CHAPTER VIII: RESTRUCTURING AND RELATIVE PROFITABILITY OF TEA PRODUCTION SYSTEMS

8.1: Introduction

In this chapter I will discuss the emergence of an alternative production structure characterized by the smallholder-BLF combine in the West Bengal tea economy. This alternative production structure started surfacing from mid 1980s and gained momentum in the nineties. In the context of present global economic change, tea managements preferred a more flexible labour arrangement. They had earlier advocated adoption of labour saving mechanisms but so far had achieved very little success. Now attempts are being made to reorganise the production process to approximate that of the small-growers system. Plantations, either individual or corporate, may continue to hold processing and marketing activities, while the farm unit could be sub-divided into smaller units and leased out to farm workers for tea cultivation and factories could be transformed into bought leaf factories to be run by the present management.

Initially emergence of smallholder-BLF sector was linked to initiative of the estate sector which promoted plantations at the periphery of existing estates and estate factories regularly purchased green leaves produced in such smallholder plantations. Later on growth of smallholder-BLF sector went beyond the periphery of existing estates and penetrated into non-traditional areas also. In such areas many peasant families shifted to tea plantation on their own since they perceived it as a profitable venture. Overall, extent of independent shift to smallholder-BLF sector was much larger than the shifts induced by estate management. In terms of agronomic parameters, state of affair in the smallholder-BLF sector was very poor. Growth of smallholder-BLF sector was characterized by production of poor quality CTC tea.

Among the smallholders there were two distinct categories- peasant plantations and relatively large plantations owned by business capital. Smallholder-BLF sector could avoid applicability of labour laws as plantation and manufacturing got separated in such production structure. Cost of production in smallholder-BLF sector was lower than that of
estate sector. In such context, emergence of smallholder-BLF can be thought of as a ploy to subvert labour regulations on the part of estate sector. There was limited stagnation in movement of average prices in the early part of this decade but that situation was used by the estate sector to reorganize itself in the mould of smallholder-BLF type of production structure.

The important question here is whether this kind of organizational restructuring is making better economic sense in changing economic environment. Apparently even if price realization is low at auctions, smallholder-BLF sector may earn sizable profit because of differences in cost structure. In a depressed price situation, traditional system of tea production will find it difficult to reap even the working capital. In recent times, a few estates even closed down in Assam and West Bengal because of their failure to recover even the variable cost. Some other estates were recovering variable cost but could not recover the entire total cost incurred. They may continue operation in the short run but their sustainability in the long run is uncertain. This issue of cost structure, pricing and profitability of traditional estate system of production vis-à-vis that of the smallholder-BLF combine can only be analyzed if a comparative study is carried out. This can be attempted through collection of data relating to cost, pricing and profitability of both systems of production. In the following three sections the issues of restructuring of production system and relative profitability of traditional estates vis-à-vis smallholder-BLFs will be discussed. Section 8.2 discusses the restructuring of the production system. Section 8.3 makes a comparative study of level of profit of estate type of production and smallholder-BLF type of production systems. Section 8.4 is a concluding one.

8.2: Restructuring of production system

From mid 1880s, tea growing regions of West Bengal underwent changes as small tea plantations began to emerge. Southern Indian tea plantations already had their share of small plantations but for West Bengal tea industry, it was a new phenomenon. There were several reasons behind the new development.

The first was the State policy of land redistribution since the 1970s. Under this, ceiling-surplus lands vested with the State were progressively assigned to landless farmers both for
cultivation and homestead purposes leaving little land that could be granted towards new tea leases. Furthermore, tea in West Bengal has remained largely confined to the traditional tea growing areas of Darjeeling hills, Terai and Dooars regions where the conversion of lands to tea lands reached a virtual saturation after independence. In any case, most of the larger tea estates in the region were established well before the 1930s.

Second, from the mid-1980s onwards the West Bengal tea industry constantly sought release of additional land for expansion. Since most of the vested land acquired through the implementation of land ceilings had already been exhausted through redistribution among landless beneficiaries, focus gradually shifted to revenue lands. But the existence of Forest Conservation Act put restriction on transferring land classified as forests for plantation purposes.

Third, the lands distributed among landless beneficiaries were frequently found unsuitable for paddy cultivation. Consequently, the idea of shifting this land to small growers for the cultivation of tea was conceived.

Fourth, in view of the implementation of the land redistribution programme in the State in mid-eighties, tea industry appreciated that vested land available with the State government might not be released to the estate sector (ITA, 1985). The tea industry proposed settlement of such lands with small growers, preferably ex-tea workers and others living in the vicinity of the estates who would sell green leaf to the nucleus factories at prices determined on the basis of green leaf quality and the prices of made tea. The nucleus tea estates would be required to assist the small growers with technical and managerial expertise as well as requisite financial inputs. The process initiated by the tea industry led to emergence of several ‘project tea gardens’ in traditional and non-traditional tea-growing areas of West Bengal during the late 1980s and early 1990s.

However, emergence of smallholder-BLF sector should not be exclusively attributed to the efforts of the estate managements only. Initially estate sector promoted plantations at the periphery of existing estates and estate factories regularly purchased green leaves produced in such smallholder plantations. Estate managements provided encouragement and technical help to peasants who shifted land from subsistence farming to tea plantations. But
the actual extent of growth of smallholder-BLF sector did not limit itself within the
initiative of estate managements only. Actual proliferation of smallholder-BLF sector was
much larger and well spread-out. It went beyond the periphery of existing estates and
penetrated into non-traditional areas also. In such areas many peasant families shifted to tea
plantation on their own since they perceived it as a profitable venture. Overall, extent of
independent shift to smallholder-BLF sector was larger than shifts induced by estate
management.

Smallholders were predominantly peasant families who did not have technical know-how.
They received informal help from various quarters like retired estate managers and
supervisors, business persons dealing in inputs in tea plantation, people related to tea
business. Some of these tea farmers did not receive any technical advice and followed those
operating adjoining their land. Overall the quality of technical knowledge available was
very poor and inadequate. As a result, in terms of agronomic parameters, state of affair in
the smallholder-BLF sector was very poor. In majority of cases no mechanism existed for
quality control. Thus the growth of smallholder-BLF sector was characterized by
production of poor quality CTC tea in an environment where quality control took back-
seat.

Here it would be useful to mention that smallholder-BLF sector did not only consist of
peasants but also included relatively large plantations established under organized
ownership. Most of such owners were town-based businessmen who had money to invest
but lacked plantation background. They got hold of large track of land from individual
peasant families by offering them money and employment at the rate of one individual per
one acre of land transferred. A production structure, characterized by such large plantations
along with BLFs, apparently resembled estate type production system but with a significant
difference. Plantation and manufacturing part of tea production were distinctly segregated
in such production system. The entire arrangement served the combined ownership well
since by adopting such a production structure they could subvert labour legislation. Thus
among the smallholders there were two distinct categories- peasant plantations and
relatively large plantations owned by business capital.
Although transfers of farmland to small tea-growing operations in West Bengal occurred intermittently throughout the 1990s, the extent did not become visible until the Tea Board began including the small grower sector in its statistical estimates from 1998 onwards. In the first half of the nineties, expansion in plantation areas went beyond the peripheries of the estate sector and was accompanied by increased outsourcing of green leaf purchases by established estate factories. Consequently, a total of 162 BLFs and 29 co-operative factories were collectively producing 67.01 million kg of made tea in 1996 in the country as a whole (Tea Board, 1999). Production of made tea by the Assam and West Bengal BLFs together amounted to 5.09 million kg at that time and contribution of smallholder-BLF sector was just over 7.6 per cent of total tea produced in India.

In the course of four years, things changed substantially. By 2000, there were an estimated 105 BLFs in Assam producing 37.68 million kg of tea and another 46 in West Bengal collectively producing 16.9 million kg of tea (Tea Board, 2002). More than 70 per cent (11.88 million kg) of the tea from BLFs in West Bengal was produced at 26 factories located in the Terai. Another 5.02 million kg was being produced by 20 BLFs in the Dooars. By 2002, the quantity of BLF-produced tea in Assam had risen to 46.82 million kg from 138 BLFs, while in West Bengal it had nearly doubled to 33.57 million kg comprising 22.29 million kg produced by 38 BLFs in the Terai and another 11.28 million kg produced by 24 factories in the Dooars (Tea Board, 2002). In proportionate terms, the rate of increase of tea produced outside the traditional estate sector was much faster in West Bengal than in Assam and was fastest in Terai where the quantity of made tea being produced in the BLF sector amounted to nearly half of the production of tea in traditional estate factories (Details of growth of smallholder-BLF sector was discussed in section 3 of Chapter III).

Emergence of smallholder-BLF has some important aspects. First, smallholder-BLF sector did not follow labour regulation. In many instances, smallholder-BLF sector did not fall under the purview of various labour laws like Plantation Labour Act 1951. This happened because smallholder-BLF sector did not have the industrial identity as plantation and manufacturing got separated in such production structure. Acts like Plantation Labour Act 1951 provided various welfare facilities for the plantation labourers. But as the Act was not applicable for the smallholder-BLF sector, those working in such production system were
deprived of such facilities. Thus cost of production in smallholder-BLF sector was lower than that of estate sector.

Second, emergence of smallholder-BLF can be thought of as a ploy to subvert labour regulation. From the perspective of labour in smallholder-BLF type production structure, workers did not receive welfare benefits as it did not fall under the purview of relevant Acts. Moreover, practice of having permanent labour force became redundant in such production structure. Smallholder plantation employed family labour and hired labour that was casual in nature. By separating manufacturing from plantation, smallholder-BLF type of production structure could avoid application of a gamut of labour legislations. Position of labour was significantly different in smallholder-BLF type of production structure in the sense that deployment of labour became flexible and informal. In fact, in smallholder-BLF type of production structure identity of labour got diluted to the extent that those who worked in such plantations were treated as tea farmers. Thus, there is reason to believe that growth of smallholder-BLF sector was designed to subvert labour regulation.

Third, trends in average price from a long-term perspective showed that decline in price during late nineties and early this decade was not as sharp as made out to be. Certainly the kind of fall in prices as witnessed during that period could hardly be termed as a situation of 'crisis'. In fact, long term price trend showed an increasing trend from 1974-75 onwards (discussed in details in Chapter IV). Average price declined to the tune of 20 per cent within a span of three years from 1999-00 to 2002-03 but recovered thereafter. During this period managements of estate plantations stressed heavily on the quantum of price fall and took advantage of the situation by initiating movements towards reorganization of tea production structure. However, fall in average price was not that huge to term it as a situation of crisis. At worst, there was limited stagnation in movement of average prices but that situation was used by the tea industry to reorganize itself in the mould of smallholder-BLF type of production structure.

BLF sector did not suffer from decline in profitability because of fall in auction prices during 1999-00 to 2002-03. On the contrary, BLFs experienced higher profit at lower prices. This was possible essentially because BLFs could purchase green leaf at a much
lower rate from smallholders in the depressed price situation. In 2002, in West Bengal total production emanating from BLFs was 33.57 million kg (Tea Board, 2004). Since the quantity of green leaf required to produce 33.57 million kg of made tea would be around 151.07 million kg (at the standard transformation ratio of 4.5 kg green leaf per kg made tea\(^1\)), the value of green leaf production at the average price of Rs 9.25 per kg (prevailing in the West Bengal tea regions in 1998\(^2\)) would come to around Rs 1.44 billion. The sales of BLF produced made tea at the average 1998 auction price of around Rs 74 per kg would have fetched revenue of Rs 2.48 billion. Assuming a cost mark-up of 30 per cent on the green leaf purchase value towards meeting agent’s commission, factory costs and handling charges, the net profit realized by the BLF sector would be around 620 million or approximately Rs 18.43 per kg of made tea produced in the BLF sector in 2002 at 1998 auction prices. However, because of decline in prices in 2000, average green leaf price fell to Rs 4.50 per kg and average auction price declined to Rs 58 per kg. Estimating profitability in the similar manner, profit made by the BLFs in the post price crash situation stood at Rs 29.92 per kg which is substantially higher than the pre-price crash profit. This was possible because during the period of price crash, BLFs could purchase green leaves at a much lower price compared to that in pre-crash situation. Extent of fall in prices of green leaves was higher than the corresponding fall in prices of made tea. The ability of BLF sector to lower the procurement price of green leaves during the period of price crash led to a situation where they made higher profit at lower price.

Thus in a context, where prices at auctions were falling sharply, BLFs could realize a higher profit. BLF-smallholder combine has this inherent flexibility of the production structure which enables them to make higher profit at a lower price. To take advantage of such a production structure, it is observed, particularly in the last one decade, that there has been a tendency towards restructuring of tea production structure characterized by BLF-smallholder combine.

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\(^1\) Sivaram B Plantations in south Asia: Improving working conditions and productivity through social dialogue in A Sivananthiran and C S Venkatratnam (ed) Labour and Social issues in plantations in south Asia: The role of social dialogue, ILO, New Delhi, 2002, p 48

\(^2\) Kabir S E, Enumeration of new tea gardens of north Bengal, Bihar and Sikkim (Report on a project sponsored by the Tea Board, Department of Tea Management, University of North Bengal), 2001
During the period of decline in auction prices during 1999-00 to 2002-03, estate sector found it difficult to break even whereas BLF-smallholder sector continued to make reasonably high profit. The reason was that cost of production in BLF-smallholder sector was considerably lower compared to that of the estate sector. However no data exist in the literature with regards to cost of production of the BLF-smallholder sector. To fill this gap and to make a comparative discussion of the BLF-smallholder vis-à-vis estate sector I collected data with respect to cost of production and revenue generation for selected BLFs and smallholders. Because of lack of time and since no enumeration or list exists for BLFs and smallholders, I have done case studies of two BLFs and three smallholders and one large plantation having its own BLF where cultivation and manufacturing were not integrated in accounting sense. Smallholder plantations and BLFs were chosen in such a manner that those represent different regions of production. Estate analysis was based on sample studies but analysis of smallholder-ELF sector was based on limited case studies. Thus in case of smallholder-ELF sector, the scope of analysis is very limited and the conclusions drawn from such analysis would be at best indicative in nature. Still it would be useful to carry out such analysis since no data exist at present. However, conclusions from such analysis would give a tendency rather than a definitive answer.

Data related to profitability were collected from three smallholder plantations with the help of a structured questionnaire. Questionnaire is given in Appendix III. Three smallholders were selected in such a way that they represented three districts- Adarmuna plantation in Darjeeling district, Chandni plantation in Uttar Dinajpur district and Rupali plantation in Jalpaiguri district.

One plantation which was much bigger in size namely Maya Plantation was selected to represent plantations set up by entrepreneurs from near-by towns which had a much larger area under tea than the smallholders.

Adarmuna plantation is situated in Fagu in Darjeeling district. The area under plantation was 10 acres. It was selling its green leaves to near-by Fagu tea estate. Average price realized in selling green leaves was Rs 6. There were twelve daily-rated permanent
workers. Five of them were male and rests seven were female. There were few temporary workers also. Average employment in a day was 12. Wage paid was Rs 45 per day. Total cost of production was Rs 275000. Labour share in the total cost of production was about 50 per cent. Total revenue earned was Rs 330300. Thus profit is Rs 55300 for the financial year 2004-05. Profit per kg of green leaves sold was Rs 1.02.

Chandni plantation is situated in Vaisvita in Uttar Dinajpur district. The area under plantation was 8 acres. It was selling its green leaves to near-by BLFs. Average price realized in selling green leaves was Rs 6.5. There were five daily-rated permanent workers. Two of them were male and rests three were female. There were few temporary workers also. Average employment in a day was 6. Wage paid was Rs 42 per day. Total cost of production was Rs 238200. Labour share in the total cost of production was about 37 per cent. Total revenue earned was Rs 285155. Thus profit was Rs 46955 for the financial year 2004-05. Profit per kg of green leaves sold was Rs 1.08.

Rupali plantation is situated in Rajganj in Jalpaiguri district. The area under plantation was 9 acres. It was selling its green leaves to near-by BLFs directly. Average price realized in selling green leaves was Rs 6. There were eleven daily-rated permanent workers. Five of them were male and rests six were female. There were few temporary workers also. Average employment in a day was 10. Wage paid was Rs 44 per day. Total cost of production was Rs 353400. Labour share in the total cost of production was about 44.82 per cent. Total revenue earned was Rs 502500. Thus profit is Rs 149100 for the financial year 2004-05. Profit per kg of green leaves sold was Rs 1.80.

From the analysis of data of three smallholder plantations it can be observed that profit made by these entities varies between Rs1 and Rs2 per kg of green tea leaves sold. Average level of profit was 1.26 per kg of green tea leaves sold. All the three smallholder plantations were making profit. Labour was the most important item in the cost of production structure. Average share of labour in the cost of production was 46 per cent. The next important cost component was input cost involving manure, fertilizers and pesticides. All the plantations paid wages which were lower than the wages paid in the estate sector. On an average one labour per acre was employed. Average price realized was
Rs 6.79 per kg which remained steady during the year. Output was sold to the adjacent BLFs directly and in some cases through agents. Family labour was involved in almost all cases. Green leaves were plucked all through the year except in the months January and February. Significant parts of working and fixed capital were financed by banks and interest payment constituted about seven per cent of total cost of production.

With regards to profitability of BLFs data were collected from two BLFs with the help of a structured questionnaire. The questionnaire is given in Appendix IV. BLFs represented two tea producing districts of West Bengal. Super Klass tea factory is located in Darjeeling district and Teesta tea factory is located in Jalpaiguri district.

Super Klass tea factory started operating in 1999 and mostly procured its green leaves directly from the small growers situated in the vicinity of the factory. Production of tea continued all through the year but most of the production took place during the months May to November. Average price for procurement was Rs 7.54.

Total tea produced was 603274 kg. Out of the total produced tea, 17 per cent were sold at auction and rest 83 per cent were subjected to ex-factory private sale. Average price realized at auction was Rs 52.21 and average price realized at private sales was Rs 62.20. Overall average price realization was Rs 60.75.

Total permanent labour force was 19. All were male. Average employment in a particular shift was 18. Total person-days utilized during the year was 17036. Total wage bill for the year 2004-05 was Rs 7,07,881 (2.30 per cent of total cost). Total salary bill (including that of managerial personnel) was Rs 2,89,358 (0.94 per cent of total cost). Cost share of depreciation, tax and fuel were 8.90, 2.56 and 3.51 per cent respectively. The most important item in the cost structure was the cost towards purchase of green leaves. Its share accounted 70.62 per cent of the total cost.

The cost per kg of made tea was Rs 50.91. Revenue per kg of made tea was Rs 60.75. Thus Super Klass tea factory made a profit of Rs 9.84 per kg of made tea in the financial year 2004-05.
Teesta tea factory started operating in 1997 and mostly procured its green leaves directly and through agents from the small growers situated in and around the factory. Production of tea continued all through the year but most of the production took place during the months of May to November. The average price paid for procurement was Rs 5.97 per kg of green leaf purchased.

Total tea produced was 1265625 kg. Out of the total produced tea, 32 per cent were sold at auction and rest 68 per cent were subjected to ex-factory private sale. Average price realized at auction was Rs 48.73 and average price realized at private sales was Rs 54.77. Overall average price realization was Rs 51.97.

Total permanent labour force was 21. All were male. Average employment in a particular shift was 12. Total person-days utilized during the year was 22862. Total wage bill for the year 2004-05 was Rs 1440306 (2.96 per cent of total cost). Total salary bill (including that of managerial personnel) was Rs 631000 (1.30 per cent of total cost). Cost share of depreciation, tax and fuel were 2.59, 0.78 and 4.46 per cent respectively. The most important item in the cost structure was cost towards purchase of green leaves. Its share was 84.39 per cent of the total cost.

The cost per kg of made tea was Rs 38.40. Revenue per kg of made tea was Rs 51.97. Thus Teesta tea factory made a profit of Rs 13.57 per kg of made tea in the financial year 2004-05.

From the analysis of cost structure of two BLFs it can be observed that cost incurred towards the purchase of green tea leaves is the most important item followed by depreciation, fuel, labour cost and tax. The average cost components of a typical BLF are given in Table 8.1.
Table 8.1: Cost share of different components of an average BLF

<table>
<thead>
<tr>
<th>Cost component</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Green leaf purchase</td>
<td>74.09</td>
</tr>
<tr>
<td>Depreciation</td>
<td>7.89</td>
</tr>
<tr>
<td>Fuel</td>
<td>5.40</td>
</tr>
<tr>
<td>Labour cost</td>
<td>3.57</td>
</tr>
<tr>
<td>Tax</td>
<td>1.90</td>
</tr>
<tr>
<td>Misc</td>
<td>7.15</td>
</tr>
</tbody>
</table>

Source: Calculated from primary data

From the above analysis it can be observed that the two BLFs were making profit during the financial year 2004-05. Average price realized was Rs 56.79 and average cost incurred was Rs 47.18. Average profit was Rs 9.61 per kg. 75 per cent of total cost was attributable to the cost of purchase of green leaves and the next important items in the cost of production were depreciation and cost of fuel. Labour constituted about 3.5 per cent of total cost of production only. BLFs were relying more on private sales which constituted about 73 per cent of the total sale. About 27 per cent of the disposals were made through auctions. Wages paid to workers were lower than the wages prevalent in the estate sector. In almost all cases workers in BLFs did not receive any statutory benefits as received by the workers in the estate sector. Thus expenditure on welfare head was almost negligible. Interest cost was significant for one BLF but not that important for other BLF. Production of tea continued all through the year except in month of January in some cases.

A significant part of the smallholder-BLF sector was dominated by the existence of large plantations which were linked to specific BLFs. They operated under the same ownership but were different entities officially and in accounting sense. I have done case studies of one such organization comprising Maya Tea Plantation and Seal Tea factory. Officially these two entities have separate identity but in all practical purposes they operated under the single ownership and management. Price paid by the Seal Tea Factory to Maya Tea Plantation for the procurement of green leaves was of accounting interest only. Actual profit was calculated in an integrated manner but officially plantation and manufacturing were shown to have separate identity to subvert labor regulations. Management maintained separate accounts for Maya Tea Plantation and Seal Tea Factory and case studies were conducted with respect to these two entities. Now I discuss these two case studies.

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Maya plantation is situated in Chopra in Uttar Dinajpur district. The area under plantation was 191.02 acres. It was selling its green leaves to Seal tea factory which is a sister concern of the same proprietor. Average price realized in selling green leaves was Rs 7.66. There were 124 daily-rated permanent workers. 84 of them were male and rests 40 were female. There was a pool of temporary workers also numbering about 64. Average employment in a day was 176. Total person-days utilized during the year 2004-05 was 53,187. The different components of costs and its share in the total cost of production are represented in Table 8.2.

### Table 8.2: Components of cost and its share in total cost of production in Maya plantation

<table>
<thead>
<tr>
<th>Components</th>
<th>Value</th>
<th>% share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Labour</td>
<td>3439218</td>
<td>50.84</td>
</tr>
<tr>
<td>Inputs</td>
<td>1784960</td>
<td>26.39</td>
</tr>
<tr>
<td>Depreciation</td>
<td>94028</td>
<td>1.39</td>
</tr>
<tr>
<td>Managerial expenditure</td>
<td>314000</td>
<td>4.64</td>
</tr>
<tr>
<td>Interest</td>
<td>478462</td>
<td>7.07</td>
</tr>
<tr>
<td>Administrative expenditure</td>
<td>157000</td>
<td>2.32</td>
</tr>
<tr>
<td>Fuel</td>
<td>177327</td>
<td>2.62</td>
</tr>
<tr>
<td>Repair &amp; maintenance</td>
<td>203556</td>
<td>3.01</td>
</tr>
<tr>
<td>Miscellaneous</td>
<td>115803</td>
<td>1.71</td>
</tr>
</tbody>
</table>

Source: Calculated from primary data

Wage paid was Rs 45 per day. Total cost of production was Rs 6764354. Labour share in the total cost of production was about 50.84 per cent. Total revenue earned was Rs 7873518. Thus profit was Rs 1109164 for the financial year 2004-05. Profit per kg of green leaves sold was Rs 1.13.

Seal tea factory started operation in 1998. It has its own plantation (Maya Tea Plantation) from where it procures its green leaf. Procurement of leaf was higher during the months June to October. No procurement was made in the month of January. Procurement was very little in the month of February. Average price of procurement was Rs 7.66 per kg of green leaf.

Total tea produced was 575699 kg. Out of the total produced tea, 33 per cent were sold at auction and rest 67 per cent were subjected to ex-factory private sale. Average price
realized at auction was Rs 55.17 and average price realized at private sales was Rs 58.32. Overall average price realization was Rs 57.66.

Total permanent labour force was 34. All were male. Average daily employment at a particular shift was 17. Total wage bill for the year 2004-05 was Rs 6, 29,627 (2.09 per cent of total cost). Total salary bill (including that of managerial personnel) was Rs 3, 32,084 (1.10 per cent of total cost). Cost towards labour welfare was Rs 24,853 (0.08 per cent of total cost). Cost share of depreciation, tax and fuel were 6.88, 2.36 and 7.29 per cent respectively. The most important item in the cost structure was the cost towards purchase of green leaves. Its share was 67.24 per cent of the total cost. The cost per kg of made tea was Rs 52.23. Revenue per kg of made tea was Rs 57.66. Thus Seal tea factory made a profit of Rs 5.43 per kg of made tea in the financial year 2004-05.

From the above analysis it can be further observed that in smallholder-BLF sector, about 75 per cent of total cost is attributable to smallholder and rest 25 per cent are incurred in the BLF part exclusively. Formulation of any price-sharing formula between smallholder and BLF should be done in keeping in consideration this cost break-up.

Average cost of production in the smallholder-BLF sector is Rs 47.18 per kg of made tea for the year 2004-05. Corresponding average revenue per kg of made tea in smallholder-BLF is Rs 56.79. Average profit of this particular sector is Rs 9.61. All the BLFs from where data were collected for the year 2004-05, were making profit. A comparison is made with respect to profitability between estate and smallholder-BLF sectors in Table 8.3.

Table 8.3: A comparison of level of profit between estate and smallholder-BLF sectors in 2004-05

<table>
<thead>
<tr>
<th>Parameters</th>
<th>Estate sector</th>
<th>Small holder-BLF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average cost per kg</td>
<td>65.46</td>
<td>47.18</td>
</tr>
<tr>
<td>Average revenue per kg</td>
<td>67.25</td>
<td>56.79</td>
</tr>
<tr>
<td>Profit/loss per kg</td>
<td>1.79</td>
<td>9.61</td>
</tr>
<tr>
<td>% sold in auctions</td>
<td>50.59</td>
<td>27.33</td>
</tr>
</tbody>
</table>

Source: Calculated from primary data

Table 8.3 depicts that average cost per kg is significantly higher in estate sector. In estate sector, average cost of production is more than Rs 18 per kg than that of smallholder-BLF.
sector. An analysis of cost of production structure in two alternative mode of production would reveal that existence of permanent labour force, applicability of statutory welfare provisions, high cost of supervision, low bush productivity because of old age of bushes and high interest burden were the reasons behind higher cost of production in estate sector. Average revenue per kg of tea is comparatively higher for estate sector but the difference is not as big as that of cost per kg. As a result average level of profit is significantly lower for estate sector. For smallholder-BLF sector average level of profit is almost five times higher compared to that of estate sector.

Along with this significant difference in level of profit, another important observation is that in estate-sector 50.59 per cent of produce were sold in auctions whereas the corresponding figure for smallholder-BLF sector was only 27.33 per cent. This implied that auction was less important for smallholder-BLF sector as a mode of primary marketing of tea. In contrast, estate sector relied more on auction to market their tea.

8.4: Concluding remarks

Mid-1980s onwards the West Bengal tea industry constantly sought release of additional land for expansion. Most of the vested land acquired through the implementation of land ceilings had already been exhausted through redistribution among landless beneficiaries. Lands distributed among landless beneficiaries were frequently found unsuitable for paddy cultivation. Consequently, the idea of shifting this land to small growers for the cultivation of tea was conceived. Initially estate sector promoted plantations at the periphery of existing estates and estate factories regularly purchased green leaves produced in such smallholder plantations. Estate managements provided encouragement and technical help to peasants who shifted land from subsistence farming to tea plantations. But the actual extent of growth of smallholder-BLF sector did not limit itself within the initiative of estate managements only. Extent of independent shift to smallholder-BLF sector was larger than shifts induced by estate management. Smallholders were predominantly peasant families who did not have technical know-how. They received informal help from various quarters. The growth of smallholder-BLF sector was characterized by production of poor quality CTC tea in an environment where quality control took back-seat. Among the smallholders
there were two distinct categories- peasant plantations and relatively large plantations owned by business capital. Large plantations got hold of large track of land from individual peasant families by offering them money and employment at the rate of one individual per one acre of land transferred. The entire arrangement served the combined ownership of plantation and BLF well since by adopting such a production structure they could subvert labour legislation. Smallholder-BLF sector did not fall under the purview of various labour laws like Plantation Labour Act 1951 as plantation and manufacturing got separated in such production structure. As a consequence cost of production in smallholder-BLF sector was expected to be significantly lower than that in estate sector.

In proportionate terms, the rate of increase of tea produced outside the traditional estate sector was much faster in West Bengal than in Assam and was fastest in Terai where the quantity of made tea being produced in the BLF sector amounted to nearly half of the production of tea in traditional estate factories. BLF sector did not suffer from decline in profitability because of fall in auction prices during 1999-00 to 2002-03. On the contrary, BLFs experienced higher profit at lower prices. Limited stagnation in movement of average prices was used by the tea industry to reorganize itself in the mould of smallholder-BLF type of production structure. Case-studies of smallholders and BLFs and comparisons with estate sector showed that the average cost per kg was significantly higher in estate sector. Average revenue per kg of tea was comparatively higher for estate sector but the difference was not as big as that of cost per kg. As a result average level of profit was significantly lower for estate sector. To take advantage of such a production structure, it is observed, particularly in the last one decade, that there has been a tendency towards restructuring of tea production structure characterized by BLF-smallholder combine.