CHAPTER-I
INTRODUCTION

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Introduction

Indian economy has undergone remarkable changes during the last two decades. Political and economic developments in India and in the countries, having international relations with India, have had a widespread repercussion on the economic environment of India. During 1980s and 1990s there were some major developments in the world in the form of the Iran - Iraq war during 1980-1988, the Gulf war during 1990-91, fall of the Berlin wall in 1989, breaking up of the erstwhile USSR around 1990, formation of the World Trade Organization (WTO) in 1994-95 and the surge in the regional trade agreements since 1990s are important ones. In India, adoption of New Economic policy in the year 1991 as a part of stabilization and structural adjustment in the economy is a major economic event that has changed the Indian economic scenario to a large extent. Indian economy opened itself to globalization and to integrate with the international markets, it had to be liberalized. In contrast to the planned growth regime of the past, the New Economic Policy relied more on the market forces to develop competitiveness. Restrictive trade policies, followed so far by the government of India, to protect the domestic industries from foreign competition were relaxed to a large extent. This exposed the domestic industries to fierce competition from their foreign counterparts. The fallout was a remarkable upheaval in almost all the sectors of the Indian economy.

Tea which is one of the important industries in India, also experienced the impact of the new world economic order.
1.1 Statement of the problem

Since independence, India has been a leading producer, consumer and exporter of tea in the world. Of the total tea production of the world, 27 percent comes from India, from 19 percent of world tea area. (ICRA, 2006) Of the total world export 12-13 percent export comes from India. Tea industry is a major employer in India with around 1.27 million people directly employed in tea plantation work and another 2 million people engaged indirectly. Of the total employed 50 percent are women worker. (ICRA, 2009)

But since nineteen nineties India’s predominance in production and export has been lost gradually. In production the position of India, has been relegated to second position after China since 2004. In export, India has moved down to the fourth position, after Kenya, Sri Lanka and China since 1999. (teaboard.gov.in, online: accessed during 2007-2011) Export share of India in most of the traditional markets of Russia, UAE, UK and part of Europe has fallen considerably. In consumption, although India is retaining its position as highest consumer of bulk tea, however per head consumption is very low. (teaboard.gov.in, online: accessed during 2007-2011) Import of tea into India is rising continuously from low cost countries like Vietnam, Indonesia etc. creating a situation of glut. (teaboard.gov.in, online: accessed during 2007-2011) Domestic market is growing continuously resulting in increasing retention in the domestic market which threaten to compromise the export market of India. Auction price of tea in India is lower enough to discourage the tea producers to market their tea in the auction market. Price of tea in both domestic market and international market is dwindling. Major tea companies like, Tata Tea, Hindustan lever Ltd. are almost getting out of the plantation business, to continue only in marketing business to avoid erosion of profit. (Asopa, 2007) Lower sale proceeds compelled the existing tea companies to avoid all plantation development activities like replantation, rejuvenation, modernization of tea machineries etc. and also to take resort to coarse plucking of
tea leaves to increase the quantity of tea, resulting in poor quality tea. The fallout is, the lowering of the share of India in the world tea export market and also lowering of the prices of Indian tea in the world market excepting some specialty tea. Unable to balance the cost and price, a total of 118 tea gardens were closed or abandoned between the years 2000-2005 of North and South India leaving more than sixty thousand plantation workers in severe distress with not even the minimum basic amenities of living. (CEC, 2007) The condition of small tea growers of India, contributing about 16.21 percent of total tea production in India, is more pathetic as they receive lower prices than the big tea garden owners, as they depend mostly on the agents and bought leaf factories to market their product. The quality of tea produced by the small tea growers are also alleged to be of lower quality than the tea of the estate gardens. Soft drink market is growing at a considerable rate to erode the share of tea in the total beverage market. Health drink, coffee and cocoa also have increased their share in the beverage market affecting the tea market of India. In the value added tea segment India is still in a nascent stage. The generic promotion of value added tea has also been inadequate to attract the fashionable trendy drinkers. Frequent labour unrest aggravates the situation in the industry that is already reeling under a crisis.

From the observations it is apparent that Indian tea industry is in a very critical position. Being an important foreign exchange earner and a major employer of Indian population it is imperative to examine the factors responsible for the ongoing crisis.

1.2 An overview of the Indian tea industry

Tea is an important item of trade in India. Since colonial rule tea cultivation has been promoted as an export oriented commodity. British developed tea cultivation mainly to meet the United Kingdom’s domestic demand or for re-export by the country. (Griffith, 1967) Although tea has been known in India since 2737 B.C.,
and consumed as a beverage for over 1200 years, its commercial cultivation commenced only in the eighteenth century. (Misra, 1986) It has been claimed that the Singpho tribe along with the Khamti tribe of the eastern part of India consumed tea since 12th century. (SOMO, 2008) There is unanimity that, the origin of tea in India dates back to 1823, when British employee of East India Company, Robert Bruce, discovered the plant growing wild in the upper part of the Brahmaputra valley. Thereafter, considering the congenial climate, the cultivation has been extended to northern India and southern India with imported tea seeds from China. (Misra, 1986) At present the major tea growing areas of India are concentrated in Assam (50.8%), West Bengal (24.5%), Tamil Nadu (16.2%) and Kerala (6.5%). (teaboard.gov.in, online: accessed during 2007-2011) The other areas where tea is grown in smaller quantities are Karnataka, Tripura, Himachal Pradesh, Uttaranchal, Arunachal Pradesh, Manipur, Sikkim, Nagaland, Meghalaya, Mizoram, Bihar and Orissa. India produces mainly CTC (Crushed, torn, Curl), Orthodox and Green tea. CTC constitutes around 9 percent, Orthodox 8 percent and Green tea, 2 percent of the total tea produced in the country. (SOMO, 2008), CTC tea is grown mainly in south India and orthodox tea, in north India. Tea is grown both in estate gardens with average area of 300-350 hectares, and in small gardens with area up to 10.12 hectares. In 2007, there are 1686 estates with 416027 hectares under tea and 157504 small tea growers with 162431 hectares under tea. Out of the total of 578458 hectares of land under tea in India, 79 percent is in northern India and 21 percent in southern India. North India produces around 75 percent of the total tea produced in the country, of which around 51 percent comes from the north eastern states, and 24 percent from the tea gardens of West Bengal. (SOMO, 2008). South India produces remaining one fourth, i.e. 25 percent of the total tea produced in the country.

First trading of tea produced in India started in 10th Jan, 1839, when the first consignment of 350 pounds of Assam tea was sent to London for sale. (Awasthi,
From then onwards Indian tea has been sold in different auction centers, both within and outside the country and also by private sales. At present there are fourteen auction centers in the world, of which nine are located in India.

India has been a leading producer, consumer and exporter of tea in the world since independence. One fourth of the total world production comes from India, from one fifth of world tea area. More than one sixth of the tea export of the world is from India. Export earnings from tea was $469.64 million (Rs.1888.92 crores) during the financial year 2007-2008 which is around 4 percent of the total value of exports of all commodities of India. (Banerjee c., 2008) Indian tea is famous for its unique taste and flavour. Every tea drinking nation of the world, imports some or the other variety of Indian tea. Darjeeling tea, popularly called, ‘Champagne of teas’, is India’s premium export variety of tea, and has a high demand for its unique taste and flavour. Indian tea is exported to about eighty five countries of the world. Major markets of Indian tea are Europe, America, West Asia, Africa, Australia as well as Oceania. Among these countries, West and East Europe as well as West Asia and North Africa constitute major importer of Indian tea. Tea is an important source of foreign exchange for India. As a revenue earner, the contribution of tea, to the State and Central Exchequer is also remarkable. The total turnover of the Indian tea industry is in the vicinity of Rs.9000 Crs. (teaboard.gov.in, online: accessed during 2007-2011) Tea industry is a major employer of Indian population. More than 2 million people are engaged directly or indirectly in the tea industry of India.

For a bird eye view of the Indian tea Industry, a map of India showing the tea growing areas and diagrammatical representation of the production, consumption and export have been given in the following pages.
Map-1 Tea growing regions of India

Source: mapsofindia.com, online: accessed on 15th May 2007
Table-1 An overview of Indian Tea Industry since 1986

<table>
<thead>
<tr>
<th>Year</th>
<th>Area (Hect)</th>
<th>Production (In mkg)</th>
<th>Consumption (In mkg)</th>
<th>Yield (Th.Kg)</th>
<th>Export</th>
<th>Import</th>
<th>Sold in Indian Auction</th>
<th>Avg No. of labour employed</th>
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<td>153.03</td>
<td>97.33</td>
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</table>

Chart-1: Growth of India’s Production, Consumption and Exports of Tea in mkg

Source: Tea statistics, Tea Board (teaboard.gov.in, online: accessed during 2007-2011)

Chart-2: Growth of Imports into India in mkg

Source: FAO Statistics (foostat.fao.org, online: accessed during 2007-2011)
Chart-3 Percentage share India in the world tea production in 2008

Source: Tea Statistics, Tea Board of India (teaboard.gov.in, online: accessed during 2007-2011)

Chart-4 Percentage share of India in the world tea export in 2008

Source: Tea Statistics, Tea Board of India (teaboard.gov.in, online: accessed during 2007-2011)
1.3 Review of literature

Extensive reviews of literature have been undertaken of the tea industry and tea related industries. The literature covers different dimensions of the tea industry. Accordingly review of literature has been done on six sections viz. history of tea cultivation in the world and in India, history of tea market in the world and in India, growth and development of tea trade in the world and in India, challenges of the tea market of India, opportunities of tea market of India, government measures for sustaining and revival of tea market of India.

History of tea

There has been no unanimity in tea literature regarding the origin of tea.

Ukers (1935) mentioned a number of possible sources for the origin of tea. The earliest reliable reference of the origin of tea has been made of the Chinese dictionary dated about A.D.350. The next reference has been made of the Emperor Shen Nung, who in 2737 B.C., discovered tea when some leaves suddenly fell into his pot of boiling drinking water. Next reference was that, tea originated from the cut eyelids of the founder of Chan Buddhism called Daruma or Bodhidharma. Mention has also been made of Samuel Baildon, who advocated that tea was indigenous to India and to no other country of the world and tea plant was introduced in China and Japan from India.

Reinforcing Baildon’s view, Herlar (1933) mentioned that the natural home of the tea plant is within the fan shaped area included between the Naga, Manipuri and Lushai Hills along the Assam Burma frontier in the west, through to China, probably as far as the Che-Kiang (Zhejiang) province in the east, and south to the hills of Burma and Thailand into Vietnam.

The origin of different kinds of tea was found in the first exclusive book on tea entitled ‘Ch’a Ching’, written by the Chinese tea expert Lu Yu published in 780
AD in which he has described cultivation and manufacturing of various kinds of teas in China. (Chow & Kramer, 1990)

Tea as a beverage was known since 1937 B.C. But until the third century AD, tea was used only as a medicine made from leaves gathered from wild trees. (Awasthi, 1975)

Though the natural home of the tea plant had been considered to be India, China was the only source of tea for the tea consuming countries of the world until tea came to be grown in India and other parts of the world.

Tea arrived in Japan in 805-806 A.D when the first batch of tea seeds were brought by a priest named Saicho and Kukai. It became a drink of the royal classes and became a highly important ritual ceremony after Japanese Emperor Saga, encouraged the growth of tea plants. Over the centuries, the drinking of tea in Japan became an integral part of Japanese culture. (wikipedia.org b., online: accessed on 25th February 2008)

In Russia tea arrived in 1618, as a gift from the Chinese ambassador to Tsar Aleksey Mikhaylovich. (Thomas, 1997) At that time camel caravans were used to transport tea. The overland caravans were abandoned forever with the completion of Trans-Siberian Railway in 1903.

Tea arrived in Britain in 1658, when Thomas Garraway advertised tea in London in a weekly newspaper. The first order of China tea was placed in 1664, to be shipped from Java as, the ports of China was opened to British traders only on 1685. (tea.co.uk a., online: accessed on 18th February 2008)

According to Prague Post Endowment Fund (2003), tea reached North America, when Peter Stuyvesant, a colonist, brought the first consignment of tea to the colonists in the Dutch settlement of New Amsterdam (later renamed New York by the English). After independence, in 1776, America established direct link with China and became the biggest importer due to faster clipper ships. Charleston
Tea Plantation, located minutes from Charleston, South Carolina, is the only black tea producer of America producing a small quantity of tea. (Bowes, 2000).

In Sri Lanka, first tea plantation was carried out by James Taylor, a British tea planter in 1839, at Loolocondera. The beginning of commercial cultivation of tea began in 1867. Sri Lanka's tea production has been growing ever since and by 1965 the country had become one of the leading tea exporters of the world. At present the export share of Sri Lanka in the total world export is around 20 percent. (Banerjee a., 2008).

Viet Nam’s involvement in tea cultivation dates back 3,000 years. The French first began to produce tea commercially in the late 19th century, after occupying Indochina in 1882. Tea developed strongly after 1925-1930 when French companies made large investments in tea plantations in the area. (Zeiss and Brabar, 1985)

The commencement of Kenya’s tea production on a commercial scale was started in 1924. (Banerjee a., 2008) Today it is a major producer and exporter of tea in the world.

**Origin of tea in India**

With regard to the origin of tea in India a number of references were available.

The first reference to tea in India was in the ancient epic of the Ramayana, when Hanuman was sent to the Himalayas to bring the Sanjeevani tea plant for medicinal use. Reference has also been found of two tribes of the north eastern part of India, the Singpho tribe and the Khamti tribe who claimed that they have been consuming tea since 12th century. The next recorded reference of tea in India after 12th century was in 1598, when a Dutch traveler, Jan Huyghen van Linschoten, noted in a book on tea that the Indians ate the leaves as a vegetable
with garlic and oil and boiled the leaves to make a brew. (wikipedia.org c., online: accessed on 18th May 2008)

Misra (1986), claimed that, the first recorded mention of tea in India was in 1780, when Robert Kyd experimented with tea cultivation with imported seeds.

Ukers (1935) on the other hand asserts that although tea is said have grown in India since a long time, but it was discovered by, Robert Bush, an employee of the East India Company who found tea growing wild in some hills near Rangpur (near present Sibsagar) then the capital of Assam, during his visit in 1823 on a trading mission.

The assertion of Ukers has also been reinforced by Tocklai tea research institute which states that the discovery of tea in India has been in the later part 1823, when Major Robert Bruce encountered the chief of Assam's Singpo tribe, Bessa Gaum, and subsequently was offered tea as a medicinal drink.(tocklai.net, online: accessed on 20th February 2008)

The commercial cultivation of tea in India was started in 1854 with plantations in the north eastern part of India. By 1856 plantation activities started in other parts of India. (Mandal, 2006)

**History of tea market in the World**

The first record of tea trade was found in the writing of Kuo P’o, a celebrated Chinese scholar, in 350 A.D. where it has been mentioned that, people living in the interior part of China pressed tea into brick “currency “to barter with other tribe. Tea trade spread to other parts of the world when tea entered the world market from China as a staple trade commodity, during the early Qing Dynasty (1644-1912).Within a short span of time, Chinese tea could monopolize the world tea market. (tentea.com, online: accessed on 15th may 2007)
The next reference of tea trade was in 479 A.D. where Turkish traders bargained for tea in the border of Mongolia. After 479 A.D., tea was gradually introduced into the Northwest, Southwest and Tibet. (2basnob.com, online: accessed on 15th May, 2008)

Tea trade in Europe started with the opening up of the sea routes to China, in 1515. China was the sole supplier of tea at that time. Portugal opened up the sea routes to China, in 1515. Portuguese transported tea from China to Lisbon. Dutch ships then, transported it to France, Holland, and the Baltic countries, as at that time, Holland was politically affiliated with Portugal. But since 1602, Holland, entered into full Pacific trade in her own right in 1602, when the alliance with Portugal was broken. (teauction.com a., online: accessed on 23rd December 2007)

The assertion of the teauction.com a. has been contradicted in the web of coffeeteawarehouse.com where it has been mentioned that the first consignment of Japanese tea transshipped by Dutch from Java to Europe in 1610. This marked the beginning of the lucrative tea trade by Dutch merchants between Europe and the East. Dutch dominated tea trade for more than a century, until 1678, when British East India Company was granted full monopoly on all trade throughout Asia and Eastern Africa. (coffeeteawarehouse.com, online: accessed on 20th February 2010)

The regular commerce in Russia was initiated after the trade agreement in 1689 between China and Russia. (Thomas, 1997). At that time camel caravans were used to transport tea which took sixteen to eighteen months. Unable to satisfy its demand for tea through the caravan trade alone, Russia was forced to buy tea from British ships. The completion of Trans-Siberian Railway in 1903 facilitated the trade by reducing the transportation time to just over a week.

Tea trade in Britain commenced in 1664 when the first order of China tea was placed in 1664, to be shipped from Java as, the ports of China was opened to British traders only on 1685. (tea.co.uk, online: accessed on 18th February 2008)
From 1833, tea import from China became free to all irrespective of companies and private citizens. (icons.org, online: accessed on 28th April 2009)

Tea trade in America started with Peter Stuyvesant, a colonist who brought the first tea to New Amsterdam (present New York) during eighteenth century. (Prague Post Endowment Fund, 2003). Tea was imported through East India Company as America was then a British colony. United States of America became an independent nation in 1776 and since 1779, America established direct trade link with China. In 1880, America became the biggest importer of tea due to its faster clipper ships.

Tea trade in Indonesia began with the Dutch in 1700. Since 1984, tea exports from Indonesia began. Indonesia mainly produces black tea and about 80 percent of the production is exported. Export is mainly through auction in Djakarta. (teauction.com b., online: accessed on 18th May 2007)

The first shipments of Ceylon tea was in 1875 when Ceylon tea reached the London auction. (Bowes, 2000)

The commercial production and trade in Kenya began since 1924. Kenya mainly produces CTC tea and sold through the Mombasa Auction. (highlandteacompany.com, online: accessed on 21st May 2007)

Tea trade in Vietnam commenced since 1925, after tea cultivation was started on a massive scale under the initiative of French companies. Iraq and Taiwan were the main importer of Vietnamese tea lifting 50 percent of exported volume. The other export markets of Vietnam are Germany, China, Indonesia, Poland, UAE, England and Holland. (vnex.com.vn, online: accessed on 25th April 2008)

Regarding the marketing of tea in the world, prior to Second World War (1939-1945) auction sale was the most preferred mode of disposal of tea in the world. Hazarika (2008) has given the account of the initiation and growth of
auction market since the colonial rule. During the pre Second World War (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 plantations, the producers in different countries, found, sending tea to the London auction, time consuming and cost ineffective. Accordingly a number of auction centers were started in different part of the world. Though Calcutta auction center was established in 1861, it was fully operational only since 1946 when London auction centre did not reopen till 1951 after the Second World War was over in 1945, resulting oversupply of tea in different producing countries. Sale was also resumed at Colombo in 1947 to dispose of the surplus. Auction centers were also started in Mombasa, Chittagong, Limbe and Djakarta besides six more auction centers in India. This lead to a sharp decline in the quantity sent to London auction. From the early 1980s the tea supply in London Auction fell drastically. It was only 16 mkg only in 1996. Eventually on 29th June 1998 the first tea auction centre of world, i.e., London Tea Auction was closed down.

History of tea market in India

Tea trade in India is associated with the breaking up of the charter of trade of British East India Company with China in 1833. After 1833, British government was forced to search for other sources of tea. In 1823, Robert Bush, an employee of the East India Company, found tea growing wild in the jungles of Assam, in the north Eastern part of India. (Banerjee c., 2008) Charles Bush, the brother of Robert Bush tried to grow tea in Assam. The first batch of tea grown in Assam was traded at London auction in 1838. (Taknet ,2002)

The first attempt to compete with the British private entrepreneurs in tea plantation business in Assam was made by Maniram Dewan, the native Assamese nobleman who established the world's first tea company, Assam Company, in 1839 with Dwarakanath Tagore, grandfather of Rabindranath Tagore, as one of its
directors. Afterwards, several companies, which were formed by then, were brought under the Assam Company. The Jorhat Tea Company was incorporated in June 29, 1859, with gardens in Assam. Meanwhile, in 1858 the British East India Company turned its rule over India to Britain and thereafter there was rapid expansion of tea production and tea trade in India. (Taknet, 2002)

Since colonial rule tea cultivation has been promoted as an export oriented commodity. British developed tea cultivation mainly to meet the United Kingdom's domestic demand or for re-export by the country. (Griffith, 1967)

The history of the auction market has been narrated lucidly by Hazarika (2008). According to Hazarika (2008) the first auction center in India was started in 1861 at Calcutta. But the center was of less importance as London auction dominated the marketing of tea during colonial rule. Only after the culmination of the Second World War in 1945, Calcutta auction center was activated and sale was resumed at Calcutta in 1946. But for marketing all the produced tea of India other auction centers were required to be opened. As a result eight other auction centers have been established in other parts of India. The list of centers according to their date of initiation are, Cochin (1947), Coonoor (1963), Amritsar (1964), Guwahati (1970), Siliguri (1976), Coimbatore (1980), Coonoor under Tea Serve (2003) and Jalpaiguri (2005).

With regard to the domestic tea market of India, till 1930 domestic market of India was very insignificant due to priority in export. (teaboard.gov.in, online: accessed during January 2007 to 30th May 2011)

Import market of India is of recent origin. Tea import into India has been recorded only since 1992. (teaboard.gov.in, online: accessed during January 2007 to 30th May 2011)
Growth and development of the tea market of India

Since commercial cultivation of tea was initiated in India in 1854, there is continuous growth of the tea plantations in India. Between 1850 and 1871 the numbers of tea estates have increased from one to two hundred and ninety five. Between 1890 and 1900, in the markets outside UK, the volume of export from India was less than that of Ceylon. In UK market though India’s export was more than Ceylon during 1886-1896, but the percentage growth rate of export of Ceylon was more than that of India. (Misra, 1987).

Misra (1987), Herlar (1933) and Pattigrew (2000) recorded the growth of tea market in India during colonial rule. Indian export were, 46.41 million lbs in 1880-81, 190.31 million lbs in 1900-01, 254.30 million lbs in 1910-11, 348.5 million lbs in 1924-25, and 348.3 million lbs in 1931-32. Indian tea surpassed Chinese tea in British market by 1880.

Growths of tea industry in India during colonial and post colonial period have been also been studied by Mandal (2006). After commercial cultivation of tea was initiated in 1854 under the tea companies, in 1893, the area under tea increased manifold. Since independence Tea production increased by more than 250 per cent.

Recent tea statistics shows that, at present, there are 1671 estates with 415,332 hectares under tea and 141529 small tea growers with 152668 hectares under tea till the year 2006. Out of the total of 568000 hectares of land under tea in India, 78% is in the Northern India and 22% in the Southern India. Tea export of India accounts for around 12-13% of the total world export of tea. Export earnings from tea was $469.64 million (Rs.1888.92 Crores) during the financial year 2007-2008 which is around 4 percent of the total value of exports of all commodities of India. (teaboard.gov.in, online: accessed during January 2007 to 30th May 2011)
The value of exports increases either through increase in quantity of export or price of export or both. It is good for the economy if export value is increased due to rise in the price than to the rise in the quantity exported. (Nagoor, 2009)

The major export markets of Indian tea are Europe, America, West Asia, Africa, Australia as well as Oceania. Among these countries, West and East Europe as well as West Asia and North Africa constitute major importer of Indian tea. (Banerjee c., 2008)

For selling of tea both in the domestic market of India and international market, selling through auction is still a popular mode. Auctions have traditionally been the main platforms for primary marketing of tea in India and serve as the principal price-determining mechanism for tea in the country. The auction system is governed or strongly regulated by provisions of the Tea Marketing Control Order (TMCO). TMCO 1984 included a provision (Clause 17) containing the stipulation that 75 per cent of the tea produced is to be sold through auctions. TMCO 1984 has been replaced by the TMCO 2003 according to which the sellers are permitted free sale through any channel.(Government of India, 2003)

TMCO 2003 has noticeable impact on the auction sale of tea. Direct sale overtook the auction sale. CEC (2002) observed that the preference of direct sale to auction was more due to lengthy time period required in the whole process of auction, which is about two weeks. Besides, the auction sale is also costlier for the producers as compared to the private sale because of the transaction cost.

In most of the North Indian tea growing areas, direct marketing has been accepted widely for selling the organic tea and orthodox tea produced in the region to foreign markets. North India produces more organic and orthodox tea than the CTC (Crushed, Torn and Curl) tea. The high demand of organic tea and orthodox tea in foreign market encourages direct marketing. In direct marketing tea is also sold at much higher prices as compared to the auction price. (Saji, 2008)
But the process of direct marketing of tea was not transparent like auction. It is not possible to know exactly the volume of sell and the price at which the tea has been disposed. Hence government of India took various initiatives to popularize auction sale of tea. E-auction is an important stride in that direction. E-auction has been introduced as an alternative to the manual public outcry system prevalent in the auction trading with wide connectivity of computer networks. Tea Board first started trying to implement the process in 2002 when they hired Ferguson & Co (now Deloitte) to prepare an extensive report on the industry. A well-known IT company first started developing the software in 2004 but it failed. In 2007, NSE’s IT department built the software at an estimated cost of Rs 18 Crore with least possibility of any major technical failures. The newly designed Software by NSE.IT was first experimented in Coonoor. (Bang, 2010) 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. (Hazari, 2008) There are several advantages of e-auction over manual auction. Guwahati is the first centre in east India to become completely electronic from May 20, 2009. (Barkakati, 2009)

With regard to the growth and development of the tea import market of India, CEC (2002), cited the challenge of growing imports into India. Though tea is imported mainly for reexport but there is possibility that the restriction in sales in Domestic Tariff Area (DTA) could be diluted, in time, to allow dumping of low priced tea in the domestic market to the detriment of the Indian tea industry’s growth and development.

The domestic market of India is very large due to the tea consumption habit of the people of India. Saji (2005) observed that the major tea-consuming states in India include Maharashtra (105 million kilograms), Uttar Pradesh (71 million kilograms), Gujarat (71 million kilograms), Rajasthan (59 million kilograms) and
Madhya Pradesh (46 million kilograms). The average annual per capita consumption of tea in India varies considerably from region to region. It fluctuates from a maximum of 1.2 kilograms in Punjab to a minimum of 0.36 kilograms in Orissa.

As compared to the major tea consuming countries of the world the per capita consumption of India is very low. During 2006, in countries like Ireland, Morocco, Egypt, Newzealand and Poland per capita consumption is between 1-1.5 kg. Japan, Netherlands and Australia also have more per capita consumption than India during the same period. (wikipedia.org d., online: accessed on 25th April 2009)

With regard to the selling of tea by big tea companies, Saji (2005) found that big companies sell tea in branded loose and packet tea. Since 1985, the branded tea segment has registered good growth and its share in the total tea market is currently around 40 per cent.

**Challenges of the Indian Tea market**

**Challenges of Indian Tea industry during colonial rule (1823-1947)**

Tharian (1984) described the development of tea during the colonial period. During the colonial rule British owned companies dominated around eighty five percent of the tea enterprises in India. Tharian found the biggest challenges confronting the tea industry during the colonial rule was the huge repatriation of the capital in the form of high rate of dividends to the foreignshare holders of the tea gardens.

Citing the Plantation Enquiry Commission’s report on tea, 1956, Tharian (1984) reiterated that dividend as high as 45 percent was remitted after tax during 1939-54. This had an adverse effect on the growth of the internal resources as well as the assets in the industry.
Misra (1987) while discussing the development of the tea Industry of India till 1930, found that to earn the high rate of profit through high price, British owned plantations in India postponed new extension and modernization and restricted output from the late 1890s that nearly stagnated the growth of the tea sector of India, and had cascading effect on the whole tea industry of India.

Ravi Raman (2002) briefed the activities of the British Managing Agency system which was active in the tea sector of India since late nineteenth century. The Challenges as found on account of managing agency were regarding exploitation of Indian tea gardens for the benefit of the colonial owners. There were more than 41 planting companies as Managing Agents. By the turn of the 19th century, they virtually monopolized control over the production and export of tea.

Misra (1986) also studied the development of the Indian tea sector during colonial and post colonial period. He found that taking the advantage of the slump in 1919-20 and again in 1928-29 the sterling companies (Companies registered in UK) sold a number of gardens to Indians at a very high price causing considerable loss to the Indians.

In Awasthi (1975) detailed discussion is found on how price of tea has been tried to be revived through supply management under several tea agreements signed by the tea producing countries to retain the profit level of the colonial entrepreneurs. The first international Tea agreement was signed in 1933 for five years by the representatives of the major tea producing countries of Indonesia, India and Ceylon to regulate tea export and extension and thus to arrest the fall in the price of tea. The result was, there were hundred percent increments of the average price realization of tea in the London auction over the price of the previous year resulting in a large increment of profit margin of the existing tea garden owners. After the tea agreement of 1933 another two agreements were
signed in 1938 and in 1955 with the same objective. But the agreements could achieve only limited success due to lack of adequate response by the contracting countries.

**Challenges of Indian Tea market during the period 1947-1980**

India got independence in 1947. But till the end of 1980s there was the existence of British companies in the tea sector of India.

Mukherjee (1978) mentioned how Indian government tried to counter the colonial interest by change in the Indian government policies immediately after independence. The policy of Laissez faire followed during the colonial rule had been replaced by policy of regulation and control and the industrial policy of the government of India formulated in 1948 to facilitate nationalization. The Central Tea Board establishment in 1950, and the Tea Board of India in 1953, to look after the developmental activities of the tea industry of India. The statutory obligations to tea garden labourers started since 1942 restored permanently by the Indian government after independence to provide security to the tea garden labourers.

The reaction of the British tea estate owners after change in the policies of Indian government after independence was discussed by Jones (2000). After, the legislation of 1948 a number of British firms converted into public companies and thus managed to retain the control of the new public companies. Some of the firms had been transferred to the Indians to avoid independent government regulations, in which the British entrepreneur has small shares. Yuly Catto and Gillander Arbuthnot were the last two British Companies to retain their shares of the estates in India till 1988.

British multinational companies dominated almost 80 percent of the activities of the tea sector of India till the end of 1950s All processing factories were foreign controlled as late as 1960. Till 70's two British firms Lipton (Unilever Concern), and Brooke Bond (Finlay) handled 85 percent of retail distribution of tea. The
export trade remained very much a British monopoly. (ieo.org, online: accessed on 22nd December 2009)

Tharian (1984) mentioned the position of the British tea entrepreneurs after introduction of FERA in 1973. FERA required foreign companies to Indianise (i.e, gradually induct Indians to manage the company) their shareholdings to the extent of twenty six percent with foreign participation of seventy four percent. This has a very serious impact on the tea economy as British entrepreneurs used FERA to their advantage. From 1970 there was withdrawal of the British from the Indian plantation to other part of the world considering the congenial atmosphere, transferring the British Agency Houses into local hands.

Ravi Raman (2002) monitored the labour problem in British owned tea estates immediately after independence. The plantation labourer who are the force behind such huge profit accumulation and repatriation, were deprived of any share of the huge profit.

Challenges of Indian Tea market during the period 1980-2008

Challenges confronting the export market of India

High domestic retention of tea produced in India is a major challenge for Indian export market. According to ICRA Report, (2006) tea accounts for 90.6 percent of India’s consumption of stimulants (tea, coffee and cocoa), followed by coffee, 7.7 percent and cocoa beans, 1.7 percent.

Low rate of re plantation is a cause for falling production which also lowers the export volume of India. Present rate of replantation is less than 0.5 percent but according to the policy prescription of the Government of India, the desirable level of replantation is two percent per annum. (Kumar, 2007)

Kumar (2007) also mentioned that low yield also hampers export of tea. The factors behind low yield of Indian tea are high area under aging tea bush, low rate of replantation and rejuvenation and also lower labour productivity. 38
percent of all tea bushes in India have crossed economic life of 50 years and another 9 per cent are in the age-group of 40 to 50 years producing low quality as well as low quantity output. Some other causes for low yield rate of Indian tea are mismanagement, siphoning off of money for other businesses at the cost of tea plantation, and unsatisfactory agricultural practices resulting in reduction in production and export.

Tea Statistics showed that in 2005, the area under the age group of over fifty years has been 160911 hectares which is 29 percent out of the total area under tea of 556807 hectares. (teaboard.gov.in, online: accessed during January 2007 to 30th May 2011)

Shivaraman (1993) found in his study that, the labour productivity in India is very low as compared to the competing tea producing countries of India which lowers the production and thus export. During 1993-94, the average field output In India is 24-25 kg of green leaf per day per labour, which is 40-50 kg in India’s CTC tea competing country Kenya. The average factory output in India is between 40-80 kg per labour per day, which is 110 kg per labour per day in Kenya.

Closing and abandoning of the tea gardens also hampers production and thus the export share. Economic Times, (2008) reported that unable to balance the cost and price, thirty seven tea gardens of north and south India were closed so far.

According to TBI (2010), a total of 130 tea gardens were reportedly closed or abandoned between the years 1999-2006. At present, in Jalpaiguri district of West Bengal, there are 13 abandoned and closed tea gardens. In Kerala, in Idukki district 7 tea estates and 6 factories are abandoned, in Thiruvananthapuram district 1 tea estate and 2 tea factories are abandoned while in Tamil Nadu there are four closed tea gardens.
CEC (2007) reported that in many of the tea gardens, owners do not declare the tea garden as closed but ‘conveniently’ abandon them to avoid closedown formalities and the dues owe to the labours, banks and the Government.

Unfavourable climatic condition also hampers the tea production and thus the export of India. In the year 2008, Indian production fell from 986.42 mkg to 980.82 mkg due to unfavourable climatic condition.(teaboard.gov.in, online: accessed during January 2007-May 2011)

Hicks (2009) observed that growing number of aged labour, on account of increased outmigration of younger ambitious workforce from plantation sector to other sectors of the economy, is also a reason for lower labour productivity. Thus there is low production and lowering export.

Rising competitiveness among the tea producing and exporting countries of the world also have damaging effect on the export market of India. In Balassa (1965), method has been given to find RCA Index which is helpful in finding the competitive strength of different countries with respect to a particular commodity.

High cost of production is a major factor for reduction of competitiveness of Indian tea market.

According to ITA (2007), the cost of production of India is $1.63/kg, which is $1.89/kg for Sri Lanka, $1.33/kg for Kenya, $0.81/kg for Vietnam, $1.14/kg for Malawi and $0.58/kg for Indonesia. Labour cost in India constitutes 50 percent of the cost of production in India. The labour cost in India is $0.84/kg compared to $0.74/kg in Sri Lanka, $0.56/kg in Kenya and $0.27/kg in Malawi, according to the report.

Government of India (2007) reported that Social cost under PLA (Plantation Labour Act) which constitutes 5-8 percent of the total cost, is nonexistent or included in the total wage in other tea producing countries.
Asopa (2007) found in his study that high social cost in India has compelled major tea companies of India like Tata Tea and Hindustan Lever to sell their gardens in Assam and South India to exit from the tea plantation business and to remain only in tea marketing business.

Change in the preferences the tea importing countries from India, also have adverse affect on the export market of India.

CEC (2003) stated that Russia has shifted its preference from CTC to orthodox in which Sri Lanka has specialized. Thus there is market diversification of Russia from India to Sri Lanka.

Asopa (2007) discovered that change in the preference from one variety of tea to other variety has also been due to the concerted effort of different forums like the scientific symposium on “Tea and Health” held in USA in 1991, “Tea Consumption and Human Health” project, conducted by Food and Agriculture organization (FAO) of the United Nations etc. All these efforts could reposition tea as a health drink. Since green tea is claimed to have more antioxidant China’s market of green tea has been expanding and there is erosion of black tea market of India.

Asopa (2007) also found that tea bags, have increasingly become more and more popular because of speed and ease in preparation. In this segment also Indian tea has failed to compete as Indian tea although quite gutty are light weight and do not infuse easily in tea bags and hence not suitable for tea bags.

Tea and Coffee Trade journal (2005) reported that UK tea market has also shrunken for black tea as in UK, demand for caffeine-free herbal and fruit tea rose by up to 50 percent from 1999-2005. Besides, green tea and white tea, are considered more beneficial for health than black tea due to higher level of antioxidant in green and white tea than black tea.(Tea and coffee trade journal 2005, online: accessed on 23rd May 2007)
Preference has also changed in some other previously black tea consuming countries. As reported by Yogaratnam (2010) there is change in the preferences in some countries as, to foam tea in Taiwan; to herbal tea in China, Thailand and Japan; to roasted tea in Korea; to Ready to drink tea (in cans) in USA, Japan, Taiwan etc.

With regard to the growth of the soft drink as a substitute of tea Datamonitor (2009) reported that the global soft drinks market grew by 3.2 percent in 2009 to reach a volume of 398.7 billion liters. In 2014, the global soft drinks market is forecast to have a volume of 465.4 billion liters, an increase of 16.7 percent since 2009. (datamonitor.com, online: accessed during 2007-2010)

Comparing the per head consumption data till 2008, Canadean and Tea Statistics, (2008) show that, in case of soft drink the average global per head consumption ranges between 71-78 liters, in case of coffee it is more 5 kg and in case of tea it is lower than 3Kg. Tea ranks only seventh place in value terms in the total drinks market. (canadian.com online: accessed during 2007-2010; teaboard.gov.in, online: accessed during 2007-2011)

Fluctuation in the international tea price has also affected the tea market of India.

Composite price, as projected by the Food and agricultural organization (FAO) of the United Nations showed that world market prices have been very fluctuating during the last two decades. The annual average price has fluctuated between a high of 2.38 US $ to 1.48 US$ per kg during the period 1980-2008. (fao.org, Committee on Commodity Problem,18th and 68th session, online: accessed during 2007-2011)

Due to tea price volatility, the tea giants in the retail sector of India namely, McLeod Russel India Ltd (MRIL), B.M.Khaitan group, Jayashree Tea Industries etc are showing interest in acquiring estates in Vietnam, Uganda etc. where cost of
production are lower instead of acquiring estates in India and increasing their business in India. With lower cost only they can sustain in the tea business with fluctuating price. (The Hindu, 2009)

Discriminatory tariff rates hamper the trade flow. At present the import duty of some of the countries are as follows. India 100 percent, Pakistan 10 percent, China is 32 percent, Sri Lanka is 48 percent, Vietnam is 20 percent, Russia is 20 percent (for packet tea), Japan is 11.9 percent, Egypt is 2 percent, Turkey is 145 percent etc. (thejakartapost.com, deccanherald.com, fieo.org, online: accessed on 25th October 2010)

There is the possibility of reduction of the duties with more and more preferential trade agreements which will have severe affect on the tea market of India. From the report of trade agreements, Ministry of Commerce, Govt. of India (2011), it has been found that, with the signing of trade treaty with ASEAN, in August, 2009, India will have to eliminate or reduce the duties on 4,000 items by 2016, covering 80 percent of Indian imports from ASEAN. In case of tea, reduction commitment is 100 percent to 50 percent by 2019. This will definitely provide ample opportunity to the low cost tea exporting countries like Vietnam and Indonesia to explore the huge Indian domestic market and thus will adversely affect the tea economy of India. (Government of India e. online: accessed on 12th. April 2011)

While reduction of import duties would improve the market access for all the trade partners, this may be thwarted on account of the non-tariff barriers. Non-tariff barriers can take various forms.

Saquib &Tanaja (2005) discussed two categories of the non tariff barriers to trade. The first comprised of technical barriers to trade and sanitary and phytosanitary measures like product standards, process standards, certifications, registration and testing procedures, packaging, markup and labelling and
environmental barriers. The second category was termed ‘other barriers’ which included measures such as import quotas, licensing, exchange and other financial controls, prohibitions, discriminatory bilateral agreements, variable levies, advance deposit requirements, antidumping duties, subsidies and other aids, government procurement policies, government industrial policy and regional development measures, competition policies, immigration policies.

Barriers related to technical Barriers to trade (TBT) and sanitary and phytosanitary (SPS) measures are the main concern of India's tea export today.

According to UNCTAD (2009) study the countries that reported large number of measures related to SPS and technical barriers to trade (TBT) are USA, UAE, UK, Canada, the Russian federation, Germany, Newzealand, Singapore and Japan. (unctad.org, online: accessed on 23rd December 2010)

But the problem in case of India particularly is that in India some pests like Helopeltis, Red spider and Looper caterpillar are playing havoc in the tea plantations. According to the latest report, these insects have developed resistance to the pesticides used and their doses. So to control pests and to adhere to the MRL prescription of the importing countries has become a difficult job for the tea industrialists. (The Assam Tribune, 2011) Hence Indian tea exporters are facing immense difficulty in negotiation. (Economic Times, 2007)

Dutta (2009) discussed the difficulty of standerdisation of tea. The standards accepted by one country may not be acceptable to another country as there is no worldwide standerdised food safety norm. Also the certificate issued by one certification agency may not be acceptable to all the importing countries. This implies that a particular exporting country has to get a number of certificates from different importing countries for their exports, which sometimes makes the export unviable.
One of the stumbling blocks in the growth of Indian export market is the tea quality.

Dutta (2009) found outdated machineries and equipments used for processing tea in most of the tea factories in India including Darjeeling are affecting the quality of tea.

Banerjee c. (2008) stated in his book that between 1995 and 2000 Indian tea has been rejected by Russia due to low quality. Serious complaints were also lodged to the tea Board of India. Russian television cautioned the domestic consumers with the words: “Don’t Drink Indian tea” which tarnished the image of Indian tea in Russia very badly.

Banerjee c. (2008) stated two cases of adulteration since 2000 which affected the export share of India. Godavari police unearthed a tea racket by seizing 59,950 kgs of fake tea made of cashew nut rind mixed with betonies powder and edible soda. Another seizure of 54000kgs of spurious tea was from four rice mills of Andhra Pradesh. Seizure of 200 gunny bags containing a non-tea like material from a factory of Jalpaigury district was another incidence of adulteration in India. Consecutive raids in a few bought leaf factory in West Bengal confirmed the adulteration racket there also. It was very difficult to differentiate between genuine and spurious tea as the colour, smell and the granular finish were almost identical.

Singh (2002) has also reported of rejection of Darjeeling tea by Germany alleging that the tea did contained excessive pesticide residue level which shows that pesticide residue is also a reason for lowering export share of India in the world export market.

Due to unscrupulous exporter also Indian export market has suffered.

The newspaper, The Assam Tribune, (2008) reported the worst of the practice under Guwahati Tea Auction Centre (GTAC) in which the auctioned lot is not
available in the designated warehouses at the time of delivery which created lot of difficulty for the buyers concerned. Two warehouses, issued arrival and weight report (AWR) to a broker without actually receiving any tea by the warehouses.

These practices once detected will discourage the upcountry buyers to buy their requirement from the auctions in India.

The importance of GI registration is immense for any the export market. GI registered tea is in high demand than non registered tea.

Datta (2009) discussed the various aspects of Geographical indication registration and the challenges encountered by India in spite of the GI registration of India’s Darjeeling tea. India enacted its GI Act in 1999 and formulated its Geographical Indications of Goods (Registration and Protection) Rules in 2002 for the protection of goods in the domestic and international market. Darjeeling tea obtained GI registration in 2003. Taking advantage of similarity of napalese tea with India’s GI registered Darjeeling tea, Napalese tea is entering India both in processed and unprocessed form and sold under the name of Darjeeling tea in both domestic and international market affecting Indian tea market.

An international organization, Oxfam (2002) also find that Napalese tea finds Kolkata auction center, a good channel to sell their tea alongside the famous Darjeeling tea, sometimes actually labeling their tea as Darjeeling.

Srivastava (2004) stated how cases have been detected by Tea board of India in Japan in which the Darjeeling logo mark, namely, Darjeeling women ‘serving tea/coffee/coca/soft drinks/fruit juice’ and the trade mark ‘Darjeeling tea’ with a map of India has been registered illegally by dishonest traders in the Japanese Patent Office (JPO) 1996. In France, Russia, United States of America and Switzerland also similar misappropriation has been detected. Srivastava also pointed out another challenge faced by Tea Board of India in GI registration. That is the multiple registrations in the countries of export, which involves considerable
Hiring the services of World Wide Watch agency to monitor unauthorized use and attempted registration and undertaking legal actions in fighting infringements in overseas jurisdictions also involves high cost. He also mentioned that due to high cost in many cases legal actions have been avoided however genuine and strong the case may be.

**Challenges from the import market of India**

Continuously rising import into India is a great challenge for India’s tea market.

In this respect, the role of enumerable agreements can hardly be exaggerated. In the report of the Ministry of commerce, Govt. of India, it has been stated that still there are numbers of agreement in the pipeline which are under consideration. Among them some are, agreements with European Union (EU), China, Japan, Malaysia, Pakistan, Egypt, Israel, Russia, Australia, Bangladesh, Vietnam etc. These will definitely have repercussions on the tea economy of India through increased inflow of import into India. (Government of India, 2011)

Regarding the challenge of inflow of tea from Sri Lanka, Banerjee c.(2008) stated that tea import from Sri Lanka under indo-Sri Lanka FTA has affected Indian tea market. Since the tea from Sri Lanka resembles the tea of Nilgiri, the imported tea from Sri Lanka is used for exporting to the export destinations of India or even supplied to the domestic market without any value addition affecting Indian tea growers severely.

**Challenges of the domestic tea market of India.**

Rising preference for tea substitutes has also eroded the share of tea in India.

With the rising income and standard of living of the people of India there is shift in the demand from tea to other drinks. Reddy (2007) showed that, since 1990s, the per capita income has been growing at an average rate of around 4.0 per cent, with GDP growth rate of around 9 per cent implying continuously rising income and standard of living of the people of the country.
indiacoffee.org (2005) revealed the fact that Coffee is more popular in South India than in North India. Of the total coffee consumption South India consumes 80 percent, and the rest 20 percent is consumed in the North India. Hence in South India growth of tea market is less than that of coffee market. (indiacoffee.org, online: accessed on 21st December 2010)

SOMO (2008) discussed that the unscientific growth of small tea growers can also pause challenge for the tea market of India. The challenge from the small tea growers emerges mainly due to the quality parameters and low tractability.

Reporting on the activities of the tea auction centers, SOMO (2008) reported that, a major allegation of the tea auction centers in recent years is that the big buyers like Tata Tea and Hindustan Lever, are sharing out lots between them instead of bidding against each other competitively. This is also a challenge for the tea market of India.

**Opportunities for the tea market of India**

There are number of opportunities for Indian tea market which if tapped appropriately can help the Indian tea industry to a large extent.

Alternative farming in the tea growing areas can fetch high income for the tea garden owners. The initiative has already been taken for alternative cultivation in tea growing areas under Tata Tea to earn extra income. The project of alternative farming will be boosted up after the brand new entity Amalgamated Plantations Pvt Ltd (APPL) formed by Tata Tea, come into existence. Tata Tea has 20 estates in Assam and four estates in Dooars. (tata.com, ‘Tata tea forms JV with Zhejiang Tea’)

Alternative crop has also been planned by the plantation group Goodricke owning 30 gardens in Assam, Darjeeling and Doors. (Economic Times, 2005)
Economic times (2005) also reported that, the committee formed in 2007, by the government of India, to review the legislative measures of the central and state government on tea plantation also have recommended to permit alternative cropping in 10 percent of the area under tea plantation to supplement the income of tea sector, so that the loss due to unbalanced price to cost can be recovered to some extent.

Tea by-product can also be utilised fruitfully to earn extra income.

wipo.int found that tea extract forms a high quality detergent for washing oily substances. Tea oil cake and waste can be used as fodder and bio-manuring. Manure can be produced from a mixture of green tea waste and fowl dropping to be used in gardens for flowers and vegetables. (wipo.int, online: accessed on 21st April 2010)

Tata Tea has already been involved in the tea extract business for last 40 odd years. The company has been manufacturing Black Tea extract in their factory situated in South India, exclusively for the export markets. (tata.com, online: accessed on 21st April 2010)

With regard to value added tea which is in high demand in all the countries of the world, Nagpal (2011) presented a valuable report in ‘The Assam Tribune’ that in India star hotels have opened tea parlours to serve tea with varieties of flavour fetching good prices. Hilton Hotel in New Delhi have opened an exclusive tea lounge offering 18 varieties of tea, like dark chocolate tea, jasmine pearl tea, lapsang souchong black tea, Shanghai tea, strawberry tea, mushroom tea, vanilla tea, yellow tea, white tea, green tea etc. which are sold at very high prices ranging Rs.150-Rs. 250 per cup.

Regarding organic tea, The Assam Tribune, 2009 reported that the demand for organic tea is also very in the world. Organic tea named ‘Phalap’ produced by the local tribe of Assam called Singpo, is in high demand in the market of Canada,
UK and USA. Effort has also been made by ‘Abali Organic Tea Estate’ of Arunachal Pradesh which has been able to attract European buyers for its quality. The tea has already been available in the leading stores of London, marketed by Typhoon, a UK based company.

Akhomiya Pratidin, (2010) also reported of the organic tea produced in ‘Meenmohan Chah Bagisha’ in the Lakhimpur district of Assam which has gained popularity among the tea consumers of Canada. The tea has been marketed in Canada by the name of ‘Madhupur Village Tea’.

Tea store in the garden, single garden tea etc can also be an effort in the direction of popularising tea among the tea lovers.

Supply of tea from a certified single garden tea has already been tried in Sri Lanka which is very successful in its export market in USA. (Sarah, 2004)

Economic times (2005) reported that, the leading tea company Goodricke Ltd. has started the process of repackaging all its existing brands to made its tea more attractive to the customers which is an good effort to popularize tea.

WTO and Indian tea market

Signing of the WTO agreement has also given rise to many challenges for the tea market of India.

In wto.org, adequate information on WTO has been uploaded. The advantages of membership of WTO have been briefly given as WTO would provide its member countries with greater access to the external markets. Businesses and people will have much more choice in accessing to consumer goods and services of higher quality at lower price. The main directive of WTO agreement is to lower the tariff barriers of the member countries to facilitate trade among the member countries. Accordingly, all the member countries have started lowering the tariff rates as per
WTO direction. In case of agriculture the tariff of most of the commodities has been lowered. (wto.org a. online: accessed on 5th August 2010)

But some commodities in the sensitive list like tea, palm oil and pepper have been exempted from the tariff reduction to safeguard the interest of the countries concerned. (wto.org c., online: accessed on 5th August 2010)

**Government policies pertaining to tea.**

To protect and develop the tea industry of India government of India has taken several measures since independence.

The various measures taken by the government of India in the post independence period started with the industrial policy formulated in 1948 which provided a clause for nationalization. (Mukherjee, 1978)

Since the launch of the five year plans, government of India has formulated several schemes to develop the tea industry of India. Higher participation of Indian private entrepreneur in the tea business was tried from the very begging of the plan periods. (Jones, 2000)

The changed political situation and economic policy restricted the British private plantation sector to pursue their own policy independent of government control and regulation. (Mukherjee, 1978) Consequently there was gradual withdrawal of the British tea entrepreneurs from India. This provided ample opportunity to the Indian entrepreneurs to concentrate on the development of the tea Industry of India. Government of India also took keen interest to provide every possible help to the indigenous tea entrepreneurs in each five year plans.

Some of the important measures taken by the government of India during the plan period to help the tea industry of India are, during the Annual plan period (1966-67-1968-69) Indian Rupee had been devalued against US Dollar. Indian Government also imposed duty of Rs. 2.00 per kg on export of tea from 1966.
which adversely affected the Indian exporter. Realising the stress, the export duty has been reduced from November 1966. (Awasthi, 1975)

During the fourth plan period two major reforms took place in the tea economy of India. In 1970 the ruling Indian government abolished the system of Managing Agency houses which were very active during the colonial period. (Jones, 2000)

In other plans also several important policies have been undertaken which helped in the growth and development of the tea industry of India to a large extent. The Annual Reports and Tea Statistics published by Tea Board of India and Ministry of commerce and industry, government of India provides the detailed government policies relating to tea industry of India in different plan periods. (teaboard.gov.in, commerce.nic.in, online: accessed during 2006-2011)

1.4 Rational of the study

Tea being an export oriented industry earning considerable foreign exchange for the country and employing more than two million people directly and indirectly demands the attention of all stake holders of Indian tea Industry. One hundred and eighty six years old tea industry of India is in a crisis, brought about by shrinking export market, expanding import market, rising costs of production, lower unit value realization, reduction in quality of tea etc. As a fallout, India is losing most of the traditional markets. Export oriented industry is gradually turning to domestic market oriented industry, while increasing import has transformed the country from a seller of tea to a buyer. There is continuous exit of big tea companies having major stake in the plantation business, from plantation to marketing only. Continuous consideration and reconsideration is going on for alternative crops in the tea garden areas. Venturing into other business along with tea is also been considered seriously by the big tea companies to offset any loss in the tea business. Frequent labour unrest is posing a big hindrance in reaping
harvest in time. Out migration of tea labourers from tea cultivation to other occupation is another problem faced in recent time. Lackadaisical attitude of the government in meeting the problems of small tea growers is aggravating the problems of the small tea growers. Adoption of New Economic Policy (NEP) and signing of WTO agreement by India has also given rise to challenges for the tea industry of India.

On the above backdrop, a detailed study of the problems and prospects of tea market of India is very important. Hence study on the challenges and opportunities of the tea market of India has been undertaken to get enough insight into the prevailing situation of the tea market of India. Comparative study of the tea market of India and other competing countries will showcase the competitiveness of the tea producing and exporting countries of the world. An analysis of the challenges confronting the sector will provide an understanding of the causes of the fluctuations of the Indian tea market. Opportunities of the tea market that is identified will provide the basis for reviving the tea market so as to regain its past glory. Analysis of government policies will provide ground for scrutinizing the policies and thus to explore the scope for improving subsequent policy measures. Finally, the study will provide enough knowledge on the prevailing situation of the tea industry as a whole and the tea market in particular, of India and will provide significant base for the future studies on related subjects.

The researcher has felt the absence of a comprehensive literature dealing with the various aspects of the Indian tea industry. To fill this knowledge gap detailed study has been undertaken to unfold the challenges and explore the opportunities for the tea Industry of India. The study will focus on the changes in the Indian tea economy during the pre globalization and post globalization period.
1.5 Period of study

The period of study is from 1986 to 2008. The justification of the chosen period is that, Indian tea economy has undergone a major upheaval after the exit of the British tea entrepreneurs in the 1980s. Adoption of NEP in 1991 and signing of WTO agreement in 1995 have also left significant implications on the tea economy of India.

Development in the tea market of India before and after the focus period has also been taken into consideration for better understanding of the subject under study.

1.6 Objectives of the study

The objectives of the study are -

1. To study the structure and changes of Indian tea market particularly during 1986-2008.

2. To examine the effect of market diversification of tea on India’s tea trade.

3. To analyse the impact of the WTO agreement (World Trade Organisation) on the Indian tea market.

4. To identify the challenges encountered by the tea industry of India -
   a) From competing countries
   b) From tea substitutes
   b) From small tea growers
   c) From cost escalation, labour unrest, price fluctuation and others.
5. To examine the policy measures adopted by the Government and other agencies and offer policy prescriptions.

1.7 Research Questions

This doctoral research seeks to address the following questions:

1. Have the global economic and political changes had any impact on the tea economy vis-à-vis tea market of India?

2. Have the signing of WTO agreements affected the tea market of India?

3. Has the emergence of the tea substitutes adversely affected the growth of the Indian tea market?

4. What has been the effect of the emergence of small tea growers on the Indian tea market?

5. How has the tea market been affected by cost escalation, labour unrest, irregular activities by the various tea stakeholders etc.?

6. Has the Indian tea Industry been able to withstand the impact of changes in the world economic order?

7. Are the policy measures adopted so far by the Government of India and related agencies, for sustenance and revival of tea industry, are adequate?

1.8 Conceptual Framework:

In the research some concepts specific to the research area and to the objectives have been used which are discussed below.

i. Herfindahl-Hirschman concentration Index:

The Herfindahl-Hirschman concentration Index is defined by

$$ H = \sum s_i^2 \ \text{where} \ s_i = \frac{f_i}{F} \ \ i=1,2,3,4,........n $$
$s_i$ is the share of export of country $i$ on total world export flows, and $n$, number of participating countries.

In $s_i$, $f_i$ indicates the export flows of country $i$, $F$ is the total tea trade flows (i.e. $F = \sum f_i$).

Herfindahl-Hirschman concentration Index is used to study the concentration of a country’s trade in the trading countries.

The index reaches its upper bound of 1 with a maximum level of concentration and its lower bound 0 with a minimum level of concentration.

As the value of the index approaches 1 greater will be the dependence of exporting countries on some leading tea importing countries. Value nearing 0 will imply that there is diversification of the tea market.

**ii. Revealed comparative advantage index**

$$RCA = \frac{(X_{ij}/X_{wj})}{(X_{i}/X_{w})}$$

Where,

$X_{ij}$ = $i$th country’s export of commodity $j$,

$X_{wj}$ = world export of commodity $j$,

$X_i$ = total merchandise export of country $i$,

$X_w$ = total world merchandise export

Revealed comparative advantage measure showed the relative competitiveness of a country to its competing countries with respect a commodity. Greater is the value of the index higher is the competitiveness and smaller is the value, lower is the competitiveness.
iii. Price Instability Index

Price Instability Index is a measure showing the dispersion of the actual price from its trend value.

The Index is defined as:

\[ \frac{1}{n} \sum_{t=1}^{n} \left( \frac{|Y(t) - \hat{y}(t)|}{\hat{y}(t)} \right) * 100 \]

Where,

- \( Y(t) \) is the observed magnitude of variables
- \( \hat{y}(t) \) is the magnitude estimated by fitting an exponential trend to the observed value
- \( n \) is the number of observations

The vertical bars indicated the absolute values.

Higher is the value of instability index higher is the instability of price and vice versa.

iv. Export Unit Value (EUV) = Export value/Export Quantity

v. Import Unit Value (IUV) = Import value/Import Quantity

1.9 Methodology

The study is based on secondary data. Various government and non-government organization have been sourced for the required data and information.

1.9.1 Data Source

The study is based mainly on the data pertaining to the period 1986-2008. Secondary data have been utilized after confirming their reliability.
Some of the important sources of data are:

- Tea Statistics published by Tea Board
- Annual reports of the Indian Tea Association, UPASI and the Tea Board of India;
- Tea market reports;
- Official statements from the tea companies;
- Data on company web site;
- Annual reports of the Indian Tea Association, UPASI and the Tea Board of India;
- Reports from auction centers;
- FAOSTAT hosted by Food and agricultural organization of United Nations in its website.
- Tea Statistics hosted in the website of Ministry of Commerce, Government of India;
- Tea Statistics hosted in the website of Tea Board of India.
- Tea Market Annual Report and Statistics published by J Thomas and co.;
- United Nations Commerce and Trade Database published by Ucomtrade.un.org/db/
- Parliament questions and reports, media and newspaper reports.

Reports and articles were accessed from the following organizations and publishers.
ICRA (Investment Information and Credit Rating Agency), ITC (International Tea Committee), SOMO (Stichting Onderzoek Multinational Ondernemingen Centre for Research on Multinational Corporations, Amsterdam, Netherlands), Karn Marcent Bankers Association, CEC (Centre for Education and Communication),
Oxfam International, Traidcraft U.K., tea.co.uk., Economic Times, The Hindu Business line, Economic and Political Weekly, Plantation Report of the Parliamentary Committee, Rajya Sabha etc. Several tea related books have also been searched for the study.

1.9.2 Tools of Analysis

Analytical tools in the study has been, average, trend analysis, compound annual growth rate, coefficient of variation, Reveled comparative advantage index, Herfindahl-Hirschman concentration Index, and other common statistical tools.

For the evolution of the tea market in India, growth and development of the tea market has been studied. The movement of tea prices in both domestic and international markets has been studied with the analysis of time series data of both domestic and world market. Growth and development of export and import market have been studied, with time series analysis, compound annual growth rates, coefficient of variation and movement in the value of export (CAGR value/CAGR quantity*100).

Herfindahl-Hirschman concentration Index has been used to study the concentration of India’s export and import in the competing countries during the period of study.

The impact of WTO on the Indian tea market has been studied with the comparative analysis of the tea market before the WTO agreement and after the WTO agreement. Here percentage rise and fall of the quantity and value of export and import of tea has been calculated. To find the extent of volatility of quantity and value of tea exported and imported, coefficient of variation of the quantity and value of export and import of tea in pre and post WTO period have been calculated.
To evaluate the challenges of Indian tea market from the competing countries, performance of India’s tea export and import has been compared with the export and import performance of other competing countries with percentage growth rates of exports and imports.

To trace the challenges encountered by the tea market from tea substitutes comparative study of the growth and development of the tea and the market of the tea substitutes have been analysed with trend analysis, Compound annual growth Rate (CAGR) and Coefficient of Variation (CV).

Challenges from other stakeholders including small tea growers, brokers, multinational companies, have been studied with the critical analysis of their respective activities and their impact on the tea market of India.

To assess the competitiveness of Indian tea market, Revealed comparative advantage index has been calculated. Revealed comparative advantage measure showed the relative competitiveness of India to its competing countries with respect to tea. For price comparison of India and competing countries, Export Unit Values and Import Unit Values are calculated. EUV and IUVs are the simplest of indices and measures the divergence of domestic price from international price and determines the degree of export and import competitiveness of the commodity concerned.

The impact of measures adopted by the Government and other concerned agencies have been studied with mainly theoretical analysis.
1.10 Limitation of the study

Tea market encompasses a vast area of both domestic and international market. This study has attempted study the growth and the challenges confronting the various segments of the tea market, at different stages of their development. In some cases the data for some parameters are not available. Effort has been made to analyse the available data with utmost care. Literature on Indian tea is also very limited. But within the limitations a rigorous analysis have been attempted so as to make the study comprehensive and academically significant.
1.11 Structure of the thesis

The chapters of the thesis have been organized as follows.

Chapter I: Introduction

- Introductory statements
- Statement of the problem
- Overview of the Indian tea industry
- Review of literature
- Rational of the study
- Period of study
- Objectives of study
- Research questions
- Conceptual framework
- Methodology
- Data source
- Tools of analysis
- Limitations of the study
- Structure of thesis

Chapter II: Evolution of Tea Market

- History of tea in the world
- History of tea in India
- History of tea market in the world
- History of tea market in India.
- Growth and development of Indian tea market from 1986 onwards.
Chapter III: Challenges and opportunities of Indian tea market

Challenges of Indian tea market

• Challenges in the export market
• Challenges from the import market
• Challenges in the domestic market

Opportunities of Indian tea market

• Opportunities in the eco-tourism
• Opportunities in the alternative cultivation
• Opportunities in the tea byproduct segment
• Opportunities in the value added segment of tea
• Opportunities in the orthodox tea cultivation.
• Opportunities in the organic tea cultivation

SWOT Analysis

Chapter IV: WTO and Indian tea market

• WTO agreement and tea
• WTO agreement and Indian tea market

Chapter V: Evaluation of the Policies of the Government of India, pertaining to the tea industry

Chapter VI: Summary of findings, policy prescriptions and conclusion