CHAPTER-III

POLICY CHANGES IN THE MARKETING SYSTEMS OF COFFEE AND TEA
3.1 Introduction

Marketing includes all business activities involved in the flow of goods and services from producers to consumers. In a system perspective marketing system explains how all activities of producers and consumers are connected to each other. This also includes all other market players involved in bringing the produce from the producer to the consumer. In the case of agricultural commodities which need processing before its final consumption stage processors play multiple roles and they are important part of the marketing system.

Several of the marketing systems have evolved within the conditions existing in the production sector and the nature of the goods to be marketed. The type of product, the number, size, density of producers, the infrastructure and the policy and institutional environment, all determine the type of marketing system and the effectiveness with which it operate.

Analysing a marketing system generally includes a quantification of the flows and the value added, costs and profit margins at each stage of the system.

Marketing system provides three types of functions.

1. Exchange Functions
   (a) Buying
   (b) Selling
   (c) Pricing
2. Physical Functions
   (a) Assembling
   (b) Transport and handling
   (c) Storage
   (d) Processing and packaging
   (e) Grading and standardization

3. Facilitating Functions
   (a) Financing and risk bearing
   (b) Market information
   (c) Demand and supply creation
   (d) Market research

The roles of market players/agents vary depending on the functions they perform and some time each agent performs several functions. Commission agents may sometimes operate on behalf of wholesalers for a percentage of price paid. Similarly brokers may act as information agents providing market information to the producers and wholesalers.

Processors play an important role in agricultural products. In the case of coffee and tea processors perform either a single function of processing, or also perform the function of storage or wholesale trade. Some of the processors provide processing services to smaller traders.

The role of middlemen who link the producer and consumer is performed by different agencies in different countries and for different products. The four generally observed agencies are
1. Independent locally based private enterprises
2. Cooperatives
3. Marketing Boards and other state enterprises
4. Transnational companies

3.2 Stages in the Evolution of Coffee Marketing System

Though coffee and tea, both are plantation crops, there are differences in the growth of the present marketing systems of these crops. The present chapter traces the evolution and recent changes in the marketing systems of these two crops.

3.2.1 Phase – I - Open Marketing System

Coffee marketing system has undergone several changes in the process of evolution of present system. Earlier to the establishment of Coffee Board, it was an open market system. Since coffee requires processing before it reaches consumer, processors or coffee curers were playing an important role. About 50 percent of the crop was handled by curers, 20 percent by commission agents, 15 to 20 percent by itinerant merchants, 10 percent by wholesale dealers and 4 to 5 percent by brokers. About 2 to 3 percent of the crop was brought by the planters to the market (Indira, 2014).

Curers and commission agents combined the functions of financier, curer, assembling agent and wholesale buyer. The largest number of well established and reputed curers was concentrated in Mangalore. About 40 to 50 percent of coffee was assembled and marketed through Mangalore and 75 percent of the exports passed through this port. Coimbatore, which comes next, was the biggest assembling centre for coffee produced in Madras presidency, Travancore and Cochin. It was estimated that about 10 to 15 percent of the coffee was sold on forward delivery basis. This
The curers and wholesale distributors used to make forward contract with planters. The curers and commission agents assembled and distributed about three-fourths of the total crop. The curers effected sales through brokers or direct to manufactures. The curers in Coimbatore were retailing a considerable quantity of coffee through their agents in the chief consuming centres in South India.

The wholesale distributors were purchasing coffee from planters, curers and commission agents and were selling it to retailers or wholesalers in other distributing centres. Some wholesale distributors were keeping travelling agents / sales men who visited consuming centres and booked orders from the wholesalers, coffee clubs and retailers. They were paid a commission of 1 to 2 percent on sales.

The London market was an important distribution centre and the London trade was largely done in coffee known in the trade as “Home trade” quality coffee from particular plantation had special ‘Estate Mark’. Coffee sent on consignment basis was usually sold by public auction through agents is Mincing Lance. Auctions were generally held on Tuesday, Wednesday, Thursday and Friday. The actual selling was done by competitive bidding.

There were no publications about the competitive coffee prices. Planters were not in a position to obtain latest prices prevailing in the competitive markets. The wholesale distributors in the south were getting loans from the local bank on the security of the stocks which were kept under the control of the bank. In the case of exporters to the continent, 97 percent of the invoice value was drawn against the bank.

According to the report on the Marketing of coffee in India, the curers were obtaining loan from the banks at an interest rate of 4 percent and make profit by advancing this to the planters at 5 percent. The commission agents also secured a net
profit of 5 to 7.5 percent by way of interest in a similar manner. When the greater part of the Indian Coffee was shipped to London for sale or for re-exporting, the London firms used to finance the planters. More than 75 percent of the acreage under coffee in India was encumbered. Either the crop or the estate was mortgaged and the interest changes ranged from 7 to 25 percent. Once the crop was hypothecated, the planter was not having option in choosing his curers and sellers. Further, the marketing charges on hypothecated crop were frequently about twice of those on the non-hypothecated crop.

There were attempts by the growers associations like the Coffee Growers Association of India and the shevaroy Coffee Growers Company etc., to bring together coffee growers to establish a central agency for the sale of coffee. But these attempts were not fruitful, until the enactment of the Indian coffee Cess Act in 1935.

Thus, the coffee Marketing system before the establishment of the Coffee Board was highly unorganized. It was a small planter dominant sector that was highly depending on curers, commission agents and brokers for marketing the produce.

3.2.2 Phase - II - The Controlled Marketing System

The second phase in the coffee marketing system witnessed controlled marketing with the establishment of Coffee Board. Centralized pooled marketing system introduced by the Coffee Board brought in a control on internal release and exports of coffee.

Exports were the major source to dispose off the coffee produced in the country till the first quarter of the present century. But diseases and the general great depression caused a great deal of damage to the coffee industry. Coffee production became unprofitable. When the curers were exercising larger power, producers felt
the need for some centralized organization. The producers made a representation to
the Government of India. The Government passed the coffee Cess Act (XIV of 1935)
and set up the first Coffee Cess Committee in November 1935, with the main
objective of promoting the sale and increasing the consumption of Indian coffee at
home and aboard. Once again with the outbreak of second world war, the European
continental markets, the major outlets for Indian coffee were closed. This caused a
great crises in the industry. Government of India convened a meeting that is, first
Coffee Control Conference in September 1940, the outcome of which is the present
coffee Board. In pursuance of unanimous recommendation of the conference the
Government promulgated the Coffee Market Expansion ordinance (XIII of 1940)
setting up the Indian Coffee Market Expansion Board on 21 December 1940, which
was empowered to collect and market the estimated exportable surplus of the year.
This was the very first step in the process of centralizing the entire market structure.
The Market Expansion Board’s term was only up to 31 August 1941. Under the
Ordinance of 1940, only 60 percent of the crop and estates of 25 acres and above were
under control 40 percent of the crop was allotted as internal quota to the grower. The
growers had to deliver only 60 percent of their coffee produced which was an
estimated exportable surplus. The 40 percent internal quota was to be sold in the
internal market.

The life of the Ordinance was extended up to 30 June 1942 by a second
Ordinance (VIII of 1941) in March 1942. By this control was extended to estates of
10 acres and above. The Coffee Market Expansion Act (VII of 1942), which replaced
the ordinance, extended the control period to cover the duration of the war and the
crop year (July to June) thereafter. Under the Act of 1942, the members of the Board
consisted of the representatives of the Grower’s Associations, nominees of
Government of India and the nominees of the state governments concerned and the representatives of labour under an elected chairman. With this Act, all the estates of 5 acres and above were brought under the control and the internal sale quota was reduced to 10 percent of the crop in 1942–43. Thereafter, Notification No. 59 (4) IP/43 of 29 August 1943 extended the scope of the Act to every estate irrespective of the acreage and internal sales quota system was abolished.

In April 1946, the Fourth Coffee Control Conference unanimously recommended the continuation of the regulated coffee marketing even after 30 June 1947. The Government of India accepted this recommendation which resulted in passing of the Coffee Act of 1947 placing the Coffee Market Expansion Act, 1942 on a permanent footing. When the Government felt the need for expansion and reconstitution of the Board, the Coffee Market Expansion Act, 1954, was passed. This increased the scope of the Act to a greater extent. The amendment was made to extend the functions of the Board over a wide field and to make its sphere of activities more comprehensive. It also provided for the appointment of a full time chairman of the Board. Whilst the Act of 1942 was for “assistance to the coffee industry by regulating the export and sale of coffee and by other means”, the Act of 1954 provided for “development under the control for the union of the coffee Industry”. It provided a distinct representation for small growers and planters interested in Robusta cultivation. Changes were made in the constitution of the Board in order to carry out the new objectives. The system of direct election of large growers representatives was introduced. Consumers were represented for the first time in the Board nominated by the Government.
Under this Act all estates were to be registered. Growers had to surrender their entire produce, except small specified quantities for their own consumption to the Board and the Board arranges for the sale. The quantity to be released for internal sale and for export would be determined by the Board each season. Payment of a basic price sanctioned by the Board was made in full to growers producing less than one tone on delivery and in instalments to the others in direct proportion to the quantity of coffee delivered by them. The proceeds of the sale of different kinds of coffee were finally divided pro-rata according to the deliveries made by each grower.

3.2.2.1 Organization and Function of Coffee Board

The Coffee Board of India is an autonomous body, functioning under the Ministry of commerce and Industry, Government of India. The Board serves are as a friend, Philosopher and guide of the coffee industry in India. Set up under an Act of the parliament of India in the year 1942, The Board focuses on research, development extension, quality up gradation, market information and the domestic and external promotion of coffee of India. Till 1995, the coffee Board had a pool (controlled) marketing system of coffee in India. However, the winds of liberalization swept the Indian coffee industry and since 1995, marketing of coffee is strictly a private sector activity. In fact the coffee board went through a massive downsizing and two–thirds of its employees were retired under a voluntary retirement scheme.

The coffee Board conducts basic and applied research on coffee and can boast of 75 glorious years in coffee research. The central coffee Research Institute in Chikmagalur District, Karnataka state has been in the forefront of coffee research over the years and continues to remain one of the premier institutes of the world as far as coffee research is concerned.
The Research Department publishes various Journals and periodicals. It also offers various services to growers and exporters. The Board also has a vast extension network spread over the three main producing states of Karnataka, Kerala and Tamil Nadu, as well as in the non-traditional areas of Andhra Pradesh, Orissa and the seven North – Eastern States. The extension set up provides the day to day link with the grower community and this wing facilitates the transfer of technology from lab to land. The Board encourages the consumption of coffee in India and abroad. Towards this end, the Board participates in coffee centric / Food and Beverages exhibitions in India and abroad. The Board also runs 12 India Coffee Houses / depots in the country. The India Coffee, brand of coffee powder is well known in India for its quality and aroma.

The Board has a Market Intelligence and statistical unit functioning from its head office at Bangalore. The unit undertakes various activities related to market information and intelligence, market research studies, crop forecasting and coffee economics aspects. The unit also undertakes studies on research related to the coffee trade including WTO issues.

3.2.2.2 Marketing of Coffee under Pooled Marketing System

Marketing regulation was complete under Coffee Board. Board introduced 100 percent pooled marketing system. Under this new system all the producers of coffee were obliged to surrender their entire produce except a little quantity permitted for home consumption, to the Coffee Board. Coffee Board worked as a supply controlling system. All the private coffee curers existing before the enactment of the Coffee Act were brought under the control for the Board. They were given license to collect the produce, process it and store it on half of the coffee Board. At the primary
level, pool depots acted as collectors of the produce. These pool depots were situated in the coffee growing regions to facilitate the small grower to deliver his produce. Big growers deliver their produce directly to the curing works. There were 253 collecting depots and 28 curing works in India. Both cured and uncured coffee was delivered to the pool. On the delivery of the produce, the producer was paid some initial payment. After selling the produce, the sale precedes less the expenses of the Board were distributed to growers on the bases of a Price Differential Scale (PDS) which takes into account the quantity of crop and the market realizations.

3.2.2.3 Internal Release

Marketing department, which is one of the eight departments of the Coffee Board, with experienced personnel, was deciding the quantity to be released in the internal and export markets.

Sources of Internal Release

Coffee was reaching consumer through the following channels under the regulated marketing system:

1. Internal pool Auctions
2. Co-operative Societies
3. Local Sales Dealers
4. Propaganda Depart

1. Internal pool Auctions: This the major channel for releases in which more than 80 percent of the total internal release was auctioned. Licensed auctioneer can participate in the auctions for his requirements. Board conducts auctions at Bangalore, Coimbatore and Vijayawada once in every month. At the time of internal auctions Minimum Release Price (MRP) was announced below which
coffee would not be sold. The basis for the fixation of MRP is cost of production study conducted by Government of India. It is intended only to uphold the prices. Until 1975, the MRP used to be fixed by the Coffee Board. But later it was taken over the Government of India. By section 16 of the Coffee Act, Government of India is empowered to fix the price for selling of coffee at the wholesale and retail levels in the internal market. But normally, in practice, government control ends at the auction level. Due to the large number of wholesalers and retailers, neither board nor government can exercise control over the wholesale and retail prices.

2. **Co-operative Societies:** Coffee Board used to set certain quantity of coffee to be released through some of the co-operative societies. Coffee would be allotted to these societies at a discount rate 2/12 percent over the auction prices. It is 5 percent in the case of societies in non-traditional areas to encourage coffee consumption. By 1986, 40 societies in Tamil Nadu, 19 in Karnataka, 4 in Kerala, 2 each in Andhra Pradesh and Maharashtra and one in Delhi were drawing coffee from the Board.

3. **Local Sales Dealers:** Local sales dealers were dealers registered with the Board who were supplied coffee directly from the Board. Allotments were made at the average price secured at the Bangalore auction of the previous month to the dealers in Karnataka, at the Coimbatore auction to the dealers in Tamil Nadu, at the Vijayawada auction to the dealers in Andhra Pradesh, and overall average prices of all the three auctions to the dealers in Maharashtra, Kerala, Delhi and Calcutta. An additional charge of RS.10 was added to the allotment rate towards transport charges. During 1986, there were 598 registered local sales permit holders.

4. **Propaganda Department:** Nearly 10 percent of the total internal release was through propaganda department. Through India Coffee depots, India coffee
houses and India coffee vans, coffee was supplied in liquid as well as raw and powered form. For the promotion of coffee consumption, Board participates in fair, exhibitions and seminars etc., Coffee was sold at concessional rate through this outlet. There used to be 48 Indian coffee depots working all over India. Among them 10 were in Tamil Nadu, 9 in Karnataka, 7 in Andhra Pradesh and 6 in Kerala. There were 12 coffee Houses and 4 coffee vans are also were catering to the needs of the consumers with liquid coffee.

3.2.3 Phase - III - De-regulated Marketing System

The third phase in the marketing system of coffee started with the trade liberalization. De-regulation of coffee trade is a result of changes in the
macroeconomic policies in the country. The dissatisfaction among the growers about the
working of the Coffee Board, mounting marketing costs and the delay in payments have
prompted the growers to demand for de-pooling system (Indira, 2007). The macroeconomic policy of liberalization also added to the pressure for de-regulation. However, the hundred percent de-regulation come in stages. In the first stage an Internal Sales Quota (ISQ) of 30 percent was given to growers in 1993 and later it was extended 70 percent and subsequently in 1996 complete de-pooling was introduced. At present coffee marketing system is an open system in which the growers are free to sell their coffee in the internal or international market without any restrictions. The opening of coffee trade and withdrawal of Coffee Board from the marketing functions resulted in various changes.

Open marketing system witnessed the emergence of a large number of curers, traders, roasters and exporters to perform the marketing functions. Under the present system, the grower has several options to sell the produce. Growers / Trader have formed an association called Indian Coffee Traders Association (ICTA) which conducts auctions on behalf of the growers / sellers. A part from this, large traders and exporters collect coffee through their agents and a large number of local traders also purchase coffee directly from the grower. At present, the growers can sell coffee through any of these channels:

1. Local Trader
2. Local agent of a trader / exporter
3. Through, Indian Coffee Trade Association (ICTA)
4. Own marketing

Under the open systems coffee reaches consumer through several sources.
At present Indian Coffee producers have three ways to market their coffee (a) sell directly to exporters through an exporting agent (b) hold it in a curing factory before selling it, (c) sell it at voluntary auctions. Small holders, who dominate the Indian coffee scenario, mostly sell their parchment coffee or dry cherry to exporters though exporting agents. The agent takes the coffee beans to the curing factory, where they are checked for quality which must meet the exporters standards. The second method allows the coffee grower to store the coffee with the curer before selling it in order to speculate on price movements. Under the third method adopted mostly by large producers, coffee is sold at a voluntary auction, organized by the Indian coffee
trader Association. In this case, the producer takes the coffee to the curing factory and stores the green beans in the auction warehouse, sending a sample for auction.

The coffee supply Chain in India consists of four major players:

a) Planters who are the coffee growers and plantation owners,

b) Exporters who contract with International trading houses and international roasters,

c) Domestic roasters who produce coffee for the domestic market, and d) Intermediaries such as agents, brokers and traders who perform several roles such as searching for buyers and sellers and negotiating deals on behalf of other participants.

The Indian Coffee Traders Association (ICTA), a co-operative of coffee planters and traders, holds a coffee auction every Thursday in Bangalore. The auction, which was earlier monitored by the Coffee Board, now represents an independent but important element of the coffee supply chain. It is the major weekly coffee auction held in India, but other auctions are also held in various coffee growing regions of the country. Planters, brokers and agents carry a sample of coffee to the auction where the lots are sold through oral, ascending bid. Each weekly ICTA auction has approximately 600 tons of coffee offered for sale, representing approximately 300 lots per week. On a yearly basis, this accounts for approximately 11 percent of total coffee production in India.
3.3 Marketing of Tea

Tea marketing has behind a long history in the world. It dates back to 17th century during the British East India Company. The historical journey of tea marketing in India is presented below.

3.3.1 History of Tea Marketing

Tea auction has a long history which dates back to 17th century. Till date it is considered as the most preferred mode of disposal of tea among the tea growers.

In the world first tea auction was organized by The East India Company in U.K. In those days tea auction meant an institution for transferring tea from China to Western World (Europe) as consumption of tea was higher in that part. The whole monopoly of this marketing system was enjoyed by the East India Company. In 1836, an order was passed that every tea chest must be auction at East India House. The East India Company had enough power to enforce the order. During that time tea was sold in the light of a candle. A candle was lit at the beginning of the sale, one could bid for a particular lot till one inch of the candle had burnt away. Moving away from the normal mechanism of commerce, this order affected everyone related to tea marketing. Due to public pressure the authority felt the urgent need of an actual auction system where tea would be sold giving equal opportunity to all buyers. By the middle of the nineteenth century the tradition of selling by the candle was replaced by more practical methods. As a result the first formal and organized auction centre for tea with every particular characteristic was established on 10th Jan 1837 at Mincing lane in London (Fernando,1998). In those days tea chest were transferred to company’s warehouses and samples were given to the tea tasters for grading and valuing. Auction was held among brokers, their clients and the London merchants.
There was no change in the monopolistic nature of the company even after modification of former unstructured tea trade at auction centres. This marketing system has remained highly organized ever since the first consignment of Assam tea was put up to London Auction on 10th Jan 1839, which was recognized as the first auction sale of Indian tea in the international market.

Till the world’s tea production controlled by the British, auction trading through London auction was the most accepted one.

In world war second (1939–1945) more than sixty percent tea of the entire world, which was under British control, was marketed in London. But with the development of tea industry the producers in different countries found defects in this system. Even after the war was over in 1945, London auction centre did not reopen till 1951. It has resulted in over supply of tea in different producing countries. As an alternative to London Auction, sale was resumed at Calcutta (1946) and Colombo (1947) auctions to dispose off this surplus. This was not sufficient for marketing all the produced tea of the world and a need arise to establish new auction centres in different producing countries. As a result new auction centres were established in Cochin, Amritsar, Coonoor, Guwahati, Siliguri, Jalpaiguri, Coimbatore, Mombasa, Chittagong, Limbe and Djakarta, which lead to a sharp decline in the quantity sent to London auction. Gradually it was seen that London Tea Auction Centre had lost its former priority. Till 1930 Indian teas were occupying almost 60 percent of total tea offered in London Auction. But after the India’s independence in 1947, indigenous producers preferred to sell their tea in native auctions, avoiding the time and cost of sending them to London auction. Other producing countries like Sri-Lanka and Kenya also stopped sending tea to the London auction. When auction was resumed in 1951 at
London auction, sale quantities had declined from over 200 thousand tons during the peak period to only about 50 thousand tons. This trend that emerged from the early 1980s continues to reach critical level to 16 m.kg only in 1996. At last on 29th June 1998 the first tea auction centre of world that is, London Tea Auction was closed down.

Following the closer of London Auction, like other countries British India also established is first auction centre in Kolkata on 27th December 1861. It has the honour of being the second tea auction centre in the world. Earlier auction in Kolkata was conducted by Kolkata Tea Brokers Association but from 1947 Kolkata Tea Traders Association had taken the change. Among the 14 auction centres of the world nine are situated in India.

### 3.3.2 Establishment of Tea Board

The genesis of the Tea Board of India dates back to 1903 when the Indian Tea Cess Bill was passed. The Bill provided for levying a cess on tea exports, the proceeds of which were to be used for the promotion of India tea both within and outside of India. The present Tea Board set up under section 4 of the Tea Act 1953 was constituted on 1st April 1954. It replaced the central Tea Board and the Indian Tea licensing Committee which functioned respectively under the central Tea Board Act, 1949 and the Indian Tea Control Act, 1938. The activities of the two previous bodies had been confined largely to regulation of tea cultivation and export of tea as required by the International Tea Agreement then in force, and promotion of tea consumption.

### 3.3.3 Organization of Tea Board

The present Tea Board is functioning as statutory body of the central Government under the Ministry of Commerce. The Board is constituted of 31
members (including chairman) drawn from members of parliament, tea producers, tea traders, tea brokers consumers and representatives of Governments from the principal tea producing states, trade unions. The Board is reconstituted every three years.

The following are the standing committees of the Board

1. Executive Committee
2. Export Committee
3. Labour Welfare Committee
4. Development Committee

The Executive Committee deals with the administrative matters of the Board.

The Export Promotion Committee deals with the work in relation to the export promotion of tea.

Labour Welfare Committee guides the Board in implementation of various welfare schemes for the benefit of the plantation, workers and their wards.

The Development Committee is responsible for overseeing the various development schemes run by the Board.

**3.3.4 Functions of Tea Board**

The Tea Board has wide functions and responsibilities under the direction of the Central Government. Briefly the primary functions of the Tea Board are as follows

a. Rendering Financial and technical assistance for cultivation, manufacture and marketing of tea.

b. Export promotion
c. Aiding Research and Development activities for augmentation of tea production and improvement of tea quality.

d. Extend financial assistance in a limited way to the plantation workers and their wards through labour welfare schemes.

e. To encourage and assist both financially and technically the unorganized small growers sector.

f. Collection and maintenance of statistical data and publication.


g. Such other activities as are assigned from time to time by the Central Government.

3.3.5 Offices of Tea Board

a) Offices in India: with Head office located in Kolkata, West Bengal it has nineteen offices which include zonal, Regional and sub-regional offices located at cities and towns.

b) Foreign offices: Currently Tea Board has three overseas offices located at London, Dubai, and Moscow. All these foreign offices of the Board are designed to undertake the various promotional measures to boost up export of Indian tea. These offices also act as liaison office for interaction between imports of Indian tea of the respective regions as well as Indian Exporters.

3.3.6 Marketing Systems of Tea

Though tea is sold in auctions, at present it is not compulsory on the part of the producer to sell only through auction. Growers have a choice to sell either through auctions or through ex-garden sales or forward contract. According to the tea (marketing) control order 1984 till 2001, sale of 75 percent of tea through auctions was compulsory till 2001. After the abolition of this order in 2001 producers were
given freedom to sell their tea through the channels they prefer. Therefore three main preferred modes for the disposal of tea are (a) through auction (b) ex-factory or ex-garden sale and (c) forward contract.

In India, tea marketing process can be divided into two stages, primary and secondary markets. Primary marketing channels help in moving made-tea from the grower to the bulk tea buyers. It also explains the movement of tea directly from producers to national or international buyers. This channel carries tea from producer to auction centres where it changes hands from the producers to the large buyers through brokers. Secondary marketing channel includes, the movement of bulk tea, which is purchased in bulk at primary market, through auction trading to ultimate consumers. In this chain tea passes through wholesalers, commission agents, blenders, packers and retailers. But till date the auction trading has remained by for the most important marketing channel for the tea growers.

According to the Tea Board, producers having up to 10.12 hectares of area under tea cultivation are treated as small growers and beyond that are big tea growers. Small tea growers sell their tea leaves to the collectors or the buying centres. They give it to Bought Leaf Factory (BLF) for further processing as small tea growers are not equipped with processing factory. On the other hand most of the big tea estates have their own factory. Tea generally moves directly from factory either to auction centre for sale or to direct sale to national or international buyers.
3.3.7 Tea Auction System

Among the 14 auction centres of the world nine are situated in India. These are Amritsar, Calcutta, Cochin, Coimbatore, Coonoor (two centres), Guwahati, Jalpaiguri and Siliguri.

Auction makes it possible to distribute a large quantity of tea within a shortest period and with an organized manner. Furthermore it provides reliable means of selling and buying tea.
Table 3.1  
The Auction Centres in India

<table>
<thead>
<tr>
<th>Sl No.</th>
<th>Auction Centre</th>
<th>Auction Organizer</th>
<th>Year of starting</th>
<th>Auction held on</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kolkata</td>
<td>Kolkata Tea Traders Association</td>
<td>1861</td>
<td>Monday &amp; Tuesday</td>
</tr>
<tr>
<td>2</td>
<td>Guwahati</td>
<td>Guwahati Tea Auction Committee</td>
<td>1970</td>
<td>Tuesday &amp; Wednesday</td>
</tr>
<tr>
<td>3</td>
<td>Siliguri</td>
<td>Silguri Tea Auction Committee</td>
<td>1976</td>
<td>Thursday &amp; Friday</td>
</tr>
<tr>
<td>4</td>
<td>Jalpaiguri</td>
<td>North Bengal Tea Auction Committee</td>
<td>2005</td>
<td>Initially weekly, Presently fortnightly</td>
</tr>
<tr>
<td>5</td>
<td>Amritsar</td>
<td>Kangra tea Planters Society</td>
<td>1964</td>
<td>Fortnightly</td>
</tr>
<tr>
<td>6</td>
<td>Cochin</td>
<td>Tea Trade Association of Cochin</td>
<td>1947</td>
<td>Tuesday &amp; Wednesday</td>
</tr>
<tr>
<td>7</td>
<td>Coonoor</td>
<td>Coonoor Tea Trade Association</td>
<td>1963</td>
<td>Thursday &amp; Friday</td>
</tr>
<tr>
<td>8</td>
<td>Coonoor</td>
<td>Tea Serve</td>
<td>2003</td>
<td>Wednesdays</td>
</tr>
<tr>
<td>9</td>
<td>Coimbatore</td>
<td>Tea Trade Association of Coimbatore</td>
<td>1980</td>
<td>Fridays</td>
</tr>
</tbody>
</table>

Source: Tea Board of India.

In India out of 800 thousand tons bulk packaged tea, 500 thousand tons is sold through public auction annually (Kakali Hazarika, 2009). Auction takes place among five important stake holders. They are as follows

- Auction Organizers
- Seller / Manufactures
- Brokers / Auctioneers
- Buyers
- Warehouse keepers

In this auction process auction organizers monitor the whole auction mechanism and publish reports of the sale. Sellers or manufacturers do not have any active role in this system. They simply give the authority of their tea to concern...
broker and this broker sells tea after tasting and grading. These brokers are the controller of the whole selling process. They collect samples of tea from the warehouses and send them to registered buyers. Accepting or rejecting a bid for a particular lot of tea is also in their hands. Besides these, a buyer cannot bring tea from warehouse without the permission of brokers. Buyers are the bidder for tea in auction. Tea is kept in registered warehouses and warehouse keeper has to take all the responsibility of this tea. After the selling process is over at the auction, brokers use to issue a permission receipt to the buyer to collect the particular amount of tea from concern warehouse.

Chart 3.4

Secondary Marketing Chain of Tea through Auctions

Small Growers → Estates

Bought Leaf Factory → Estate Factory

Auction

Registered Broker → Registered Buyers

National / International Buyers

Retailer → Brands

Consumer


At the auction platform the registered brokers sell tea to the registered buyers after proper tasting and grading. These auction buyers are mostly the big tea companies who have their own blending, packaging and trading network all over the world. Finally branded tea moves directly to the hands of ultimate consumers through retailers. Thus tea passes through various stages while moving from actual producer
to ultimate consumer. In every movement of this marketing chain value is added to tea. Like every agricultural product, in case of tea also, most value addition is taken place at the last parts of the marketing channel.

Only registered seller, buyer, broker and warehouses can participate in a particular auction. The function of a warehouse is just like a bank. A producer can keep his product in a warehouse giving a fixed sum of money as security for using it. When the tea of this producer is sold in auction, the buyers can collect the particular amount of tea directly from that warehouse showing a permission receipt from concern broker.

In auctions, tea is sold to the highest bidder. Delivery order of tea from a warehouse to a particular buyer is given by concerned broker. In North India, there are two types of buyer-cash buyer and credit buyer. A credit buyer has the permission to collect tea from warehouse before prompt date and without payment. On the other hand a cash buyer can take delivery of tea only after paying cash. Broker gives the payment to the seller or manufacturer after deducting his own commission, warehouse charges and taxes. One broker can sell tea of more than 100 gardens on behalf of the producers. So through the whole auction system brokers play very crucial role from tasting to delivering tea. Sellers or manufacturers do not have direct contact with buyers. The whole system is operated by limited number of brokers.

3.3.8 Introduction of E-Auction

Electronic bidding or shortly e-auction system of tea is recently developed with wide connectivity of computer networks. The world's first electronic auction of tea organized jointly by Calcutta Tea Traders Association and Tea Board was held at Nilhat house which is the headquarters of the country's largest tea auction firm J.
Thomas & Co. on 19th Nov 2008. It is expected that this electronic platform will bring more transparency in auction system so that tea producers get a fair price.

The present auction system has some beneficial effects to the producers giving them a large marketing platform. Buyers are benefited in the sense that they are able to purchase tea of a much broader variety than they would otherwise be able by moving from garden to garden individually. Also in auction they can watch the operation of their competitors.

As brokers are the major driving force in auction they have enormous power to run the system according to their will. Again the whole system is controlled by some big buyers like Hindustan Lever; Tata Tea etc., in case of Indian auctions, who have enormous control over the price of tea. These buyers have a vast network of production, blending, packing and selling all over the world. Longer transaction time (about 34 days) and higher transaction costs are other hurdles, of this system. Many industry insiders believe that, the large buyers have co-operated with the broker on the auction floor to keep tea price low. An independent report commissioned by the Indian Government in 2002 also suggested a merging of interest between brokers and buyers, as well as co-operation between buyers at auction houses, both of which prevented tea growers from fetching a fair price at auction. For new comers auction is not effective marketing channel. Brokers generally do not accept bids from unknown buyers. So, new producers face a strong competition with already established sellers.

3.4 Conclusions

A historical review of changes in the marketing systems of coffee and tea is discussed in the present chapter. Though tea marketing system did not witness many changes, coffee marketing system has undergone several changes, a series of controlled and de-controlled system. There was absolute control by the government
under the pooled system and selling through the auctions conducted was compulsory for coffee growers. But in the case of tea participation in auctions was optional, though there was a restriction on the percentage of tea that could be sold outside auctions till 2001. Until 2001, it was mandatory to sell 75% of the total tea production through auctions. At present both coffee and tea are sold in open marketing system in which growers have every freedom to see in any manner they want to sell. Open marketing system lead to the emergence of different brands of coffee and tea and increasing competition among the brands. Therefore the present system exhibits the features of monopolistic competition. Under this system markets are sensitive to the changes in the international scenario.