE COMMITTEE ON
TEA MARKETING**

NOVEMBER 1978

APPOINTED BY
THE GOVERNMENT OF INDIA



Published by

TEA BOARD
Commerce, Civil Supplies & Co-operation,
Government of India)

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Published by
TEA BOARD
14, Biplabi Trailakya Maharaj Sarani
Calcutta-700 001

Rs. 25/-
(Rupees Twenty Five Only)

Printed by The Technical & General Press
17 Crooked Lane Calcutta 700 069

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PART ONE
INTRODUCTION

TEA COMMITTEE

ITS APPOINTMENT AND TASK

Government appointed a Committee of Experts on Marketing of Tea in India and Abroad with the following terms of reference.

- 1. To consider the present arrangements of marketing of tea in India by way of direct sales, consignment sales, auction sales etc. and to recommend what would be the best arrangement for marketing of tea with a view to ensure a fair unit value realisation in the domestic market as well as the highest possible realisation in the export market.**
- 2. To suggest arrangements which would eliminate the chances of collusive sales in domestic markets as well as under-invoicing in exports.**
- 3. To consider the role of the London auctions in the marketing of Indian tea and to examine as to whether the best solution would lie in allowing auctions of tea only in India.**
- 4. To consider as to whether the present system of tea auctions in India is advantageous to the producer and fair to the consumer or not. To also consider as to whether the auction system in India should be continued and if so in what manner and the methodology Government should adopt to keep a supervisory watch on the auction system.**
- 5. To consider the present arrangements for shifting export of tea from primary form as bulk tea to more value added forms like packet tea, tea bags, instant tea, etc. To also consider and recommend what measures should be undertaken to accelerate the shift from export of primary tea in bulk form to export in more value added forms.**

6. To consider whether in the marketing arrangements for tea, there should be any special provisions or arrangements for marketing of tea by small producers.
7. To consider as to whether the present arrangements for marketing of tea at the retail level enables the consumer to get tea at a reasonable price.
8. Any other aspect which in the Committee's opinion is germane to the broad purpose of the enquiry.

The Committee was constituted with the following members.

- | | | |
|----|--|---------------------|
| 1. | Mumtaz Ahmad
Chairman, Indian Tea Association
CALCUTTA | Member |
| 2. | T. S. Broca
Special Commissioner, West Bengal
Government, NEW DELHI | Member |
| 3. | B. K. Dutt
Chairman, Tata Finlay Limited
CALCUTTA | Member |
| 4. | B. C. Ghose
Chairman, Siliguri Tea Auction Committee
SILIGURI | Member |
| 5. | B. K. Goswami
Chairman, Tea Board
CALCUTTA | Member
Secretary |
| 6. | P. N. Kaul
Additional Economic Adviser
Department of Civil Supplies and Cooperation
NEW DELHI | Member |
| 7. | N. C. B. Nath
Chairman, Ganesh Flour Mills
NEW DELHI | Member |

- | | | |
|-----|--|----------|
| 8. | P. L. Perumal
President, Neelamalai Plantation Workers
Union, COONOOR | Member |
| 9. | C. Prabhakaran
President
United Planters Association of Southern India
COONOOR | Member |
| 10. | Prakash Tandon
Director General
National Council of Applied Economic
Research, NEW DELHI. | Chairman |

The Committee began its work on 24 February, 1978 by examining the terms of reference and discussing the broad parameters of its brief and how it would proceed with the Study.

The Committee issued a questionnaire to tea interests in India and abroad, state governments of the tea growing states, research institutions, and others. A copy of the questionnaire and a list of places visited and parties met in India and abroad, are included in the Report.

The Committee felt that in regard to point 7, of its Terms of Reference, while adequate data was available about tea production and marketing upto the stage of auctions there was no reliable information about the wholesale and retail marketing of tea. The Committee suggested that the Tea Board might consider sponsoring a study by the National Council of Applied Economic Research to go into this aspect of the domestic marketing of tea. The Council had earlier conducted a study to enquire into the techno-economic aspects of the Darjeeling tea estates, under the sponsorship of the Tea Board. With the approval of Government of India, the Board commissioned this study, which is in progress. When the study is complete, it will be sent to Government.

Replies to questionnaires, processed by the Tea Board were discussed by the Committee, before it began a series of meetings in India and abroad with a wide range of tea interests.

India		Abroad	
Calcutta	3rd, 4th May 1978	London	5th—9th June
Gauhati	5th May		1978
Coonoor	8th May	Rotterdam	12th June
Cochin	10th May	Brussels	13th June
Bombay	11th May		
Calcutta	24th, 25th May, 26th, 27th July		

The Committee met for detailed discussions with India's main buyers and their representatives from UK, Ireland, USA, West Germany, Belgium, Holland, France, Italy, Iraq and ARE. The USSR buyers in India did not come to the arranged meeting.

In addition, the Committee met 8 times in Delhi and Calcutta for its internal deliberations.

The Report has been presented in a series of sections, each dealing with a specific issue, with an occasional unavoidable overlap.

The Committee wishes to record its deep appreciation of the co-operation it received from all whom it met in India and Europe, including a representative of the United States tea interests. It felt greatly helped by the many who gave their valuable time and attention to guide and help it.

It also records its deep appreciation of the help and assistance of the Tea Board and its staff and in particular of its Controller of Licensing, N Ramadurai ; and D D Dhawan, V Gopinathan and Balkrishna of the National Council of Applied Economic Research for valuable general assistance. We also wish to thank I Z Bhatt, Deputy Director General of the NCAER and T Das of the Indian Tea Association, for their help with the section on Financing of The Industry.

The statements in the Report have been provided by the Tea Board, except where otherwise stated.

QUESTIONNAIRE—LIST OF ISSUES

- Note :*
- I. The main emphasis should be on Marketing and comments on other factors should be brief and cover such aspects as are having a bearing on Marketing ;
 - II. The list is only suggestive and views on points not covered here but relevant to the subject matter may also be given ;
 - III. The comments need not necessarily follow the same order of the points listed, but it would help if the order is followed to the extent possible ; and
 - IV. If the views are intended to be kept confidential, this may be indicated.

I. MARKETING

The entire marketing system of Tea viewed from the angle of the Producer, Broker, Buyer, Consumer and Government with specific reference to :

(a) Internal Marketing

1. Merits and de-merits of the system of marketing of crop by producers through domestic auctions, and through ex-garden sales in domestic market—possibilities, if any, of collusive sales in ex-garden sales. Need, if any, for augmenting sales at auctions and/or regulation/restriction of ex-garden sales.

2. Need for regular monitoring of data on ex-garden sales as in the case of auctions including quantity sold, prices fetched, name of the buyer, etc.

3. Existing domestic auction system—deficiencies—possibilities, if any, of collusive sales. Need for improvements.

4. Need for supervision and control either by Government or by Tea Board, on Tea Marketing in general and Tea Auctions, in particular.

5. Present arrangements for marketing of tea at retail level in the form of loose tea and packet teas—suggestions for improvement, if any.

6. Need for any special arrangements for marketing the produce of small growers.

7. Views on private 'Mini Auctions' conducted by some producers and possibility of direct retail sale by producers.

8. Creation of buffer-stock for tea in the domestic market and other price-support measures.

(b) Export Marketing

9. Various ways in which tea is exported at present may be broadly classified as :

A : Export of tea by producers without auction in India—

(i) Shipment on consignment basis for sale at London Auctions ;

(ii) Shipment against forward contracts and against sale contracts of current production.

B : Export of tea purchased from auctions held in India—

(i) Shipments by agents who purchase tea in Indian auctions on cost (auction price) PLUS commission basis on behalf of—

(a) buyers in foreign countries including stock transfers by branches of multinationals operating in India to associated companies in other countries ;

(b) foreign countries having their own purchasing organisations in India like USSR, Poland, ARE, Iraq, etc.

(ii) Shipment by merchant exporters after sale of teas against quotations submitted by them to foreign buyers.

C : Export of tea purchased privately in India—

(i) Shipment by foreign countries having their own purchasing organisations in India like Poland ;

(ii) Shipment by merchant-exporters after private purchase of teas from producers.

10. Need for regulation/restriction of exports by any of the above ways to achieve streamlining and removing possibilities, if any, of under-invoicing, collusive sales, etc. and helping to maximise foreign exchange earnings.

11. Comments on the existing facilities and concessions available for exports of packet tea, tea bags and instant tea and suggestions, if any, for further improvement of exports of these items.

(c) Other Aspects of Marketing

12. Warehousing facilities, transport, distribution channel, etc.

13. Taxation on tea in so far as it has relevance to marketing.

14. Employment potential and labour relations in so far as they relate to marketing.

II. OTHER FACTORS HAVING A BEARING ON MARKETING

(a) Future Planning

15. Level of production say by 1990, needed to satisfy both domestic and export demand.

16. Measures to achieve the production level by 1990 including extension of tea areas, improvement in yield rate, etc., and connected problems. Long-term financial needs of the Tea Industry—Role of diversification.

(b) Research

17. Research facilities available at present—Need for improvements at laboratory and field levels—plantation and factory level—post-plantation research like manufacturing techniques, packaging, consumer marketing, advertising, etc.—Financing of Research.

(c) Institutional Framework

18. Need for institutional improvements—the institutions involved being, Central Government, State Governments, Tea Board, RBI, Customs Authorities.

(d) Competition from other Beverages

19. Future of tea, as a beverage, viewed from the point of competition from other beverages like coffee, soft drinks, etc.

III. GENERAL

20. Comments on any other points relevant to the subject matter.

PLACES VISITED AND PARTIES MET

INDIA

**CALCUTTA—3rd & 4th May '78, 24th & 25th May '78
and 26th & 27th July '78**

1. Tea Trading Corporation of India Ltd.
2. Consultative Committee of Plantation Associations.
3. Indian Tea Association.
4. Tea Association of India.
5. Indian Tea Planters Association.
6. Andrew Yule & Co. Ltd.
7. Macneill & Magor Ltd.
8. Tata Finlay Ltd.
9. Shaw Wallace & Co. Ltd.
10. Jardine Henderson Ltd.
11. Calcutta Tea Traders' Association.
12. Siliguri Tea Auction Committee.
13. Siliguri Tea Traders' Association.
14. Indian Tea Merchants' Association.
15. Tea Packeters' Association of India.
16. Indian Tea Brokers Association.
17. J. Thomas & Co. Pvt. Ltd.
18. Carrit Moran & Co. Pvt. Ltd.
19. Associated Brokers Pvt. Ltd.
20. A. W. Figgis & Co. Pvt. Ltd.
21. Contemporary Tea Co. Pvt. Ltd.
22. Tea Brokers Pvt. Ltd.
23. Sudhir Chatterjee Pvt. Ltd.
24. W. S. Cresswell & Co. Pvt. Ltd.
25. Siliguri Tea Brokers Pvt. Ltd.
26. Brooke Bond (India) Ltd.
27. Lipton Ltd.
28. Washabarie Tea Co. Pvt. Ltd.
29. Deputy Collector of Customs, Calcutta.
30. Chairman & Director of Tea Research Association.
31. Director of UPASI Tea Research Station.
32. Trade Centre of the Arab Republic of Egypt, Calcutta.
33. Iraqi State Company for Food Stuffs Trading, Calcutta.

GAUHATI—5th May, 1978

34. Chief Secretary to the Government of Assam.
35. Assam Tea Corporation.
36. Gauhati Tea Auction Committee.
37. Bharatiya Cha Parishad.

COONNOOR—8th May, 1978

38. United Planters' Association of Southern India.
(Including representatives of Association of Planters of Kerala & Planters' Association of Tamil Nadu).
39. Nilgiri Small Tea Growers' Association.
40. Bought-Leaf Tea Manufacturers' Association.
41. Coonnoor Tea Traders' Association.
42. Neelamalai Plantation Workers Union.
43. Estate Staffs' Union of South India.
44. Food Specialities Ltd.

COCHIN—10th May, 1978

45. Tea Trade Association of Cochin.

BOMBAY—11th May, 1978

46. Gujarat Tea Traders' Association.
47. Bombay Tea Traders' Association.

DELHI—11th August, 1978

48. National Agricultural Co-Op. Marketing Federation Ltd.
49. National Co-operative Consumers' Federation Ltd.
50. Amritsar Tea Traders' Association—Did not attend.
51. Kangra Valley Small Tea Growers' Association—
Did not attend.

ABROAD

LONDON—5th to 9th June, 1978

1. Call on Indian High Commissioner in London.
2. Tea Brokers' Association of London.
3. Thomas Cumberlege & Inskipp.
4. Tea Promotion in UK and Scandinavia.
5. Irish Tea Council.

6. London Auctions.
7. British Tea Producers' Association.
8. UK Tea Buyers' Association.
9. Ministry of Food, Agriculture and Fisheries.
10. UK Tea Trade Committee.
11. Liptons Limited.
12. Brooke Bond Liebig.
13. UK Tea Council.

ROTTERDAM—12th June, 1978

14. Unilever.
15. Dutch Tea Packers.

BRUSSELS—15th June, 1978

16. European Tea Committee.
17. European Economic Community.

OTHER VISITS

1. Tocklai Experimental Station (Chairman, NCB Nath and BK Goswami).
2. Cinchona Tea Research Station (Chairman and NCB Nath).
3. Various Tea Gardens in North-East and South India.

PART TWO
SUMMARY AND HIGHLIGHTS

PRODUCTION—WORLD AND INDIA

World tea production has more than doubled over the last twenty-five years, from 682 million kilograms in 1951 to 1,521 mkg in 1976. Where China, and then India, Sri Lanka, and Indonesia, were once supreme, today twentyeight countries grow tea. The leading among them are shown below.

	1951	1976
	mkg	
India	285.4	511.8
China	65.0	198.0
Sri Lanka	148.0	196.6
Japan	44.0	100.0
USSR	23.5	90.0
Indonesia	47.9	73.6
Kenya	6.9	62.0
Others	61.1	288.7
TOTAL	681.8	1,520.7

India remains the world's largest producer, consumer and exporter of tea. In 1977-78, admittedly a year of high prices, tea contributed nearly Rs. 900 crores to GNP, including the foreign exchange earnings of Rs. 560 crores, besides substantial central and state taxes, excise duty and cess. It is a highly labour intensive industry, employing 4 lakhs men and 4 lakhs women, providing women of India with their single biggest organised employment avenue, and contributes to the welfare and infrastructure of less developed regions and classes. And, it provides the common man with a pleasant, non-alcoholic beverage, in which the cost of tea is only one-fifth of the price of a cup of tea.

India's production, consumption and exports during the last quarter century have risen as follows.

Year	Area '000 hec	Production mkg	Yield rate kg/hect	Consumption mkg	Exports mkg
1951	317(100)	285(100)	901(100)	73(100)	206(100)
1976	364(115)	512(180)	1,405(156)	285(390)	234(114)

Varieties

Although most teas in India are of black variety, some green teas are also made. Darjeelings, the high grown, are world renowned for high quality, but they have a poor acre yield of 632 kg per hectare, compared to 1381 kgs for North India and 1499 kgs for South India. A notable advance in manufacturing was the new CTC varieties of "crushed", "torn", and "curled", which give 75% more cups per kg than the orthodox teas. This has added to the availability of tea cuppage over and above the increased tonnage.

Two further notable developments have both been in the direction of "convenience"—tea bags and instant teas. Starting from America, the tea bag habit has spread to U.K., where it accounts for 40% of total tea consumption. It is also spreading in Europe. Instant teas are of two kinds—Cold Water Soluble (CWS) and Hot Water Soluble (HWS). They also began in America, where CWS has been popular for long for use in flavoured drinks. HWS, unlike instant coffee, does not approach the natural taste of tea, but once its technology breaks through to an acceptable product, the habit is likely to spread as rapidly as of instant coffee.

WORLD TRADE—India's Share

The statement below shows, first, India's declining share, and a shift in exports eastward from-U.K., Ireland and USA to Western Europe, Russia, Eastern Europe and Middle East ; east of that, in South East Asia, we have as yet made no mark, though we learn a study mission is visiting this area shortly.

	1950			1977		
	mkg	%	Rank- ing	mkg	%	Rank- ing
U.K.	115.4	63.1	1	72.9	32.5	1
U.S.A.	15.8	8.6	2	9.8	4.4	5
Ireland	9.6	5.2	3	6.3	2.8	8
Iran	3.8	2.1	4	6.5	2.9	7
ARE	1.8	1.0	5	14.0	6.3	3
Sudan	1.7	0.9	6	12.8	5.7	4

U.S.S.R.	1.4	0.8	7	45.7	20.4	2
West Germany	1.0	0.6	8	5.8	2.6	9
Poland	*	—	—	5.0	2.2	10
Afghanistan	*	—	—	8.3	3.7	6
Others	32.4	17.7		36.9	16.5	
TOTAL	182.9	100.0		224.0	100.0	

*In 1950, Afghanistan and Poland are included in Others.

While India's domestic consumption has risen steadily over the past 25 years, there was a slackening in exports, in the early years due to dull world demand, and later when we appeared not to have as much to spare.

Emergence of the strong home demand, with rising population, urbanisation and living standards, is a phenomenon that needs careful study for its impact upon our future exports. Recently, when prices of tea rose high, government took measures to hold prices. In April 1977 an export duty of Rs. 5 per kg was levied, both to mop up fortuitous profits on exports, and to make more tea available for the home market. As a result exports fell from 234 mkg in 1976 to 224 mkg in 1977 and are expected to be below 190 mkg in 1978.

	1976 mkg	1977 mkg	1978(Est) mkg
Production	512	560	560
Retention	278	336	370
Exports	234	224	190

We recommend

—The phenomenon of home demand needs a careful study for its impact on our export earnings, and the importance we attach to their competing claims. Although tea is not part of the staple diet, once it becomes a habit, its demand becomes compulsive. There is the interesting example of groundnut seed and oil, also once a valuable foreign exchange earner, where our leadership in exports has turned to very large net imports—an eventuality

which we should try and prevent in tea. In 1938 we exported groundnut seeds of an oil equivalent of 404,000 tonnes. In 1978, we shall be importing 1.2 million tonnes of edible oils. Interestingly we used to export about a quarter million tonnes of wheat before the war, and imported 8 million tonnes in 1966.

EXPORT DUTY

Indian tea importers from UK, the Continent, USA, Iraq and Egypt, whom we met, raised two major issues in regard to export duty.

First, that its high incidence at Rs. 5 per kg (recently reduced to Rs. 2 per kg) has given substantial windfall profits to the African and other producers who plough back into new growth, thus acquiring a further competitive strength against our teas.

	India	1977 (Pence/kg)		Keyna
		Sri Lanka	Bangladesh	
Auction price at				
London	162	156	157	170
Landed cost	123	104	57	66

Apart from the quality Indian teas, for which there are no substitutes, other countries, notably Africa and Ceylon, were able to substitute our common varieties. Any discouragement to Indian exports, therefore, through more being diverted to home market or by the incidence of export duties will mean other countries' teas filling the gap left by India.

Second, while the amount of export duty is an element of the cost of tea landed abroad, and therefore a matter for India to decide, its application from the date of its introduction, to tea that has been sold but not shipped, raised much protest from representatives of all tea interests whom we met, bordering on strong emotions. The US traders in tea reportedly made net overnight losses of 1.2 million dollars, affecting quite some small concerns. To our question that it is not always possible to decide what is a sale—for instance, an order placed by a buyer abroad

through a broker, or direct in India, for a quantity, at a price, is not necessarily a sale—the importers suggested that some guidelines defining a sale may be drawn up, and in borderline cases the Reserve Bank of India and Tea Board can arbitrate ; even copies of contracts may be lodged with the Tea Board.

It was also suggested to us that the export duty, its incidence and purpose, create uncertainties abroad, and it would be better instead to declare quotas or declare overall quantities available for exports during a year.

We recommend

- While directly within government's right to levy an export duty, the imposition of export duty should be carefully reviewed from time to time in the light of what precisely it seeks to achieve ;
- Its introduction should not affect contracts genuinely entered into before the duty is imposed ;
- What is a contract should be defined so that the buyers know where they stand, and in case of a dispute the Tea Board and the Reserve Bank of India can arbitrate.

INDIA'S DOMESTIC CONSUMPTION—Its Impact on Exports

	Popula- tion	Tea produc- tion	Dry tea con- sumed	Per capita con- sump- tion	Cuppage in cups per kg	Total cups con- sumed	Per capita
	Million	mkg	mkg	kg	(Estimates)	Million	
1951	361	285	73	0.20	275	20,075	56
1977	620	560	300	0.48	495	148,500	240
1951 Base Index	(172)	(196)	(411)	(240)	(180)	(740)	(428)

While consumption of dry tea has risen substantially, in terms of cuppage it has been more rapid, because CTC teas give 75% more cups per kg than the orthodox.

Tea exports during last two decades were static at around 200 mkg ; and since both domestic and export buyers bought at the same auctions, the price mechanism seems to have played a role in allocating tea between the two markets.

Recently government have encouraged the domestic market through steps like export duty, export ceiling, informal price control on packet tea and inclusion of tea in the list of essential commodities.

INDIA'S EXPORT POLICY

Questions have been asked, both in India and abroad, about India's future policy on exports. Domestic consumption in India has been rising at a faster rate than production, and may conceivably erode the export surplus eventually. Measures like levy of export duty, when there was an export rebate earlier, and regulation of exports of essential commodities by India has given an impression abroad that export of such articles may not receive encouragement in the future whenever domestic supplies are under pressure.

We recommend that the following considerations be kept in view in this context

- Tea is a sizeable foreign exchange earner and it is difficult to find a substitute export product.
- Export marketing of products that cater to habit is not a stop-go operation.
- Uncertainty of supplies is more harmful to export business than a declared quantified restriction on exports, i.e. of course if there has to be some ceiling on exports. There is also the risk of losing the market irretrievably.

TEA MARKET ABROAD—United Kingdom

U.K. consuming 13% of world tea output continues to be the biggest tea importing country, although its consumption has been declining steadily. India (35%) followed by Kenya (18%) and Sri Lanka (10%) are among the major suppliers of

tea to this country. 40% of U.K. tea are sold in tea bags, and the balance mostly packet teas. Instant tea is as yet in infancy.

Table below shows different modes of tea imports into U.K. over a 15 years period.

	1960-62 Average	1975-77 Average
All Imports	248	229
—Through London Auctions	151 (61%)	95 (42%)
Imports from India	122	79
—Through London Auctions	84 (69%)	38 (47%)
C & F Sales	6 (5%)	12 (16%)
Indian Auctions	32 (26%)	29 (37%)

U.K. tea trade is dominated by four large blender-packers.

Brooke Bond	30%
Cooperatives	23%
Typhoo-Cadbury	15%
Lyon Tetley	12%
Others	20%

India's exports to UK is in the form of bulk tea. One of our public enterprises has estimated that to get an 8 mkg share of packet tea market in UK it would take us five years and cost Rs. 12 crores, and another Rs. 3 crores annually, escalating progressively, to maintain it.

Two-thirds of retail trade is in the medium price range. The discriminating premium tea market is small but a profitable end of the market, and growing internationally.

We recommend

—Before we try to enter the high promotion cost popular, medium quality range in the market, we should take

advantage of our fine quality teas and enter the premium section of the market, both in UK and elsewhere. Their unit value is high enough to afford the extra cost of transportation of packages and the high promotion costs involved ; while the brand loyalty will be stronger. The packaging may be done by some associates in countries that sell significant quantities, either in India or abroad, depending upon the economies. Further, to offer ready deliveries, warehousing arrangements will have to be made abroad.

In our discussion with both the tea interests and the ministry officials in U.K. it seemed broadly accepted that tea trade is highly competitive in U.K.

Tea prices in U.K. have always attracted the attention of their government, ever since the last War, as they consider tea as an essential foodstuff and were interested in monitoring consumer prices. Such checks on price is no doubt a matter of their internal policy, but to India any regulation of price is always a threat since it acts as a ceiling on prices.

Europe

Tea consumption in Europe is small but is rising, and of a sophisticated nature. 40% of the total imports of tea in Europe comes from India.

Representatives of trade in Germany, Holland, Belgium, France, Italy, and U.K. whom the Committee met expressed their resentment over two issues.

—Retroactive nature of export duty and uncertainty of supplies.

—Exemption given by India from export duties on packet teas.

It was envisaged that a possible effect of the lower prices of Indian packet teas selling in the continent would be that European packers would be forced to reduce the quality of their blend, resulting in their buying less Indian tea.

U.S.A.

The USA tea trade representative also expressed his unhappiness about the retroactive nature of export duty. He also gave figures of tea imports into USA to show that the high level of export duty has made the prices of Indian tea uncompetitive with corresponding decline in the volume of imports.

PRIMARY MARKETING OF INDIAN TEA

Tea unlike other commodities is both grown and processed at the same place in a continuous cycle. Sterling tea companies, now under the process of Indianisation, account for 40% of tea production. Another 40% is accounted for by the public limited rupee companies. The balance is accounted for by partnership firms, proprietary concerns, private limited companies, and small growers. Some public sector undertakings have recently entered tea growing and marketing. Table below shows the changes in the pattern of marketing over a 15 year period.

	1960-62		1975-77	
	Annual Average		Annual Average	
	mkg	%	mkg	%
All India				
—Indian Auctions	185	54	305	59
—London Auctions	79	23	40	8
—C & F Sales	13	4	27	5
—Ex-garden Sales	63	19	148	28
Total Sales (Production)	340	100	520	100
North India				
—Indian Auctions	148	57	217	54
—London Auctions	65	25	39	10
—C & F Sales	10	4	25	6
—Ex-garden Sales	37	14	123	30
Total Sales (Production)	260	100	404	100
South India				
—Indian Auctions	36	45	88	76
—London Auctions	15	19	1	1
—C & F Sales	2	3	2	1
—Ex-garden Sales	27	33	25	22
Total Sales (Production)	80	100	116	100

The two popular modes of selling tea are auction and ex-garden. The importance of Indian auctions has been growing at the expense of London auctions which have been losing ground in Indian teas. Ex-garden sales have also acquired greater prominence in the north, but not in the south, where their importance has been declining. This subject is discussed elsewhere.

AUCTIONS IN INDIA

The first produce of India was sold in London in auctions in January 1839, followed by auctions in India at Calcutta in 1861. More Auction Centres were set up, at Cochin in 1947, Coonoor in 1963, Amritsar in 1964, Gauhati in 1970 and Siliguri in 1976. Abroad tea is auctioned at London, Colombo, Mombasa, Chittagong, Jakarta and Limbe.

Producers in India are free to choose between selling through auctions or by entering into private contract for sale at home or abroad, enter into forward contracts, or sell the current production lot by lot. They usually choose a combination of these different methods to maximise their returns from the crop. Up to 1957, 80% of the production was sold through auctions, since then the other channels have gained importance. Currently about 59% of the crop is sold through Indian auctions, 8% at London auctions, and 33% by private contracts—5% to foreign buyers and 28% to domestic buyers.

Auction Centres give the producer the benefit of having his tea tasted, graded, valued, catalogued and exhibited by specialists, the brokers, who know the particular needs of buyers and countries. Payment is assured within 15 days from the date of sale.

Brokers produce printed catalogue of tea available for sale every week, giving the name of the garden and the essential particulars. They conduct the actual auction sale in the auction room, and occasionally they give credit.

Auctions are held under the auspices of the Tea Traders Association at Calcutta, Cochin and Coonoor; consisting of representatives of sellers, buyers and brokers. In Gauhati, Assam government is represented on the Auction Committee. In Siliguri they are conducted by Siliguri Auction Committee, while in

Amritsar they are held by a Co-operative Society. Except in Gauhati there is no government supervision over the work of tea auctions.

All sections of the tea trade expressed satisfaction and confidence in the system of public auction.

Although our discussions led us to confirm the need to allow auctions to progress freely, and we recommend that they should be allowed to progress on their merit, we also recommend strengthening the system as follows.

—Tea Board may convene a meeting of the tea interests, representing buyers and producers and Auction Committees of different auctions to consider to what extent the useful practices followed in one auction can be profitably adopted in other centres ; and equally the onerous practices removed.

—As primary marketing at the auctions is only a mode of transferring production from the producer to the point of sale, such a sale should not attract any sales-tax ; and certainly not sales taxes at varying rates, some of them quite high, which place some producers at a disadvantage over the others.

—Sales tax is today levied on auctions in Cochin, Coonoor, Siliguri and Calcutta, but not in Gauhati and Amritsar. Moreover, the taxes vary considerably from one auction centre to another, and within the same centre to different destinations to which the tea is sent after the auction. In fairness to the producer of tea, the system should be made equitable and uniform.

—A review may be made of the different sales taxes now levied with a view to rationalising them, if not altogether eliminating such terms from the primary sales.

While there is still much scope for the development of existing auction centres, the buyers inform us that already their

number is large enough to create difficulties to arrange their purchases systematically. Opening new centres will increase this problem, and we should therefore be careful not to defer to the purely regional aspirations to open new centres unless it is really necessary to do so in the interest of both producers and buyers, and ultimately the consumer.

We recommend

- The present number of six auction centres is adequate to meet the needs of producers and buyers. However, the Tea Board together with the tea interests should carefully examine any future needs in this regard, but we reiterate that the present needs are adequately met. The overall interests of the producers, buyers and consumers should be weighed against the purely regional aspirations to have their own auction centres.

Tea offered at auctions but withdrawn, either prior to the sale or from the sale itself, on account of bids being unacceptable to the sellers are known as "outlots".

We recommend

- The gentleman's agreement in Calcutta auctions arrived at three years ago that tea once printed in the catalogue will not be allowed to be withdrawn within ten days prior to the sale should be reviewed by the Tea Board to carefully examine its working and implication ; and to decide whether it could be made into a rule for all auctions ;
- The details of the subsequent disposal of "outlots" outside the auction room should be published in regard to quantities sold and prices realised, along with the maximum bid rejected in the auction room, to make fair comparison ; it is however to be borne in mind that the seller may have to sell the "outlot" at a price lower than the auction bid, because in the intervening period buyers have decided not to offer the auction price.

- Tea Board should be associated in some manner with the conduct of auctions, to ensure that their role is properly fulfilled to the advantage and satisfaction of all concerned—industry, government, trade and consumer.

MINI AUCTIONS

One of the tea companies has recently started directly auctioning its teas in some consuming centres. Such sales are called as mini auctions. While some felt that it is too early to assess the role of mini auctions, others considered that there is no reason either to discourage or encourage such sales ; yet some others, notably, one trade association had some reservations, as in their opinion.

- There were no rules of conducting these auctions.
- Companies' own representatives could participate in the auction in disguise.
- There is no regularity in the quantum and frequency of sales in such auctions.

We recommend

- The experiment be watched by Tea Board, particularly if it begins to play a larger and more significant role than at present. The modus operandi and their impact on tea trade should be carefully examined to decide their advantages, and the need for some regulation and orderly conduct for the benefit of the trade and consumer, if necessary.

LONDON AUCTIONS

London auctions have a long tradition dating back to 1834. The new centres have contributed to a shrinking of London auctions.

LONDON AUCTIONS

	1960-62 Average			1975-77 Average		
	Sales mkg	As % of Total	Pro-duction ports	Sales mkg	As % of Total	Pro-duction ports
India	84.4	24.8	41.4	37.6	7.2	16.7
Sri Lanka	41.5	20.2	21.3	15.1	7.3	7.6
Kenya	3.6	25.2	28.6	16.8	24.6	27.6
Tanzania	1.8	42.9	50.0	4.8	32.1	42.9
Malawi	8.4	64.1	67.2	7.8	27.2	28.0
Mozambique	5.6	58.3	62.2	4.3	29.5	31.9
Total (Including others)	147.1	22.3	30.9	93.6	9.5	14.7

London auctions were well regarded by all interests, in UK., Europe and India as an explicit form of open selling in public. European buyers, who normally buy very little at London auctions, like to see them continue, along with whatever other modes of buying that might develop as a "price beacon" that shows trends to buyers everywhere. They offer besides the advantage to tea producing countries of being able to compare their teas with those of other countries by the prices realised, thus giving them a check on the standard of their qualities.

The modes of buying have been changing over the years, and radically, but these changes have been induced by changing needs and circumstances, and not by compulsion. There was unanimity therefore that all avenues of tea purchases be left open, and that the buyers be given the choice to buy as they like.

	1965		1970		1975		1976	
	mkg	%	mkg	%	mkg	%	mkg	%
Total Tea								
Imported	253		253		218		224	
Sold through								
—London								
Auctions	162	64	109	43	99	45	89	40
—Other								
Modes	91	36	144	57	119	55	135	60

To a question by us to the London Tea Brokers Association —what would happen if Indian teas were withdrawn from London auctions, the replies varied. While some envisaged the closure of London auctions, at least in the present form ; others said that Indian teas will still come to London, either by private contracts or through the Indian auctions, or through some other channels ; but all felt it would adversely affect export prospects in UK.

As consumers buy their teas as blended brands and not for their origin, in the absence of tea from one origin, teas from another available origin would be used by the blenders. A slow shift was in fact taking place from the Indian to the Kenyan teas, whose market had steadily increased at the expense of India and others. While therefore there will always be demand for the premium end of the market for the finer Indian teas, in the absence of general teas from London auctions, direct purchases would suffer, and the gap is likely to be made up by auctions of teas from other origins.

Of the many questions that we put to the London brokers, two are worth special note.

What were their reactions to export ceilings and export duties ? They replied that there was much uncertainty with Indian teas and much ill-will was created by the retroactive application of the export duties. They suggested that the contracts entered into before the duty was imposed should have been exempted. The buyers were hesitant to buy Indian teas and were looking for alternative spot teas. It would be in India's interest to remove such uncertainties.

To another question on their reaction to our suggestion to associate the producing countries with the London auctions, they replied they would welcome it and felt that it would help to maintain closer contact and liaison with Indian tea interests ; in fact they went further to add that they would be glad to liaise with Government of India's representative, say, the Tea Board, in an active association. It was an open organised marketing system in which they regard such co-operation mutually beneficial.

To a question about price realisation, their calculation showed that over a period of time the net prices realised by the main producers both at Calcutta and London would be about the same. Tea Board has given us some data in this regard.

Unit FOB Sales Realisations—pence per kg

	From Overall Exports				From London Auctions			
	1974	1975	1976	Weighted Average	1974	1975	1976	Weighted Average
India	48.32	59.82	71.98	60.45	50.53	51.57	72.63	58.01
Sri Lanka	46.95	57.81	69.40	58.33	51.42	51.97	77.55	58.03
Bangladesh	38.32	39.10	52.89	44.54	38.10	43.60	50.20	45.14
Kenya	46.70	52.98	71.79	57.89	54.96	54.03	77.16	62.21

Assuming that we attach a continuing importance to our exports, and wish to retain and expand the UK market, as London auctions are a traditional, acceptable mode of selling, well regarded by all in India and Europe for their integrity and price leadership,

We recommend

—In view of the fact that Indian auctions are steadily gaining ground from London auctions, we should leave it to the buyers' choice to buy in India or abroad.

We thus recommend

—Our continued use of London auctions, and take advantage of the London brokers offer of close association.

	1960-62 Average		1975-77 Average	
	mkg	%	mkg	%
Total Production of India	341	100	520	100
Sold in London Auctions	79	23	40	8
Sold in Indian Auctions	187	55	305	59

Finally, a question has been posed whether, in view of the European buyers' regard for London auctions, as a useful institution that acts as a price beacon, it would be desirable to explore the possibility of locating an auction centre in Europe. The discussions with European buyers would indicate that while they appreciate the use they make of the price trends set by London auctions, they do very little buying there. They prefer to buy direct, c.i.f. or at auction centres in producing countries and there is no felt need for an auction centre in Western Europe. Besides, their present total volume would not justify a separate auction centre. Infact, there was an auction centre at Amsterdam which used to sell about 4 mkg per annum, but was closed down in 1958. Since then there has been no need felt to revive it.

The buyers from Russia and Eastern Europe, Middle East and North Africa also buy direct from the producing countries, the way the Europeans do.

EX-GARDEN SALES IN INDIA

Table below indicates the costs incurred for selling tea at the Calcutta and Gauhati auctions, compared to ex-garden sales.

	Calcutta auction	Gauhati auction Paise per kg	Ex-garden sale
Entry tax	14	—	—
Warehousing charges	8	6	—
Printing charges	2	2	—
Sampling loss	13	10	—
Freight	35	15	—
Additional interest for over 1 month	16	16	—
Brokerage	14	14	14
Packaging cost in ISI chests	62	62	36(non-ISI packing)
TOTAL	164	125	50

Ex-garden sales take place at the garden gate, and therefore offer certain advantages of savings in transport, warehousing,

auction brokerage and working capital involved in the time it takes for the garden to receive its sales proceeds, which is about 40 days in Gauhati and Siliguri auctions, and 81 days in Calcutta auctions. These advantages together can amount to a saving of half to one rupee per kg to the producer. However, in making the sale, the producer has to take a view of the market, involving a risk.

It would appear that generally speaking gardens do not find it decisively advantageous to sell their entire produce at auction or ex-garden ; they appear to use both modes, presumably because each mode has its own advantages.

There are three weaknesses in the ex-garden sale system.

First, they can be prone to collusion which could be avoided by the open market system of public auctions. The prices at which tea actually changes hands may be higher than those shown in the invoices, thus avoiding partially a range of taxes, state and central.

Second, small or financially weak producers may resort to "distress sales" ex-garden because they cannot afford the working capital involved in sending their product to distant auction centres.

Third, ex-garden sales are not registered anywhere, in quantity or price, and do not come into the mainstream of information.

We recommend that taking into account the advantages and disadvantages of ex-garden sales, this channel may be left open to the choice of the producers and the buyers, because of its intrinsic advantages, but with the following safeguards :

—Weak gardens may be offered suitable financial crop assistance, tailored to their needs.

—All gardens should inform a monitoring authority, say, the Tea Board, of their sales ex-garden, C & F or auctions, and the prices at which they were made.

The ex-garden prices offered should be compared with the auction prices to ensure that generally speaking they were on par, after allowing for the difference in costs. Based on the experience of the Tea Board with this monitoring system, if it is found that the prices are comparable, the system can be allowed to continue as it is; but if it is discovered that ex-garden sales for comparable qualities in comparable periods, were significantly below the auction prices, the loopholes should be plugged. The monitoring should however be continued both to collect information and keep a continuous watch.

—After a year of experience of the monitoring study, it would also be interesting to see whether the comparative position of auctions and ex-garden sales has altered in favour of auctions or ex-garden sales. It is possible that once producers are made accountable for their ex-garden sales, some may prefer to deal through auctions, in which case it would be best not to interfere with those who genuinely find it advantageous to sell ex-garden.

C & F SALES

Direct exports by producers find favour with many gardens for selling their teas directly to importers abroad, either for immediate delivery or on a forward contract. It helps them to overcome the uncertainty of the final price. The price thus obtained may or may not correspond to the price actually prevailing at the time of shipment, but this is a "view" of the market, and the attendant risk, that the producer takes in his best judgment in a fluctuating market.

C & F sales have been on the increase, from 13 mkg in 1960-61-62 to 27 mkg in 1975-76-77, at the same time as London auction sales declined from 79 mkg to 40 mkg.

Indian producers felt that the present system should continue and that no system of registration of C & F sales be introduced because it would add to the delays of concluding the business. We accept this.

We recommend however

—In the larger interest of the industry and the country, we should institute a review system to ensure that all runs well, at no cost to the country and exchequer. In this, Tea Board, in conjunction with Customs and Reserve Bank, should make a quarterly review of a representative sample of transactions, the prices at which sales were made, to ensure that the C & F sales were generally in line with the prevailing prices of auctions, so that C & F sales bring in equivalent amount of foreign exchange over a period. There is already a pre-shipment approval by the customs, who have the authority to prevent the teas from being shipped if they are not satisfied with the declaration made in the shipping bill. The later review would further strengthen the existing control mechanism.

DUTCH AUCTIONS

It was suggested to us in India that we should consider going over to the Dutch auction system where the auction opens at the highest point and the bidding is downwards. This, it was felt, will generally improve the prices.

On the other hand, when we put this question to Dutch tea interests, they informed us that the Dutch auctions are at present conducted only in Holland and that also only for flowers. They thought there was no likely merit in the system for tea because with a global demand, prices would be determined by supply and demand and not by what the suppliers wish. The system works well with flowers, which must be sold on spot or will perish, but it has not been extended to any other commodity or product in Holland or anywhere else. A Task Force appointed by the Ministry of Commerce, we learn, had recommended in 1975 that Dutch auctions need not be considered for tea in India, as they have no special merit.

We recommend

—The system of Dutch auctions may be watched but at present there is no particular merit in introducing it.

COLLUSION AND UNDER-INVOICING

There can be two kinds of collusion—among buyers abroad at auctions, and between individual sellers in India and buyers abroad. Although tea trade in UK, brokers and buyers, has been passing into fewer hands, it has still remained keenly competitive. We were told that while it may be rash to say that there was never any collusion and under-invoicing in tea exports, experience shows the tea trade has been honest and straightforward largely because it is a very competitive trade.

We reproduce below an extract from the U.K. Monopolies and Restrictive Practices Commission Report in 1956.

“In general we consider that the tea trade in this country is conducted on keenly competitive lines and we are satisfied that the severe fluctuations in the price of tea which have taken place since decontrol have not been due to the existence of “monopoly” conditions or restrictive practices in the United Kingdom tea trade.”

This appeared to be the general opinion of those whom we met, including some authorities. However, to overcome the chances of collusion in auctions and direct exports.

We recommend (to reiterate)

—The offer of London Tea Brokers to associate us with the auctions should be accepted.

—The Tea Board may conduct a quarterly review in conjunction with the Reserve Bank and Customs to ensure that the prices declared by direct exports were generally in consonance with the prices ruling in the world markets, especially as indicated by the London, Calcutta and Cochin auctions, and bearing in mind the general price patterns and trends in the markets.

MARKETING FOR INDIAN SMALL GROWERS

Small growers either have their own processing arrangements, or sell their green leaf to ‘bought’ leaf tea factories, private

or cooperatives. The former category has holdings upto 100 hectares and account for 4% of the crop ; the latter less than 8 hectares, concentrated in Tamil Nadu, Kerala, and Himachal Pradesh, account for 3-4% of the crop.

Representatives of small growers in Nilgiris opposed making any separate arrangements for marketing their production as they felt that this would weaken their competitiveness at the auctions. The smallest lot acceptable in auctions is 5 chests and the cooperatives and 'bought' leaf factories have no difficulty in marketing in such lots through auctions.

We recommend a separate track of attention to small growers, keeping in view the following.

- In order to protect the interests of the small growers, more cooperative factories should be opened. In this regard, a special responsibility may also be placed upon the public sector companies. Cooperatives should help improve the small growers' price realisation. At the same time the relief granted in the central excise duty should be examined for its adequacy. The Tea Board could examine the case in the first instance and make suitable recommendations ;
- Some priority be given to the auctions of tea by the small producers holdings, upto, say, 100 hectares. At present, tea is catalogued for sale at the auctions on "first come first serve" basis and no distinction is made between the large and small producers. It would encourage the small producers and the cooperatives if the producers of an estate under, say, 100 hectares could be given a preferential treatment in the queue, so that they can be enabled to realise their proceeds a little earlier ;
- It is worth studying the activities of Kenya Tea Development Authority for its possible application in India;
- A special study of the whole subject should be made by the Tea Board and Tea Industry, together with the representatives of small growers, covering in detail

areas of inputs, agricultural practices, financing and marketing, to ensure a combination of efficient farming and marketing. The study should be updated, every three to five years, to keep abreast of future problems ;

- The large estates have also an important role to play in making small gardens as their efficient, independent but ancillary units, especially to open up new areas, where the concept of a mother dairy and small milk dairies—a core and satellite tea growing units—may be considered.
- The Tea Associations in the north and south should also develop separate cells which will liaise with the small growers' cell of the Tea Board and the Small Growers Association to conduct a study of the problems, the strengths and weaknesses of the small growers and recommend a plan of action over the next five to ten years.

BUFFER STOCK

During our discussions we were informed that it is essential to regulate supplies of tea to both internal and external auctions to avoid wide price fluctuations. The concept of buffer stock of tea, nationally and internationally would perhaps be worth studying. In India a buffer stock operation can serve three purposes.

- Introduce a steadiness in supplies both in the domestic and export markets.
- Help to reduce price fluctuations in the home market; and protect it to an extent from markets abroad.
- In case we join an international understanding on a standby or long-term quotas, a buffer stock operation would be a necessary concomitant to consider.

Though maintaining a buffer stock for a commodity like tea would pose many operational problems ;

We recommend

- It would be well for us as world leader in tea to do some economic and statistical thinking on the subject, and sound the others concerned ;
- Tea Board may be associated with the exercise presently made by the Auction Committees every year to regulate offerings in the auctions in north India in a manner that ensures regular supplies throughout the year although the season is confined to April-November.
- As the subject is complex, a proper study be conducted both for examining the concept and the problems of administering it.

FUTURES MARKET

Tea is the only important agricultural produce which does not have a futures market possibly because of the diversity of its qualities. There is a small but growing school of thought in U.K. favouring a futures market for tea, which in their opinion, provides an acceptable price indicator and helps to reduce price fluctuation.

Futures market, it is claimed, will attract more buyers and therefore more finance ; prices would be more stable ; as with buyers, producers also could sell in futures at a known price to cover their costs.

There was however no unanimity of opinion in the London tea trade on the subject since one section feels that futures market would introduce unhealthy speculation because it would not be the commodity that the futures market would be dealing in but in paper.

We recommend

- At this stage we do not need introduce a futures market in India, but we may watch its possible developments in London.

CONSUMER MARKETING OF TEA IN INDIA

Within India tea is generally sold loose, and only about 90 mkg out of a total 320 mkg is sold in packets. Although this makes India the second largest packet tea market in the world, internal consumer market has not been developed well, nor has it helped us to use its internal strength for winning market for packaged tea abroad.

While precise data is available about production and primary marketing of tea up to the stage of auction, adequate data is not available for the subsequent stages of marketing during the wholesale and retail linkages. To develop information in regard to stock movement and prices on wholesale and retail levels, the Tea Board has sponsored a study by the National Council of Applied Economic Research. When the NCAER study is ready we should have more precise wholesale-retail links in the distribution chain.

Tea prices on the whole have behaved well ; in fact they rose at a rate well below the wholesale price index during the years 1950-1973, since when they rose rapidly, but even then were well below the index. Tea has generally been available in plenty and there has therefore been no abnormal shortages or price rise as in the case of many other daily necessities.

Auction prices (weighted average of different centres) per kg and wholesale price index for 1950-51 to 1977-78 September show that of late tea prices have begun to fall again. We will have to be careful to ensure that tea industry, as an important contributor to GNP, employment and exports, does not drop to unremunerative level, where rise in future production may slow down for lack of resources generated in the industry, especially keeping in view the ability of the tea industry to continue the improving trends in workers' wages and benefits.

An answer to more regulated consumer supplies and prices is organized consumer marketing for which it is necessary to encourage the sale of packaged product. This will assure the consumer a uniform quality and price and product hygiene and purity—the benefit that is not generally available to the consumer in loose tea, where he has to accept what the retailer supplies

in quality at a price. We have on the otherhand been discouraging packeted tea by a levy of excise duty, which has inhibited their growth.

Additional excise duty on packet tea above loose tea has been in existence for long, but in 1970 it went up considerably.

		Additional duty on Packet Tea paise per kg
1953		55
1958		46
1961		40
1970	Upto 25 gms	40
	Above 25 gms	100

While it is difficult to say how far it has inhibited the growth of packet tea, clearly there has been some effect as will be seen from the table below. While upto 1970 the sales of packet tea were going up, after the big rise in duty in 1970, they went down.

	1960	mkg 1970	1977
Packet	55	93	84
Loose	74	120	216

Looking into the future, tea marketing in India may follow the world route in tea, as indeed has been the case with other foods.

We recommend

- A move from foods sold loose, in bulk, to packed, standardised products that assure the consumer a quality, freedom from adulteration, longer shelf life, in standard weights, at standard prices—in fact in the European Community, all packaged foods must, in addition, carry a price per standard weight or volume, to enable the consumer to compare the prices

of different sizes of packs on a common unit weight or volume basis. For instance, different sizes of cheese packets, in addition to their price must also show a price per, say, one kilogram ;

—There would appear to us no rationale in levying an additional excise duty on packaged tea, a constraint upon the consumer of packaged tea but not of loose tea ;

—We consider it desirable to give the consumer the freedom to shift in the domestic market from sale of loose to packaged tea : For the sake of the weaker ends of the market, some cheaper packaging, such as paper sachets, should be encouraged. We are informed that such small packs are very popular in some parts of the country ;

—From packaged foods, there is a trend today towards convenience foods. From loose to packed tea, there is a move to tea bags and instant tea. We may have limited markets for those to begin with, though a greater potential abroad—to reach abroad, we must begin at home—but even in India today there will be sizeable pockets of demand to build encouraging volume sales that would offer a jumping board for markets abroad. The example of coffee may be quoted, where contrary to what one may expect, instant coffee has gained much popularity in urban areas because of its convenience. The same could well happen with tea bags and instant tea ;

—We should be clear that giving the buyer of packaged tea facility to buy it in that form does not imply any discouragement to buyers of loose tea. Both can grow together. After all there are those who may prefer to buy their tea loose, and others in packaged form.

The next question is how should we proceed to encourage a change from loose to packaged tea.

We recommend

- First, the excise duty and any other levies on packaged tea should be removed ;
- Tea industry and research should develop cheaper packaging, especially for the lower price end of the market, to give those consumers the benefits of packaging at the minimum additional cost.
- The public enterprises in tea, particularly the TTCL, NAFED and NCCF, should regard it their particular responsibility to develop packaged tea marketing of standard qualities at standard, fair prices to exercise a restraining influence on retail prices. For this they will need to
 - Develop a national distribution network
 - Gain a sufficiently large market share to make their presence felt.
 - Through judicious buying, by using the different trade channels available, lower their costs
 - Develop their own brands, packaged as economically as possible, to market their products, which would not be possible through selling loose tea.

The role of encouraging sales of packaged tea at home and abroad, it is hoped, will be fulfilled by all in the public and private sector.

VALUE ADDED TO INDIAN EXPORTS

The progress of a producer of primary commodities from exporting the produce to processed goods is an accepted route of economic growth. But in practice such a change over has implications for the existing processing and trading channels in the importing countries, if it means an erosion of their role and profitability.

The first value adding can begin with getting Indian teas to become known as such, to create among consumers a purchasing preference, and then a recognition of regional varieties—the Darjeelings, the Nilgiris.

There could be three forms in which further value can be added to tea.

- “Breaking” bulk and blending : they involve no technology, but a skill that we possess.
- Consumer packaging in packets, tins or bags, involving only some modern packaging equipment, if sold under others’ brands, but involving considerable marketing and promotional skills and cost, if sold under our own brands.
- Product processing and improvement—extraction of tea solubles, the solids and the flavours.

Presently only 8% of total world exports are in the form of packet teas in which India has the major share.

Following statement shows the value added by packet teas and tea bags as compared to bulk tea.

	1966-67	1971-72	1976-77
		F.O.B. Rs.	
		per kg	
Packet Tea	9.88	9.48	15.36
Tea Bag	—	20.39	37.02
Bulk Tea	8.18	7.47	12.01

The first stage on value adding should be diversification of the product along the route of blends, packets, tea bags and instant tea.

India’s present exports of packet tea are directed mainly to West Asia and North Africa. It will however be a different proposition if we were to enter the highly competitive packet tea markets of western Europe where we shall come up against

strongly entrenched tea marketeers, spending large sums on marketing and promotion, and combining tea with a variety of other products.

In tea bags our effort has been burdened with a number of inhibiting factors. Import replenishment of 15% has been withdrawn, import duty on tea bag machinery has been increased from 40% in 1975 to 75% in 1976.

We recommend

- The facilities for manufacturing units in India with tea bagging facilities should be carefully examined and maximum encouragement given.

With regard to instant tea we are as yet on the threshold of product development. In India there are only two companies manufacturing and exporting instant tea, with combined capacity of only about 800 tons of instant tea a year. Both companies are under 100% export obligation.

**FOB REALISATION—Rs. per kg
1976-77**

Black Tea per kg	11.50 (Cochin FOB Price)
Black Tea per 2.6 kg	29.90
Instant Tea per kg	42.95
—HWS per kg =2.6 kg of Black Tea	41.53
—CWS per kg =2.6 kg of Black Tea	43.05

The above statement shows that instant tea brings in 45% more value than black tea.

We recommend

- Given some encouragement and leeway in the domestic market, they could use it as a testing base and jumping

off ground, instead of being compelled to try their products only in the export markets. Also, the costs and profitability in the home market could usefully help with the nascent operations abroad.

- The existing companies in the field and the new entrants should be helped by encouraging wholly or partially in R & D, equipment and international promotion expenditure on time-bound plans related to results, and watched suitably against the promised returns.

In respect of packet teas the buyers abroad complained about the export duty concession and other fiscal aids to packet tea. This has resulted in the landing cost of packet tea being cheaper than that of bulk tea, which cuts the ground from under the feet of their customers. Some interests were thinking of veering away from Indian tea ; some others hinted at retaliatory action by their government by way of compensatory import duty. While in the long run India has to graduate from bulk suppliers of unblended teas to marketeers of consumer packs, we should evolve a strategy of selling to minimise the loss of goodwill from our buyers. It is not only the ethics that is involved, but also our economic self-interest, because there are other tea growing countries who are anxious to ship increasing quantities of bulk tea. Disproportionate rate of fiscal incentives may also lead to the anomalous situation of packet teas getting lesser value than bulk tea.

We recommend a four phased approach

- In the first phase, packed tea exports should concentrate on our neighbouring countries, where necessary through local collaborations, where in any case there are no packeting facilities and tea is imported packed, especially in the premium range. This would mean less investment on account of the lower freight. On both sides of India, as far as Africa and South East Asia, there are imported packet teas that we could successfully compete with ;
- The second phase would be collaborating with

existing packers in Europe and supplying their blends in bulk and sharing part of the profits ;

—The third could be independent marketing efforts in the value-added middle priced teas in major markets of U.K. and Ireland ;

—Over-riding all these phases however are two considerations.

—First, research into new tea products and tea extending.

—Second, to support value-added teas abroad—packets, bags, instant—we should first encourage organized marketing at home.

The costs of acquiring marketing facilities and skills abroad are very high but if we are to prevent packets lying unsold in the stores and acquire a poor product image, we will have to acquire or start a well coordinated export organisation.

We recommend

—Exporters should be assured of a stability in export incentives to value-added products ;

—We should work closely abroad with certain commercial and social organisations, cooperatives and agencies like OXFAM.

PUBLIC SECTOR AND TEA INDUSTRY

Recently some state-owned companies have entered the field that was in the past entirely in the private sector.

—Tea Trading Corporation of India (TTCI)

—Assam Tea Corporation (ATC)

—West Bengal Tea Development Corporation (WBTDCC)

- Tamil Nadu Tea Plantation Corporation (TNTPC)
- National Agricultural Cooperatives Marketing Federation (NAFED)
- National Cooperatives Consumer Federation (NCCF)

(In addition, Balmer Lawry & Andrew Yule have a majority Government shareholding, but their interests are not primarily tea).

Each public enterprise was started with a different purpose.

The State Trading Corporation of India, which has been associated with the Coffee Board for sales abroad, has not been actively involved in tea, although it has shown an interest of late to enter tea exporting.

We recommend.

- The Tea Board's role in relation to helping marketing of tea has also to be examined. The only comparable plantation product Board of a substantial size is coffee. The Coffee Board has recently prepared a plan to year 2000 for doubling production and it is likely that in certain areas there will be competing claims by tea and coffee. It will be worthwhile therefore for the two Boards, both statutory bodies under similar Acts to study their respective roles, experience, and problems to see if they have something to learn together or from each other, from areas of commonality.

The task of the public sector companies should be defined and a decision has to be taken about the role of each organisation so as to coordinate their activities and avoid wasteful duplication to examine the following issues.

- Production
- Relationship with small growers
- Internal marketing

—Export marketing

—Product development

As the public sector is now involved in tea, even though in a small way, in growing, manufacturing and marketing tea in India and abroad ;

We recommend

—The task of public enterprises should be carefully defined and planned, and their overall role in the tea industry and trade examined at five levels.

—Managing sick gardens, and buying other gardens ; and justify itself by keeping pace with developments in tea growing and marketing ;

—Make and set up its manufacturing facilities available to small growers ;

—Develop marketing at home to upgrade loose to packet tea, especially the poor man's pack that assures him a quality at a reasonable price ;

—Experiment with other valueadded teas in the home market to build a base for exports.

—Develop further the role of national cooperatives in the domestic marketing of tea.

RESEARCH

Research is crucial to this Rs. 800 crores industry, hoping to double itself in volume terms before the end of the century, from the present 560 mkg to 1250 mkg.

Tea industry has a long commendable history of patronising agricultural research, at both the estates and at its two research institutions. The northern estates of the Indian Tea Association, ITA, founded Tocklai Experimental Station, in Assam (1900)

and the United Planters Association of Southern India, Cinchona Tea Research Station, in the South (1903).

Research emphasis has been primarily on agronomy where considerable success has been achieved in raising the per hectare yield from 939 kg in 1951 to 1,474 in 1977 in the north and from 760 kg in 1951 to 1,748 kg in 1977 in the south.

Looking ahead, research in areas like equipment, product and product chemistry, genetics, which still have to be explored in greater depth, are many, requiring much larger than the one-quarter of one per cent of turnover we spend—about Rs. 2 crores on a Rs. 800 crores turnover—and that too on effort split over two units. This for an industry of its importance to the national and international economy is meagre and not enough.

Even half per cent expenditure would give research Rs. 4 crores per annum, not a large sum for an industry which combines three operations—agricultural, industrial and marketing.

The industry was not against ploughing back into research some of their profits, but they want the government to adjust its taxation policy to permit fully the demands of research, if necessary, on an exclusive basis.

Apart from funds, the other handicaps seem to be men and equipment.

We recommend

—Government should assure research facilities of equipment, in India or from abroad, because without an adequately equipped infrastructure, modern research can do very little. For instance, the nearest suitable computer facility available to Tocklai is in Madras ; although the new regional computer at Jadavpur should help, as also the computer at Gauhati university —as its terminal.

Recruiting and retaining scientific manpower is both a matter of salary levels and atmosphere in the research institution.

Salary levels, we were told, were particularly sticky when the schemes are aided by CSIR.

We recommend

- Apart from improvements in terms and conditions of the scientists in tea research, a greater exchange of personnel between the two research centres in the north and the south, and between tea research and national research, would help attract researchers by widening their scope and horizons ;
- While continuing with emphasis upon research with the yields and agronomic practices the tea industry might redefine its objectives not only as a producer of an agricultural commodity but as a processor and marketer of a broad spectrum beverage, or even wider, a food product. Such redefinition of the objective will give a new direction to research extending if from agronomy to processing technology, product chemistry, product formulation, packaging, marketing, consumer preference and taste.

During our discussions the scientists in the north and the south agreed broadly that the variations in the northern and southern agroclimatic conditions only diverge in the earlier reaches of agricultural operations—growth, soil, and ambient conditions ; from when on they converge on the genetic, inputs, product manufacturing, as also from there on to consumer and market research.

We recommend therefore

- There should be a national tea research programme, implemented at the two main research centres of Tocklai and Cinchona, with exchange and crossfertilisation of ideas and people, devoted jointly to the single product that is tea, with planned and controlled overlaps.

India, as the world leader in tea business, has the responsibility to promote research at an international level by way of

exchange of scientific personnel, ideas and practices. There has been an advance in this direction.

We recommend

- A further strengthening of the linkages between tea research in India and abroad, both as leaders in the field, and as learners from where research abroad may reach ahead of us. This is particularly so with product research, where tea bags and instant teas were both first developed abroad.

While appreciating the sensitivities of the industry and research workers in matters of coordination,

We recommend

- An appropriate clearing house of projects and results, thinking and guidelines is needed. Such a clearing house should be possible if the Tea Board, CSIR, Industry and tea scientists work together in a single equation with its own funds. There should therefore be one research apex body to coordinate tea research.

Each tea drinking people have their own characteristics of tea habits. We need therefore to conduct market and consumer research to build their habit profiles, and relate them back into our production and product development.

We recommend

- A third centre should be set up to concentrate on market and consumer research and combine it with economics, statistics, social and operations research, and a data bank for the industry.

Research should also go into operations research along the line, from the garden to the consumer, including the cost and quality aspects of each linkage.

Tea chemistry is yet in its early stages of knowledge. The

subject is complex, but advances in this field will be most worthwhile and rewarding.

There is considerable room for technological improvement in tea factories, in keeping with the rapid changes in food processing technology, and new biological imperatives, to incorporate the continuing advances that benefit processing, quality and capital employment.

We recommend

- A separate tea research fund, specifically raised and earmarked for research, should be formed on the basis of matching contributions by government and the industry.

We also recommend

- Tea research should delve into the areas of tea packaging and containers, to help develop cheaper packing suitable for our ambient and climatic conditions, and suited particularly for the more economical ends of the consumer market. Further, tea has traditionally used plywood tea chests, which is placing a great burden upon our rapidly depleting timber resources. Instead, research should develop lighter, more economical substitutes.
- Finally, research should tackle two problems, first, of the very low yields of quality teas in the Darjeeling areas—about 632 kg per hectare compared with 1381 kg for North India, and yet in the export markets the Darjeeling teas will fetch 50% more than other northern teas ; second, raising the average levels closer to the exceptional. There are gardens, both in the north and the south which produce over 3,000 kg per hectate against the average yield of 1381 in the north and 1499 in the south. We believe it is feasible to do so.

FINANCING OF INDIAN TEA INDUSTRY

Tea industry's future needs for development finance arise from the momentum it has gathered over the past years and the manner in which further prospects, opportunities and goals for growth and perceived.

Tea production has grown at the rate of 3.7% per year over the period 1971-77, which has provided enough tea to sustain an annual growth of 4.9% in internal consumption, but not enough to increase India's share in world exports or even to maintain it. Whether this trend will continue or not will depend on a number of factors, including price and demand elasticities, consumption response to increasing incomes in India, rate of growth of population and its urbanisation, world demand for tea, investment and technological inputs into the industry. Forecasts available do not deal adequately with these factors and hence lack in reliability.

We recommend

- A comprehensive economic study should be undertaken to provide more reliable projections of the growth of production, internal consumption and exports of tea for the period upto the year 2000.

Over the period upto 1985, available forecasts agree that production and internal consumption are likely to follow the trend established during 1971-77. This would mean a steady fall in India's share in world exports, from 28.1% in 1980 to 26.6% in 1985, which can only be prevented if development effort is further intensified.

We recommend a programme having the following components.

- Increase in the rate of extension planting from an average (1961-1977) of 2,326 hectares per year to 4,003 hectares from 1980
- Increase in the rate of replanting from an average (1961-1977) of 1,400 hectares to 4,103 hectares from 1984.

—Modernization of existing plants and tea handling facilities.

—Expansion in plant capacity to cope with additional production.

We regard this as the maximum feasible programme. Further significant increase in production growth would require a larger programme of replanting, but even this in the short run would result in a decline rather than an increase in the rate of production growth, as the production from uprooted plants will be lost while new plants will yield output only after 3 years. This feature of the industry imposes a serious constraint in the short run, as per hectare yield increases also depend mainly on a substitution of old plants with new clones.

Due to this constraint the achievable increase in production by 1985 can only be very marginal. With the implementation of the proposed programme, production, internal consumption and exports availability in 1980 and 1985 is expected to be as follows.

Year	Production	Internal consumption	Exports availability	India's share in world exports
	mkg	mkg	mkg	%
1980	604.6	363.0	241.6	28.1
1985	725.6	461.1	264.5	26.7

(The export availability shown above will, of course, depend on national policy, which in the event of a price rise may restrain exports to place more on the domestic market, as has been the case in the recent years. Tea exports, as a result of certain policies, have already dropped from 234 mkg in 1976 to 224 mkg in 1977 and to about 190 mkg in 1978. To rise to 242 mkg in 1980 and 265 mkg in 1985 is, therefore, not going to be easy.)

These figures reveal that even with an intensified development effort India's share in world exports is likely to continue to

fall. This confronts the country with the choice of either restraining its domestic consumption, in order to maintain India's share in world exports and even to increase it in the long run, or to allow India's position in world tea trade to erode, almost certainly irretrievably, since some other countries, either with small internal consumption and large exportable surpluses, or out to bid for a large share of the world markets, are bound to step in and fill the gap, as indeed some have done in the last few years when India's exports were static. In case the choice is made in favour of restraining consumption, the rate of internal consumption can be resumed at 4.9% or 5% by 1988, after which it would also become possible to consider pushing India's share in world trade to a higher level than 28%.

For the proposed development programme it is estimated that the total need for development finance over the period 1980-1985 will be about Rs. 300 crores, rising from Rs. 39 crores in 1980 to Rs. 65 crores in 1985. This would include investment in extension planting, replanting, modernisation of existing plants and capacity expansion. Of this less than one-third will consist of investment at the trend rate and a little over two-thirds additional investments to support the proposed additional programme met by

- Industry's internal resources
- Financial institutions
- Government assistance, including Tea Board.

We recommend

- Tea industry, relying upon much of its plant population which is over 50 years old, must look ahead to an intensive replanting and inplanting programme, both to rehabilitate the gardens and to bring up to a young age, and to improve productivity in the long run ;
- Replanting means a short term sacrifice of production, while the young plants are in the process of maturation. A choice has therefore to be made between the level of allocation to the domestic and export markets, with

some sacrifice of one or the other, bearing in mind that most of our teas other than the quality varieties can be substituted by importers from other sources ; and therefore any loss of market, even in the short term can become permanent. Furthermore, world market may expand, and we must decide whether we want to grow with it or regress ;

—A large rehabilitation programme in the gardens and the factories, new investments into research and marketing, will require funds of a large magnitude. These cannot be provided by industry alone, and some plans have to be developed in which industry, financial institutions and Tea Board jointly participate to identify the needs of the industry ; its capacity for generation of funds ; the commensurate development funds required to implement the development plans.

—To meet the growing future financial needs of the tea industry, we should like to suggest to government an examination of two alternatives. First, the Tea Board may extend its existing financial activities, and make use of its considerable expertise of tea industry in the field of providing long term finance. Alternatively, for the financial expertise required and the large order of finance and the number of disbursements in the future, there may be an advantage in forming a new Tea Finance Body, comprising Tea Board, financial institutions and the tea industry, under the administrative control of the ministry dealing with the commodity. In consultation they will develop a total Tea plan on a long—medium—short term basis, looking ahead to 2000, 1990 and 1985, together with an Annual Plan, a kind of National Tea 'Budget'. The plan would show the industry's production, demand, at home and abroad, new planting and replanting programmes, manufacturing requirements, research activities and marketing at home and abroad. All these needs would be translated into the financial resources required ; how they are going to be raised ; terms of loans and their servicing, taking into account the industry's capacity to generate internal funds.

- A special task force consisting of economists in association with the Tea Board should be appointed to
 - Prepare a comprehensive economic study of tea industry's future requirements. Our own note on the subject is brief, though indicative, and it requires developing into a full study ; and
 - Prepare a blueprint for tea industry's financial needs and the most suitable organisation to meet those needs, its responsibilities and functions.

TEA BOARD AND TEA PROMOTION ABROAD

Tea Board's promotional activities could be categorised broadly as

- Generic, aimed at promoting tea as a beverage, in collaboration with other producing and importing countries, through the 'Tea Councils' set up for this purpose in selected import markets.
- Uninational, aimed at promoting the sales of Indian teas through Tea Board's foreign offices.

Exporting countries are also making concerted efforts to set up an International Tea Promotion Association to coordinate a programme for global promotion of tea.

We recommend for consideration the following.

- Ceiling of Indian exports will cut across the need for international tea promotion, and therefore we have to decide our long-term policy approach in this regard ;
- Working of the Tea Centres should be reviewed so as to make them more effective instruments of national promotion ;
- A committee consisting of experienced advertising and promotion men should be set up to examine the whole question of tea propaganda abroad, its shape,

its spread, and the costs ; and on the basis of its recommendations provide adequate funds for this purpose ;

- Tea Board should conduct market research through agencies abroad to study the tea consuming habits and preferences to help evolve national campaigns which could build the image and sales of Indian teas ;
- Tea Board should prepare a five-year budget, which is the necessary span of time for such campaigns to be conceived and implemented. There should be a rolling plan, within which the Tea Board should have the power to spend without individual sanctions ;
- As promotional work abroad is specialised, men selected for posting should, first, have some training in such work and, second, be assured long enough tenures to make effective contribution. Two year tenures are woefully inadequate.

PART THREE
MAIN REPORT

WORLD TEA PRODUCTION

World tea production has more than doubled over the last twentyfive years.

	mkg
1951	681.8
1960	987.7
1970	1309.1
1976	1520.7

Tea producing countries are divided into two categories ; those who produce and participate in world trade, and those who produce for themselves. India, Sri Lanka, Indonesia and Kenya belong to the first category ; USSR, Japan and Iran belong to the second category, although Russia in the recent years has stepped up its purchases in India and started entering the UK market. From China, tea spread to India, Sri Lanka Indonesia and Africa. The number of tea producing countries has been growing, and there are today 28 countries growing tea ; though of varying qualities.

There is a trend towards tea production spreading globally and of new countries taking advantage of the growing international market, in which China, and then India, Sri Lanka and Indonesia were once supreme.

We show below two statements, first, the production trends in 12 leading countries and, second, in all the 28 countries producing tea.

	PRODUCTION OF TEA										
	1951			1960			1970		1976		
	mkg	%	Rank	mkg	%	mkg	%	mkg	%	Rank	
India	285.4	43.1	1	321.1	34.1	418.5	34.6	511.8	36.5	1	
China	65.0	9.8	3	158.8	16.8	176.0	14.5	198.0	14.1	2	
Sri Lanka	148.0	22.3	2	197.2	20.9	212.2	17.5	196.6	14.0	3	
Japan	44.0	6.6	5	77.6	8.2	91.2	7.5	100.0	7.1	4	
USSR	23.5	3.6	7	40.0	4.2	66.8	5.5	90.0	6.4	5	
Indonesia	47.9	7.2	4	76.1	8.1	67.0	5.5	73.6	5.2	6	
Kenya	6.9	1.0	9	13.8	1.5	41.1	3.4	62.0	4.4	7	
Turkey	0.3	Neg.	11	5.7	0.6	33.4	2.8	45.0	3.2	8	
Argentina	0.2	Neg.	12	4.5	0.5	27.1	2.2	40.0	2.9	9	
Bangladesh	23.9	3.6	6	19.0	2.0	31.4	2.6	33.3	2.4	10	
Malawi	6.8	1.0	8	11.8	1.2	18.7	1.5	28.3	2.0	11	
Taiwan	10.5	1.6	10	17.4	1.9	27.6	2.3	24.7	1.8	12	
TOTAL	662.4	100.0		943.0	100.0	1211.0	100.0	1403.3	100.0		
All World	681.8			987.7		1309.1		1520.7			

PRODUCTION OF TEA—28 COUNTRIES

	1951		1960	1970	1976	
	mkg	Rank	mkg	mkg	mkg	Rank
India	285.4	1	321.1	418.5	511.8	1
China	65.0	3	158.8	176.0	198.0	2
Sri Lanka	148.0	2	197.2	212.2	196.6	3
Japan	44.0	5	77.6	91.2	100.0	4
USSR	23.5	7	40.0	66.8	90.0	5
Indonesia	47.9	4	76.1	67.0	73.6	6
Kenya	6.9	9	13.8	41.1	62.0	7
Turkey	0.3	21	5.7	33.4	45.0	8
Argentina	0.2	22	4.5	27.1	40.0	9
Bangladesh	23.9	6	19.0	31.4	33.3	10
Malawi	6.8	10	11.8	18.7	28.3	11
Taiwan	10.5	8	17.4	27.6	24.7	12
Iran	5.2	11	9.6	19.8	23.0	13
Uganda	1.9	14	4.7	18.2	15.4	14
Tanzania	1.1	16	3.7	8.5	14.1	15
Mozambique	3.1	12	8.6	17.0	13.8	16
Zaire	0.3	21	4.2	8.7	11.2	17
Brazil	0.8	18	1.2	5.8	6.8	18
Vietnam (South)	3.0	13	4.5	5.5	6.0	19
South Rhodesia ¹	0.3	21	1.0	3.0	5.0	20
Rwanda	—	—	0.1	1.2	4.9	21
Papua New Guinea	—	—	—	1.0	4.5	22
Mauritius	0.4	20	0.8	3.2	4.3	23
Malaya	1.7	15	2.5	3.4	3.1	24
Peru	0.6	19	1.1	1.5	2.5	25
Cameroon	—	—	Neg.*	1.2	2.0	26
Burundi	—	—	Neg.	0.1	0.8	27
Vietnam (North)	1.0	17	2.7	NA**	NA	
TOTAL WORLD	681.8		987.7	1,309.1	1,520.7	

*Negligible

**Not Available

INDIAN TEA PRODUCTION

Legend ascribes great antiquity to tea, but the history of tea in India does not date back earlier than 1774, when a consignment of tea seeds is said to have arrived from China. Later, Major Bruce discovered the tea plant growing wild in parts of Assam and experiments were conducted in different parts of India. Many, mainly the British, took up the pioneering work of growing tea as a plantation crop, and their enterprise led to the premier position India occupies today in the world of tea.

India is today the world's largest producer, consumer and exporter of tea, the only agricultural crop for which India holds this distinction. It held it once for groundnut, but it was lost. India now accounts for one-third of the total world tea production. Despite consuming over 55% of the production, India still manages to maintain about 30% share of world exports.

In 1977-78, admittedly a year of high prices, tea contributed nearly Rs. 900 crores to GNP, including foreign exchange earnings of Rs. 560 crores, besides substantial central and state taxes, excise duty (Rs. 50 crores) and cess. In 1977-78 when export duty was levied, it alone produced Rs. 100 crores. Even in 1978-79 a rather uncertain year, when our exports in general are showing a decline, tea is still expected to earn about Rs. 400 crores.

Tea, employing 4 lakh men and 4 lakh women (their biggest single avenue of organised employment), is a highly labour-intensive industry, providing year-round employment. It provides, besides, large support to scheduled castes and tribes, in regions that are generally less developed. It also provides these regions with infrastructure of roads, transport, warehousing, and health facilities beyond what their economies would otherwise justify.

Tea also provides employment in a range of industries—plywood, tea chests, aluminium foil, tinplate, metal fittings, paper, cardboard, fertiliser, insecticides and pesticides, transport and warehousing. Directly and indirectly, tea provides employment to about 18 lakhs.

Apart from its contribution to the economy of India, in today's context tea provides the common man a pleasant and stimulating non-alcoholic beverage ; at less than 5% of the price of a cinema ticket; and yet the price of tea in a cup is only one fifth of the price of a cup of tea of, say, 30 paise—the rest includes milk, sugar and fuel.

The two main tea growing regions in India are North-East India—Assam, West Bengal and Tripura, and South India—Tamil Nadu, Kerala and Karnataka. Small quantities of tea are also produced in the Bihar, U.P., Himachal Pradesh and Sikkim.

Extension of tea cultivation is now being attempted in Meghalaya, Manipur, Arunachal Pradesh, Nagaland and Mizoram. Tea needs a hot moist climate, with a temperature range of 55°F to 95°F and an average rainfall of 250 to 300 centimetres, obtaining in the monsoon belt of Assam and West Bengal and the slopes and plateau of the Western Ghats in the South. Grown at higher altitudes, of around 7000 ft., it gains greatly in quality, the best in the world.

The share of different regions in area under and production of Indian tea is shown below.

	Area under Tea		1976 Production		Yield per hectare kgs
	Hectares	% share	mkg	% share	
North India					
Assam	189,338	51.87	276.31	53.99	1459
West Bengal	88,799	24.37	117.72	23.00	1326
Tripura	5,527	1.52	4.29	0.84	777
Others	6,441	1.78	2.32	0.45	360
Sub-Total	290,105	79.64	400.64	78.28	1381
South India					
Tamil Nadu	36,079	9.91	59.83	11.35	1658
Kerala	36,327	9.97	47.91	9.70	1319
Karnataka	1,764	0.48	3.44	0.67	1950
Sub-Total	74,170	20.36	111.18	21.72	1499
GRAND TOTAL	364,275	100.00	511.82	100.00	1405

To the economy of Assam, tea has a special significance.

Since 1951 tea production and sales have risen as follows.

Year	Area		Production		Yield rate		Domestic consumption		Exports	
	'000 hect	100	mkg	100	kg/hect	100	mkg	mkg	100	
1951	317	100	285	100	901	100	73	100	206	100
1961	331		354		1070		140		206	
1971	357		435		1221		225		202	
1975	363		487		1341		272		218	
1978	364	115	512	180	1405	156	285	390	234	114

The substantial increase in production in India in the last 25 years by 80% came largely from higher yields per hectare, which rose by 56%, and only marginally from more acreage, 15%. It is of interest to note that most of the increased production has gone into increased consumption at home and very little into exports—while production rose by 80%, domestic consumption rose by 290% and exports by only 14%. Exports have hovered around 200 mkg for 20 years, except during the last 4 years, when they went upto 234 mkg in 1976 but declined to 224 mkg in 1977 and are expected to reach barely 190 mkg in 1978.

A question one might well ask, is what has brought about this in a situation where both the domestic and export teas have been marketed together? Have exports only been the balance of what we could not sell at home? The following statement that puts together the tea prices and their sales would appear to support this theory.

	Rs. per kg			
	Sales		Average prices	
	Domestic consumption	Exports	Auction in India	Unit FOB value
1951	73	206	3.74	4.66
1961	140	206	4.86	6.02
1971	225	202	6.79	7.61
1974	260	211	10.04	9.16
1975	272	218	10.74	11.22
1976	285	234	12.34	11.69

The per hectare yield rate as well as the quality of tea vary from region to region, and even garden to garden in the same region, due to agroclimatic factors and agricultural practices ; good garden management being also an important contributory factor to an increased yield rate.

Tea is grown in a variety of agro-climatic conditions and its quality varies not only with the agricultural and plucking practices but also with the part of the year in which the green leaf is harvested. The same tea estate may thus produce teas of different quality at different times of the year. Moreover, there are varying standards of manufacture followed in different factories.

Darjeeling teas, world renowned for their quality, have however a relatively low yield rate of about 632 kg per hectare, against the average yield rate of 1381 kg for the entire North India. Tripura and Himachal Pradesh have also low yield rate of 777 kg and 343 kg respectively. The Nilgiris, on account of a more equable climate and therefore year-round plucking, have yields of 1478 kg per hectare, and South India as a whole of 1499 kg. Some estates, in north and south, have gone above 3,000 kg per hectare. The yield rate has some relationship to the size of the estate, being generally higher in the larger estates. In North India, the main plucking months are from April to November while in South India plucking is carried out throughout the year.

Most of the teas manufactured in India are of black variety, though some green tea is also manufactured, mainly in West Bengal, and some in Assam and Himachal Pradesh, accounting together for only 1.5% of total production. The difference between black tea and green tea lies in the process of manufacture. About half of the green tea produced is exported, mainly to Afghanistan, while the balance is consumed at home in areas like Jammu & Kashmir.

There are two main methods of manufacturing black tea, the Orthodox and the CTC : Legg-cut having generally gone out of favour. In both cases, the process of manufacture is broadly similar except the treatment of the withered leaf before fermentation. In the case of Orthodox teas, the leaf is rolled after withering, whereas for CTC teas the leaf is "crushed", "torn" and "curled" ; hence its name CTC. The CTC variety of tea, which now accounts for nearly 60% of total production, gives a strong liquor, and about 75% more cups of tea per kg, but it does not bring out the flavour of tea as well as the Orthodox, and therefore the high grown varieties of good flavours are not usually converted into CTC. In North India, two-thirds of the

production is of CTC type, while in South India CTC teas account for one-third.

Though precise figures of export and domestic consumption of tea in terms of these types are not available, it is generally gathered that 60-65% of our exports today are of Orthodox type while a major portion of domestic consumption is of CTC type.

Some gardens manufacture a better type of tea in relation to the leaf size, known in the trade as Whole Leaf, Broken, Fannings and Dust—depending on the various characteristics like the presence of tip. These grades are further sub-divided into sub-grades, resulting in a bewildering variety of teas, that in the opinion of many in trade makes it difficult to standardise teas on the basis of physical or chemical specifications. The tea tasters, therefore, base their judgement on a combination of factors, including the appearance of manufactured tea, brightness and briskness and strength of the infusion and flavour. And yet—apart from some connoisseur varieties sold in quite limited quantities, teas in the West are becoming progressively standardised in blends and brands ; much like coffee.

Tea is normally packed at a moisture content of 3-4% in aluminium foil-lined plywood tea chests soon after manufacture. If such chests are stored in properly constructed warehouses with controlled temperature and relative humidity, tea can be kept for a reasonably long period. However, teas which have been stored for some time are discounted by the buyers, as the tasters discover changes in the liquoring qualities as well as the flavour of such teas. This necessitates more or less continuous marketing of tea soon after manufacture so that the producers may realise the best possible price before the quality deteriorates on account of prolonged storage.

Unlike some of the other beverages like coffee and cocoa, tea has no fixed harvesting time. Tea is a year-round crop, based on the growth of leaves, called "flush", on the tea bush. This growth may vary, depending on the weather conditions, specially the rains, but except in North East India, where there is no flush in the winter months of December, January and February, it continues to grow all the year round in almost all tea producing countries that are located close to the equator.

The following table shows the production figures typewise.

**TEA PRODUCTION IN INDIA BY METHOD OF
MANUFACTURE**
(Excluding Himachal Pradesh)

	1971		1974		1977	
	Production mkg	%	Production mkg	%	Production mkg	%
North India						
C. T. C.	210.2	63.5	277.1	71.3	286.9	67.0
Orthodox	103.5	31.2	105.3	27.1	127.4	29.8
Legg-Cut	11.3	3.4	0.6	0.2	5.6	1.3
Green Tea	6.4	1.9	5.4	1.4	8.2	1.9
TOTAL	331.4	100.0	388.4	100.0	428.1	100.0
	(76.3%)		(79.6%)		(76.7%)	
South India						
C. T. C.	28.9	28.0	35.4	35.5	43.2	33.2
Orthodox	71.4	69.3	62.6	62.8	84.6	65.0
Legg-Cut	2.1	2.0	1.1	1.1	1.7	1.3
Green Tea	0.7	0.7	0.6	0.6	0.7	0.5
TOTAL	103.1	100.0	99.7	100.0	130.2	100.0
	(23.7%)		(20.4%)		(23.3%)	
All-India						
C. T. C.	239.1	55.0	312.5	64.0	330.1	59.1
Orthodox	174.9	40.3	167.9	34.4	212.0	38.0
Legg-Cut	13.4	3.1	1.7	0.4	7.3	1.3
Green Tea	7.1	1.6	6.0	1.2	8.9	1.6
TOTAL	434.5	100.0	488.1	100.0	558.3	100.0
ALL-INDIA	(100.0%)		(100.0%)		(100.0%)	

WORLD TEA TRADE AND INDIA'S SHARE

The relationship between production and domestic retention and exports has undergone a considerable change, as the statement below of the 8 leading exporting countries will show.

	Production				Export				Domestic retention			
	1950		1977		1950		1977		1950		1977	
	mkg	%	mkg	%	mkg	%	mkg	%	mkg	%	mkg	%
India	278 (100)	100	580 (201)	100	183 (100)	66	224 (122)	40	95 (100)	34	336 (354)	60
Sri Lanka	139 (100)	100	209 (150)	100	135 (100)	97	186 (137)	89	4 (100)	3	23 (616)	11
Bangladesh	24 (100)	100	38 (159)	100	8 (100)	34	26 (317)	69	16 (100)	66	12 (75)	31
Indonesia	35 (100)	100	73 (206)	100	28 (100)	80	50 (178)	68	7 (100)	20	23 (329)	32
69 Kenya	7 (100)	100	86 (1268)	100	5 (100)	69	70 (1494)	81	2 (100)	31	16 (767)	19
Uganda	2 (100)	100	15 (789)	100	1 (100)	53	15 (1470)	98	1 (100)	47	Neg. (33)	2
Tanzania	1 (100)	100	17 (2087)	100	1 (100)	63	11 (2220)	65	Neg. (100)	37	6 (1867)	35
Malawi	7 (100)	100	32 (428)	100	7 (100)	93	30 (433)	94	Neg. (100)	7	2 (360)	6
TOTAL (8 countries)	493 (100)	100	1030 (209)	100	368 (100)		612 (166)		125 (100)		418 (334)	
WORLD TOTAL	650 (100)		1646 (253)		400 (100)		782 (196)		250 (100)		864 (346)	

The observations below, in regard to the above-mentioned group of important tea producing and exporting countries, which in 1977 accounted for 63% of world production and 79% of world exports, deserve consideration to help place the new and growing competition, and India's changing export perspectives, in the context of the world tea trade.

- Production in this total group of 8 countries has more than doubled in the last 27 years, from less than 500 mkg to over 1,000 mkg ; and in this India has kept pace ; but while
- exports of 7 countries other than India have gone up by 110% from 185 mkg to 388 mkg ; India's exports have risen by only 22%, from 183 mkg to 224 mkg.
- Especially significant have been the increases, both in production and exports, in the African countries, notably Kenya and Malawi, both having started virtually from scratch since World War II ; when
- India's rate of rise in production has been less, although admittedly it started from a large base, while the rate of rise of its exports has been small to stagnant.
- While India's production has been rising quantitatively at a quite satisfactory world rate, an increasing proportion of it has been retained for domestic consumption. Kenya and some other countries on the other hand have been producing much in excess of their home market needs and have therefore been able to take advantage of the rising world demand. Their retention for domestic consumption in volume terms has not risen as much as India's, and therefore they have had larger quantities to spare for the world markets. Kenya has now reached the third position in world exports.
- Among the old tea producers, Sri Lanka has shown the least progress, although it is now picking up.

There is another way of looking at world exports from India's standpoint.

—In the last 27 years about 244 mkg were added to the world export market, of which India took 41 mkg, Sri Lanka 51 mkg and Africa 112 mkg. India among them thus took the smallest share.

—In the same period, nearly 85% of India's increased production has been consumed at home.

—We should recognise the growing importance of African tea, as much as the emergence of the Indian domestic market, today the largest in the world.

In the last several years, contrary to the world trend, Indian exports have been static around the level of 200 mkg, and this year, 1978, they are expected to touch 190 mkg. Statement below, showing production, domestic retention and exports of Indian tea, reflects the fundamental shift from what we used to export to what we consume at home.

India	1950		1977	
	mkg	%	mkg	%
Produced	278	100	560	100
Retained	95	34	336	60
Exported	183	66	224	40

Compared with the 1950's, when two-thirds of our production was exported, in the late 1970's it is two-fifth.

A year by year analysis since 1967 is shown below to illustrate how dependent our exports have become on the year to year production and the steadily rising home demand.

Year	Production	Change in production	Domestic retention	Change in domestic retention	Exports	Change in exports
				mkg		
1950	278		95		183	
1967	385	+ 9	171	—26	214	+35
1968	402	+17	194	+23	208	— 6
1969	394	— 8	225	+31	169	—39
1970	419	+25	217	— 8	202	+33
1971	435	+16	233	+16	202	0
1972	456	+21	258	+25	198	— 4
1973	472	+16	284	+26	188	—10
1974	489	+17	278	— 6	211	+23
1975	487	— 2	269	— 9	218	+ 7
1976	512	+25	278	+ 9	234	+16
1977	560	+48	336	+58	224	—10
1978	560	0	370	+34	190	—34

(Estimates)

This is a development in India—the emergence of a rising home demand owing to a rising population, urbanisation and living standards and an incommensurable rise in production—that has also taken place in other agricultural commodities. It is a phenomenon that needs a careful study for its impact upon our export earnings to decide our course of action. There is nothing sacrosanct about the home demand, nor the exports ; it is a matter of the importance we attach to them at any given time. Demand for some articles may be more or less important in the context of demand for some others, at a given point of time. Fuel and edible oils, foodgrains and cotton may be more important than tea or coffee, which are in the ultimate analysis beverages that fall under the heading of discretionary and not necessity foods. Tea is certainly not part of the staple diet—though it can be equally argued that once it becomes a habit its demand becomes “compulsive”. There is the interesting example of groundnut seed and oil, also once a valuable exchange earner, where our world leadership in exports has turned to very large net imports ; an eventuality which we should try and prevent in tea.

Exports and Imports of Oils and Oilseeds and Wheat

		INDIA	
		1938 Exports	1978-79 Imports
		Tons	
Oils & Oilseeds			
Groundnut oil—exports	404,000*		
Edible oils—imports (estimated)			1,200,000
Wheat			
		Net Exports	Net Imports
1936-37		231,505	
1937-38		459,806	
1938-39		279,181	
1939-40		282,030	
1966-67			7,786,366

*In 1938 we exported 897,000 tons of groundnut seed, making an oil equivalent of 404,000 tons of groundnut oil.

Looking ahead, the exporters of Indian tea, and its importers abroad, have begun to consider it a distinct possibility that India may not in the future have a significant exportable surplus, and instead concentrate perhaps on exports of its limited finer qualities—as we do with groundnut, where we are now importing large quantities of edible oils and at the same time exporting small quantities of handpicked seed for table use—though of late we have banned even these on occasions.

Should we wish to avoid such an eventuality for tea, we will have to ensure our future production taking care of both the domestic and the export demand ; something which is distinctly possible provided we begin to plan for it consciously and vigorously. To meet the shortages in the odd years of poor crop, we can maintain our exports through a reserve or buffer stock operation, which can also help stem a sharp decline in prices in a year of abundant supply. Being a relatively perishable commodity, for flavour and aroma, the stock would have to be rotated ; and to cope with the wide varieties of quality, it would have to be confined to a small popular range. Furthermore, the stock can be rotated for home consumption, leaving the new crop qualities for exports. In agricultural commodities buffer stocking is being growingly adopted by the developed countries, and by us in wheat and rice, and may soon be considered for sugar and oilseeds—and tea.

Next, we would have to carefully examine our pricing policy. Keeping prices low, on the one hand encourages consumption and, on the other may not provide the industry with enough earnings for an adequate plough back, and prevent it from taking advantage of high and more profitable prices in the export markets. In the bargain we may lose foreign exchange.

We may, of course, decide to accept, as we have done in the recent years, the present rate of growth of $3\frac{1}{2}\%$ in India's production—in itself very satisfactory by all agricultural standard—and meet the increasing domestic demand, currently at the rate of 5%, through reduced exports, and later through imports.

However, whatever the view we take, it should be a conscious policy decision that should receive more attention than did wheat, groundnut, cotton some decades ago. And yet our

interest in wheat in the last decade has changed us once again from large importer to a seeming self-sufficiency, at the current consumption levels, and possibly to exportable surpluses once again.

Clearly, a long-term tea production-consumption-pricing-export-infact a total production cum marketing strategy—needs to be evolved.

In a section on Financing of Tea Industry we deal in greater depth with this subject.

In conclusion, we recommend

—The phenomenon of home demand needs a careful study for its impact on our export earnings, and the importance we attach to their competing claims. Although tea is not part of the staple diet, once it becomes a habit, its demand becomes compulsive. There is the interesting example of groundnut seed and oil, also once a valuable foreign exchange earner, where our leadership in exports has turned to very large net imports—an eventuality which we should try and prevent in tea. In 1938 we exported groundnut seeds of an oil equivalent of 404,000 tonnes. In 1978, we shall be importing 1.2 million tonnes of edible oils. Interestingly, we used to export about a quarter million tonnes of wheat before the war, and imported 8 million tonnes in 1966.

INDIAN TEA EXPORTS

Within the more or less static Indian exports in the last 25 years, India's direction of tea exports has undergone a major change.

India's Exports by Regions

	1950		1960		1970		1977	
	mkg	%	mkg	%	mkg	%	mkg	%
West Europe	130.57	71.38	132.13	68.44	107.89	53.41	89.16	39.81
East Europe	1.41	0.77	10.21	5.29	32.80	16.24	56.83	25.37
America	27.75	15.17	16.05	8.31	10.44	5.17	12.12	5.41
West Asia &								
North Africa	13.40	7.33	25.27	13.09	34.80	17.22	46.14	20.60
Other Asia	2.01	1.10	5.73	2.97	12.08	5.98	13.70	6.12
Other Africa	0.50	0.27	0.58	0.30	0.04	0.02	0.16	0.07
Oceania	7.27	3.98	3.09	1.60	3.97	1.96	5.87	2.62
TOTAL	182.91	100.00	193.06	100.00	202.02	100.00	223.98	100.00

Statement below shows the change between 1950 and 1977 in the offtake of Indian tea by different countries.

India's Exports by Countries

	1950			1977		
	mkg	%	Ranking	mkg	%	Ranking
U.K.	115.4	63.1	1	72.9	32.5	1
U.S.A.	15.8	8.6	2	9.8	4.4	5
Ireland	9.6	5.2	3	6.3	2.8	8
Iran	3.8	2.1	4	6.5	2.9	7
A.R.E.	1.8	1.0	5	14.0	6.3	3
Sudan	1.7	0.9	6	12.8	5.7	4
U.S.S.R.	1.4	0.8	7	45.7	20.4	2
West Germany	1.0	0.6	8	5.8	2.6	9
Poland	*	—	—	5.0	2.2	10
Afghanistan	*	—	—	8.3	3.7	6
Others	32.4	17.7		36.9	16.5	
TOTAL	182.9	100.0		224.0	100.0	

*In 1950, Afghanistan and Poland are included in Others.

Thus, within the general decline in the volume of exports, there is a shift of our export of teas eastward, from UK, Ireland and USA to Western Europe, Russia, Eastern Europe and Middle East ; east of that, in South East Asia, we have as yet made no mark and left the field to others. We are informed though that a tea mission is visiting the countries east of us to study the potential.

UK, USA, and Ireland's purchases from India have declined, while West Germany has shown an increase, especially in quality teas. West Germany today is perhaps the world's most discriminating buyer, going as far as airfreighting some of the early flush Darjeeling teas !

In spite of the decline in both absolute and relative terms, the offtake from UK is still sizeable at 73 mkg. If we add Ireland, it is over 80 mkg, or about 35% of Indian tea exports.

USSR at 46 mkg (though now also exporting some of its cheaper teas) has emerged as the second largest buyer of tea from India. In addition we export to other east European countries, notab y Poland.

Other growing markets for Indian tea are the North African countries of A.R.E., Sudan, Afghanistan and the Middle East, who together import over 40 mkg.

INDIAN EXPORT DUTY

As with some other commodities, government has imposed export duty on tea from time to time. Government of India levied an export duty of Rs. 5 per kg in April 1977 (reduced to Rs. 2 per kg in September 1978) ostensibly to mop up the fortuitous gains through a large rise in tea export prices. This must have had the effect of discouraging exports. The object of this levy was to insulate the domestic consumer from the unusually high international prices. As a measure of protection, this step was unexceptionable.

The buyers abroad however wondered what Government's policy will be in regard to export duties in the future, because if export duties are going to be used also as an instrument to discourage exports, they felt that a better means would be the revival of export quotas, because the buyers would then know how much tea would be available each year. Export quotas were used in the past to keep prices up in a sagging international market ; they could now be used to keep the export volume low.

Basically, to the European and U.S. buyers, the important and significant factors are the following.

- The landed cost of tea, its quality, and the available stock.
- Ready availability of certain Indian teas that have an intrinsic quality for blending purposes, for which they will pay higher prices.
- Growing competition from the rising production in other markets, particularly, in Africa. Some of their teas, like the Kenyan, are of a quality that begins to hold its own against the Indian teas (except the Second Flush Assam, and of course the Darjeelings).

To the importers of tea, the Indian export duty has two aspects—first the uncertainty that makes it difficult for overseas buyers to take a view on Indian prices; second, to an extent it makes Indian teas less competitive. In the ultimate analysis

they appreciated that, of course, the duty is only a cost element, in the same way as labour or shipping ; and international prices adjust themselves to the duty and its changes in the light of the prices of other teas against the Indian. This was a matter of which India was the best judge.

What was important to the buyers abroad therefore was a regular supply of Indian tea at competitive prices, but without the uncertainty of sudden changes in duty or availability of supplies. They would therefore welcome an official declaration in advance of the quantities that would be made available for any crop year ; and, most important, any change in the level of export duty should not be retroactive, as it was on the last occasion.

Regarding the level of export duty, three further arguments were placed before us.

First, high rates of duty gave windfall profits to the African and other producers of tea, who ploughed them back into new growth ; and thus this gave them a further competitive strength against our teas.

Second, some teas, Kenyan and Sri Lanka's notably, were qualitatively competitive with some Indian teas, so that even a temporary loss of the market share could well become permanent.

Third, whatever the justification for the level of duty, it should not make exports of tea less attractive, or uneconomic, to the Indian producers. (It should be noted that some UK buyers and traders are also producers in India).

	1977 (Pence per kg)			
	India	Sri Lanka	Bangladesh	Kenya
Auction price at London	162.0	156.3	157.4	169.7
Landed cost	122.9	104.1	56.6	66.4
Net benefit	39.1	52.2	100.8	103.3

Thus, while the export duty was not by itself the real source of concern—apart from the arguments stated above, that were presented, they said, in India's long-term interest as of the buyers abroad—what was a major source of dissatisfaction and brought unanimous criticism, bordering on strong emotions, was the retroactive application of the export duty. The duty was levied, they all said, on consignments that the buyers had considered belonging to them because they had already been purchased, a transfer of property had taken place and they were only awaiting shipment.

The buyers from America, Britain, Ireland and the Continent, Iraq and Egypt, all sotto voce, opposed this retroactiveness. The US traders in Indian tea, we were informed, reported overnight losses amounting to \$ 1,200,000, affecting some quite small concerns. The emotions that this subject raised came so clear and strong that we may be pardoned to dwell at some length on it.

To the statement, that it is not always possible to decide what is a sale—for instance, an order placed by a buyer abroad through a broker, or direct in India, for a quantity, at a price, during a stated period, is not necessarily a sale—they replied with the suggestion that some guidelines defining a sale may be drawn up, so that if a transaction takes place within the purview of the guidelines they should not be subject to any duty retroactively. Furthermore, Reserve Bank and Tea Board can together be asked to arbitrate in borderline or doubtful cases. Some went further to suggest that copies of their contracts could be lodged with the Tea Board ; so keen were they to avoid their last experience.

Kenya, we were informed, made an exception of those shipments by exempting contracts entered prior to the date of the duty. In any case the Kenya duty applied above a particular level of prices, which was high enough not to attract duty for most teas. In India the duty was always retroactive, but in the past the amount was small—4 to 8 annas.

It was suggested to us that in case Government considered reintroducing an export quota system or ceiling to protect the domestic consumer, it should have the following two features.

—It should not discriminate between one distributor and another.

—It may be transferable from one exporter to another, but not tradeable.

The considerations for imposing export duty could be many, fiscal, export limitation to provide more for the domestic market at reasonable prices, and mopping up fortuitious profits. An important issue in the imposition of the export duty is also the incidence—who pays, the buyer or the seller—and whether it will affect past contracts or not.

We recommend

—While directly within government's right to levy an export duty, the imposition of export duty should be carefully reviewed from time to time in the light of what precisely it seeks to achieve ;

—Its introduction should not affect contracts genuinely entered into before the duty is imposed ;

—What is a contract should be defined so that the buyers know where they stand, and in case of a dispute the Tea Board and the Reserve Bank of India can arbitrate.

INDIA'S DOMESTIC CONSUMPTION—ITS IMPACT ON EXPORTS

	Popula- tion	Tea produc- tion	Dry tea con- sumed	Per capita con- sump- tion	Cuppage in cups per kg	Total cups consumed (Estima- ted) Million	Per capita
	Million	mkg	mkg	kg			
1951	361	285	73	0.20	275	20,075	56
1961	439	354	140	0.32	413	57,820	132
1971	548	435	225	0.41	468	105,300	192
1977	620	560	300	0.48	495	148,500	240
Base 1951 Index	(172)	(196)	(411)	(240)	(180)	(740)	(428)

It appears that domestic consumption has risen both explicitly and implicitly—explicitly by consuming more dry tea, and implicitly by deriving more cups of tea from each kilo of dry tea, owing to the new CTC process of manufacturing tea which gives about 75% more cups per kg. This raises an interesting question.

More cups of tea were consumed in 1977 than in 1951, even after allowing for the more kilos available. What matters in consumption is the cups of tea available to the consumers and not the actual quantity of dry tea ; therefore, if the CTC process, that has helped extend tea into more cups, is not followed up in the future by some new processing that continues to improve the cuppage per kilogram of tea, will Indian domestic demand, rising not at the rate of kilograms but the cuppage available in the past, cut still further into exports ?

Indian tea exports have been static in the last two decades at around 200 mkg, except during the last four years. During this period there was in effect no restriction on exports and as the auctions were common for export and domestic markets, the price mechanism seems to have played a role in allocating tea between domestic and export market.

Domestic consumption has received some encouragement from the steps taken by government to hold prices and improve domestic availability. The steps taken were the levy of export duty, ceiling on exports, an informal price control on packet tea, and including tea in the list of essential commodities.

INDIA'S EXPORT POLICY

A question, bordering on concern, that was often put to us, both in India and Europe, was India's likely future policy for exports. At present India as the largest world supplier of tea also poses the most uncertainty, because while its production has been rising satisfactorily at an annual rate of around 3.5%, its domestic consumption has been rising at an even faster rate of about 5%—about the fastest rate in the world. While India was eager in the past to develop its tea exports, it is now wondered abroad how far it will be able to resist the growing pull of its home demand, helped by the attempts to keep down tea prices at home and insulated from the prices abroad.

Tea interests abroad conveyed a feeling in regard to Indian tea exports that with easier foreign exchange position of India, exports generally, and of commodities of importance to domestic consumption particularly, may not receive the past level of encouragement. For instance, an export rebate for tea was introduced in 1970 which was abolished in 1977, and in its place an export duty was imposed. Similarly, the regulation of exports of onions, hand-picked groundnut seed, and other essential food stuffs are reminders to them that export of essential articles may not receive encouragement in the future when domestic supplies are under pressure.

We recommend that the following considerations be kept in view in this context :

- Tea is the single largest export earner, accounting for Rs. 556 crores in 1977-78, or more than 10% of all exports. It may be difficult to find a substitute export of this size, especially when exports lose their buoyancy ;
- Export marketing, especially of products that cater to a habit, is not a stop-go operation ;
- Uncertainty of supplies is more harmful to export business than a declared quantified restriction on exports, i.e. of course if there has to be some ceiling on exports. There is also the risk of losing the market irretrievably.

UK and European tea trade felt that if exports are to be limited, it is best done by export quotas than through export duty, because with the former they know exactly where they stand.

TEA MARKET ABROAD

United Kingdom

As our traditional and still the largest export market, and the world leader in setting price trends, UK deserves a detailed analysis.

About 13% of world tea output is consumed in U.K. Its per head consumption of tea has declined in the last two decades from 9.9 lbs in 1958 to 8.8 lbs in 1966 and 7.1 lbs in 1977. The U.K. tea interests are conscious of this slow but steady decline and a joint promotional campaign has been sponsored by the U.K. Tea Council, in which the leading tea producing countries of India, Sri Lanka and Kenya have joined.

Tea is sold to consumers in UK in two main forms, packed in cartons, and in tea bags. The tea bag habit, imported from the USA, has spread rapidly in the last decade or so, and in volume accounts for 40% of total tea sales, with a continuing upward trend. Instant tea is as yet in infancy. The cold water soluble tea (CWS), consumed iced and flavoured, has not yet found much favour outside USA, while the hot water soluble variety (HWS) has not acquired quality acceptance, which is perhaps a matter of time. Nestle's are working seriously in India and U.K. on hot soluble tea, and Liptons in U.K. are testing chilled bottled tea drinks. On the whole most research effort on instant tea, especially the HWS, is being put in by the non tea-producing countries in the West than by us the leading producers. There is some work in Ceylon but little in Kenya.

India has over one-third of the U.K. market share ; Kenya and Sri Lanka 18% and 10% respectively ; the rest are small Asian and African producers. Of late Russia has also been selling poor quality teas in U.K. U.K. imports its tea almost entirely in bulk. This is bought by blenders who distribute it through the trade to consumers. The following statement shows the pattern of tea imports into U.K.

	U. K. Imports			
	1950	1960	1970	1977
			mkg	
India	108	117	83	85
Sri Lanka	43	68	71	25
Kenya	1	6	30	44
Others	15	47	69	89
TOTAL	167	238	253	243

	1960-62 Average	1970-72 Average mkg	1975-77 Average
United Kingdom Imports from All Countries	248	230	229
Through			
—London Auctions	151 (61%)	116 (50%)	95 (42%)
Imports from India	122	75	79
Through			
—London Auctions	84 (69%)	43 (57%)	38 (47%)
—C & F Sales	6 (5%)	8 (11%)	12 (16%)
—Indian Auctions	32 (26%)	24 (32%)	29 (37%)

U.K. tea trade is dominated by four large blender-packers, who hold a substantial share of the market, accounting for 80% of the total retail market by volume. In 1977 their shares stood as follows.

Brooke Bond	30%
Cooperatives	23%
Typhoo-Cadbury	15%
Lyons Tetley	12%
Others	20%

In a declining total market, individual shares have fluctuated, but because of the strength of the existing companies and the very high cost of entering it, no other major blender has emerged. We were informed that some of the food chains, like Saintbury's, are trying to make a bid for a market share, but to obtain as much as 2-3% share of the market means no small cost.

One of our public enterprises was recently given an estimate by a London marketing promotions consulting firm of the cost of entering the U.K. package tea market, which at least is an indication of the magnitude of expenditure required for obtaining just a toe-hold in the U.K. packet tea trade.

	Promotional expenditure Rs. crore	Expected sales	
		Tons	Rs. crore
Test Market Period	0.3		
First year	1.28	1,600	6.65
Second year	1.92	3,000	12.54
Third year	2.32	5,500	23.41
Fourth year	2.72	7,000	30.27
Fifth year	2.88	8,000	35.14

U.K. imports about 230,000 tons of tea annually, of which India's share is about 79,000 tons, all in loose tea. U.K. re-exports about 30,000 tons and consumes 200,000 tons. To get an 8,000 ton share of the total U.K. tea consumption in packaged, branded tea would take us five years and cost Rs. 12 crores ; and to maintain it over Rs. 3 crores annually and this we believe is, if anything, an under-estimate.

This fits in with our understanding that two-thirds of the retail trade is in the medium price ranges, where consumer buying is so price conscious that as little as a half pence difference in price on the quarter pound packet may persuade the housewife to change the brand.

The discriminating premium tea market, on the other hand, is so small that a 5% market share is the best that one of the oldest, high image company, Twinings (in tea since 1717) can hold ; but it is a profitable end of the market, and growing internationally. Infact, Twinings export 65% of their turnover to 90 countries, and its Earl Grey brand (now a generic name for Bergemot oil scented tea) is the top seller in each one. This is something India may examine ; the marketing of high quality, premium brand teas not only in U.K. but the world over. Their unit value is high enough to pay for the cost of transporting packaged tea, and of high promotion costs involved—and the brand loyalty will be firm.

In other words, we recommend

—Before we try to enter the high promotion cost popular, medium quality range in the market, we should take

advantage of our fine quality teas and enter the premium section of the market, both in UK and elsewhere. Their unit value is high enough to afford the extra cost of transportation of packages and the high promotion costs involved ; while the brand loyalty will be stronger. The packaging may be done by some associates in countries that sell significant quantities, either in India or abroad, depending upon the economies. Further, to offer ready deliveries, warehousing arrangements will have to be made abroad.

Tea prices in UK have always attracted the attention of their government, ever since the last War. Tea came within the voluntary, 'early warning' arrangement in 1965, when major manufacturers notified the Ministry of Agriculture, Fisheries and Food of a proposed price change. The latest report of the UK Price Commission on tea prices in 1978 felt "that the consumer would be better protected if, what one blender described as gentlemanly trade, were to become rather less gentlemanly and rather more competitive."

The trade, however, protested that "this was not true and that 'tea business' both at retail and blending level has always been fiercely competitive because of the rivalry between the principal blenders and the High street war for market share. We come to contract a vast quantities of tea on a mere exchange of telegrams, and on bonds of good faith. There are no written contracts, and very seldom is there any arbitration."

In our discussion with both the tea interests and the ministry officials it seemed broadly accepted that it is a competitive trade.

We have given this short description of the UK consumer market to provide a background against which India's export marketing of tea has to be considered, especially if India is to enter this highly competitive and packaged tea consumer market, which is costly to promote and sustain.

Imports into UK have taken three forms.

—Consignment for sale at London.

—C & F sales both for current and forward shipment.

—Purchases at Indian auction centres for export.

The relative importance of these modes of sales in 1975-77 as compared to 1960-62 is shown below.

INDIAN TEA

	1975-77 (Average)		1960-62 (Average)	
	mkg	%	mkg	%
Sold through				
—London auctions	38	47	84	69
—C & F sales	12	16	6	5
—Indian auctions	29	37	32	26
Total	79	100	122	100

From the buyers' point of view London auctions provide spot, off-shelf delivery, with small individual lots offered. Private sales on the other hand, while they assure quantity and price, have the disadvantage that forward buying involves judgement on price which could well go wrong ; and buying in India, we were repeatedly informed, has the element of uncertain delivery owing to dock and shipping delays. Increasingly, the UK buyers have themselves been buying at auctions in India.

We were informed by the UK buyers that while favouring the continuance of London auctions, discussed in the next section, they would prefer to use all these methods of buying teas from India and other countries, to enable them to be competitive, even though during the past ten years the relative importance of each method has undergone a change, notably the London auctions.

Tea prices in UK have been investigated a number of times and there has been an informal price regulation in the last over ten years. The main purpose of these studies was to look into the profitability of blenders and see if the world tea prices were reflected in consumer prices. We were told by the Ministry of

Agriculture and Fisheries, UK that they considered tea an essential foodstuff and were interested in monitoring consumer prices. The regulation however seems flexible but the intention to be consulted when prices are raised is clear.

There have been similar regulations in Holland and Belgium. Germany remains a free market for tea.

How the governments of the importing countries treat tea is a matter of their internal policy, but to India as a producer, any regulation of prices is always a threat since it acts as ceiling on prices: The UK tea buyers, however, did feel that the tea industry will readily approach the government whenever it saw a justification for a price revision.

EUROPE

Representatives of Germany, Holland, Belgium, France, Italy and UK met us at Rotterdam and Brussels.

We were informed that while tea consumption in Europe was small compared to UK and Ireland, it was rising and, in particular, it was of a sophisticated nature. Of all the qualities of tea imported into Europe, 40% came from India, which they consider continues to produce good teas. They said India holds a good position in the world balance between demand and supply, and they would like to see this balance continue and not diminish on account of its rising domestic demand.

Their own views upon the London Auctions and Futures market, export quotas and duties, and certain other areas' issues, we have incorporated elsewhere in separate sections. However we may reiterate the two issues on which they felt strongly.

—The retroactive nature of the export duties and the uncertainties of our supplies.

—While all of them were in favour of the producing countries receiving better returns for their commodity they did not appreciate our sending packaged tea to Europe to compete with their own packaging, especially in view of the remission of export duty

on packeted teas from India. A possible effect of the lower prices of Indian packaged teas selling in the Continent would be that European packers would be forced to reduce the quality of their blend, resulting in their buying less Indian tea.

U.S.A.

A representative of the leading tea buyers and packers in U.S.A., Liptons, came over to London to meet us. His views were generally in accord with those of the U.K. and the Continent, for he too in the manner of others made a special reference to the tea export duty and its retroactive application. We quote from the Memorandum.

Following upon a survey by U.S. Tea Association members in May of 1978, the following points emerge as those elements connected with the U.S.—India trade which have had the greatest influence on the volume and complexion of such trade of recent date.

Whilst recognizing the sovereign right of any government to impose export duties or other taxes on its produce, our trade finds that the retroactive aspects relating to the Government of India's imposts levied in April 1977 caused very special problems for some U.S. based companies.

Following the introduction of similar levies in both Sri Lanka and Kenya, our trade reports no losses due to the fact that those countries protected their customers by special measures at the time of their respective announcements.

U.S. Traders with India, on the other hand, report overnight losses amounting to some \$1,200,000. Be it noted that some quite small concerns were caught up with and were badly mauled by this event.

Tea trading cannot survive in an environment in which the ground rules are arbitrarily changed by one party. This can cause ties built up painstakingly over the years between supplier and buyer to be ruptured ; even spoiled.

Of special concern is the fact that a barge filled with tea which had been loaded three weeks prior to the imposition of the duty in question, and for which a bill of lading had already been issued, was made subject to this duty.

The following figures for U.S.A. imports of tea were given to us as an indication of the impact of export duty.

	1977		1978	
	May	Year to date	May	Year-to-date
India	3,614,526	14,121,000	272,233	2,178,433
Others	19,688,266	78,581,383	16,723,757	73,528,116
TOTAL	23,302,792	97,702,383	16,995,990	75,706,549

PRIMARY MARKETING OF INDIAN TEA

Tea, unlike other commodities is both grown and processed at the same place in a continuous cycle. There has been much movement of late in who grows and who processes tea, and who owns it. Most estates used to be controlled by Sterling Tea Companies at one time ; but they are now in the process of Indianisation of their capital. Further, the Sterling and public limited Rupee Companies each account for about 40% of the tea production. As Sterling Companies sold their holdings in the 1950's and 1960's, a number of Indian business houses (earlier, the managing agencies) took over. Some tea is also grown by partnership firms, proprietary concerns, private limited companies, and small growers in Tamil Nadu, Kerala and Himachal Pradesh. In the last few years co-operative tea factories have been developed in the small growers areas. Public sector undertakings like Assam Tea Corporation, Tea Trading Corporation of India, West Bengal Tea Development Corporation and Tamil Nadu Tea Plantation Corporation have also entered the field of tea growing. The total share of the co-operative and public sector organisations in tea growing is still small at 5% of total production.

PATTERN OF PRIMARY MARKETING OF INDIAN TEA

REGION-WISE

	1960-62		1975-77	
	Annual mkg	Average %	Annual mkg	Average %
Auctions				
—North India	148.26	57.10	170.45	42.23
—Gauhati	—	—	38.71	9.59
—Siliguri	—	—	7.41	1.84
—Amritsar	—	—	0.59	0.14
Total	148.26	57.10	217.16	53.80
Auctions				
—London	64.60	24.88	38.83	9.62
Total	212.86	81.98	255.99	63.42
C & F Sales	10.28	3.96	25.06	6.21
Ex-garden Sales	36.50	14.06	122.56	30.37
North India Total Sales (Production)	259.64	100.00	403.61	100.00
Auctions—South India				
—Cochin	36.27	45.15	70.48	60.77
—Coonoor	—	—	17.48	15.07
Total	36.27	45.15	87.96	75.84
Auctions—London				
—London	14.77	18.38	1.17	1.01
Total	51.04	63.53	89.13	76.85
C & F Sales	2.47	3.07	1.68	1.45
Ex-garden Sales	26.83	33.40	25.17	21.70
South India Total Sales (Production)	80.34	100.00	115.98	100.00
ALL INDIA				
Indian auctions	184.53	54.28	305.12	58.72
London auctions	79.37	23.34	40.00	7.70
Total	263.90	77.62	345.12	66.42
C & F Sales	12.75	3.75	26.74	5.15
Ex-garden sales	63.33	18.63	147.73	28.43
Total Sales (Production)	339.98	100.00	519.59	100.00

The table above shows that the importance of Calcutta auctions have declined with the starting of Gauhati and Siliguri auctions. We were informed that this was partly due to the West Bengal entry tax, added to by the subsequent sales tax. Cochin has gained in importance despite the starting of the Coonoor auctions.

London auctions, which used to get normally 65 mkg, or 25% of North India teas in 1960-62, have now declined to 39 mkg, less than 10%. The decline in the sales of South Indian teas at London auctions is even more significant, from 15 mkg, 18%, to only 1 mkg, 1%. London auctions now sell only 40 mkg, 8%, of the total Indian crop, against 79 mkg, 23%, of the crop 15 years ago.

An equally marked feature is the rise in North India of ex-garden sales in the domestic market—from 37 mkg, 14%, of the North Indian crop in 1960-62, to 123 mkg, over 30%, in 1975-77. South India, on the other hand, shows the reverse trend though a marginal decline from 27 mkg, 33% to 25 mkg, 22%, over the same period. The reasons for this difference include, first, that South India produces more Orthodox teas, while the internal demand is more for CTC teas ; second, its auction centres are closer to the gardens.

Out of the All-India crop, two-thirds is sold by auctions, 59% in India and 8% in London, while the remaining one-third is sold directly by the producers, 28% in the domestic market and 5% abroad.

	North		South		Total	
	1960-62	1975-77	1960-62	1975-77	1960-62	1975-77
	(Average percentage)					
Total Production/ Sales	100.0	100.0	100.0	100.0	100.0	100.0
Domestic	36.3	56.3	52.4	58.0	40.1	56.7
—Auction	22.2	25.9	19.0	36.3	21.5	28.3
—Ex-garden	14.1	30.4	33.4	21.7	18.6	28.4
Exports	63.7	43.7	47.6	42.0	59.9	43.3
—London auction	24.9	9.6	18.5	1.0	23.4	7.7
—Domestic auction	34.9	27.9	26.0	39.5	32.8	30.5
—C & F sales	3.9	6.2	3.1	1.5	3.7	5.1

These opposite trends in the North and the South of ex-garden sales are specially significant in the light of arguments put forward to us by the advocates in North India of this mode of selling tea, as being cheaper and more economical than auctions, advantages that seem not to weigh with the gardens in the South.

We have examined the various channels of marketing of tea and will discuss each separately in later sections of this report, i.e.

- Auctions in India and in London, which help to market about two-thirds of the total crop ;
- Ex-garden sales for domestic consumption in India ;
- C & F sales—a term commonly used by the tea trade for direct exports by Indian producers, either on a forward crop contract basis or current contracts, without routing the teas through auctions in India or abroad.

AUCTIONS IN INDIA

The first produce of India was sold in London by auction in January, 1839, five years after London auctions were started for selling tea from China. The first tea auction in India was held in Calcutta in 1861. The second tea auction centre in India was set up in Cochin in 1947, followed by Coonoor in 1963, Amritsar in 1964, Gauhati in 1970 and Siliguri in 1976.

Apart from London and the six auction centres in India, regular auctions are held in Colombo, Mombasa, Chittagong, Jakarta and Limbe. London is the only auction centre outside the tea exporting countries.

Calcutta and Cochin mainly sell teas suitable for export markets while the other centres largely cater to the needs of those who buy for final retail sales in the domestic market. Amritsar is a marketing centre for tea in western India and primarily caters to the green tea producers of Himachal Pradesh.

Indian auctions are conducted weekly, mostly throughout

the year. In 1977 Calcutta conducted 51 weekly sales while Cochin held 50. Auctions have thus provided an outlet for regular and orderly marketing of a crop like tea which is produced more or less round the year. North India does not produce much tea in the three winter months, but the sales continue through the year on account of the weight of the crop, about 60%, produced during the monsoons which cannot be sold immediately.

The producers in India are free to choose the method of marketing of their tea through auctions or by entering into private contracts for sale at home or abroad. They can also enter into forward crop contracts, or sell the current production lot by lot. Producers choose a combination of these different methods so as to maximise their total returns from the crop. Currently about 59% of the teas produced in India are sold at the different auction centres in India, about 8% at London auctions ; 33% by private contracts—5% to foreign buyers and 28% to the domestic buyers. Up to 1957 about 80% of the production was sold through the auctions, and it is only since then that other channels have gained importance.

An auction centre provides the producer with an opportunity to have his product inspected, tasted, graded, valued, catalogued and exhibited, so to speak, by specialists, the brokers, who know the particular needs of buyers and countries, for the buyers to choose and bid, depending on the marketing conditions and teas on offer. The payment is assured more or less automatically 14 days from the date of the sale at the auctions, known as the "prompt date". The brokers also produce printed catalogues of tea available for sale every week, giving the name of the garden and essential particulars. They conduct the actual sale in the auction room and occasionally give credit. They also circulate market information, together with their own views on the market conditions in India and abroad.

On the other hand, auctions delay the receipt of payment to the producers and the decision to sell through auctions must therefore be related to the financial position of the gardens, which must feel that the disadvantage of delayed payment is compensated by the advantage of selling through the competitive system of auctions.

Auctions are held under the auspices of the Tea Traders Association at Calcutta, Cochin and Coonoor, consisting of the representatives of sellers, buyers, and brokers. Auctions in Gauhati are held under a Committee representing sellers, buyers, brokers and Assam Government. Siliguri tea auctions are conducted by the Siliguri Tea Auction Committee, while those in Amritsar are held by a cooperative society. Except in Gauhati, there is no government supervision over the work of tea auctions. While the tea brokers have been acknowledged for their importance, the strengthening of their services in the interest of producers and buyers needs continuing attention and study.

During our visits to various centres, all sections of the tea trade—sellers, buyers and brokers—expressed satisfaction and confidence in the system of public auctions as practised in India. As they are conducted under the auspices of associations, whose membership comprises the sellers, buyers and brokers, we were informed that this system also meets the complaints and grievances that may arise in the course of the sales. However, the strength of the sellers vis-a-vis the buyers and brokers in the various auction centres needs careful evaluation to ensure that no single interest dominates the others.

Although our discussions led us to confirm the need to allow auctions to progress freely, and we recommend that they should be allowed to progress on their merits, we also recommend strengthening the system as follows.

Rules of auctions followed at different auction centres closely resemble the Rules of Calcutta auctions, except for slight variations to suit local needs.

We recommend

—The Tea Board may convene a meeting of the tea interests, representing buyers and producers, and Auction Committees of different auctions to consider to what extent the useful practices followed in one auction can be profitably adopted in other centres; and equally the onerous practices removed.

It has also been brought to our notice that the conditions

under which the sales are made vary considerably from one centre to the other specially with regard to the incidence of sales tax. As primary marketing at the auction is only a mode of transferring production from the producer to the point of sale, such a sale should not attract any sales tax. This was the position until September 1977 in Calcutta, and still continues to be so in Gauhati and Amritsar. When there are significant differences in sales tax in neighbouring areas, it leads to unnecessary duplicate movement of teas to avoid this tax. It is an avoidable cost and waste of national resources. Sales-tax is today levied on auctions in Cochin, Coonoor, Siliguri and Calcutta, but not in Gauhati and Amritsar. Moreover, the taxes vary considerably from one auction centre to another, and within the same centre to different destinations to which the tea is sent after the auction. In fairness to the producer of tea, the system should be made equitable and uniform.

We recommend

—A review may be made of the different sales taxes now levied with a view to rationalising them, if not altogether eliminating such terms from the primary sales.

It has some time been suggested that more auction centres should be opened in India. The present throughput of the different auction centres is shown below.

	1977 mkg
Calcutta	180
Cochin	78
Gauhati	53
Coonoor	21
Siliguri	17
Amritsar	0.5

We recommend

—The present number of six auction centres—Calcutta, Gauhati, Siliguri, Amritsar, Cochin and Coonoor—is

adequate to meet the needs of producers and buyers. However, the Tea Board together with the tea interests, should carefully examine any future needs in this regard, but we reiterate that the present needs are being adequately met. The overall interests of the producers, buyers and consumers should be weighed against the purely regional aspirations to have their own auction centres.

We feel that while there is still much scope for the development of the existing auction centres, such as Cochin, Gauhati and Siliguri, two considerations may be kept in view. First, the buyers informed us that due to the large number of auction centres already in existence, they were finding it difficult to arrange their purchases systematically ; and the opening of any more centres would increase their problems. Second, the establishment of an auction centre depends on its viability and not on a priori, regional considerations ; it depends upon the market forces, the throughput at a centre and the growing need felt by the producers and buyers to shorten the lead time and cost to an existing centre.

It was brought to our notice that teas which are printed in the catalogue are sometimes not actually sold in the sale room but are withdrawn either prior to the sale or from the sale on account of bids being unacceptable to the seller, known as 'outlots'. It has been suggested that teas once printed in the catalogue should not be allowed to be withdrawn prior to the sale.

To an extent this matter has already received the attention of the trade in Calcutta where, we are informed, under a gentleman's agreement teas once printed in the catalogue are not allowed to be withdrawn within ten days prior to the sale. This arrangement was made about three years ago.

We recommend

- The Tea Board should carefully examine its working and its implications, and decide whether it could be made into a rule for all auctions, taking into account the interests of the producers and buyers ;

- In respect of the “outlots”, which are subsequently disposed of outside the auction room by the tea borkers, the details of the quantities of such lots, with the prices realised, along with the maximum bid rejected in the auction room should be published. It is however to be borne in mind that the seller may have to sell the “outlot” at a price lower than the auction bid, because in the intervening period buyers have decided not to offer the auction price.

We also recommend

- Tea Board should be associated in some manner with the conduct of auctions, to ensure that their role is properly fulfilled to the advantage and satisfaction of all concerned—industry, government, trade, consumer.

MINI-AUCTIONS

A tea company has recently started directly auctioning its teas in about 25 consuming centres. Such sales are being referred to as ‘Mini-auctions’. The total quantity thus sold in a year is said to be about 7.5 mkg, about half of this company’s total sales. During the course of our discussions with various sections of tea industry and trade, some felt that it is too early to assess the role of Mini-auctions, as it is a recent phenomenon. Others considered it as a way of primary marketing by the producer and, as in the case of other channels of marketing, there is no reason either to discourage or encourage such sales. Yet others, among them an association had reservations and felt that Mini-auctions should not be encouraged because ;

- Unlike the public auctions there are no set rules and regulations for the Mini-auctions ;
- Mini-auctions are conducted by single company and the possibility of the company’s own representative making pre-determined bids cannot be ruled out ;
- There is no regularity in the quantum and frequency of sales in such auctions ; on a falling market the

company tend to increase the quantities offered in auction and on a rising market they reduce the quantities or the frequency of auctions.

It is obvious that Mini-auctions conducted by individual producers cannot be compared with public auctions organised by associations of producers, brokers and traders. While, as in the case of ex-garden sales, such sales may mean some savings in the costs to the producer or to the trader, the question is does the consumer derive any benefit ?

We recommend

- The experiment be watched by Tea Board, particularly if it begins to play a larger and more significant role than at present ; the modus operandi and their impact on tea trade should be carefully examined to decide their advantages and disadvantages and the need for some regulation and orderly conduct for the benefit of the trade and consumer, if necessary.

AUCTIONS IN LONDON

U.K. Price Commission Report No. 32, January 1978, described the London Auction as follows :

About half the tea consumed in the UK is sold in the London Tea Auction Room in Sir John Lyon House, EC4. In its immediate vicinity are found representatives of all sections of the trade. It is the only auction where a buyer can sample and bid for teas from the whole world. There is no UK terminal market in tea. Tea bought on the London auction has to be paid for within ten days ; this payment covers storage up to 42 days but physical delivery is normally taken well within this period. There is no 'futures' buying and little speculation. Other auctions are held at the tea-producing centres, the main ones being Calcutta (North India), Cochin (South India), Colombo (Sri Lanka), Chittagong (Bangladesh) and Mombasa (East Africa). Prices on these auctions are usually in the line with those in London.

London auctions have a long tradition dating back to

1834, they were followed by Calcutta, 1861, and Colombo, 1883, who have today far outstripped London because of local ownership, a faster realisation of profits, and much lower warehousing charges. In the post-war the new auction centres were opened in Cochin, Coonoor, Amritsar, Gauhati, Siliguri, Chittagong, and Mombasa—all contributing to a shrinking of London auctions.

LONDON AUCTIONS

	1960-62 Average			1975-77 Average		
	Sales mkg	As % of Total Produc- tion	Exports	Sales mkg	As % of Total Produc- tion	Exports
India	84.4	24.8	41.4	37.6	7.2	16.7
Sri Lanka	41.5	20.2	21.3	15.1	7.3	7.6
Indonesia	0.2	0.4	0.6	—	—	—
Bangladesh	0.4	1.7	14.3	2.1	6.4	7.9
Kenya	3.6	25.2	28.6	16.8	24.6	27.6
Uganda	1.2	22.2	26.1	1.8	11.1	12.5
Tanzania	1.8	42.9	50.0	4.8	32.1	42.9
Malawi	8.4	64.1	67.2	7.8	27.2	28.0
Mozambique	5.6	58.3	62.2	4.3	29.5	31.9
Rawanda	—	—	—	1.8	38.6	40.1
New Guinea	—	—	—	1.4	30.2	24.1
TOTAL	147.1	22.3	30.9	93.5	9.5	14.7

It will be observed that London auction's share of total production in different countries has diminished over the years.

London auctions were unanimously well regarded by all interests, both in UK and on the Continent, as an explicit form of open selling in public that sets guidelines and price trends to buyers in all markets in UK and elsewhere. It has besides the advantage to the tea producing countries that their teas can be compared with those of other countries by the prices realised, thus giving them a check on the standard of the qualities they produce.

The UK buyers place a premium on spot tea, for which delivery is taken within 72 hours of the purchase at auctions ; and spot tea sales meet 50% of UK's total requirements.

They would all, including the buyers on the Continent who normally buy very little at London auctions, like to see auctions continue, even though their importance over the years has declined. In fact they said that along with whatever other modes of buying that might develop, London auctions would be worth keeping going if only as a 'price beacon'; without them they would be in doubt about prices. Only through such auctions can large number of quality variations be accommodated at the only centre dealing in teas from every single producing, country.

This view was also supported by the officials in the Ministry of Food, Agriculture and Fisheries, U.K., who said that tea auctions were still important because they established what might be called the world price for tea.

The Importance of these auctions continues despite the gradual contraction of the UK tea market.

There was unanimity that all present avenues of tea purchasing should be left open, with the buyers given the choice to buy whichever way they like. The modes of buying have themselves been changing over the years, even radically, but these changes have been induced by changing needs and circumstances, and not by compulsion. London auctions are declining steadily in their importance, as the statement below will show; and they may therefore be left to find their own place in the future pattern of sales. The system is in fact on the anvil, and two new possibilities are being talked about—a modified style of auctions, and a futures market (discussed elsewhere).

	1965		1970		1975		1976	
	mkg	%	mkg	%	mkg	%	mkg	%
London auctions	162	64	109	43	99	45	89	40
Other modes	91	36	144	57	119	55	135	60
Total Tea Imported	253		253		218		224	

London Tea Brokers quoted the example of Ceylon, which tried to alter their selling pattern after nationalising tea, and decided to sell all tea through their own auctions at Colombo. Their exports suffered, though also the production, but now they

are both looking up, and Ceylon is reported to be keen to re-establish itself in the London market, where it lost heavily.

	1967	1970	1973	1976	1977
			mkg		
Imports into UK	247	253	211	224	243
Ceylon's share of UK imports	32%	28%	14%	13%	10%
Ceylon's total production	221	212	211	197	209

It is interesting to note, as we have observed earlier in connection with Indian exports, that Ceylon tea is apparently finding it difficult to regain its lost importance in the UK market, because others have stepped in.

To a clear question by us—what would happen if Indian teas were withdrawn from London auctions, the replies varied. While some envisaged even the closure of London auctions, at least in their present form, others said that Indian teas would still come to London, either by private treaty (contract) or through the Indian auctions, or through some other channels of sale; but all felt that it would adversely affect Indian export prospects to U.K.

Brokers and blenders told us that since the consumers of tea in UK did not buy their teas on the basis of origin, and instead bought them as blended brands, in the absence of teas from one origin, teas from another available origin would take their place. As an example of the desirability of the continuous presence of some tea in London, they pointed to the slow shift that was already taking place from the Ceylon and Indian to the Kenyan teas, whose market share had increased steadily at the expense of both. While, therefore, there would always be a demand for the premium end of the market for the finer Indian teas, in the absence of general teas from London auctions, while it may result in some sales through other channels of direct purchases or through Indian auctions, quality and quantitywise the gap is more likely to be made up by auctions of tea from other origins, especially of the easily available spot teas.

In India, too, Indian tea interests generally recognised the

importance of London auctions as a valuable adjunct to export sales and recommended their continued use as an access to India's best market overseas.

While the traditional importance attached to London auctions by Indian exporters remains, the volumes of throughout has steadily declined in favour of auctions in India. The Indian auction centres have gained progressively at the expense of London auctions.

Since London auctions have played a special part in Indian Tea Industry, we state below in some detail our discussions with the Brokers as our questions and their answers.

What would be the result if India decided not to send teas for sale at the London auctions ?

Indian teas at present formed a sizeable portion of the blends of the various packers in the UK, the packers will have to look at teas of other origins which might substitute for Indian teas. As a result India's exports to UK might suffer, as happened with Sri Lanka, when it reduced its shipment to London auctions. It was the general impression in the trade that Sri Lanka was now trying to chase the UK market.

What is the role of the buying brokers in London auctions ?

The seven buying brokers over the years have come to work more as clearing agents than as buying brokers. Representatives of the five big buyers themselves choose their teas which they wish to buy and they also actually bid for those teas. The buying broker then takes up the work of documentation and arranging payment, delivery, etc. The "market men" who belong to the firm of selling brokers also operate on behalf of small buyers who may not be able to bid in the auctions themselves. Generally, the trade is dominated by the big blenders and packeters and the small men who may not be in London cannot get a chance to buy small lots of tea himself. He therefore operates through the "market men" who is a part of the firm of selling brokers. His operations are, however, independent of the work of the sales broker.

What happens to the tea which is withdrawn from the auctions if the bid is not found acceptable by selling broker ?

The teas withdrawn are later dealt with according to the instructions of the selling brokers. Since at present no records are maintained of the final bids arrived at in the auction, it was not possible to say whether the prices later realised for the withdrawn teas as 'outlots' were better or worse than the bids first received in the auction room. However, the Tea Brokers' Association has no objection to introducing a system under which a record of the subsequent selling prices could be maintained. The final realised price in relation to the auction price would of course depend on the market situation : in case of the "outlot" it may fetch a higher or lower price than the bid.

Could the time lag between despatch and auctions in London be reduced ?

The actual time taken, the Association informed us, varied, especially for the filler type which is interchangeable with tea of other origins. Indian teas received in early part of a season were completed fairly quickly. In November there is glut on account of the large quantities shipped after the rains. During January to March, Indian teas may take 120 days or more to sell because they have to be sold under a quota system of about 20,000 chests a week. The North Indian producers themselves manage the quota on prorata basis among themselves.

What were their reactions to exports ceiling and export duties ?

There is much uncertainty with Indian teas, and much ill-will was created by the retrospective applications of the export duties imposed from 9th April 1977. They suggest that the contracts made before the duty was imposed should be exempted. The buyers are today hesitant to buy Indian teas ex-India and are looking for alternative spot teas. It would be in India's interest to

remove such uncertainties about the quantity that would be available for export, and the retroactive nature of export duty.

What would be the reaction of the Tea Brokers' Association to a suggestion to associate the producing countries with London auctions ?

As Tea Brokers they welcomed the suggestion and felt this would help to maintain closer contact and liaison with Indian tea interests, especially to receive their on-the-spot views and advice on how much tea to offer at an auction, in particular to spread the offers in a weak or overloaded market. It is a responsibility that the brokers have to discharge at present, but one they would prefer to share with Indian sellers. The efficiency of the London auctions and their ability to act as price indicator would very much depend on quantities despatched for sale, and it would be in the interest of producing countries to regulate the despatches so that there is neither a glut nor shortage in the auction room.

We asked whether such a liaison could also apply to Government of India's representatives ? They said they welcomed equally an active association of someone from government, like the Tea Board. It is an open organised marketing system in which they regard such cooperation can only be mutually beneficial.

We also discussed with the tea buyers and brokers the cost of London auctions, and whether the producer would be able to get a better price in London auctions compared to Indian auctions to cover the extra cost. Their calculation showed that over a period of time the net price realised by the producer both at London and Calcutta would be about the same.

Below is a statement provided by Tea Board comparing the unit export value realised by India, Sri Lanka, Bangladesh and Kenya from their overall exports and from their consignments to London auctions.

Unit FOB Sales Realisations—pence per kg.

	From Overall Exports				From London Auctions			
	1974	1975	1976	Weighted Average	1974	1975	1976	Weighted Average
India	48.32	59.82	71.98	60.45	50.53	51.57	72.63	58.01
Sri Lanka	46.95	57.81	69.40	58.33	51.42	51.97	77.55	58.03
Bangladesh	38.32	39.19	52.89	44.54	38.10	43.60	50.20	45.14
Kenya	46.70	52.98	71.79	57.89	54.96	54.03	77.16	62.21

The figures have been worked within the inherent limitation of the different qualities of tea exported to London and elsewhere, but they reflect the fact that our earnings from London auctions are generally on par with other modes and direction of exports.

Our Committee was asked to consider the role of London auctions in the marketing of Indian tea and to examine whether the best solution would lie in allowing auctions of tea only in India.

The answer depends, first, on what importance we decide to attach to our tea exports in general. Assuming that we do, and wish to retain and expand the UK market, as London auctions are a traditional, acceptable mode of selling, well regarded by all, both in India and Europe, for their integrity and price leadership, we recommend that export interest would also lie in accepting this mode of selling—more so in view of the assurance given to us by the UK Tea Brokers' Association that they would welcome liaising with Indian tea interests and Government of India; an offer we should accept. Moreover, Indian auctions, C & F and ex-garden sales are assuming a progressively growing importance, while the role of London auctions is diminishing.

We recommend

—Our continued use of London auctions, and associate ourselves closer in the manner suggested by the London Brokers' Association.

There is also the question—how long will London auctions continue their present role? Diminishing as it is, ought it not

to be left to the natural course of the buyer's choice ? We recommend that it should. Our complete or partial withdrawal may result in other countries filling the gap.

Indian Tea	1960-62		1975-77	
	Average		Average	
	mkg	%	mkg	%
Total Production	340	100	520	100
Sold in London Auctions	79	23	40	8
Sold in Indian Auctions	185	54	305	59
C & F Sales	13	4	27	5
Ex-garden Sales in India	63	19	148	28

What appears necessary instead is cooperation among tea exporting countries who sell their teas at London auctions to stagger healthily their supplies in a manner that avoids undue stock build-ups. This was also suggested to us in London and we have referred to it elsewhere.

Finally, a question has been posed whether, in view of the European buyers' regard for London auctions, as a useful institution that acts as a price beacon, it would be desirable to explore the possibility of locating an auction centre in Europe. The discussions with European buyers would indicate that while they appreciate the use they make of the price trends set by London auctions, they do very little buying there. They prefer to buy direct, c.i.f. or at auction centres in producing countries and there is no felt need for an auction centre in Western Europe. Besides, their present total volume would not justify a separate auction centre. Infact, there was an auction centre at Amsterdam which used to sell about 4 mkg per annum, but was closed down in 1958. Since then there has been no need felt to revive it. The buyers from Russia and Eastern Europe, Middle East and North Africa also buy direct from the producing countries, the way the Europeans do.

EX-GARDEN SALES IN INDIA

While a major portion of the tea crop is marketed through the public auctions in India and London, a sizeable portion of the production, 33%, is sold by the producers direct, 28%

of which is sold in the domestic market and the balance abroad. Direct sales by the producers in the domestic market are usually called 'ex-garden sales'. They include all sales outside the auctions and cover sales taking place at the garden itself, or from a warehouse in Calcutta. In recent years some producers have started their own retail outlets for direct sales to the consumers, while one has been holding 'Mini-auctions, of production at the consuming centres. Such sales are also reflected in the ex-garden sales.

The statement below shows a comparison between auctions and ex-garden sales in India over the past 15 years.

Sales in India	1960-62		1975-77	
	mkg	% of produc- tion	mkg	% of produc- tion
Auction centres	185 (100)	54	305 (165)	59
Ex-garden	63 (100)	19	148 (235)	28

It appears that teas sold abroad are routed mostly through public auctions, both in India and abroad. 85% of Darjeelings and 66% of Assams, both popular abroad, are sold through auctions. In contrast, 50% of Dooars and 60% of Terai and Cachar, more popular at home, are sold ex-garden.

It was put to us by some that auctions delay payments to producers, because while the time taken between the despatch of goods and the receipt of payment was only 21 days for ex-garden sales, it took just under 40 days for Gauhati and Siliguri auctions and 81 days for Calcutta auctions. Auctions were also said to duplicate or add to certain costs, like transportation and warehousing, brokers' commission ; thus raising the price to consumer. Lastly, they said, tea tends to lose its flavour and freshness during the time during the time taken by sale through auctions.

Below is a table indicating the costs incurred for selling tea at the Calcutta and Gauhati auctions, compared with ex-garden sales.*

	Calcutta auction	Gauhati auction paise per kg	Ex-garden sale
Entry tax	14	—	—
Warehousing charges	8	6	—
Printing charges	2	2	—
Sampling loss	13	10	—
Freight	35	15	—
Additional interest for over 1 month	16	16	—
Brokerage	14	14	14
Packaging cost in ISI chests	62	62	36 (Non-ISI packing)
TOTAL	164	125	50

*Information provided by the Bharatiya Cha Parishad in Gauhati.

Ex-garden sales, in certain circumstances, it is claimed, can mean a saving to the tea producers of half to one rupee per kg of tea. However, it would appear that generally speaking gardens do not find it decisively advantageous to sell their entire produce at auctions or ex-garden ; they appear to use both modes, presumably because each mode has its own advantages. The producers generally watch auction prices to decide upon the quantity and price of their ex-garden sales.

Public auctions ostensibly, help to bring the teas on open offer to the notice of a large number of buyers, both domestic and foreign, thereby ensuring a better return, specially for quality teas ; while teas offered ex-garden involve lower expenses and saving on working capital, but it is doubtful how far the cost savings are reflected in the consumer prices, A retailer, selling tea to the consumers, could not be operating dual prices, related to whether the tea had been purchased from the auctions or through ex-garden sales. The benefit is perhaps shared along the line by the producers, buyers and retailers, with only a marginal, if any, benefit to the consumers.

Currently, in North India 54% of teas go through Indian auctions and 30% are sold ex-garden. The corresponding figures for South India are 76% and 22% respectively. The difference between the two modes of sales are therefore 24% in North India and 54% in South India, in favour of auctions.

It was suggested to us that exgarden sales can have three dis-advantages.

First, they can be prone to collusion, which is avoided by the open system of public auctions. Ex-garden sales may take place effectively at below the growing market rates, but the prices at which teas actually change hands may be higher than those shown in the invoices, thus evading partially a range of taxes, states and central.

Second, small or financially weak producers, may resort to "distress sales" ex-garden, because they cannot afford the working capital involved in sending their product to the distant auction centres. A survey by the Tea Board in Tripura showed that a number of "weak" gardens obtained loans from private sources in return for the obligation to sell their tea to the lenders, who often give a value well below the market.

Thirdly, ex-garden sales are not registered anywhere, for quantity or price, and therefore do not come into the mainstream of information.

Unlike public auctions, where full information about the quantity sold and prices realised is regularly published, no information is compiled about the ex-garden transactions, although such details would be available with the gardens. The ex-garden sale data is therefore derived by deducting the declared sales at auctions in India and London, and C & F sales abroad, from the estimated total production of India.

We recommend that taking into account the advantages and disadvantages of ex-garden sales, this channel may be left open to the choice of the producers and the buyers, because of its intrinsic advantages, but with the following safeguards :

- Weak gardens may be offered suitable financial crop assistance, tailored to their needs.
- All gardens should inform a monitoring authority, say, the Tea Board, of their sales ex-garden, C & F or auctions, and the prices at which they were made. The ex-garden prices offered should be compared with the auction prices to ensure that generally speaking they were on par, after allowing for the difference in costs. Based on the experience of the Tea Board with this monitoring system, if it is found that the prices are comparable, the system can be allowed to continue as it is : but if it is discovered that ex-garden sales for comparable qualities in comparable periods, were significantly below the auction prices, the loopholes should be plugged. The monitoring should however be continued both to collect information and keep a continuous watch.
- After a year of experience of the monitoring study, it would also be interesting to see whether the comparative position of auctions and ex-garden sales has altered in favour of auctions or ex-garden sales. It is possible that once producers are made accountable for their ex-garden sales, some may prefer to deal through auctions, in which case it would be best not to interfere with those who genuinely find it advantageous to sell ex-garden.

C & F SALES DIRECT EXPORTS BY PRODUCERS

Direct exports by producers (or C & F sales) find favour with many gardens, for selling their teas directly to importers abroad, either for immediate delivery or on a forward contract. It helps them to overcome the uncertainty of the final price by entering into a forward contract. The price thus obtained may or may not correspond to the price actually prevailing at the time of shipment, but this is a "view" of the market, and the attendant risk the producer takes in his best judgment, particularly when prices are fluctuating. In direct exports the producers can also keep sending samples to the buyers abroad out of their current production, and conclude contracts for direct sales.

This is the normal method in which most commodity trade is conducted, be it jute goods, oilseeds or cotton. In the tea business this has a limited application. In 1975-77 (average) it is estimated that 27 mkg of tea were sold C & F which 50% was sent to UK buyers. The balance went mainly to buyers in Ireland, West Germany and Iran.

C & F SALES

	1975	1976	1977	Average
		mkg		
North India	19	35*	21	25
South India	1	2	2	2
TOTAL	20	37	23	27

*1976 was an exceptional year, and C & F sales dropped to the normal level in 1977.

This method of exporting is especially popular with small producing countries, who do not have a wide enough range of teas to attract a large number of buyers at domestic auctions. Indonesia, Uganda and Malawi ship more than half of their exports through such sales. Even Kenya, which has an auction centre at Mombasa and sells large quantities in the London auctions, exports one-third of its production direct. Direct exports of Sri Lanka and Bangladesh are however very small.

Direct exports have been on the increase, from 13 mkg in 1960-61-62 to 27 mkg in 1975-76-77, at the same time as the London auction sales declined from 79 mkg to 40 mkg.

As C & F sale is in effect "blind" buying, when compared to auctions, the reputation of the producer and his ability to ship consistent quality is important. There is an element of speculation, or at least a risk taken, in this method of selling, but it does assure the buyer a fixed price. It enables the seller to avoid the

fluctuations in the auction prices, and besides a saving in brokerage, warehousing and interest on his goods waiting to be auctioned. When sold at fair prices, this method might give the seller a better net realisation than the auction prices. On the other hand, a number of sellers, selling individually and directly, instead of in a joint manner at auctions, can deprive themselves of a collective strength, for each has to settle his own price.

We are told that in keeping with the traditions of the tea trade there is no formal standardised international contract for tea. There are of course the usual offers and acceptance but with fairly flexible delivery stipulations. Yet, we were informed, there are rarely disputes in C & F sales and all differences are settled amicably, so much so that the Indian tea producers conveyed to us that a formal contract for export of tea would not be in their interest. In our discussions with the Calcutta customs it was brought out that while occasionally, the flexibility in delivery schedules creates problems in passing shipping bills, there is a strict check on prices quoted and accepted.

Indian producers felt that the present system should continue and that no system of registration of C & F sale be introduced because it would add to the delays of concluding business. We accept this.

We recommend however

—In the larger interest of the industry and the country, we should institute a review system to ensure that all runs well, at no cost to the country and exchequer. In this, Tea Board, in conjunction with Customs and Reserve Bank, should make a quarterly review of a representative sample of transactions, the prices at which sales were made, to ensure that the C & F sales were generally in line with the prevailing prices of auctions, so that C & F sales bring in equivalent amounts of foreign exchange over a period. There is already a pre-shipment approval by the customs, who have the authority to prevent the teas from being shipped if they are not satisfied with the declaration made in the shipping bill. The later review would further strengthen the existing control mechanism.

DUTCH AUCTIONS

On the style of auctions, a suggestion was put to us in India that we should consider going over to the Dutch auction system, where the auction opens at the highest point and the bidding is downwards. It was felt that this system would generally improve the auction prices. We therefore asked the Dutch tea interests for their views.

Dutch auctions are at present conducted only in Holland, and that also only for flowers. The general Dutch view was that there is no likely merit in the system for tea, because with a global demand, prices would be determined by supply and demand, and not by what the suppliers wish. There is a totality of tea available and a totality of its demand, and prices will find their own level. The system works well with flowers, where the produce must be sold on the spot or perish, but it has not been extended to any other commodity or product in Holland or anywhere else.

Incidentally, introducing Dutch auction means buying a rather expensive electronics equipment.

A Task Force appointed by the Ministry of Commerce, we learn, had recommended in 1975 that Dutch Auctions need not be considered for tea in India as they have no special merit.

We recommend

—The system of Dutch Auctions may be watched but at present there is no particular merit in introducing it.

COLLUSION & UNDERINVOICING

There can be two kinds of collusion—among buyers abroad at auctions ; and between individual sellers in India and buyers abroad, when sales are made direct and not through auctions.

Producing countries have always been somewhat wary of auctions abroad of their produce, fearing that consignments sent outside the country without a formal sale might fetch lower prices because the seller is "captive". He is committed to sel

because it costs him substantial money to bring back the goods and, once the option for re-export is not economically possible, consignments have to be disposed at whatever prices buyers abroad are willing to pay. Added to this is a possibility of buyers forming a cartel against these distant sellers. This is the background against which the fear of collusion arises : which may also arise, interestingly in the reverse, in cases where the producers ship direct to buyers and do not go through auctions.

The tea trade in UK—the brokers and the buyers—has been passing into fewer hands. The number of brokers and buyers is today much less than before. We were told that auctions earlier provided a much larger number of seats in the auctions room than they do today. This perhaps adds to the reasons for believing in the possibility of collusion. When there is a small number of powerful buyers operating in an auction there can be a feeling that an unorganised seller has little bargaining power. It will be necessary however to distinguish between collusion and the relative strengths of buyers and sellers in a given bargaining situation. While a small number of powerful buyers could lead to less than perfect competition, in view of the highly competitive market for tea, and the overall interest taken by government, in UK, we did not come across any expression of fear among sellers of collusion among buyers on account of the small number.

The view generally expressed to us on collusion may be summed up in a statement made to us that while it may be rash to say that there was never collusion or under-invoicing in tea exports, experiences show that the tea trade has been honest and straightforward, in fact more so than most other commodities.

While constant monitoring and suspicion by government may create an unhealthy and suspicious situation, tea interests in UK were willing to give all information to the Tea Board or to our government, if they were required to do so, and also to associate the Board or government with auctions. Under independent brokers' contract they were certain that no collusion can take place over tea sold in public auctions, and the same, they felt, may be said for the majority of private sales, particularly those contracted through an independent broker's contract.

We reproduce below an extract from the U.K. Monopolies and Restrictives Commission report in 1956.

"In general we consider that the tea trade in this country is conducted on keenly competitive lines and we are satisfied that the severe fluctuations in the price of tea which have taken place since decontrol have not been due to the existence of "monopoly" conditions or restrictive practices in the United Kingdom tea trade."

We met the Customs authorities in Calcutta, from where large quantities of tea are shipped abroad. We raised three questions with them, to which their replies are reproduced below.

What are the types of queries raised by Customs on Tea Shipping Bills asking for information from exporters ?

As regards this point it may be pointed out that majority of the queries relate to valuation of the goods. While checking the value if the assessing officer finds that some documents have not been produced by the exporters, he may call for such documents relating to the contract, the L/C and evidence to substantiate that the market value declared by the exporters is correct.

In how many cases was tea exported on consignment basis for auction in London subsequently disposed of outside the auction, through private negotiations ?

The number of cases where tea was exported on consignment account for auction in London but same were finally disposed of outside the auction through private negotiation is 47 till date (since 1970)

In how many cases were the tea contracts not specific in respect of time limit for shipment ?

It is not possible to quote the exact number of the cases where tea contracts were not specific in regard to the period of shipment. To the experience of the department, however, the time limit for shipment is found at times as having not been specific in the following types of cases.

(a) Long Term Forward Contract for sale of a particular

grade of tea to be produced by a garden or a number of gardens listed in the contract over a specified period of production season ;

- (b) Contract for a single grade of tea produced by a garden and invoiced against a particular garden invoice ;
- (c) Contracts relating to purchased tea, which are agreed upon on the basis of pre-auction (Calcutta) samples sent in advance for confirmation ;
- (d) Some subsidiary contracts against total annual indenture by Iran buyers without having the stipulation of time limit for shipment. In such cases, however related Letters of Credit show the stipulation of time limit for shipment, which are extended from time to time, irrespective of the rise in prices in the meanwhile.

We also enquired about the procedure followed by Customs and Reserve Bank about the sales proceeds of tea sent on consignment basis to London auctions, and learned that at the time of shipment an exporter enters in the Shipping Bill, as well as in GR-1 form, a provisional price. It is however a notional price prescribed by Customs, calculated on the basis of the average price realised by the garden concerned in the previous year at London auction. After the tea has been sold, the realisation after deduction of charges is remitted to India. The Bank compares the actuals with the provisional price, and asks for explanation if the two differ significantly. Wherever necessary the Bank consults the Tea Board. In a falling market the realisation will be generally lower than the provisional, and higher in a rising market.

Whatever the theoretical possibility of collusion, as a matter of caution we would advise continuing studies on the prices realised at London auctions in order to ensure that there was not even a remote possibility of consignment sales fetching us sub-optimal prices.

Collusion is also possible on direct producer exports, from gardens to customers abroad, through under-invoicing. We

have dealt with this in a separate section on direct producer exports.

To overcome the chances of collusion in auctions and direct exports, we have made two recommendations elsewhere, which we reiterate.

—An assurance was given to us by the UK Tea Brokers' Association that they would welcome liaison with Indian tea interests and Government of India, say, through Tea Board, London, who may if they want associate them with the London auctions. This they offer because they have confidence in their auction system. If we so wish, therefore, we may accept their offer of association. This should remove the fear in respect of auctions.

—We have recommended that the Tea Board may conduct a quarterly review, in conjunction with the Reserve Bank and Customs, to ensure that the prices declared by direct exports were generally in consonance with the prices ruling in the world markets, especially as indicated by the London, Calcutta, and Cochin auctions, and bearing in mind the general price patterns and trends in the markets. This should remove the fear in respect of direct sales.

MARKETING FOR INDIAN SMALL GROWERS

Small growers fall into two categories—small tea estates, who may or may not have their own processing arrangements, and small tea holdings of growers who only grow leaf and sell it out to "bought" leaf tea factories, private or co-operative. There are about 13 co-operative factories and about a hundred "bought-leaf" factories in India, mostly in the Nilgiris. The total production of small growers is estimated at 20 mkg. about 3-4% of the total crop, in holdings of usually less than 8 hectares, not covered by the Plantation Labour Act. They are concentrated in the Nilgiris in Tamil Nadu, Kottayam and Idukky in Kerala, and Kangra and Mandi in Himachal. There are about 11,500 such growers registered with the Tea Board, in addition to a quite large number of unregistered growers.

Small growers of tea form only a small proportion of total tea when compared with other plantation crops like coffee and rubber, where this sector has a major share of production. The other category of small growers are those with holdings up to about 100 hectares ; among them some have their own tea factories, while others rely upon neighbouring factories. The total production of this sector is estimated at 22 mkg or 4% of the crop.

Representatives of the Nilgiris Small Tea Growers Association and of the Nilgiris Small Tea Growers Service Industrial Cooperative Society, INCOSERVE, an apex body of the cooperative factories in Nilgiris, did not favour separate arrangements for the sale of tea of small growers. The Nilgiris Small Tea Growers Association infact specifically opposed making separate arrangements for marketing their produce, because they felt that this would weaken their competitiveness at the auctions.

The smallest lot acceptable in the auctions is five chests, about 250 kg. and both the co-operative and the 'bought-leaf' factories, which process the green leaf of the small growers, have no difficulty in marketing in such lots through auctions.

In order to protect the interests of the small growers,

We recommend

- More co-operative factories should be opened. In this regard, a special responsibility may also be placed upon the public sector companies. Cooperatives should help improve the small growers' price realisation. At the same time, the relief granted in the central excise duty should be examined for its adequacy. The Tea Board could examine the case in the first instance and make suitable recommendations.

We also recommend

- Some priority be given to the auctions of tea by the small producers holdings, up to, say, 100 hectares. At present, tea is catalogued for sale at the auctions on "first come first serve" basis and no distinction is

made between the large and small producers. It would encourage the small producers and the co-operatives if the producers of an estate under, say 100 hectares could be given a preferential treatment in the queue, so that they are enabled to realise their proceeds a little earlier.

We consider that The Kenya Tea Development Authority has a record in the production, movement, sale and marketing of tea, which is worth our study in the help and encouragement the Authority gives to small growers and, importantly, balancing carefully between their interests and those of the tea industry as a whole, in which we gather that the large producers also cooperate.

Tea is both agriculture and industry, in which the small has to be helped in a way that also helps the overall interests of this important industry.

We recommend

—A special study of the whole subject should be made, by the Tea Board and Tea Industry, together with the representatives of small growers, covering in detail areas of inputs, agricultural practices, financing and marketing, to ensure a combination of efficient farming and marketing. The study should be updated every three to five years to keep abreast of future problems. We are informed that the Tea Board has already conducted some studies ;

—The large estates have also an important role to play in making small gardens as their efficient, independent but ancillary units, especially to open up new areas, where the concept of a mother dairy and small milk dairies—a core and satellite tea growing units—may be considered.

It is possible that new areas in the North-East India may partly be allotted to small growers as a matter of socio-economic policy, in which case although they do not account for much acreage at present, small growers may assume an importance in the future in this area as well.

The Tea Board has a separate cell for small growers, and it is recommended

—The Tea Associations in the North and South should also develop separate cells which will liaise with the Tea Board and the small growers association to conduct a study of the problems, the strengths and weaknesses of the small growers and recommend a plan of action over the next five to ten years.

In short, we are trying to highlight the problems of small growers and recommend a separate track of study of their development problems, leading to special solutions.

BUFFER STOCK

In our discussions we were informed that it is essential to regulate supplies of tea to both internal and external auctions to avoid the wide price fluctuations that are neither in the interest of the producers nor the consumers, who would both gain by greater price stability. This leads us to wonder if the concept of buffer stock of tea, nationally and internationally, would not be worth considering.

The recent fall in prices has begun to revive in the industry its fears of the stagnant years.

	Indian tea auction prices (Weighted Average) Rs. per kg Index		All India wholesale price Index	Tea prices in constant terms Rs. per kg
Prices were relatively steady between 1950 and 1973				
1950-51	4.23	100	100	4.23
1973-74	6.85	162	322	2.13
Prices began to move up in 1974				
1974-75	10.04	237	403	2.49
1975-76	10.74	254	398	2.70
1976-77	12.34	292	405	3.05
1977-78	15.43	365	426	3.62
Recently, prices have begun to fall again				
1978—May	14.38			
July	13.34			
September	12.59			

Arising out of the fluctuations in production, and in a desire not to overload the world markets, an international quota system was operated during the period between 1933-1955. Its members were India, Sri Lanka, Indonesia, Kenya, Uganda, Tanzania and Malawi, and its prime objectives were price support in the prolonged post-war years of stagnant prices.

The renewal of an international quota has not received much support of late. We believe that due to the diminishing role of India in export market, the countries which stand to gain are no longer as interested in an international understanding as they were when India's role was dominant.

The main question to us is whether in view of the present competing claims of exports and the home demand, India would find it in its best interests to revive such a quota? The importing countries' tea interests, on the other hand, would welcome any moves that assure steady prices and supplies.

In India a buffer stock operation can serve three purposes:

- Introduce a steadiness in supplies both in the domestic and export markets.
- Help to reduce price fluctuations in the home market, and protect it to an extent from markets abroad.
- In case we join an international understanding on a stand by or long-term quotas, a buffer stock operation would be a necessary concomitant to consider.

For a product like tea, however, with a variety of qualities, maintaining a buffer stock would pose many, though not insurmountable, operational problems; but as we have accepted a policy of trying to assure reasonable and steady price levels for commodity and food supplies, and world agencies too are considering world buffer stocks.

We recommend

- It would be well for use as world leader in tea to do some economic and statistical thinking on the subject, and sound the others concerned;

—We could mention that a kind of buffer stock is being operated through the efforts made every year to regulate the offerings in the auctions in North India in a manner that ensures regular supplies throughout the year, although the season is confined to April—November. We recommend that the Tea Board may be associated with this exercise.

Within India, a buffer stock has a greater urgency for the North, where the season lasts eight months but the tea has to be sold over the year. In the South, with year-round plucking, there may not be the same significance. And yet, to both buffer stock has advantages to consider for maintaining steady supplies at home and abroad, and for reducing price fluctuations to within reasonable levels, particularly because a rise in prices is reflected much earlier in consumer prices than a decline. As the subject is complex,

We recommend

—A proper study be conducted both for examining the concept and the problems of administering it.

FUTURES MARKET

There has been a growing debate in UK on a futures market for tea.

Tea at present is perhaps the only important agricultural produce which does not have a futures market, possibly because it is not a homogenous, or a standardised commodity like coffee, cocoa, but has a diversity of qualities; and unlike them is less prone to disasters. There is a small but growing school of thought in UK that favours a futures market for tea. It provides an acceptable price indicator in the commodity trade; and helps to reduce fluctuation in prices. So far, teas are sold spot at the auctions, in addition to direct sales. One of the technical difficulties in the way of setting up futures market was the diversity in the qualities of tea. This may be solved by greater standardisation of the qualities to be traded.

A futures market, it is claimed, will have the advantage of having more buyers in it, and this will attract more finance. Prices would be more stable, because the packers can take out a hedge by selling in the futures against current purchases in spot, and thus ensure a reasonable steady consumer price for their packs. As with the buyers, the producers could also sell in futures at a known price to cover their costs. This has a particular advantage for those who market brands of tea in packets, bages or instant, because in a highly competitive market they would like their brand consumer prices to be as steady as possible.

A futures market has to be considered in the light of the interests of producers and consumers, which should coincide in maintaining stable prices, and of the traders, whose interest would lie in the profits they make out of the fluctuations.

The economics of hedge markets in an internationally traded commodity are too well known to be repeated here. Run properly it could stabilise prices and offer a price guidance in the world tea trade; equally as it could become the happy hunting ground of speculators.

While the proponents of the futures market in UK and Continent argued that this will broad-base the tea trade, the opponents felt that it would introduce unhealthy speculation because it would not be the commodity that the futures market would be dealing in but in paper. There is no unanimity of opinion in the London tea trade on the desirability of setting up a futures market.

The Tea Brokers' Association, with whom we discussed this subject, foresaw the possibility of a futures market developing one day as a parallel to the physical (auctions) market. So far, the producers have not shown any interest, but a new school supporting this idea has certainly emerged.

India's interest will lie in watching the situation.

We recommend

—At this stage we do not need introduce a futures market in India, but we may watch its possible developments in London.

CONSUMER MARKETING OF TEA IN INDIA

Out of the 320 mkg sold in the domestic market in india, about 90 mkg are sold in the form of packets, making India the second largest packet tea market in the world, the largest being U.K. And yet, as we shall discuss later, there has been internal consumer marketing of tea, which is sold largely in bulk as loose tea. This lack of an internal marketing strength has not helped us to market abroad; we have sold loose tea at home and sold it in bulk abroad.

The Committee felt that in regard to point 7, of its Terms of Reference,

“to consider as to whether the present arrangements for marketing of tea at the retail level enables the consumer to get tea at a reasonable price”.

while adequate data were available about tea production and marketing upto the stage of auctions there was no reliable information about the wholesale and retail marketing of tea. The Committee suggested that the Tea Board might consider sponsoring a study by the National Council of Applied Economic Research to go into this aspect of the domestic marketing of tea. The Council had earlier conducted a study to enquire into the techno-economic aspects of the Darjeeling tea estates, under the sponsorship of the Tea Board. With the approval of Government of India, the Board commissioned this study, which is in progress.

A comparison between the total tea consumption and per capita consumption is shown below.

	1951	1961	1971	1977	1978	1982
						(Estimated)
Total tea consumption (mkg)	73	140	225	300	320	400
Per capita (kg)	0.20	0.32	0.41	0.48	0.51	0.60

In the context of a steadily rising production but static exports, unlike some other products, there has never been a scarcity of tea in the home market in the manner of, say, sugar or foodgrains, nor have the prices generally risen to unreasonable high levels.

	Indian tea auction prices (Weighted average)		All India wholesale price	Tea prices in constant terms
	Rs. per kg	Index	Index	(Rs. per kg)
1950-51	4.23	100	100	4.23
1973-74	6.85	162	322	2.13
1974-75	10.04	237	403	2.49
1975-76	10.74	254	398	2.70
1976-77	12.34	292	405	3.05
1977-78	15.43	365	426	3.62
May 78	14.38			
July 78	13.34			
September 78	12.59			

Tea prices have risen only during the last four years; interestingly, at a time when general wholesale prices became steadier. Through the years of steep inflation, tea prices behaved far better than did the wholesale prices.

Statement below shows the index number of wholesale prices of tea and some comparable plantation crops, which reiterates that until 1977 the tea prices rose less than the other products.

INDEX NUMBER*

(Base : 1961-62-100)

	Tea	Coffee	Rubber	Pepper	Sugar	All Commodities
1962	101	104	99	84	104	104
1965	103	131	109	108	121	129
1968	109	165	133	101	159	165
1971	135	165	161	182	162	186
1974	188	215	227	298	235	304
1975	225	242	250	333	246	309
1976	224	269	198	411	272	301
1977	307	280	204	486	257	336

1977 has been an abnormal year for tea prices; prices have declined in 1978.

In sugar, there has been a dual pricing system of control price and open market price. The index number gives a weighted average of both prices, while a proper comparison with tea would lie in open market prices, which have often ruled high.

*Source: 'Coffee Statistics' of Coffee Board upto 1975 and 'Revised Index Number of Wholesale Prices' of the office of the Economic Adviser, Ministry of Industry, for 1976 & 1977.

In rubber the prices have risen rapidly in 1978 and are declining again.

The problem has not been so much the prices of tea as the relative rigidities in wholesale and retail prices, where a fall in auction prices has not been followed as well as a rise in prices. However, some data must be collected before one can establish the co-relation between retail and wholesale prices, both in rising and falling markets; and this is being done in the NCAER study.

During the quarter century of stagnation, tea prices were not sufficiently remunerative for the industry; and once the present high prices begin to recede, as indeed they have shown signs during the last few months, we will have to be careful to ensure that tea industry, as an important contributor to GNP, employment and exports, does not drop to unremunerative level, where rise in future production may slow down for lack of resources generated in the industry, especially keeping in view the ability of the tea industry to continue the improving trends in workers wages and benefits.

Some producers have opened retail outlets to sell tea directly to the consumer, while cooperative institutions like National Consumer Cooperative Federation and National Agricultural Cooperative Federation have recently entered the marketing of tea. The share of both is yet limited. Tea Trading Corporation of India, set up primarily for exports of tea in a more added-value form, like packets and tea bags, has also entered the domestic market. The cooperative institutions, selling generally through cooperative channels, are meant to exercise a discipline over the retail trade in keeping prices at reasonable levels.

Although the overall consumption of tea has registered a big rise, packaged tea sales have remained static because packets are more expensive on account of their cost of packaging and the excise. And yet packaging a product is a natural process, important in the evolution of marketing, to ensure hygiene, freedom from contamination and adulteration. It also assures the consumer a uniform quality and price. All these advantages are, so to speak, packaged for the consumer when he picks it off a shelf. They are not generally available to the consumer in loose tea, where he has no standardised product offered and he has to accept what the retailer offers him in quality at the price.

At present there is a duty of Rs. 1.05 for packs above 25 gms and Rs. 0.42 for packs up to 25 gms. We have tried to estimate the cost structure of a popular 250 gms packet and compared it with its equivalent in tea sold loose.

	Pack 250 gm	Equivalent loose tea 250 gm
	%	
Retail Price	100	82.2
Cost of Tea	56.0	56.0
Packing Materials Cost	10.0	0.5
Factlrrh, Administration, Sales & Distribution	11.0	—
Promotion	1.2	—
Packet Excise Duty	5.0	—
Transportation	2.8	2.0
Miscellaneous	2.0	1.6
Margin		
—Packer/Wholesaler	3.0	
—Retailer	3.0	17.1
Sales Tax	6.0	5.0

(Source: Major tea packers).

Following points of interest emerge. Packing materials packaging, administration, sales and distribution costs together account for about 20% of the retail price, and 5% on account of excise duty. Loose tea does not bear these expenses. On the other hand, the profit margin appears to be substantially higher in respect of loose tea trade. In sum, loose tea prices are 18% lower than packet tea.

Additional excise duty on packet tea above loose tea has been in existence for long, but in 1970 it went up considerably.

	Additional Duty on Packet Tea paise per kg
1953	55
1958	46
1961	40
1970 Upto 25 gms	40
Above 25 gms	100

While it is difficult to say how far it has inhibited the growth of packet tea, clearly there has been some effect as will be seen from the table below. While upto 1970 the sales of packet tea were going up, after the big rise in duty in 1970, they went down.

	1960	1970	1977
		mkg	
Packet	55	93	84
Loose	74	120	216

While loose tea sales during this period has gone up by 192%, packet tea has only gone up by 53%.

At present there are two major packeters, while a few others have made tentative but not particularly successful attempts. Those in the field and the potential newcomers referred to the fiscal burden on branded, packaged tea, and, of course, the high cost of entering the area of entrenched brands.

Looking into the future, tea marketing in India may follow the world route in tea, as indeed has been the case with other foods.

We recommend

- A move from foods sold loose, in bulk, to packed, standardised products that assure the consumer a quality, freedom from adulteration, longer shelf life, in standard weights, at standard prices—in fact in the European Community, all packaged foods must, in addition, carry a price per standard weight or volume, to enable the consumer to compare the prices of different sizes of packs on a common unit weight or volume basis. For instance, different sizes of cheese packets, in addition to their price must also show a price per, say, one kilogram;
- There would appear to us no rationale in levying an additional excise duty on packaged tea, a constraint upon the consumer of packaged tea but not of loose tea;

—We consider it desirable to give the consumer the freedom to shift in the domestic market from sale of loose to packaged tea: For the sake of the weaker ends of the market, some cheaper packaging, such as paper sachets, should be encouraged. We are informed that such small packs are very popular in some parts of the country;

—From packaged foods, there is a trend today towards convenience foods. From loose to packed tea, there is a move to tea bags and instant tea. We may have limited markets for those to begin with, though a greater potential abroad—to reach abroad, we must begin at home—but even in India today there will be sizeable pockets of demand to build encouraging volume sales that would offer a jumping board for markets abroad. The example of coffee may be quoted, where contrary to what one may expect, instant coffee has gained much popularity in urban areas because of its convenience. The same could well happen with tea bags and instant tea;

—We should be clear that giving the buyer of packaged tea facility to buy it in that form does not imply any discouragement to buyers of loose tea. Both can grow together. After all there are those who may prefer to buy their tea loose, and other in packaged form.

The next question is how should we proceed to encourage change from loose to packaged tea.

We recommend

—First, the excise duty and any other levies on packaged tea should be removed;

—Tea industry and research should develop cheaper packaging, especially for the lower price end of the market, to give those consumers the benefits of packaging at the minimum additional cost;

—The public enterprises in tea, particularly the TTCI,

NAFED and NCCF, should regard it their particular responsibility to develop packaged tea marketing of standard qualities at standard, fair prices to exercise a restraining influence on retail prices. For this they will need to

- Develop a national distribution network.
- Gain a sufficiently large market share to make their presence felt.
- Through judicious buying, by using the different trade channels available, lower their costs.
- Develop their own brands, packaged as economically as possible, to market their products, which would not be possible through selling loose tea.

The role of encouraging sales of packaged tea at home and abroad, it is hoped, will be fulfilled by all in the public and the private sectors.

VALUE ADDED TO INDIAN EXPORTS

The progress of a producer of primary commodities from exporting the produce to processed goods is an accepted route of economic growth. This is unexceptionable as an objective and should find support from the international community, where the North-South dialogue in principle is meant to encourage primary commodity supplying countries to add value to their basic products. But in practice, such a changeover has implications for the existing processing and trading channels who may not welcome it, if it means an erosion of their own role and profitability ; and local employment.

Before discussing the value-added concept, it is well to note that despite over a century of Indian exports, Indian teas are not known by their name or origin except occasionally, mainly in U. K. and West Germany, and that too for the fine Darjeeling ; while China and Ceylon teas are well known as such. Thus, even that small amount of value that may be added by the consumer preference for a particular origin of tea has not come to us.

The first value-adding can therefore begin with getting Indian teas known as such, to create among consumers a purchasing preference. The next stage would be to create a recognition of the regional varieties, the Darjeelings, the Nilgiris, the Assams.

There could be three forms in which further value can be added to tea.

- “Breaking” bulk & blending : they involve no technology, but a skill that we possess.
- Consumer packaging in packets, tins or bags involving only some modern packaging equipment if sold under others’ brands, but involving considerable marketing and promotional skills and cost if sold under own brands.
- Product processing and improvement—extracting tea solubles, the solids and the flavours.

At present all value is added abroad, in the consumer markets, except in a quite limited way in a few neighbouring markets in the Middle East where we send some packet tea ; and a limited but growing volume of cold water soluble instant tea. This is so with all tea growing countries. Of the total world tea exports of 782 mkg, only about 60 mkg or 8% is reported to have been exported in the form of package tea—India 25 mkg, UK 19 mkg, Sri Lanka 14 mkg.

Clearly, a change is necessary from this traditional position. Value-added is the common desire of a developing country, especially in India, where, progressively, agricultural raw materials have been upgraded. We began by exporting groundnut seed, then moved to oil, and now laterally to products like cake and meal ; although our natural progress to cooking fats, for which there is a promising ethnic and local market in the Middle East, is discouraged on account of the growing internal shortages of oil. In leather, we moved from raw hides to tanned, semi-to processed and finished leather ; and for over a decade we have been developing markets for shoe uppers, shoes and leather and leather garments and goods. The same could happen with tea ; the question is how do we go about it ?

We should begin by making a distinction between stages of adding value, from tea bags to instant tea, each stage employing more technology and therefore adding more value. In the first stage, we can add some value by putting tea in packets ; the next step is to sell it in tea bags. The packet can offer the consumer a dependable standardised product, while the tea bag standardises and simplifies the process of brewing. In the second stage, by marketing tea under a brand name, although a costly process in terms of high cost of distribution and consumer promotion, it gives one an access to preference, some command over the market, and a profitability higher than loose tea.

	1966-67	1971-72	1976-77
	FOB Rs. per kg.		
Packet Tea	9.88	9.48	15.36
Tea Bag	—	20.39	37.02
Bulk Tea	8.18	7.47	12.01

We feel therefore that the first stage should be a diversification of the product along the route of blends, packets, tea bags and instant tea, in terms of a beverage. We do not take note here of by-products of tea, which is as yet an uncharted field of tea food chemistry, but on which some research is now being done.

EXPORTS OF PACKET TEAS FROM INDIA

Region	1966-67		1971-72		1976-77	
	Quantity mkg	Value Rs. crore	Quantity mkg	Value Rs. crore	Quantity mkg	Value Rs. crore
West Europe	0.01	0.01	0.01	0.02	0.04	0.10
East Europe	0.11	0.22	0.10	0.09	0.82	1.67
America	Neg	Neg	Neg	Neg	0.02	0.06
West Asia & North Africa	2.29	2.14	3.03	3.51	11.21	16.67
Other Asia	0.07	0.08	0.69	0.77	0.41	0.68
Other Africa	0.01	0.01	Neg	Neg	0.10	0.14
Australia & Oceania	0.02	0.02	Neg	Neg	0.01	0.03
TOTAL	2.51	2.48	4.63	4.39	12.61	19.35

In absolute terms the figures for packet exports show a reasonable rise, but relative to the total exports they are as yet insignificant.

EXPORTS OF TEA BAGS FROM INDIA

Region	1966-67		1971-72		1976-77	
	Quantity Tonnes	Value Rs. '000	Quantity Tonnes	Value Rs. '000	Quantity Tonnes	Value Rs. '000
West Europe			0.7	14	4	1,64
East Europe			2.5	50	60	23,92
America			—	—	2	78
West Asia & North Africa	NIL		0.8	17	207	74,79
Other Asia			Neg	0.5	7	2,53
Other Africa			0.2	5	4	1,52
Australia & Oceania			—	—	1	42
TOTAL			4.2	86.5	285	1,05,60

EXPORTS OF INSTANT TEA FROM INDIA

Region	1966-67		1971-72		1976-77	
	Quantity Tonnes	Value Rs. '000	Quantity Tonnes	Value Rs. '000	Quantity Tonnes	Value Rs. '000
West Europe	—	—	88	23,76	49	22,35
East Europe	—	—	—	—	—	—
America	14	5	144	52,15	503	2,14,95
West Asia & North Africa	—	—	—	—	—	—
Other Asia	—	—	—	—	4	1,49
Other Africa	—	—	—	—	—	—
Australia & Oceania	—	—	—	—	28	11,87
TOTAL	14	5	232	75,91	584	2,50,66

The markets to which we have been exporting tea packets, as will be seen from the table above, are largely West Asia and North Africa where packed tea is imported anyway. It will be a different proposition if we were to enter the highly competitive packet tea markets of Western Europe, where we shall come up against strongly entrenched tea marketeers, spending large sums on marketing and promotion, and combining tea with

usually a variety of other products. To large tea marketing companies like Liptons, Brooke Bond, Cadbury Typhoo, Co-operative Wholesale Society, tea is one of the many products they market, so that their total effort is spread over a range and not specifically borne entirely by tea. Our efforts in packet tea have therefore to be carefully delineated.

In tea bags, our effort has been burdened with a number of inhibiting factors. Import replenishment of 15% has been withdrawn, import duty on tea bag machinery that was 40% up to 1975-76, was raised to 73% in 1976-77.

We recommend

—The facilities for manufacturing units in India with tea bagging facilities should be carefully examined and maximum encouragement given.

With regard to instant tea, we are as yet on the threshold of product development. As it gains consumer acceptance, like instant coffee, it is bound to grow rapidly in demand. Anything we can therefore do at this stage to encourage instant tea would be a worthwhile investment into the future. Instant tea is processed in two forms, the cold water soluble (CWS) and the hot water soluble (HWS). CWS, and HWS can be manufactured both from the green leaf or from black tea, or a combination of both, and yields 8.8 kg of product from 100 kg of green leaf, or 2.6 kg of black tea. HWS has as yet a limited market in the UK and Australia, largely because it is still in early stages of product development as a substitute for the ordinary black tea. CWS enjoys consumer preference in the USA, where it originated as a base for iced tea-mixes, its typical composition being 4% tea, 95% sugar and balance in flavours, vitamin etc.

India is yet at the early stages of R & D, manufacture and marketing of the instant products. In research, as we explain later, while Tocklai has reached the pilot plant stage for HWS, Cinchona is still, so to say, at the test tube level. In industry there has been greater advance by two companies, Tata Finlay specialising in CWS and Food Specialities (Nestle's) in HWS, both manufacturing in South India, with apparently no nexus with the tea research institutions, largely, we gather, because

their own work is more advanced. Their combined capacity of about 800 tons of product is utilised to the extent of 600 tons. Both companies are under 100% export obligation, which in our opinion is a pity.

We recommend

—Given some encouragement and leeway in the domestic market, they could use it as a testing base and jumping off ground, instead of being compelled to try their products in only the export markets. Also, the costs and profitability in the home market could usefully help the nascent operations abroad.

Exports of both firms, exporting CWS and HWS are shown below.

	Tata Finlay		Food Specialities		Total	
	CWS		HWS		Instant Tea	
	Tons	Rs. lakhs	Tons	Rs. lakhs	Tons	Rs. lakhs
1973-74	184	62	111	30	295	92
1974-75	125	44	130	42	255	86
1975-76	350	145	128	47	478	192
1976-77	533	229	51	21	584	251
1977-78	444	231	154	84	598	315

Tata Finlay are doing well with their CWS, an easier route with a ready and established market, especially in USA. Nestles' Food Specialities say they are struggling against heavy odds, with HWS, a product still in infancy, that once developed would have a far brighter future, TICI while they are taking interest in tea bags have not entered so far instant tea. The scope of HWS, once it has the quality and the acceptability of freshly brewed tea, is big. Both products, cold and hot, backed by research and incentives, with an open market require much encouragement. Even at the present levels, as the statement that follows will show, their edge on value-adding is notable.

We recommend

—The existing companies in the field, and the new entrants, should be encouraged besides to invest in

technical and marketing skills, by encouraging wholly or partially R & D, equipment, and international promotion expenditure on time-bound plans related to results, monitored suitably against expected returns.

FOB REALISATION—Rs. per kg

1976-77

Black Tea per kg	11.50 (Cochin FOB price)
Black Tea per 2.6 kg	29.90
Instant Tea per kg	42.95
—HWS per kg	41.53
=2.6 kg of Black tea	
—CWS per kg	43.05
=2.6 kg of Black tea	

The above statement shows that instant tea brings in 45% more value than black tea.

While there will be the expected opposition to India entering the established tea packet market abroad, none need to be expected in instant teas where there is a potential new market, especially in the hot water soluble, in which success would depend on evolving a new product that would justifiably be called a real value-added export. Processed tea therefore deserves our special attention.

We have found some conflict of interests between Indian packet tea exporters and the buyers of bulk Indian tea. The bulk buyers in Europe feel that it is not fair for India, the major supplier of bulk tea, to compete with its buyers in their own markets, especially with the help of export duty concessions and other fiscal aids to packed tea. They complain that bulk suppliers should not land packet teas into the market, particularly at prices less than what they charge for bulk teas, because packaged tea and tea bags from India are exempted from the export duty levied on loose tea in India and therefore land abroad at a cheaper price relative to bulk teas. It cuts the ground from under the feet of their own customers.

This point of view was very forcefully made to us by tea interests who were thinking of veering away from Indian tea. Some of them even hinted at retaliatory action by their governments, who might impose countervailing import duties on tea Packets from India, as does India on occasions to protect its domestic production and consuming interest. They cannot see the "logic" of India imposing duties on packet tea at home but offering sub sidies on packet teas exported. Because of an export duty on bulk tea but a cash support on packaged tea, it is theoretically possible—and we believe actually it happens that packaged teas are bought and unpackaged abroad to sell loose in countries where the freight lead from India permits it. In such cases, we infact get less value on packet tea than we would on exporting it loose, because we have incurred an extra cost on packaging.

While in the long run India has to graduate from a bulk supplier of unblended garden teas to marketeers of consumer packs, we should evolve a strategy of selling to minimise the loss of goodwill from our buyers. It is not only the ethics that is involved but also our economic self-interest, because there are other countries who are anxious to ship increasing quantities of bulk tea.

We recommend a four-phased approach

- In the first phase, packed tea exports should concentrate on our neighbouring countries, where necessary through local collaborations, where in any case there are no packeting facilities and tea is imported packed, especially in the premium range. This would mean less investment, no clash of interest with our own customers, and a price advantage on account of the lower freight. On both sides of India, as far as Africa and South East Asia, there are imported packet teas that we could successfully compete with ;
- The second phase would be collaborating with existing packers in Europe and supplying their blends in bulk and sharing part of the profits ;
- The third could be independent marketing efforts

in the value-added middle priced teas in major markets of UK and Ireland ;

—Over-riding all these phases however are two considerations.

—First, research into new tea products and tea extending.

—Second, to support value-added teas abroad—packets, bags, instant—we should first encourage organized marketing at home.

The exact strategy would depend on three factors :

—Market conditions.

—Investments we are willing to make in promotions.

—Our organisational instruments.

To acquire marketing facilities and skills abroad, the costs will be very high, and will have to be sustained. If we are to prevent packets lying unsold in the stores and acquire a poor product image, we will have to acquire or start a well coordinated export organisation, but the cost will run into crores. A statement in the section on UK Tea Market will give some indication of the cost involved.

We recommend

—The exporters should be assured of a stability in export incentives to value-added products ;

—We should work closely abroad with certain commercial and social organisations, co-operatives and agencies like OXFAM.

In the next section, we discuss the role of public enterprises in tea production and marketing, where too we touch on value-added.

PUBLIC SECTOR AND TEA INDUSTRY

Indian tea industry is predominantly in private hands—Indian and foreign, though the latter are now in the process of Indianising their equity. Recently some state-owned companies have entered the field.

- Tea Trading Corporation of India (TTCI).
- Assam Tea Corporation (ATC).
- West Bengal Tea Development Corporation (WBTDC)
- Tamil Nadu Tea Plantation Corporation (TNTPC).
- National Agricultural Cooperatives Marketing Federation (NAFED).
- National Cooperatives Consumer Federation (NCCF).

Each was started with a different purpose. TTCI to trade and build up value added tea exports, by building up the sale of packet tea and tea bags. ATC began by buying tea gardens including some sterling gardens. WBTDC has bought a garden, and also managing a sick garden taken over by the central government. TNTPC started primarily to resettle Indian tea workers repatriated from Sri Lanka. NAFED and NCCF have been in existence for some time to handle a range of consumer daily necessities, and during the recent rise in tea prices began to take interest in tea distribution as well, to help keep prices at reasonable levels.

The State Trading Corporation of India, which has been associated with the Coffee Board for sales abroad, has not been actively involved in tea, although it has shown an interest of late to enter tea exports. As it moves out of its traditional canalised area, it has been looking at new areas, among them tea, where its marketing skills, knowledge of world markets and global chain of offices would be useful.

The task of the public sector companies should be defined and a decision has to be taken about the role of each organisation so as to coordinate their activities and avoid wasteful duplication to examine the following issues.

- Production.
- Relationship with small growers.

- Internal marketing.
- Export marketing.
- Product development.

As the public sector is now involved in tea, even though in a small way, in growing, manufacturing and marketing tea in India and abroad,

We recommend

- The task of public enterprises should be carefully defined and planned, and their overall role in the tea industry and trade examined at five levels:
- Managing sick gardens, and buying other gardens; and justify itself by keeping pace with developments in tea growing and marketing;
- Make and set up its manufacturing facilities available to small growers;
- Develop marketing at home to upgrade loose to packet tea, especially the poor man's pack that assures him a quality at a reasonable price;
- Experiment with other value-added teas in the home market to build a base for exports;
- Develop further the role of national co-operatives in the domestic marketing of tea.

Will all public enterprises in tea do everything or will there be a degree of planned, coordination and specialisation among them? For instance, TTCL may specialise in growing, processing and marketing, along with West Bengal, Tamil Nadu and Assam Corporations, NAFED and NCCF may specialise in internal marketing, especially of loose tea and in external marketing TTCL and STC may cooperate. These are only ideas, but they must be refined, to enable each Corporation make its most effective contribution.

We recommend

- The Tea Board's role in relation to helping the marketing of tea has also to be examined. The only comparable plantation product Board of a substantial size is coffee. The Coffee Board has recently prepared a plan to year 2,000 for doubling production, and it is likely that in certain areas there will be competing claims by tea and coffee. It will be worth-while therefore for the two Boards, both statutory bodies under similar Acts, to study their respective roles, experience, and problems to see if they have something to learn together, or from each other, from areas of commonality.

TEA RESEARCH IN INDIA

The subject of research is of such crucial importance to this Rs. 800 crores industry, hoping to more than double itself in volume terms before the end of the century, from the present 560 mkg to 1250 mkg, that we have dealt with it at some length because we feel that research in agriculture, is every bit as important as in industry; in tea doubly so because it is both agriculture and industry.

Tea industry has a long commendable history of patronising agricultural research, both at the estates and at its two research institutions. The northern estates of the Indian Tea Association, ITA, funded Tocklai Experimental Station in Assam, whose activities date back to 1900. The United Planters Association of Southern India, UPASI, established a scientific centre in 1903, at present at Cinchona in the Anamallais.

The emphasis in both institutions has been primarily on agronomy, where they have achieved considerable success in raising average per hectare yields. Tocklai research has helped increase the northern yield from 939 kg in 1951 to 1474 kg in 1977; UPASI research has helped raise it from 760 kg in 1951 to 1748 kg in 1977. We are informed by our researchers that, interestingly, ours is the only research on tree crops in the world which has released a number of high yielding clonal varieties through selective breeding.

The two research stations have successfully extended research into the field, contributing to productivity through new techniques in drainage, plant treatment and protection. Tocklai has also done some work on machine design and product cost reduction with improved quality.

This is the successful side of tea research, which makes tea a go-ahead agricultural product. Looking ahead, areas like equipment, product and product chemistry, genetics, that have still to be explored in greater depth are many, requiring much larger sums than the one-quarter of one per cent of turnover we spend—about Rs. 2 crores on a Rs. 800 crores turnover and that too on effort split over two units. This for an industry of such importance to the national and international economy is meagre and not enough.

Even half per cent expenditure would give research Rs. 4 crores per annum, twice the present sum. Even this amount will certainly appear large enough to the two research centres, both of whom assured us that they were funded adequately. On the basis of past experience it will take time to expand research facilities to use this order of funds—but it is certainly not an inordinately large sum for India's largest agro-industry, which combines three operations—agricultural, industrial and marketing. While naturally one cannot correlate fund availability with excellence in research, lack of fund will certainly limit and inhibit work; and there is a lot of work to be done on tea, as we will explain.

The satisfaction expressed to us by the research centres with the adequacy of funds for research is understandable in so far as their present objectives are concerned, but once the horizons are pushed much further and the sights trianed higher, the need for funds will increase rapidly. We got a feeling that the industry was not against ploughing back into research some of their profits, but they did link up expenditure on research with their profitability, and this is where government has a responsibility in its taxation policy to permit fully the demands of research, is necessary, on an exclusive basis.

In any industry research expenditure is a priority spending both when the industry is doing well and when not so well:

and by and large the tea industry has also spent in its lean years. But we have examples of industries in India who have stunted on research and found themselves in, a blind alley leading to stagnation. This should not be allowed to happen to tea.

Apart from funds, the other handicaps seem to be men and equipment. Our attention was particularly drawn to lack of proper equipment and, more than equipment, spares and servicing facilities. For instance, Tocklai's nearest suitable computer facility is in Madras !

We recommend

—Government should assure equipment for research, because without an adequately equipped infrastructure, modern research can do very little.

Recruiting and retaining scientific manpower is both a matter of salary levels and atmosphere in the research institution. Salary levels, we were told, were particularly sticky when the schemes are aided by CSIR.

We recommend

—Apart from improvements in terms and conditions of the scientists in tea research, a greater exchange of personnel between the two research centres in the north and the south, and between tea research and national research, would help attract researchers by widening their scope and horizons.

In our detailed discussions with research scientists, who impressed us with their dedication and enthusiasm, we learned that their main emphasis has been confined to increasing productivity, which both the industry and research consider a priority. We were also impressed by a justifiable pride in research achievements; but this must be extended to new challenges if it is not to breed complacency.

The long-term plans and directions of the research have to come from the industry, and also from research itself, for the

fulfilment of those objectives, and in suggesting new imaginative directions, based on what both feel are their long-term 'corporate' objectives. But if industry continues to feel that their main aim is only to produce more tea, it will be difficult for research to reach out into new way-out research areas. This is usually the weakness in research sponsored exclusively by industry against autonomous or national effort, where researchers are not always problems and priorities-bound but can also range free and wide at their choice. Unless researchers are given some funds, time and freedom to choose research areas of their own, their result-orientation alone can become limited, and may even lead to pedestrianism. This is not to underestimate the value of industry-sponsored research effort, or the discipline imposed by result-orientedness, but there has to be a balance between the immediate and the fundamental and long-term issues.

We recommend

—While continuing with the emphasis upon research with the yields and agronomic practices, the tea industry might redefine its objectives not only as a producer of an agricultural commodity but as a processor and marketer of a broad spectrum beverage, and accept an even wider definition, a food product. Such redefinition of the objective will give a new direction to research extending it from agronomy to processing technology, product chemistry, product formulation, packaging, marketing, consumer preference and taste.

Some feel that such research is not in the ultimate interest of the industry, and it would be more appropriately done by the buyers. For a country with global stake in tea, this would be a narrow view to take. But there are some sensitivities, both in industry and research on this.

In our discussions, while an arms length approach between the two research centres came out clear and firm, yet when we discussed in depth with the scientists, we could soon feel a scientific kinship in research. The scientists agreed broadly that the variations in the northern and southern agro-climatic conditions only diverge in the earlier reaches of the agricultural

operations-growth, soil and ambient conditions; from when on they converge on the genetic, inputs, product manufacturing, development and the diversification tracks, as also from there on to consumer and market research. In these upper reaches, the problems will find common solutions-north and south, in India and abroad.

We recommend therefore

—There should be a national tea research programme, implemented at the two main research centres of Tocklai and Cinchona, with exchange and cross-fertilisation of ideas and people, devoted jointly to the single product that is tea, with planned and controlled overlaps. Even the divergent stages, research by one may have some significance for the other.

We earnestly urge the industry to look at tea marketing in the way in which any modern food industry looks at it itself, and lay down processing, product and biological research priorities to meet that objective.

There is a legitimate pride that India is world leader in tea business, but we must ask ourselves how far the responsibility that goes with leadership is appreciated by us in research terms. We mean here the sponsoring of international exchange of scientific personnel, ideas and practices. The risk in being "captive" industrial research effort is perhaps the greatest when approaching the concept of a broad scientific activity on a national and international level. We may find it advantageous to spreading benefits internationally, weighing the benefits of international exchange and collaboration against a possible loss of confidentiality. We gladly share the fruits of wheat, groundnut, maize, infact a range of horticultural, agricultural and dairying research abroad; others equally should share the findings of our tea research, in which our pride should lie in our leadership. In that also lies long-term profitability for our own industry.

There has been an advance in this direction, and we recommend

—Further strengthening of the linkages between tea

research in India and abroad, both as leaders in the field, and as learners from where research abroad may reach ahead of us. This is particularly so with product research, where tea bags and instant teas were both first developed abroad.

International crop research has been traditionally an open system, through frequent exchange of fundamental and applied research practices globally; in dwarf wheat from Mexico or improved rice from the Philippines, new varieties of fruits, farm practices and inputs: all these are exchanged around the world, in which Indian agricultural scientists have played a mutually beneficial role. Our green revolution, the progress with apples in Himachal Pradesh and Uttar Pradesh, are examples of the benefits of global research exchange and collaboration; in fact, we have reached a stage where we are now increasingly in a position to make our contribution to others.

Abroad, it would appear, some are thinking on a wide canvas, ranging from tissue culture to simulating the "teaness" of tea. What interested us was their awareness of the changing trends in the beverage market and tea drinking, in particular among the young. We would commend this forward looking attitude to the industry, in turn to provide the guidelines for the research workers.

While appreciating the sensitivities of the industry and research workers in matters of coordination, we recommend

—An appropriate clearing house of projects and results, thinking and guidelines is needed. Such a clearing house should be possible if the Tea Board, CSIR, Industry and tea scientists work together in a single equation with its own funds. There should, therefore, be one research apex body to coordinate research in tea, be it for the benefit of the south or the north. We are conscious that to coordinate two able groups of scientists with different historical backgrounds is not an easy task, compounded by the style of financing and sponsorship; but in coordinating their research autonomy must not be interfered with.

We wonder how conscious we are of marketing and research implications of the progressive and significant eastward shift of Indian tea exports from USA, Ireland and UK. Such a shift signifies moving from the known areas of two centuries and more, of known tea drinking habits to areas unfamiliar to us. Germans for example are highly quality conscious, French are newly acquiring the tea habit and are very conscious of herbal teas; in the Middle East some like green tea, like Algeria, while Saudies prefer black; Iran will pay very high prices for certain special qualities; Russians buy large quantities of high quality of Darjeeling tea; and so on.

Each tea drinking people have their own characteristics of tea habits. We need therefore to conduct market and consumer research to build their habit profiles, and relate them back into our production and product development. We should also do some market testing to ascertain their trade channels and consumer tastes and loyalties, branded or generic. It is not enough to know what their trade buys; we need to know what their consumer likes.

Even in such a classical and conventional tea drinking country as England, we heard that the traditional consumer standards in tea have fallen considerably. Growth of tea bags, following the pattern of the American tea drinkers, has gained a 40% acceptance in just ten years. Attempts are now being made by tea marketeers to introduce flavoured and soft drink types of tea to the British; and once the instant tea research can produce a product even comparable to instant coffee, the habit is likely to spread rapidly.

The impact of such developments upon the traditional Indian quality teas and other teas could be quite marked, even adverse, especially if the new products are the results of initiative in research, scientific and consumer, of others and not ours, and the new products descend upon us without warning so to speak. Tea bags, which have created a minor revolution in tea, is an area in which we have not done a great deal so far, although of late there is a growing consciousness among some tea packers.

We recommend

—Setting up a third centre to concentrate on market and consumer research, and combine it with economics, statistics and a data bank for the industry.

In our preoccupation with agricultural research, concentration on yields, tea product research has not been a strength of our research; and yet our role in tea should have directed our attention to total integrated research—if we may repeat, genetic, varietal, inputs, practices, manufacturing, processing, product, consumer, packaging and even operational research—both for us and our foreign markets.

Research should also go into operations research along the line, from the garden to the consumer, including the cost and quality aspects of each linkage, for each linkage affects freshness of tea and adds to the cost, involving too a time factor in handling, movement and storage.

The experience of the UK market, of how even a traditional and classical market of over two centuries can change habits in one generation, raises yet another interesting question. Are we keeping pace in our research to discover the mystique of tea flavours and aromas, instead of accepting them as the givens and unalterables, leaving it to the tasters and blenders to rely upon their expertise instead of to the researchers upon the chemistry of tea.

Tea processing, its technological and manufacturing importance, has also to be viewed in their contribution to profitability. While the tea industry's emphasis, and successfully so, has so far been on "more tea", it also needs to include in future "different tea"; which generally provides an acceptable produce at lower cost to the consumer. This will involve research into both chemistry of tea and its processing.

Tea chemistry is yet in its early stages of knowledge. Tea flavour and aroma cover a known span of nearly 150 components. Tea research has to be done on their identification, upon their transferability, and their fugitiveness. The subject is complex, but advances in this field will be most worthwhile

and rewarding, particularly to the Indian industry, because we have such a variety of characteristics of colours, aromas and body in teas. Some teas have an exquisite flavour and a light colour; some have dark colour but strength of liquor, so that a transposition and cross-combination of colour and flavour can upgrade the total production of tea to more acceptable and more profitable levels.

Examples of past innovations are many. CTC, a product from Assam, was a commendable and successful example of an innovation in tea processing, It produces 75% more cups for a kilogram of tea than the orthodox variety. The Tocklai design of a continuous fermenting machine is another example of innovation in processing. Cinchona's contribution to higher yields is most suitable.

In engineering, the advantage we have derived on the whole from the current wealth of process control and instrumentation has reached only a quite limited part of the industry. There is considerable room for technological improvement in tea factories, in keeping with the rapid change in food processing technology, to incorporate the continuing advances that benefit processing, quality and capital employment, thus helping reduce costs and prices.

The Tea Board machinery loan and research funds from industry and CSIR are too inadequate to meet the challenges modern food processing poses.

To sum up, tea research has not acquired an international culture, even though an increasing number of countries are now growing tea; each appears largely to go it alone. Two things are important to India in this regard.

- First, we have the largest crop and the largest market and the largest research facilities.
- Second, in future, whatever the level of our research, agronomic, processing and product, whatever the extent of our leadership, we must spend adequately on research, and gain through cross-fertilisation of ideas, with always chances of a breakthrough elsewhere, such as the

Mexican wheat. Sharing experience and working together on common projects is the essence of a fine human effort in international research today, which usefully rubs off to industry and country relations, hopefully in India giving India the pre-eminence, provided it maintains and shares an open research system.

Equally as important as our own effort is the international product and consumer research currently being done by leading marketing companies in the world, on a product which is largely provided by India, Ceylon and Kenya. We should collaborate with such research, because it will also benefit our own product.

We reiterate the following recommendations.

- A third research unit, wherever it is located, be set up to combine market and consumer research with economics, statistics, social and operations research;
- An apex autonomous research body, under the aegis of the Tea Board, associating CSIR, industry, Tocklai, Cinchona and the third unit should be formed to programme research on a national basis, leaving each research institution with autonomy and freedom to conduct research within their overall planning, keeping particularly in view the regional problems. The apex body will prepare a long-term and a mid-term plan of research geared to the industry's needs, and an Annual Tea Industry Production, Consumption and Export budget to guide the government and industry's actions;
- We should strengthen our world leadership in tea production to concomitant responsibilities in research, and liaise freely with other countries helping and encouraging them for mutual benefit and cross fertilisation;
- Tea industry will no doubt look at itself as a modern food industry, and lay down processing, product, and biological research priorities.

- New areas of research, genetic, product chemistry, product development, by-products, economics, statistical, operation, market and consumer researcher should all receive due attention ;
- While work is progressing on tea processing and manufacture, a new emphasis will give us benefits of cheaper costs and a better product ;
- Tea research should delve into the areas of tea packaging and containers, to help develop cheaper packing suitable for our ambient and climatic conditions and suited particularly for the more economical ends of the consumer market. Further, tea has traditionally used plywood tea chests, which is placing a great burden upon our rapidly depleting timber resources. Instead, research should develop lighter, more economical substitutes ;
- Research should tackle two problems, first, of the very low yields of quality teas in the Darjeeling areas—about 632 kg per hectare compared with 1381 kg for North India, and yet in the export markets the Darjeeling teas will fetch 50% more than other northern teas ; second, raising the average levels closer to the exceptional. There are gardens, both in the north and the south which produce over 3000 kg per hectare against the average yields of 1381 in the north and 1499 in the south. We believe it is feasible to do so.

From the above it will be clear that the large scope in research will call for commensurately adequate funds, say, from the present 0.25% to 2% over the next few years. There is at present an 8 paise per kg cess on tea under an Act, meant for Tea Board's functions and activities, which is insufficient for the purpose.

We recommend

- A separate tea research fund, specifically raised and earmarked for research, should be formed on the

basis of matching contributions by government and the industry.

FINANCING OF INDIAN TEA INDUSTRY

Future Projections

In order to assess future requirements for development finance in the tea industry, one must evaluate the growth prospects of the industry in terms of its principal constituents : production, internal consumption and exports. This has been done by the Indian Tea Association (ITA) and the National Commission on Agriculture (NCA).

The ITA has projected production as well as the amount retained for domestic consumption by the regression method using the data for the period 1971-77. The equations obtained are as follows :

Production : $P_t = 436,000 (1.037)^t$

Retention : $R_t = 236,000 (1.049)^t$

Exports : $E_t = P_t - R_t$

Where P_t = production in period t in tonnes

R_t = retention in period t in tonnes

E_t = exports in period t in tonnes

t = time and t=0 in 1971.

Quantities of production, retention and exports estimated for a few years between 1980 and 2000 are presented in table below.

Period	Year	Production	Retention	Exports
t = 9	1980	604.6	363.0	241.6
t = 14	1985	725.1	461.1	264.0
t = 19	1990	869.5	585.7	283.8
t = 24	1995	1042.7	743.9	298.8
t = 29	2000	1250.5	944.9	305.6

As this is a simple trend projection, it assumes that all the relevant variables affecting production and retention (exports being residual) continue to change in the same manner in the future as during the period, 1971-1977. For a projection of this nature the time span on which it is based is relatively

small, specially because tea is a product whose production is subject to the vagaries of weather conditions. For the amount retained for internal consumption it does not specifically consider the relationship between consumption and changes in income levels.

The National Commission on Agriculture (NCA) has projected domestic consumption of tea upto the year 2000 assuming

—expenditure elasticity, worked out on cross section data of 1955-56 (NSS), and on the assumption that the 'high' expected rate of increase in per capita expenditure during the period 1971-72 to 1985-86 (at 1971-72 prices) is 2.9% and the 'low' 1.0%; and

—population grows at 2% per year.

The NCA's projections compare with ITA's projections as follows :

Year	NCA		ITA
	Low	High	
1985	329	445	461
2000	504	695	945

If we examine the data for the past few years, it appears that the NCA's 'low' estimate for 1985 has already been reached by 1978 and will be exceeded in 1979. For this reason only the 'high' estimate is relevant. However, one should bear in mind that this estimate is based on a 2.9% growth rate in per capita income which may be too optimistic. Considering the growth in internal consumption of tea in the seventies, and the recent change in government policy towards domestic consumption, there is reason to believe that the expenditure elasticity used for projecting future consumption demand by the NCA is perhaps out-dated and tends to understate the probable increase in consumption.

Because of the shortcomings of these projections, neither of them are acceptable.

We recommend therefore

- A detailed study of the variables affecting future growth of domestic consumption be undertaken and a more refined set of projections made.**

Objective for Development Planning

Since no reliable long term growth perspective for the industry is available, we shall restrict our evaluation of the need for future development finance to the period 1980 to 1985—a period over which the domestic consumption estimates of NCA and ITA broadly agree.*

If the production trend of 1971-77 continues through to 1985, and the internal consumption level is as projected by the NCA and the ITA, it is found that, while exports will increase in absolute quantity, India's share in world exports would decline from 28.1% to 26.6%. In other words, if the rate of growth of production and internal consumption of tea were to continue as foreseen, there would be a progressive erosion of India's position in world tea trade. Since India can easily meet its present foreseeable internal consumption requirements, development efforts in tea industry must be geared to augmenting surpluses available for exports.

India's share in world exports fluctuated between 1971-77, but for the period as a whole averaged at about 30%. Towards the end of the period there was a declining tendency which continues in our projection for the period upto 1985.

We recommend the following development targets for the industry

- In the short run, maintaining India's share in world export at the 1980 level of 28.1%.**

*The ITA has projected the amount retained and not actually consumed. The amount retained is likely to be higher due to changes in stocks, and unrecorded transfers abroad.

—In the long run, raising India's share in world export back to 30%.

A Development Programme for 1980-1985

With these objectives in view, we have examined the prospects for accelerating the rate of growth of production in the short run and arrived at a feasible development programme, which consists of

- Raising the area of annual extension planting from an average of 2,326 hectares during 1961-77 to 4,001 hectares.
- Increasing the annual replanting effort from an average of 1,403 hectares during 1961-77 to 4,103 hectares, starting 1984.
- Expansion of factory capacity to handle a larger volume of tea leaves.
- Modernisation of existing plants and machinery.

A world of explanation is required for our proposal to delay an acceleration in the replanting programme till 1984. Replanting results in an immediate loss of production, which is not made good till 3 years later when the new plants begin to yield. Therefore, in spite of the critical importance of replanting to sustain and further increase per hectare yields, we propose no more than the current rate of replanting till 1984, because otherwise there will be a decline in the rate of production growth with the likely consequence of a further fall in India's share in world export. However, in the meanwhile we stretch the area extension programme to the maximum feasible. By this staggering, while the rate of growth upto 1985 will average 3.7%, it will rise sharply in the following 5 years to an average of 4.5%.

Details of the proposed development programme are presented in table below.

Production Increase Due to Additional Extension and Replanting Programme

Year	Extension at 1675 hectares per annum			Replanting at 2700 hectares from 1984			Net production due to replanting & extension
	Average yield	Cumulative area	Production mkg	Average yield	Cumulative area	Production mkg	
1980	—	1675	—	—	—	—	0
1981	—	3350	—	—	—	—	0
1982	—	5025	—	—	—	—	0
1983	150	6700	1.0	—	—	—	1.0
1984	360	8375	3.0	—1100	2700	—3.0	0
1985	633	10050	6.4	—1100	5400	—5.9	0.5

Planned Production, Export Availability and India's Percentage Share in World Exports

Year	Production forecast	Net Production due to replanting extension	Planned production (1+2)	Retention for inter-national consumption	Export availability (3-4)	World exports	India's share in world exports %
	1	2	3	4	5	6	7
1980	604.6	0	604.6	363.0	241.6	859.5	28.1
1981	627.0	0	627.0	380.8	246.2	884.4	27.8
1982	650.2	0	650.2	399.4	250.8	910.0	27.6
1983	674.3	1.0	675.3	419.0	256.3	936.4	27.4
1984	699.2	0	699.2	439.5	259.7	963.6	27.0
1985	725.1	0.5	725.6	461.1	264.5	991.5	26.7

It will be observed from tables above that in spite of the proposed development programme, India's share in world export continues to decline. We do not consider any significant improvement in production prospects as feasible on account of the following constraints.

- In the light of past experience a larger area extension programme would not be realistic.
- Any further increase in replanting programme will only mean less rather than more production in the short run, until the replanted areas come into full production.
- Per hectare yield increase can be raised above the achieved rate of 3% per year mainly through a larger programme of replanting through new clones, because a good part of the scope for agronomic improvements with the existing bushes, has been realised.

Domestic Consumption vs Exports

The prospect of attaining our short term objective of maintaining India's share in world exports at the 1980 level seems to be meagre, if domestic consumption is to rise at the projected rate. At the same time, it is equally obvious that a continued erosion of India's share in world tea exports may well mean an irretrievable loss of certain world markets. India is, therefore, likely to confront a situation in the near future where it must decide its allocations to domestic consumption and exports ; either accept a slower growth in domestic consumption or accept a weakening of its competitive position in the world markets, which it may find very difficult to recover from. We reiterate that except for some of our quality teas, the rest can be substituted by the importers from other sources.

In case government chooses to restrain the growth in consumption we show in the table below that the sacrifice will be marginal and only for a few years.

Implications for Domestic Consumption when India's Share in World Exports is Frozen at 1980 Level—1980-1985

Year	Planned production	World exports	Indian exports frozen at 28.1% of 3	Amount retained for internal consumption (2—4)	Rate of increase of internal consumption %	
1	2	3	4	5	6	
1980	604.6	)	859.5	241.6	363.0	—
1981	627.0	)	884.4	248.5	378.5	4.3
		) Average				
		) growth				
1982	650.2	) rate 3.7%	910.0	255.7	394.5	4.2
1983	675.3	)	936.4	263.1	412.2	4.5
1984	699.2	)	963.6	270.8	428.4	3.9
1985	725.6	)	991.5	278.6	447.0	4.3
1986	754.4	)	1020.3	286.7	467.7	4.6
1987	785.8	) Average	1049.9	295.0	490.8	4.9
		) growth				
1988	820.0	) rate 4.5%	1080.3	303.6	516.4	5.2
1989	857.4	)	1111.7	312.4	545.0	5.5
1990	898.6	)	1143.9	321.4	577.2	5.9

The projected rate of consumption growth for the period 1980-1985 is 4.9%. This will fall to 4.3% if India's share in world exports is maintained at 28.1% as in 1980, but in the following period, 1986-1990, it will rise to 5.3% and will continue to rise if the ingredients of the development programme remain the same as proposed for the period 1980-1985 and India's share in world export is frozen at 28.1%. Here too government must decide whether, in case world demand rises, India would not like to raise its world share correspondingly, beyond 28.1%.

By 1987, the rate of growth of consumption will reach 4.9% and it will be open for the government to again consider

the option of allowing domestic consumption to grow at a faster rate or to contain it at, say 5%. If the latter course is chosen, then from 1988 India's share in world exports could again take an upward trend as we have suggested above. It is obvious that this outcome could be hastened, were the government to decide in favour of a more stringent restraint on domestic consumption in the early 80s.

Financial Requirement for Development, 1980-1985

For the development programme proposed earlier, annual financial requirements are estimated in two components—for continuing investment at the trend rate and additional investment—and presented below. No estimate is made for working capital needs.

Annual Cost of the Proposed Development Programme

	Rs. crores
A. Items of Investment at Trend Rates	
1. Investment in extension at the trend rate of 2326 hectares annually @ Rs. 36,000 per hectare	8.4
2. Investment in replanting at the trend rate of 1403 hectares annually @ Rs. 34,000 per hectare	4.8
3. Total (1+2)	13.2
4. Add 5% escalation cost per annum	
B. Items of Additional Investment	
1. Investment in extension planting of 1,675 hectares annually @ Rs. 36,000 per hectare	6.0
2. Investment in replanting annually 2,700 hectares from 1984 onwards @ Rs. 34,000 per hectare	9.2

3. Cost of modernisation of existing factories (1,500 factories @ Rs. 7 lakhs each = Rs. 105 crores. This over 21 years gives an annual expenditure of Rs. 5 crores) 5.0
4. To the above must be added the following costs which are variable in relation to production and time
- (a) cost of additional plant and machinery for increasing production capacity @ Rs. 70 lakhs for every additional million kg of tea to be produced.
 - (b) Escalation costs @ 5% per annum

On the basis of these costs additional and total financial needs for the period 1980-1985 will be as follows :

**Continuing and Additional Financial Requirements for the Tea Industry
Over the Period, 1980-1985**

Year	Planned production	Increase in planned production over previous year	Investment in extension and replanting at trend rates*	Additional investment to achieve a higher rate of production increase						Grand Total (4+10)
				Extension	Replanting	Moder-niza-tion of existing plants	New plant and machinery	Add excala-tion costs @5% per annum	Total additional invest-ment	
1	2	3	Rs. crore	Rs. crore	Rs. crore	Rs. crore	Rs. crore		Rs. crore	Rs. crore
1980	604.6	21.5	13.2	6.0	—	5.0	15.1	—	26.1	39.3
1981	627.0	22.4	13.9	6.0	—	5.0	15.7	5%	28.0	41.9
1982	650.2	23.2	14.5	6.0	—	5.0	16.2	10%	29.9	44.2
1983	675.3	25.1	15.2	6.0	—	5.0	17.6	15%	32.9	48.1
1984	701.2	23.9	15.8	6.0	9.2	5.0	16.7	20%	44.3	60.1
1985	725.6	26.4	16.5	6.0	9.2	5.0	18.5	25%	48.4	64.9

*5% escalation in cost per annum is included.

The average financial requirements for the period 1980-1985 will be Rs. 50 crores. If the proposed programme for development is continued after 1985 the average annual financial requirement for the subsequent 5 years will rise to over Rs. 77 crores. These requirements will have to be met from three sources

- Industry's internal resources
- Financial institutions
- Government assistance, including assistance from the Tea Board.

Tea industry's future needs for development finance arise from the momentum it has gathered over the past years and the manner in which further prospects, opportunities and goals for growth are perceived.

Tea production has grown at the rate of 3.7% per year over the period 1971-77, which has provided enough tea to sustain an annual growth of 4.9% in internal consumption, but not enough to increase India's share in world exports or even to maintain it. Whether this trend will continue or not will depend on a number of factors including price and demand elasticities, consumption response to increasing incomes in India, rate of growth of population, world demand for tea, investment and technological inputs into the industry. Forecasts available do not deal adequately with these factors and hence lack in reliability.

We recommend

- A comprehensive economic study should be undertaken to provide more reliable projections of the growth of production, internal consumption and exports of tea for the period up to the year 2000.

Over the period up to 1985, available forecasts agree that production and internal consumption are likely to follow the trend established during 1971-77. This would mean a steady fall in India's share in world exports from 28.1% in 1980 to 26.6% in 1985, which can only be prevented if development effort is further intensified.

For this a programme having the following components is recommended

- Increase in the rate of extension planting from an average (1961-1977) of 2,326 hectares per year to 4,003 hectares from 1980 ;
- Increase in the rate of replanting from an average (1961-1977) of 1,400 hectares to 4,103 hectares from 1984 ;
- Modernization of existing plants and tea handling facilities :
- Expansion in plant capacity to cope with additional production.

We regard this as the maximum feasible programme. Further significant increase in production growth would require a larger programme of replanting, but this in the short run would result in a decline rather than an increase in the rate of production growth, as the production from uprooted plants will be lost while new plants will yield output only after 3 years. This feature of the industry imposes a serious constraint in the short run as per hectare yield increases also depend mainly on a substitution of old plants with new clones.

Due to this constraint the achievable increase in production by 1985 can only be very marginal. With the implementation of the proposed programme, production, internal consumption and exports availability in 1980 and 1985 are expected to be as follows :

Year	Production mkg	Internal consumption mkg	Exports availability mkg	India's share in world exports mkg
1980	604.6	363.0	241.6	28.1
1985	725.6	461.1	264.5	26.7

(The export availability shown above will, of course depend on national policy which in the event of a price rise may restrain exports to place more on the domestic market, as has been the case in the recent years. Tea exports as a result of certain policies have already dropped from 234 mkg in 1976 to 224 mkg in 1977 and to about 190 mkg in 1978. To rise to 242 mkg in 1980 and 265 mkg in 1985 is, therefore, not going to be easy).

These figures reveal that even with an intensified development effort India's share in world exports is likely to continue to fall. This confronts the country with the choice of either restraining its domestic consumption, in order to maintain India's share in world exports and even to increase it in the long run, or to allow India's position in world tea trade to erode, almost certainly irretrievably, since some other countries, either with small internal consumption and large exportable surpluses or out to bid for a large share of the world markets, are bound to step in and fill the gap, as indeed Kenya has done in the last few years when India's exports were static. In case the choice is made in favour of restraining consumption, the rate of internal consumption can be resumed at 4.9% or 5% by 1988, after which it would also become possible to consider pushing India's share in world trade to a higher level than 28%.

For the proposed development programme, it is estimated that the total need for development finance over the period 1980-1985 will be about Rs. 300 crores, rising from Rs. 39 crores in 1980 to Rs. 65 crores in 1985. This would include investment in extension planting, replanting, modernisation of existing plants and capacity expansion. Of this less than one-third will consist of investment at the trend rate and a little over two-thirds additional investments to support the proposed additional programme met by

- Industry's internal resources.
- Financial Institutions.
- Government assistance, including Tea Board.

Finally, to meet the growing future financial needs of the tea industry, we should like to suggest to government an examination of two alternatives. First, the Tea Board may extend

its existing financial activities, and make use of its considerable expertise of tea industry in the field of providing long term finance. Alternatively, for the financial expertise required and the large order of finance and the number of disbursements in the future, there may be an advantage in forming a new Tea Finance Body, comprising Tea Board, financial institutions and the tea industry, under the administrative control of the ministry dealing with the commodity.

We sum up our views on the subject of financing the tea industry in the form of the following recommendations.

- Tea industry, relying upon much of its plant population which is over 50 years old, must look ahead to an intensive replanting and inplanting programme, both to rehabilitate the gardens and to bring up to a young age, and to improve productivity in the long run ;
- Replanting means a short term sacrifice of production, while the young plants are in the process of maturation. A choice has therefore to be made between the level of allocation to the domestic and export markets, with some sacrifice of one or the other, bearing in mind that most of our teas other than the quality varieties can be substituted by importers from other sources ; and therefore any loss of market, even in the short term can become permanent. Furthermore, world market may expand, and we must decide whether we want to grow with it or regress ;
- A large rehabilitation programme in the gardens and the factories, new investments into research and marketing, will require funds of a large magnitude. These cannot be provided by industry alone, and some plans have to be developed in which Tea Board, industry, and financial institutions jointly participate to identify the needs of the industry ; its capacity for generation of funds ; the commensurate development funds required to implement the development plans ;

- To meet the growing future financial needs of the tea industry, we should like to suggest to government an examination of two alternatives. First, the Tea Board may extend its existing financial activities and make use of its considerable expertise of tea industry in the field of providing long term finance. Alternatively, for the financial expertise required and the large order of finance and the number of disbursements in the future, there may be an advantage in forming a new Tea Finance Body, comprising Tea Board, financial institutions and the tea industry under the administrative control of the ministry dealing with the commodity. In consultation they will develop a total Tea plan on a long-medium-short term basis, looking ahead to 2000, 1990 and 1985, together with an Annual Plan, a kind of National Tea 'Budget'. The plan would show the industry's production, demand at home and abroad, new planting and replanting programmes, manufacturing requirements, research activities and marketing at home and abroad. All these needs would be translated into the financial resources required ; how they are going to be raised ; terms of loans and their servicing, taking into account the industry's capacity to generate internal funds ;
- A special task force consisting of economists in association with the Tea Board should be appointed to
- Prepare a comprehensive economic study of tea industry's future requirements. Our own note on the subject is brief, though indicative, and it requires developing into a full study ; and
- Prepare a blueprint for tea industry's financial needs and the most suitable organisation to meet those needs, its responsibilities and functions.

Government may consider extending the financial pattern evolved for tea to other plantation crops, like coffee, rubber, cardamom, and cashew, whose financial requirements may also be large enough to require a comprehensive attention. Like tea, in their future also lies a new commodity export potential.

TEA BOARD AND TEA PROMOTION ABROAD

Promotional activities aimed at increasing consumption of tea as a beverage, and promoting the sales of Indian tea in particular, are organised by the Tea Board, whose tea promotion can be categorised into two broad categories.

Generic, aimed at promoting tea as a beverage, done in collaboration with other producing and importing countries through the Tea Councils, set up for this purpose in selected import markets.

Uninational, aimed at promoting the sales of Indian teas which is done through Tea Board's foreign offices.

To meet the growing competition from coffee, soft drinks and alcohol, all backed by extensive propaganda, and to stimulate tea consumption, generic campaigns are undertaken by the Tea Councils set up in different countries. There are 8 such Councils today.

1. U.K. India, Sri Lanka, Indonesia, Bangladesh, Kenya, Tanzania, Malawi, Zaire, Mauritius, and UK tea trade
2. Ireland India and Ireland tea trade
3. France India, Sri Lanka and France Tea trade
4. West Germany India, Sri Lanka and West Germany tea trade
5. Australia India, Sri Lanka, Indonesia, Papua New Guinea and Australia tea trade
6. New Zealand India, Sri Lanka and New Zealand tea trade
7. U.S.A. India, Sri Lanka, Indonesia, Kenya, Tanzania, Malawi and U.S.A. tea trade
8. Canada India, Sri Lanka, Kenya and Canada tea trade.

Tea Council's activities are directed by boards representing exporting countries and local tea trade. They arrange press campaigns, educational competitions, exhibitions, demonstrations in stores, promotional literature and lectures in educational institutions.

Different exporting countries have also been making concerted efforts under the auspices of UNCTAD and GATT to coordinate a programme for global promotion of tea. A decision has been taken to set up an International Tea Promotion Association shortly.

Tea Board has also been trying to develop national programmes to increase consumption of India tea through their local offices at London, Brussels, New York, Sydney, Cairo and Kuwait. Promotional activities in other countries are conducted by the neighbouring overseas offices of the Tea Board under the direction of the Promotions Directorate of Tea Board at Calcutta, and with the help of the local Indian missions.

Large parts of the world, the South-east Asia and America, are as yet uncovered by any promotional work for Indian tea.

Tea Board also runs tea centres, where tea and snacks are served, at London, Cairo and Sydney. The Tea Board also sponsors general promotional work in collaboration with foreign importers and packers on a cost sharing basis.

In the West, it is felt that the young regard tea as an old fashion habit and are taking more to coffee and soft drinks. There is therefore need to step up the scale of propaganda, for which the present Tea Board budget of Rs. 1.4 crores for national campaigns all over the world appears quite inadequate.

We recommend that the following should be carefully examined.

- India's overall policy for tea exports and for promoting them—at generic level for all teas, and at national level for Indian tea. International UN agencies have been making an attempt to bring the tea producing countries together to stimulate the demand. We have

therefore to decide how far we will back the generic promotions and, if we do, we must concurrently make suitable investment into promoting Indian tea to take advantage of the increase in demand created by the generic campaigns. Ceiling on Indian exports will cut across the need for international tea promotion, and therefore we have to decide our long term policy approach to exports, and to tea promotion—generic for tea and specifically for Indian tea ;

—We should take a long term view on retaining the supremacy of the Indian tea and participate in both the generic campaigns and in the Indian National Tea Promotion. For this, however, our export will have to be given an assured continuity, keeping pace with the increased world demand ;

—The next question is what instruments should be used for conducting the promotions? Presently we have six Tea Board offices abroad, three of which also conduct consumer centres that serve tea, at a total budget of Rs. 1.4 crores. In addition, they spend Rs. 1 crore on generic campaigns through the Tea Councils ;

—We should question the contribution made by the Tea Centres, which are adjuncts to Tea Offices and work in a limited scope of a 5-day week, closing at 5-00 p.m. They should either be run as proper restaurants, as does Ceylon in London, to recover from their recurring losses, or the money spent upon them be used in other general promotion work, where the cost-benefit could be much higher. The consumer reach of such tea shop-centres is limited to the relatively few which visit them, and the question is whether their cost would not be more effectively applied to national promotional work ;

—We recommend a review of the working of the Tea Centres so as to make them more effective instruments of national promotion ;

- The total budget of Rs. 2.5 crores is inadequate for the task of promotions abroad. A committee consisting of experienced advertising and promotion men should be set up to examine the whole question of tea propaganda abroad, its shape, its spread, and the costs, and on the basis of its recommendations adequate funds for this purpose should be provided ;
- Tea Board should conduct market research through suitable consulting agencies abroad to study the tea consuming habits and preferences to help evolve our national campaigns which could build the image and sales of Indian teas ;
- Tea Board should prepare a five-year budget, which is the necessary span of time for such campaigns to be conceived and implemented. There should be an annual rolling plan, within which the Tea Board should have the power to spend without individual sanctions. At present we gather that Chairman, Tea Board, can only spend up to Rs. 5,000 on any item of promotion, while the Export Promotion Committee of the Tea Board can sanction up to Rs. 50,000; beyond which government permission has to be obtained. We feel that once the annual budget is approved by government and the Export Promotion Committee, the Tea Board management should be allowed to spend money within the frame of the budget, but of course reporting back quarterly on the progress of the budget expenditure and results. ;
- As promotional work abroad is specialised, men selected for posting should, first, have some training in such work and, second, be assured long enough tenures to make effective contribution. Two year tenures are woefully inadequate. In act Tea Board should develop a cadre of promotion staff.

PART FOUR
TERMS OF REFERENCE
AND KEY RECOMMENDATIONS

The Committee was given seven terms of reference, and the privilege to deal with "any other aspect which in the Committee's opinion is germane to the broad purpose of the enquiry."

In the Summary and the Main Report, the Committee has discussed different aspects of tea marketing at length ; and it was felt that it may be useful, for a quick glance, to answer each term of reference specifically, but very briefly. This is attempted below.

Term 1 To consider the present arrangements of marketing of tea in India by way of direct sales, consignment sales, auction sales etc. and to recommend what would be the best arrangement for marketing of tea with a view to ensure a fair unit value realisation in the domestic market as well as the highest possible realisation in the export market.

There are four germane issues.

- Direct Sales—in India and abroad under Term 2 ;
- Consignment Sales—the London Auctions : under Term 3 ;
- Auction sales in India : under Term 4 ;
- Other related issues : under Term 8.

Term 2. To suggest arrangements which would eliminate the chances of collusive sales in domestic markets as well as under-invoicing in exports.

- Taking into account the advantages and disadvantages of ex-garden sales, this channel may be left open to the choice of the producers and the buyers, because of its intrinsic advantages ; there should, however, be a monitoring authority, say, the Tea Board, to whom all gardens should inform their sales, ex-garden, C & F, auctions, and the prices at which they were made. Ex-garden prices should be compared with the auction prices to ensure that generally speaking they were on par, after allowing for the difference in costs. Arising

from Tea Board's experience with this monitoring system, if it is found that the prices are comparable, the system can be allowed to continue as it is ; but if it is discovered that ex-garden sales for comparable qualities in comparable periods, were significantly below the auction prices, the loopholes should be plugged. The monitoring should be continued both to collect information and keep a continuous watch.

—Weak gardens selling ex-garden may be offered suitable financial crop assistance, tailored to their needs.

—While the present system of C & F sales may be allowed to continue, in the larger interest of the industry and the country, we should institute a review system to ensure that all runs well, at no cost to the country and exchequer. In this, Tea Board, in conjunction with Customs and Reserve Bank, should make a quarterly review of a representative sample of transactions, the prices at which sales were made, to ensure that C & F sales were generally in line with the prevailing prices obtained at auctions, so that C & F sales bring in equivalent amount of foreign exchange over a period.

Term 3. To consider the role of the London auctions in the marketing of Indian tea and to examine as to whether the best solution would lie in allowing auctions of tea only in India.

—London auctions are well regarded by all we met, in India, in UK and in the Continent, as a price beacon. Auctions in India, and at other centres in the producing countries, are steadily gaining ground from London auction. The London brokers would be happy to associate the Indian tea interests, Government (Tea Board) or private, of which we should take advantage. In view of all this, we should leave it to the buyers' choice to buy in India or abroad, and we may continue to use the London auctions and associate ourselves with them.

Term 4. To consider as to whether the present system of

tea auctions in India is advantageous to the producer and fair to the consumer or not. To also consider as to whether the auction system in India should be continued and, if so in what manner and the methodology Government should adopt to keep a supervisory watch on the auction system.

—Tea Board should be associated in some manner with the conduct of auctions in India, to ensure that their role is properly fulfilled to the advantage and satisfaction of all concerned—Industry, government, trade and consumer.

—Tea Board may convene a meeting of the tea interests, representing buyers and producers and Auction Committees of different auctions to consider to what extent the useful practices followed in one auction can be profitably adopted in other centres ; and equally the onerous practices removed.

—Tea Board may be associated with the exercise presently made by the Auction Committees every year to regulate offerings in the auctions in North India in a manner that ensures regular supplies throughout the year although the season is confined to April-November.

—The present number of six auction centres is adequate to meet the needs of producers and buyers. However, the Tea Board together with the tea interests, should carefully examine any future needs in this regard. The overall interests of the producers, buyers and consumers should be weighed against the purely regional aspirations to have their own auction centres.

—A review may be made of the different sales taxes now levied at auctions with a view to rationalising them, if not altogether eliminating such terms from the primary sales.

Term 5. To consider the present arrangements for shifting export of tea from primary form as bulk tea to more

value added forms like packet tea, tea bags, instant tea, etc. To also consider and recommend what measures should be undertaken to accelerate the shift from export of primary tea in bulk form to export in more value added forms.

- Before we try to enter the high cost promotion of popular and medium quality ranges in the market, we should take advantage of our fine quality teas and enter the premium section of the market, both in UK and elsewhere. The packaging may be done by some associates in countries that sell significant quantities, either in India or abroad, depending upon the economies. Further, to offer ready deliveries, warehousing arrangements may have to be made abroad.
- Given some encouragement and leeway for instant tea in the domestic market, the exporters could use it as a testing base and jumping off ground, instead of being compelled to try their products only in the export markets. Also, the costs and profitability in the home market could usefully help with the nascent operations abroad.
- A four phased approach is recommended :
 - In the first phase, packed tea exports should concentrate on our neighbouring countries, where necessary through local collaborations, where in any case there are no packeting facilities and tea is imported packed, especially in the premium range.
 - The second phase should be collaborating with existing packers in Europe and supplying their blends in bulk and sharing part of the profits.
 - The third could be independent marketing efforts in the value-added middle priced teas in major markets of UK and Ireland.
 - Over-riding all these phases however are two considerations.

—First, research into new tea products and tea extending :

—Second, in order to support value-added teas abroad—packets, bags, instant—we should first encourage organised marketing at home.

—Exporters should be assured of a stability in export incentives to value-added products.

—We should work closely abroad with certain commercial and social organisations, cooperatives and agencies like OXFAM.

Term 6. To consider whether in the marketing arrangements for tea, there should be any special provisions or arrangements for marketing of tea by small producers.

—To protect the interests of small growers, more co-operative factories should be opened. In this regard, a special responsibility may also be placed upon the public sector companies. At the same time the relief granted in the central excise duty should be examined for its adequacy.

—Some priority be given in the matter of cataloguing of teas at auctions in respect of small producers holdings, upto, say 100 hectares which will enable them to realise their sale proceeds a little earlier.

—The activities of Kenya Tea Development Authority are worth studying for their possible application in India.

—A special study of the small growers should be made by the Tea Board and tea industry, together with the representatives of small growers, which should be updated every three or five years. In this context, the Tea Associations in the north and south India should also develop separate cells which will liaise with the small grower's cell of the Tea Board and the Small Growers Association.

—The large estates have also an important role to play in making small gardens as their efficient, independent but ancillary units, especially to open up new areas, where the concept of a mother dairy and small milk dairies—a core and satellite tea growing units—may be considered.

Term 7. To consider as to whether the present arrangements for marketing of tea at the retail level enables the consumer to get tea at a reasonable price.

—We should move from foods sold loose in bulk, to packed, standardised products that assure the consumer a quality, freedom from adulteration, longer shelf life, in standard weights, at standard prices.

—We find no rationale in levying an additional excise duty on packet tea, a constraint upon the consumer of packet tea but of no benefit to loose tea. The excise duty and any other levies on packet tea should therefore be removed to give the consumer the freedom of choice between loose tea and packet tea without an imposition.

—Tea industry and research should develop cheaper packaging, specially for the lower price end of the market.

—Public enterprises in tea selling generally through co-operative channels, are meant to exercise a discipline over the retail trade in keeping prices at reasonable levels. These institutions, particularly the TTCI, NAFED and NCCF, should regard it their particular responsibility to develop packaged tea marketing of standard qualities at standard, fair prices for which they have to strengthen their distribution network and marketing strategies.

Term 8. Any other aspect which in the Committee's opinion is germane to the broad purpose of the enquiry.

Under this term of reference we have covered a few supplementary issues on marketing as also some general issues as under :

—Export policy and promotion

- Mini auctions
- Dutch auctions
- Futures market
- Buffer stock
- Public sector and tea industry
- Tea Research
- Financing of tea industry.

Export Policy and Promotion

- The phenomenon of home demand for tea needs a careful study for its impact on our export earnings, and the importance we attach to their competing claims. There are examples of commodities where India's leadership in exports has turned to very large net imports—an eventuality which we should try and prevent in tea. Uncertainty of supplies runs the risk of losing the market irretrievably. We should realise that export marketing of products like tea that cater to habit is not a stop-go operation and it is difficult to find a substitute export product for tea once we lose ground abroad.
- Ceiling on Indian tea exports will cut across the need for international tea promotion, and therefore we have to first decide on our long term policy approach in this regard.
- The imposition of export duty should be carefully reviewed from time to time in the light of what precisely it seeks to achieve, and its introduction should not affect contracts genuinely entered into before the duty is imposed—for this purpose what is a contract should be clearly defined so that the buyers know where they stand. There was much ill will created by the retroactive application of duty, and loss of exports.
- Working of the Tea Centres abroad of the Tea Board should be reviewed so as to make them more effective instruments of national promotion.

- A committee consisting of experienced advertising and promotion men should be set up to examine the whole question of tea propaganda abroad, its shape, its spread, and the costs; and on the basis of its recommendations provide adequate funds for this purpose.
- Tea Board should conduct market research through agencies abroad to study the tea consuming habits and preferences to help evolve national campaigns which could build the image and sales of Indian tea.
- Tea Board should prepare a five year budget, which is the necessary span of time for such campaigns to be conceived and implemented. There should be a rolling plan, within which the Tea Board should have the power to spend without individual sanctions.
- As promotional work abroad is specialised, men selected for posting should, first, have some training in such work and, second, be assured long enough tenures to make effective contribution. Two year tenures are woefully inadequate.

Mini auctions

- Mini auctions may be watched by Tea Board, particularly if it begins to play a larger and more significant role than at present. The modus operandi and their impact on tea trade should be carefully examined to decide their advantages, and the need for some regulation and orderly conduct for the benefits of the trade and consumer, if necessary.

Dutch auctions

- The system of Dutch auctions may be watched but at present there is no particular merit in introducing it.

Futures market

- At the present stage we do not need introduce a futures market in India, but we may watch its possible developments in London.

Buffer stock

- The concept of buffer stock of tea, nationally and internationally, to introduce a steadiness in supplies both in the domestic and export markets thereby reducing price fluctuations, would perhaps be worth studying. As the subject is complex a proper study be conducted both for examining the concept and the problems of administering it.

Public sector and tea industry

- The Tea Board's role in relation to helping marketing of tea has to be examined. The only comparable plantation product Board of a substantial size is coffee. The Coffee Board has recently prepared a plan to year 2000 for doubling production and it is likely that in certain areas there will be competing claims by tea and coffee. It will be worthwhile therefore for the two Boards, both statutory bodies under similar Acts, to study their respective roles, experience, and problems to see if they have something to learn together or from each other, from areas of commonality.
- The task of public enterprises should be carefully defined and planned and their overall role in the tea industry and trade examined at five levels.
 - Managing sick gardens, and buying other gardens; and justify itself by keeping pace with developments in tea growing and marketing;
 - Make and set up its manufacturing facilities available to small growers;
 - Develop marketing at home to upgrade loose to

packet tea, especially the poor man's pack that assures him a quality at a reasonable price;

—Experiment with other value-added teas in the home market to build a base for exports;

—Develop further the role of national cooperatives in the domestic market of tea.

Tea research

—A separate tea research fund, specifically raised and earmarked for research, should be formed on the basis of matching contributions by government and the industry.

—An appropriate clearing house of projects and results, thinking and guidelines is needed. Such a clearing house should be possible if the Tea Board, CSIR, Industry and tea scientists work together in a single equation with its own funds. There should therefore be one research apex body to coordinate tea research.

—Government should assure research facilities of equipment, in India, or abroad. Terms and conditions of the scientists in tea research should be improved and there should be a greater exchange of personnel between the two research centres in the north and the south, and between tea research and national research.

—A third centre should be set up to concentrate on market and consumer research and combine it with economics, statistics, social and operations research, and a data bank for the industry.

—Tea research should develop lighter, more economical substitutes to the traditional plywood tea chests which is placing a great burden upon our rapidly depleting timber resources. Research should also delve into the areas of tea packaging and containers to help develop cheaper packing suitable for our ambient and climatic conditions.

Financing of Tea Industry

- Extension planting and replanting should each be increased to about 4000 hectares a year during the next decade so as to accelerate production.**
- To meet growing future financial needs of the tea industry, we should like to suggest to government an examination of two alternatives. First, the Tea Board may extend its existing financial activities, and make use of its considerable expertise of tea industry in the field of providing long term finance. Alternatively, for the financial expertise required and the large order of finance and the number of disbursements in the future, there may be an advantage in forming a new Tea Finance Body, comprising Tea Board, financial institutions and the tea industry, under the administrative control of the ministry dealing with the commodity. In consultation they will develop a total Tea plan on a long — medium — short term basis, looking ahead to 2000, 1990 and 1985, together with an Annual Plan, a kind of National Tea 'Budget'. The plan would show the industry's production, demand, at home and abroad, new planting and replanting programmes, manufacturing requirements, research activities and marketing at home and abroad. All these needs would be translated into the financial resources required; how they are going to be raised; terms of loans and their servicing, taking into account the industry's capacity to generate internal funds;**
- A special task force consisting of economists in association with the Tea Board should be appointed to**
 - Prepare a comprehensive economic study of tea industry's future requirements. Our own note on the subject is brief, though indicative, and it requires developing into a full study; and**
 - Prepare a blueprint for tea industry's financial needs and the most suitable organisation to meet those needs, its responsibilities and functions.**