



Tea Industry of India The Cup That Cheers has Tears

V.N. Asopa

W.P. No.2007-07-02

July 2007

The main objective of the working paper series of the IIMA is to help faculty members, research staff and doctoral students to speedily share their research findings with professional colleagues and test their research findings at the pre-publication stage. IIMA is committed to maintain academic freedom. The opinion(s), view(s) and conclusion(s) expressed in the working paper are those of the authors and not that of IIMA.



**INDIAN INSTITUTE OF MANAGEMENT
AHMEDABAD-380 015
INDIA**

Tea Industry of India The Cup That Cheers has Tears

Dr. V.N. Asopa

Professor

Indian Institute of Management Ahmedabad

asopa@iimahd.ernet.in

Abstract

Indian tea has virtually lost all global markets because it continues to be traded as a commodity. The much talked about value addition is limited and rather late. Only the markets that have consumers with shallow pockets buy tea as a commodity and that share is fast depleting. The industry needs to be competitive in production, marketing, logistics and product forms. India, despite being a large producer of tea, lacks properly organized production systems in which small tea producers find a respectable place. The industry must have access to capital at globally competitive rates. The subsidies in any form are undesirable.

The Indian tea industry must face the market realities, redefine its business strategies and reposition its products. The first step in that direction is a complete restructuring of the tea industry, redefining the roles of various agencies like the Tea Board and Producers' organizations, and developing a healthy partnership with the labour. There are the problems of market access and discriminatory treatments through non-tariff trade barriers such as maximum residual limits (MRL) and social clause..

Key Words: Tea, Global, Markets, Commodity, India, Kenya, Pakistan, Sri Lanka, Competitive, Tea Board.

Tea Industry of India¹

The Cup That Cheers has Tears

The decade of Nineties has been quite depressing for the tea industry in India. First, it was the disintegration of the erstwhile USSR which was solidly a loyal market for the Indian teas. The USSR lifted huge volumes. In the mid 90s, when the market revived, the Russians were looking for cheaper teas. There was a scramble in the tea industry, particularly in the South, to meet the Russian demand at their prices. The South Indian teas deeply destroyed their image while matching the prices offered by the Russians and in the process totally disregarding the quality. In the North, and later in South too, the industry was continuously facing labour problems. Some gardens had even closed and were bought by traders who had money on their hand since their plywood business had been closed down under orders from the Supreme Court of India. The traders had expected large profits from the tea gardens and did enjoy that for some time. Later when the fortunes of the tea industry declined in consequence of the Kenyan bouncing back in the global markets, the traders simply abandoned the plantations and disappeared to avoid payments on account of social obligations. They were too new to the industry to understand its complexities and did not know the plantation business. When the industry saw some light in the aftermath of a drought in Kenya, the traders wanted to go back to their gardens but were prevented. In many cases, the laborers had taken over production and were marketing green leaf harvest to the bought leaf tea factories (BLTF). This gave cause for enormous social tensions. The labour was only one of the many problems the industry faced. There were difficulties on trade front, auctions, transportation, sales, taxation etc. On the whole, the situation in the Indian tea industry was pathetic. Yet, most individual firms were doing fairly well, an issue that requires a proper understanding of the way the industry is organized and operates.

Medium Term Export Strategy

Tea Board which has the responsibility for overseeing and regulating production and trading including exports, was already withdrawing from the controls and regulations.

The Board undertook an exercise to develop mid-term strategies for increasing exports during the Tenth Plan period². The objectives of this exercise were:

- Focused efforts at developing and promoting an “Indian Tea” Logo and assistance in brand-building approaches of major players.
- Geographical diversification of markets and consolidation of existing primary markets.
- A comprehensive exporter rating and reliability management programme.
- Targeting value-addition and niche segment opportunities in specific markets.
- Re-alignment of the product-mix in line with demand in key high-value markets.
- Comprehensive product quality up gradation programme.
- Robust industry-wide information technology backbone for greater transparency and dissemination of price and other market related information.

In line with the medium term export strategy for Indian tea (2002-2007), the Tea Board in 2002 strategized on 22 markets. The plan was to increase Indian exports of tea to these markets to a total of 280 million kg which was almost 72 million kg incremental. On the contrary, the exports actually declined during this period and there were significant losses

in important markets like Arab Republic of Egypt, CIS, UK, and Poland. Some small size but well paying markets like Saudi Arabia, Germany, Japan, France, Ireland and Sudan also saw Indian export declining. There were some increases in quantities exported to USA, Iran, Syria, Canada, Australia, and Netherlands but together these markets lifted small volumes (See Exhibit 10.1 and 10.2).

On the whole the industry did not do well and then began the blame game. The tea industry blamed Tea Board and the Tea Board lamented lack of support from the industry particularly in markets where concentrated efforts were planned. While concern on exports declining sharply was expressed in all quarters, not much concrete was done to reverse the situation. Presumably such inactivity was in honest recognition of changed global situations which were steadily turning adverse to India. In the year 2004, India lost its eminent position of the largest producer of tea to China. Kenya had already taken over Sri Lanka in exports pushing India to third position. Of course India had doubted China's emergence as a top ranking tea producer, citing limitations in collection of field level statistics and under reporting of production. Tea Board was then engaged in revising the production data. Present global strategy at the Board level includes among other things capturing China's domestic market for black tea. The industry doyens both at home and abroad have made many caustic comments about functioning of the Tea Board repeatedly pointing out that it neither has the experience nor the expertise to handle issues in global marketing. A study by IIM Calcutta had made many critical comments on the concerned Division. In fairness, it must be noted that the Tea Board formed in 1952 was mainly to control and regulate the Indian Tea industry. Under the changed circumstances presently, in which the clientele system has different and many more expectations, it would be appropriate to redefine the charter of the Tea Board, refocus its activities, and down size it. In doing so, the highly dynamic and well focused functioning of the Tea Boards of Sri Lanka and Kenya could be useful inputs. One of the strategies to beat the competition is to know how it operates.

Tea industry in India is at crossroad not knowing how to reverse the adverse trends in global markets that have directly affected its fortunes. There is fierce competition abroad, India's un-competitiveness on account of high cost and poor quality, and changing consumer demand. The home markets are slowly but steadily opening to imports which can well compete on both cost and quality parameters. The latest position is such that the Tea Board is now perhaps hopelessly resigned to the fact that India can not compete in the global markets at least in the immediate future. The strategy is to protect the industry in the home markets since the tea industry particularly the plantations employs a huge labour force. Unfortunately, not much is known for sure about the actual consumption in the domestic market. Some say it is growing, others feel it is stagnant, and in some informed quarters there is a feeling that India's average domestic consumption is growing more than the increase in the global consumption. The fact remains that whatever the domestic market consumes, there is still sizeable surplus between 180 to 200 million kg that needs to be sold in the world markets. Trade estimates are that roughly half of this is poor quality and at best would fetch a price of around Rs.40-45 per kg. Assam teas are a quality product, still much valued in the international markets but suffer the disadvantage of seasonality and high prices. Assam produces nearly 56% of India's tea.

A careful analysis of the performance of Indian tea industry in global markets reveals some interesting insights. First, India had leadership position in countries where it had bilateral trade agreements. As these agreements expired, India's leadership also

weakened. Such is the case with the markets like Russian Federation and Poland. India probably has a weak case in markets that are free and have high purchasing power. Two, India continues to export tea in commodity form whereas the demand is shifting in favour of tea bags. Indian teas although quite gutty, are light weight and do not infuse easily in tea bags. Trade knows it well that Indian teas are not all that suitable for tea bags. Since the world markets are steadily and increasingly moving towards tea bags, India is in a disadvantageous position for not having the right kind of teas. India can continue to export tea in markets which consume it in commodity form but that pattern of consumption is fast changing. Indian tea industry has some good local brands in individual markets abroad, but they are feeling the heat in competing with the globally established brands. That is where serious concerns for future arise. Can Indian industry survive in markets that are changing and face the competition of the global giants? The answer to this question lies in knowing the markets and competition in them, emerging trends, and clear role definition for different segments of the industry. Business has to be segregated from the bureaucracy.

The Competitors

India is a producer, consumer and exporter of tea. The Indian exports declined by 13% during 2003 but increased by 4% in 2004 over the previous year volume³. During this period the Indian rupee had appreciated by 7% thereby making Indian exports more uncompetitive. Even otherwise, India is a high cost producer of tea because of high cost of labour and capital.

Kenya produced 324,000 MT tea and reported to have exported 333,000 MT tea⁴. The production in Kenya continues to increase although the exports are not so buoyant. In direct competition with India's CTC tea, Kenya has done exceedingly well. Kenya had offset rising labour cost by depreciation of their currency. The currency devaluation is a short term measure and often has other effects particularly when a country like Kenya runs a large import bill. Besides, the currencies that are devalued could soon appreciate. Such is the dilemma of the Kenyan exporters. Continuing appreciation of Kenyan Shilling, from KSH 71 to 66 for a USD in few weeks, has robbed the significant currency advantage. With the Government of Kenya refusing to intervene, the exporters are left to fend for themselves. A much talked about option is to hedge but that too can help only in a limited way.

Sri Lanka produces 325,000 MT of tea⁵. Sri Lanka encourages producers to pack good quality tea thereby effectively checking over supplies. Sri Lanka exports around 305,000 MT teas. By exporting only the quality teas, Sri Lanka has bounced back in the global markets for their orthodox teas. Their product portfolio consists of three types of teas grown at different elevation and that insulates Sri Lankan tea industry from fluctuations in global prices. Sri Lanka has a very strong presence in the tea bags segment. It has very successfully established two global brands that are well entrenched in the markets for tea. During the last decade, large investments were made in producing quality teas and machinery for tea bags. A great deal of this machinery came from India.

Although presently China has a small share (around 8%) in black tea, it could make much more black tea. Besides, the market for green tea is expanding and that could affect to some extent the market for black tea.

The Markets

A detailed analysis of competitive positions in the key markets for tea is given in Exhibits 1 and 2.

UK and Ireland are the traditional markets for tea but their imports have been declining. Even then the UK blenders continue to be the global market makers. UK is where the blending industry first started decades ago.

Pakistan has a population of 154 million people, 66% of them live in rural areas. Pakistan consumed 109,000 MT in 2003. After the break up with the East Bengal, Pakistan had tried the Sri Lankan teas but shifted to CTC tea from Kenya. Kenya took a 66% share in Pakistan imports during 2003. India is now keenly looking forward to wresting a sizeable market share from Kenya. The Pakistan market is dominated by CTC leaves. Pakistan levies income tax on imported tea. By all accounts, Pakistan would soon be a fierce battle ground for global tea suppliers. Sri Lanka signed a FTA with Pakistan and is a fellow member of SAARC, a regional agreement. India is gradually but surely improving relations with its immediate neighbor. If India can get a strong foothold in the Pakistani market, that would offset its loss of the Egyptian market to Kenya. Both Egypt and Kenya are members of COMESA, another regional agreement. Both Sri Lanka and India have a big location advantage vis-à-vis Pakistan. Pakistan's relations with Bangladesh are also improving. Indonesia, although relatively a small producer of tea, has big exportable surplus and would seek access to Pakistani market. With the per capita consumption nearly stagnant and a small increase in overall market size, Kenya's leadership would be threatened. To retain its share in the Pakistan market, Kenya will have to spend large monies on media promotion. The cost so incurred will have to be compared with the gains from retaining the dominant share. Kenya of course has much more tea to sell globally given that its home consumption is quite low. Tea Board of Kenya is engaged in promoting and increasing consumption of tea at home and the neighbouring African nations.

The Russian Federation has witnessed a 18% growth during the last 10 years, which is quite high and makes Russia as the biggest importer of tea in the world. No wonder, most major tea packers are setting up shops in Russian Federation. India has lost considerable share in CIS markets. The Indian exporters were content supplying poor quality teas in response to low prices offered by the CIS countries under the special Rupee-Rubles rate trade. In the process a basic lesson in consumer behavior was blatantly ignored. When an economy expands, more money comes to people; they seek more choices, and the market shifts in favour of better quality and convenience. A careful watch over developments in CIS markets would have prevented this downslide. Clearly that is a legitimate function for the Tea Board but it had failed even though a Director Market Promotion is located in Moscow. With the Russian market, and for that matter even Poland, having turned around both Sri Lanka and Kenya are making strong efforts for selling their tea.

The recent establishment of a Tea Trading Center in Dubai has generated considerable concern among the global tea suppliers. Will this become an action Center? If yes, how would it affect auction centers in India and at Mombassa and Colombo? Dubai of course offers access to the whole of Gulf market and other countries in West Asia. More importantly a land route is available for transporting tea from Dubai to Russia at much

less cost than any other mode. Using IT, Dubai has more efficient systems for business and logistics.

Coffee dominates the US market. For tea, it is mainly an iced tea market where cheaper teas are used. Nearly 70% of Argentina's tea production is absorbed in the US. India can not compete in this segment because it offers only the high priced teas. Some small scale entrepreneurs of the Indian origin are sincerely trying to popularize speciality teas in the US market using the ethnic route.

Tea bags were invented in the US in 1904 and they have become increasingly more and more popular because of speed and ease in preparation. A scientific symposium in US tea and Health was held in 1991. Since then tea is being repositioned in the US market as a health drink. The health benefits of tea are a global message and that sells hot in USA. Bottled water in US is growing at 20% per annum. Some of that growth can be taken by bottled tea.

Egypt consumes 77,400 MT. Almost the entire quantity is imported and in that Kenya has a 66% share. Both Kenya and Egypt are members of COMESA. Egyptian imports have declined by 11% causing a big gap in balancing global tea trade.

Japan market for tea imports has not increased, rather it is stagnant. But internal readjustment is taking place; from predominantly a gift market, it is now a liquid tea market.

Observations on Global Situation

The situation in the world markets for tea can be characterized by over supplies, a slow growth in demand, and a fierce competition. It is necessary to reduce global supplies by increasing domestic consumption, curtailing production or at least limiting further extension of area, and developing new markets⁶.

Supply Side

Supply issue is the cardinal problem for the industry in near future. Supply side places impeccable pressures on packers who have to compete in the super markets against small margins.

Some 16 million kg tea is in surplus and how to dispose that is a problem. Some other use has to be found for this excess quantity to balance supply and demand. About 100 million kg tea floating in the global markets is substandard. Such tea should be destroyed as per the ISO 3720 and that should hopefully improve price situation in addition to tackling the problem of buffers. Only the good quality teas should be exported by the producer countries. Through rigid controls, Sri Lanka has removed poor quality teas from their exports. Others need to follow this route.

The threat of area under tea expanding is a major tension among key producers. The producers in Sri Lanka have a program for replanting which is helpfully falling behind the targets. Kenya and China both have land available for increasing area under tea⁷. Would there be new investment in tea financed by global institutions such as the World Bank, Asian Development Bank, etc.? Surely that would increase the supplies and add to

surpluses. The expansion of area under new planting should be carefully reviewed. In 2003 at the time of coffee crisis, international Coffee Organization held a round table conference in which the World Bank and other donor organizations participated. The agenda was to examine the lending policies of the donor agencies that led to expansion of area under coffee cultivation. Such a round table discussion is necessary for tea industry as well. The supplies have to be regulated but any attempt in that direction is bound to fail. Such is the nature of the commodity trade.

Consumption in Producing Countries

How much of total global production is consumed in producing countries? Except for India and China, most other producers consume only a small proportion of their production. To address market balance problems, domestic consumption in producing countries should be stimulated.

Kenya produced 324,000 MT tea and reported to have surprisingly exported 333,000 MT tea. The home consumption in Kenya is small and the Tea Board there is currently working on a strategy to boost domestic consumption⁸. The GDP growth in Kenya is around 3% per annum. It is not clear why per capita consumption of tea in Kenya fluctuates from year to year. May be the world prices affect per capita consumption in Kenya. Or, could it be smuggling through borders of Pakistan and Iran? Some surmise that every time illegal tea imports enter Kenya, per capita consumption goes down. Kenya is also embarking on value addition. It is also exploring new markets such as USSR and Poland.

If Indians could drink half a cup more per day, the problem of surpluses will disappear and that could make buffers history. Such is the power of even a small increase in consumption for a large population base.

In view of surpluses, growth in production should be checked. Producing countries have to control production on a voluntary basis in the long term interest of the tea industry. The increase in production through productivity increases, as recently witnessed in Turkey, does strengthen their competitive positions and serve their national interest. Would Turkey add to the world supplies significantly and compound the woes of the other supplier countries?

Among the global suppliers, China is another concern. Like India, China is a producer, consumer and exporter country. Although presently China has a small share in black tea, this appears to be increasing. It has the capability to produce more black tea and could exploit that adding to world supplies? It has already removed export quota on tea from January 1, 2006. Black tea is becoming popular in China and they are served in tea houses in Beijing and Shanghai.

Health Benefits

Physiological functions of tea Catechins have been deeply studied and by now their beneficial effects on the human body are well recognized. The suggested consumption pattern is to drink tea right after meals. If consumed even 30 minutes later, it would do no good. Likewise, if consumed with other food the ability of body to absorb catechins reduces. For catechins, the quality of tea does not matter; harvesting two leaves and a bud

is not necessary. In fact the whole bush can be harvested to make catechins. That is potentially a very large application waiting to be exploited commercially.

Tea is health. But it has to compete with other beverages. Relentless growth of cold drinks over hot drinks has put tea on back foot. The industry leaders opine with optimism that a shift towards tea is taking place on the plank of health benefits. Lipton in UK and USA has turned around those markets for black tea by using the health plank. Consumed in commodity form, it does have some health benefits but this claim is considerably weakened for value added liquid teas. The material tea used in making liquid teas is of comparatively poor quality and much less in quantity. In the liquid RTD cola, barely 3% of tea is present. What health benefit that 3 to 4% tea would give is a question mark. The claim of health benefits in that context is not being wholly truthful.

Attempts are also being made to turn around the black tea market in Japan on the plank of health benefits. It is hoped that such efforts would cause a shift in consumption away from coffee or coke to tea. The research on health benefits of tea in Japan is oriented towards that goal. Coffee is also trying to project similar health benefits.

Price Variability

Tea has much lower variability in consumer prices compared to coffee. For tea it is 2%, coffee has 30% and coke 39% price variability. A stable price means higher consumer loyalty and that has to be exploited.

Unit Values

Compared to 1998, the global values in tea have declined by something like 38%. There has been a sharp decline in prices globally. The question in this context is: Are the global values for tea going down? In the final analysis, unit values realized are more important than the volume of production and exports.

Auctions

Auctions in producing countries such as Sri Lanka and Kenya have been quite efficient in price discovery and these countries are constantly working to strengthen their auction systems. Colombo auction distributes about 1 million samples (small quantity) every week. A main concern in Colombo and Mombassa is to reduce the time cycle from an average of 26 days to 20 days or even less. Presently it takes 13 days for cataloguing and sampling prior to auction and another 13 days after auction for stocks to be lifted and payments made. During this period considerable capital is tied up. In contrast, India has been on and off fiddling with their auction system presumably under the weight of the trade power of some of the giant corporations. Having recently made auctions not necessary, nearly half of the produce is now sold directly and the remaining half, mostly the substandard product that can not be sold directly, is brought to the auction. The poor price fetched in auction becomes bench mark for wage payment to the plantation labour. While this formula follows the practice in Sri Lanka, the striking difference is that in Sri Lanka everything is sold through auctions that are quite transparent. The same can not be said of the Indian auctions. The tea auctions are organized by the traders under the regulatory control of the Tea Board. Auctions need to be modernized. The recently introduced electronic auctions in Coimbatore and Coonor are struggling through teething

problems. In the final analysis, the auctions can be successful only if a fair relationship exists between the auction prices and the direct sales. Scope for value addition and availability of the facilities needed for value addition improves auction prices. Such is the experience from Sri Lanka.

Tea has many varieties and varies from garden to garden and even bush to bush. National parameters on quality of tea are not aligned across producer countries. Nevertheless some standards could be developed and futures contracts considered. If a futures market for tea can be organized, that could render auctions unnecessary.

Labour Problems

Many tea gardens particularly in the Northwest India are facing closure as a result of low productivity, high cost of production and declining prices. Economically, these gardens are simply not sustainable. Labour have not been paid wages and other dues under the Plantation Labour Act for several months. In the foothills of the Himalayas, in Dooars in West Bengal, a major tea producing area, 14 tea gardens are already closed. At least 17,000 workers are jobless and the state government has admitted 571 deaths in the past 15 months. The Government has announced a Rs.1,190 crore package which will be given over a 15 year period and used to enhance productivity, including the replantation of tea bushes in the plains and rejuvenation of gardens in the hills. This will be out of a Rs.500 crore budget earmarked in the fiscal year 2007-8 for rehabilitation and replanting of the tea plantation sector. The Government has also provided financial help in the earlier years but not much has improved.

In some cases the government is also considering the option of taking over the closed tea gardens and handing them over to new owners, under a provision in the Tea Act that has never been used till now.

Most of the Government support is directed towards the tea plantations. So how much of that actually benefits the plantation labour directly is a question mark? The answer is right there in the continuous agitations and unrest among the tea plantation labour. In the context of the globalizing Indian economy, even the talk of the Government taking over sick tea plantations is a regressive step.

Low Profitability in Production

The corporates like Tata Tea have mostly got out of plantations. They realized that there is more money to be made in marketing and the risk in that is much lower although the cost of market development is quite high.

The production entails risk on account of weather conditions and falling prices. Labour cost is quite high since hand picking of tea is quite labour intensive. To reduce the cost, some plantations are resorting to longer picking cycles; say 15 to 18 days against the ideal 10 days. On top of this, they are also harvesting three or even four leave and a bud disregarding that the tea manufactured would be of poor quality and fetch low prices. The ideal is two leaves and a bud.

The high cost of fulfilling social obligations towards the plantation labour is another reason for the Corporates to get out of the plantations.

It is not that the plantations simply do not offer prospects for profit. Some companies, like Williamson Magor, do make money and have survived through even the most difficult periods. They have the experience, efficient plantation management systems in place, and principals sitting in the key markets.

Cost Leadership and Pricing

Quality leadership does not mean turning a blind eye to cost. Price is the crux of the problem and that has two known solutions: reduce availability or enlarge the markets. Producer countries have been traditionally production oriented. They need to be now more market oriented.

Non Tariff Trade Barriers

Stringent rules of labeling in the developed country markets have adversely affected growth in export trade.

Quality standards have been set by non-importing consuming countries. Some of these standards are not even scientific but they inhibit world trade and increase in consumption.

Maximum residual limits (MRL) are a hot topic among the producers. MRL operates on every single agricultural product and not specifically for tea. The Indian tea industry is by and large quite sensitive to these limits.

The cost of conforming to ever increasing regulations in the guise of food safety, consumer right to know and ethical practices is quite high. Unethical pricing does not allow adhering to ethical practices at different levels during production and trade. Fair and ethical trade requires additional cost and presently that is a load on the producer. The entire issue needs to be examined in socio-economic context. Should not the consumers in the importing countries be paying for all these?

Building Demand in a market

Building demand in a particular country is a much customized thing. There is a cost of market penetration and there are barriers to entry. In the short run, market intervention, distortion and manipulations cause a weak relationship between international prices and domestic prices. Markets are not perfect.

The world prices are mainly related to CTC teas since orthodox tea is a small segment in the global tea trade.

FAO Tea Mark

The Tea Mark project approved by the Intergovernmental Group on tea may have been a sound idea in conceptualization but it has failed to evoke much response at the producer as well as the consumer level. Some 4.6 million dollars were spent on popularizing tea marks which now seems to be surreptitiously adopted by coffee companies emphasizing “goodness of it”. Even coffee cups are looking more and more like tea cups. The producer countries don’t seem to be too keen on pursuing tea mark. The question being

asked is what can a generic promotion do for boosting tea consumption? International organization on olive oil received some 5 million euros from EU to make generic promotion and that had reportedly made significant impact.

Concluding Observations:

Competition and Competitiveness

The Indian exports of tea have been sharply declining in most of the key markets. While many individual firms seem to be doing well having created niche markets for their products, their number is definitely not increasing and could even be declining. Even in the face of major crisis during the last five years, some corporates involved in plantations have done well because of a strong relationship with their principals sitting in London and unflinching respect for quality. The Indian firms are also doing well in Kyrgyzstan, perhaps the last bastion of the Indian Tea Leaf.

The firm level competitiveness reduces as the market changes and consumers armed with increased purchasing power demand better and different options. Increasing shift towards tea bags is an example of that. The Indian firms, having made only small investments for value addition, can do well only in commodity markets. Whatever new investments in value additions, such as machineries for tea bags now coming through, are not comparable with Sri Lanka that had already invested heavily during the last decade thereby cornering a large share in the world market. Sri Lanka is of course an orthodox tea supplier and does not directly compete with India so much.

Diminishing Market Leadership

India is in CTC teas and in that the competition is with Kenya. Kenyan teas coming from relatively younger bushes have quality that is better suited for tea bags. Their labour costs are comparatively lower. Therefore, the tea industry in Kenya is more competitive than the Indian tea industry as is reflected by India's diminishing leadership in key markets. Kenya has taken over India's leadership position in almost all the key markets. As a matter of fact India is no more a key competitor in the global tea markets. The Indian tea industry is becoming less and less competitive and Indian firms are surviving mainly in the niche markets that are characterized by imports in commodity form. With exports falling steeply, the Indian tea industry is in a dilemma what to do?

Recommendations

1. There is a great deal of dissension among corporate leaders in the Indian tea industry. All kinds of prescriptions are being advanced and most of them depend on the Government action and support. On the other hand, this is the time for the Government to play only a supporting role and withdraw from all other activities as they affect the tea industry except in as much as they relate to small farmers.
2. Investments in plantations and manufacturing machines must come from the industry without any subsidy from the Government. Since the industry has to compete globally, it is necessary that they have access to capital at globally

competitive interest rates. The subsidies have always been a stumbling block in developing competitive industries.

3. The reforms in lending policies of the banks are as urgent as reforms elsewhere in the economy. The tea plantation sector needs huge infusion of capital. The banks can not shy away from their responsibility to bear the risk involved. The cost of capital has to be globally compatible.
4. The Government will have to hold the hands of the small scale tea producers until they can be organized on efficient lines. A beginning is yet to be made in that direction. On the whole, the small scale tea producer has been benignly neglected thus far.
5. The global competitiveness is rooted in quality at an affordable cost. This is an issue which involves and directly affects the industry. The industry will have to tackle this at their level as well as at the level of the individual firms. It is easier to say make good quality but there have to be buyers to pay for that. These are commercial decisions which only the individual firms can make. The government has no role in that.
6. Every firm will have to build and control its supply chain that is cost effective and manageable.
7. PFA standards are basic and need to be revisited given the present concerns for food safety and quality.
8. The market for value added teas is already crowded and it is a bit late for India to hope to make big impact on that. Nevertheless, efforts should be made in that direction in the hope that some dent can be made.
9. The bilateral agreements are mostly ending, the markets for tea in commodity forms are shrinking, countries are exercising their option to purchase tea from wherever it suits them best in terms of quality and pricing, and the other global producers are keenly eyeing the Indian market. The writing on the wall is very clear.
10. As and when the Indian market opens for unrestricted tea imports, the Indian producers would further suffer. Perhaps traders would shift from export business to import business leaving producers in lurch and the Government fire fighting routinely.

¹ This paper is based on extensive field research in India, Sri Lanka, Kenya, and Indonesia. The author collected qualitative information as well as data from the tea industries and the Tea Boards in these countries.

Asopa, V.N., (2004), *Competitiveness in Global Tea Trade*, Oxford & IBH Publishing, New Delhi.

Asopa, V.N.,(2006), *India's Global Tea Trade*, IIM Ahmedabad.

The analysis is based on primary data published by International Tea Committee in Annual Bulletin of Statistics, London, various issues.

² Tea Board (2002), *Mid Term Plan Strategies of Increasing Exports*, Kolkata. The study was done by Accenture. Tea Board constituted a group to implement the recommendations. In the final analysis nothing much was implemented.

³ Tea Board, *Tea Statistics*, Kolkata.

⁴ Tea Board of Kenya, Nairobi. Also see, Fact Sheet, from the same source.

⁵ Tea Board of Sri Lanka, Colombo.

⁶ This was also the gist of the discussion during the Consultative Group Meeting of the FAO Intergovernmental Group on Tea held in Bali during 2004. Recognizing the difficult situation that faced the global tea suppliers, Kenya and Sri Lanka felt that the problem of the surpluses can be easily overcome if the Indians could consume one more cup of tea every day. Even within India, the exporters from the South were gearing up for tea markets in the North and West Indian states.

⁷ There is no restriction on growing tea in Kenya. The small farmers find that remunerative and so Kenya continues to expand area under tea. Whenever a tea factory is faced with demand to process more green leaf than what it can handle, the Tea Board issues license for establishing a new factory. However, the profitability from growing tea will be quite affected by the appreciating value of the Kenyan Shilling. The farmers are already quite concerned about the falling prices. Kenya Tea Development Agency (KTDA), the management agency for small tea grower members, has already started exploring other business avenues in order to keep returns to the farmers steady.

⁸ The Tea Board Kenya explicitly recognizes that unless the consumption at home and neighbouring African countries increase, the increasing production can not be marketed.

Exhibit 1: Export of Tea from India during 1998-2004					
Export from India	1998	2004	Incremental	India's	Comments
Importing Markets	(MT)	(MT)	Volume (MT)	Exports	
U K	21273 (10.2% share in India's export)	17606 (9.8% share in India's export)	- 3667 (17.2% decline)	Decline	Declining Imports: In 1998, UK imported 175830 MT of tea which declined to 156199 MT in 2004. This period experienced a -1.29% growth rate. The share of UK in world import also declined from 11.7% in 1998 to 9.1% in 2004. The UVR also declined from 2.06 Th.\$/MT to 1.87 Th.\$/MT during the same period.
France	316 (0.2%)	175 (0.1%)	- 141 (44.6% decline)	Decline	Increasing Imports: The import of tea in France increased from 15721 MT in 1998 to 16186 MT in 2004, witnessing a 1.6% growth during the period. Also the UVR increased from 5.18 Th.\$/MT to 6.31 Th.\$/MT. However, the share in world import marginally declined from 1% to 0.9% during the same period.
Germany	5166 (2.5%)	4777 (2.7%)	- 389 (7.5% decline)	Decline	Increasing Imports: In 1998, Germany imported 39374 MT which increased to 43412 MT in 2004, witnessing a 2.73% growth during the period. The uvr increased from 3.28 Th.\$/MT to 3.36 Th.\$/MT in 1998 and 2004 respectively. The share in world import of tea declined from 1.8% to 1.5% during the same period.
Ireland(Rep)	2517 (1.2%)	2356 (1.3%)	- 161 (6.4% decline)	Decline	Increasing Imports: Tea import experienced growth of 2.59% during 1998 to 2004. The total import increased from 10431 MT in 1998 to 10949 MT to 2004. The uvr increased from 2.63 Th.\$/MT to 3.05 Th.\$/MT during the same period. The share in world import marginally declined from 0.8% in 1998 to 0.7% in 2004.
Netherlands	1939 (0.9%)	2974 (1.7%)	1035 (53.4% increase)	Increase	Increasing Imports: The share of Netherlands in the world import to tea declined from 0.6% in 1998 to 0.5% in 2004. However, its imports grew at a rate of 2.58% during the same period. Imports in 1998 were 25495 MT and that in 2004 were 27807 MT. The uvr increased from 2.18 Th.\$/MT to 2.31 Th.\$/MT.
Poland	9879 (4.8%)	5104 (2.8%)	- 4775 (48.3% decline)	Decline	Increasing Imports at constant rate: The absolute quantity of import of Poland increased from 29850 MT to 32114 MT, growing at a rate of 0.6% during 1998 and 2004. The share in world imports declined from 2.4% in 1998 to 2.3% in 2005.
USSR	94582 (45.6%)	48505 (27%)	- 46077 (48.7% decline)	Decline	
Canada	752 (0.4%)	1204 (0.7%)	452 (60.1% increase)	Increase	Increasing Imports: The share of Canada in world import of tea declined from 1.4% in 1998 to 1.2% in 2004. The imports however, grew at a rate of 1.98%. The absolute quantities increased from 17311 MT to 18827 MT during 1998 and 2004 respectively. The uvr increased from 4.01 Th.\$/MT to 5.26 Th.\$/MT during the same period.

Export from India Importing Markets	1998 (MT)	2004 (MT)	Incremental Volume (MT)	India's Exports	Comments
USA	3194 (1.5%)	5781 (3.2%)	2587 (81% increase)	Increase	Increasing Imports at constant rate: In 1998, USA imported 96650 MT of tea and in 2004 the quantity increased to 99484 MT. The imports during this period grew at a rate of 0.62%. The uvr also increased from 1.76 Th.\$/MT to 1.88 Th.\$/MT. However, the share of USA in world import declined from 7.8% to 7% during this period.
Saudi Arabia	3780 (1.8%)	699 (0.4%)	- 3081 (81.5% decline)	Decline	Declining Imports: Saudi Arabia's share in the world import of tea declined from 1.5% in 1998 to 1% in 2004. The imports have declined at a rate of 3.36% during this period. The quantity imported in 1998 was 18500 MT and that in 2004 was 14000 MT.
UAE	23040 (11.1%)	24744 (13.7%)	1704 (7.4% increase)	Increase	
Iran	1097 (0.5%)	3272 (1.8%)	2175 (198.3% increase)	Increase	Increasing Imports at decreasing rate: The share of Iran in the world import of tea declined marginally from 2.7% in 1998 to 2.6% in 2004. However, the absolute quantity of imports increased in the country from 33400 MT to 37000 MT during the period 1998 to 2004. In spite of the increase in imports during the two years the period witnessed a negative growth of 1.54%.
Iraq	10118 (4.9%)	24732 (13.7%)	14614 (144.4% increase)	Increase	Increasing Imports at constant rate: The import of tea in Iraq grew marginally at a rate of 0.42% from 49700 MT in 1998 to 50000 MT in 2004. This increase in quantity did not contribute to Iraq's share in the world import which declined from 4% to 3.5% in the two years.
Japan	2911 (1.4%)	2625 (1.5%)	- 286 (9.8% decline)	Decline	Increasing Imports at decreasing rate: In 1998, Japan imported 45317 MT of tea which increased to 56196 MT in 2004. However, this period witnessed negative growth of 1.1%. Moreover, the uvr also declined at a rate of 1.39% from 3.98 Th.\$/MT in 1998 to 3.44 Th.\$/MT in 2004. But the share of Japan in world import increased from 3.6% to 4% during the same period.
Pakistan	1392 (0.7%)	3526 (2%)	2134 (153.3% increase)	Increase	Increasing Imports at constant rate: Though the imports of tea in Pakistan grew at a rate of 0.99% from 111559 MT in 1998 to 120017 MT in 2004, its share in the world import declined from 9% to 8.5%. The uvr declined at a rate of 5%. The uvr in 1998 was 2.21 Th.\$/MT and in 2004 it was 1.69 Th.\$/MT.
Syria		2467 (1.4%)	2467	Increase	Increasing Imports: Syria witnessed a 9.1% growth during the period 1998-2004. Its import of tea increased from 19109 MT in 1998 to 29500 MT in 2004. Moreover, its share in the world market increased from 1.5% to 2.1%.

Export from India Importing Markets	1998 (MT)	2004 (MT)	Incremental Volume (MT)	India's Exports	Comments
Egypt	6651 (3.2%)	100 (0.1%)	- 6551 (98.5% decline)	Decline	Increasing Imports at decreasing rate: The share of Egypt in the world market declined from 5.3% in 1998 to 5.1% in 2004. This decline was experienced inspite of an increase in the absolute quantities imported into the country. The imports in 1998 were 65193 MT and that in 2004 were 71670 MT. This increase in quantity however showed a declining rate of 0.9%.
Morocco	-	-			Increasing Imports: The imports in Morocco increased at a rate of 3.13%, from 40613 MT in 1998 to 45669 MT in 2004. The uvr declined from 1.92 Th.\$/MT to 1.59 Th.\$/MT during the same years. The share in the world market showed a marginal decline from 3.3% in 1998 to 3.2% in 2004.
Sudan	567 (0.3%)	96 (0.1%)	- 471 (83.1% decline)	Decline	Declining Imports: Share of Sudan in the world market declined from 1.5% in 1998 to 1.2% in 2004. This decline can be attributed to the decline in the quantity imported from 19000 MT to 17000 MT in the same years.
Australia	1218 (0.6%)	4803 (2.7%)	3585 (294.3% increase)	Increase	Declining Imports: A negative growth of 2.43% was witnessed in the period 1998-2004 in Australia. The imports fell from 16662 MT in 1998 and 14027 MT in 2004 respectively. The uvr increased at a rate of 3.98% from 3.58 Th.\$/MT to 4.8 Th.\$/MT in the same years. Australia's share in the world market declined from 1.3% to 1%.
South Africa	-	-			Increasing Imports: South Africa experienced an increase in imports and also its share in the world import market. Its imports increased from 12957 MT in 1998 to 16568 MT in 2004, which moved its share up to 1.2% from 1%.
Chile	-	-			Increasing Imports: Chile experienced an increase in imports and also its share in the world import market. Its imports increased from 14058 MT in 1998 to 20210 MT in 2004, which moved its share up to 1.4% from 1.1%.
India's Total Export	207639	179957	- 27682 (13.3% decline)	Decline	Declining Exports: Export of tea from India is declining at a rate of 2.3% during the period 1998-2004.
World Export	1304896 (15.9% share of India)	1540001 (12.8% share of India)	235105 (18% increase)	Increase	
* Import quantities are not adjusted for re-exports.					
** unit value realization (uvr) is an approximation based on cif values.					

Exhibit 2: India's Share in Selected Markets for Tea





