CHAPTER 8
COST OF PRODUCTION, PRICES AND PROFITABILITY

Introductory

The term 'cost of production' refers to the relationship between different levels of a firm's output of a particular product or service and the cost of producing and distributing that product or service. The costs of producing and distributing any produce are simply the sum of the costs of the various inputs used plus the taxes which the producer cannot shift. The 'price' of the product helps to determine the level of output.1

Since the Second World War it has become common for the Governments of developing countries to assume a larger measure of direct responsibility for marketing their main export crops, because these exports are the principal earners of foreign exchange which is urgently required for financing the developmental projects undertaken by them.2 In India, however, though tea is the second largest foreign exchange-earner, it is sold

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largely through auctions in Calcutta, Cochin and London. Its price is largely determined by the market forces of supply and demand in the world market. But the foreign exchange earned by tea is retained by the Government and what the producers get is its rupee equivalent at the official rate.

The price of tea is the result of intense competition between producing countries in the international market. As a result of the world supply being in excess of world absorption, the unit value of tea of any origin has been declining in recent years. While that is so, so far as the price of tea is concerned, its cost of production has been rising year after year mainly on account of two factors, namely, the taxation policy of the Government and rising labour costs, with the result that the profitability of the industry has been registering a downward trend for sometime past. As a matter of fact, quite a few tea plantations are on the verge of closure.

What the producers of tea want is a reasonable rate of profit. While it is not possible for the Government to fix the world price of tea, surely the Government can help the producers to some extent in bringing down the cost of production by rationalizing the tax structure and abstaining from placating labour for political purposes.
This does not mean, however, that producers of tea have no part to play in cost reduction. There is considerable scope for cost reduction through the introduction of improved cultural practices in the field and technological improvements in the factory. Innovation is a process of creating new production functions and it depends on the efficiency of the combination of organisational ability with technological progress for achieving increased output.  

(A) COST OF PRODUCTION

I Significance of Cost of Production to the Tea Industry

"Cost of production" is of particular significance to the tea industry. So also is its "selling price".

Essential articles like rubber, petroleum, foodgrains, etc., the production of which is of utmost importance to the nation, have to be produced even if they do not yield profit. Tea does not come under the category of such goods. What is more, in its own sphere, tea has to contend with effective competitors like coffee and cocoa. Besides, there are many other beverages like coco-cola, ovaltine,

beer, etc., the competitive capacity of which has to be reckoned with by producers of tea. In other words, the demand for tea is relatively elastic and, therefore, its price is liable to fluctuate.

An important characteristic of tea is that its production in the world as a whole is increasing year after year. The reasons for this upward pressure of production are many. Under normal conditions, a tea plant lives for 100 years and more, but the yield of the plant begins to decline rather sharply after about 50 years. The aged plants are generally uprooted and seedlings are planted in the place of the former. Since these seedlings are generally of a superior quality capable of giving higher yields, production increases continuously. Another reason for the increase in output is that production of tea is, to a certain extent, independent of its price. Since many of the costs in the production of tea are fixed, it pays the producer to pluck tea always, irrespective of the price level. Still another reason is that while the important tea-producing countries of the world (India, Ceylon and the East African countries) are vying with one another to increase production, many other countries are taking to the cultivation of tea. Since 1965 Ceylon is exporting more tea than India. African
countries are posing a threat to Indian teas. In these countries production costs are relatively low and the incentives to shift to the cultivation of other crops are little. Hence, there has been a continuous rise in the world production of tea as the following figures will show:

WORLD PRODUCTION OF TEA 1951 & FROM 1957 TO 1968

<table>
<thead>
<tr>
<th>Year</th>
<th>Production (In million kgs.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951</td>
<td>523</td>
</tr>
<tr>
<td>1957</td>
<td>590</td>
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<tr>
<td>1958</td>
<td>623</td>
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<td>1964</td>
<td>719</td>
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<tr>
<td>1965</td>
<td>726</td>
</tr>
<tr>
<td>1966</td>
<td>743</td>
</tr>
<tr>
<td>1967</td>
<td>748</td>
</tr>
<tr>
<td>1968</td>
<td>780</td>
</tr>
</tbody>
</table>

*Includes India, Pakistan, Ceylon, Indonesia, Kenya, Uganda, Tanganyika and Nyasaland.

Turkey has emerged as an exporting country since 1965. For the first time in the history of Russia, Georgian tea was offered at London auctions on November 11, 1968.

The supply of tea is thus relatively inelastic.

If, for any reason, there should be a steep fall in tea price, many of the estates may not be able to cover the cost of production. The supply of tea being relatively inelastic, because of the fact that the seedling planted today will start yielding after a gestation period of six to seven years, there is no possibility of reducing the supply in the short period, say, of one or two years. When an estate is not in a position to cover the cost of production with the price which it is able to obtain for its product, it will be forced to close down sooner or later, bringing in its train many undesirable consequences like unemployment to those who are working on it, loss of revenue to the Government, loss to the producers and so on. Hence, it is important that the cost of production must be such that it leaves sufficient margin so that the producers of tea are left with enough incentive not only to continue production but also to develop.
II Costs and the Need for Adequate Capital

The establishment of a tea estate involves a lot of funds because there is a variety of items on which money has to be spent. To begin with, if it is a company, there is the expenditure connected with the flotation of the firm. Whether it is a company or an individual planter the following charges which come next will have to be met:

(i) expenses of surveying the site,
(ii) expenses of acquiring the land,
(iii) payment of land revenue and rent,
(iv) expenses connected with the induction of labour,
(v) expenses of clearing the ground,
(vi) expenses of construction of quarters for the staff and labour, construction of roads, pathways, etc., provision of water-supply and electricity, construction of hospital, school, etc., and
(vii) expenses associated with the construction of the factory building and equipping it with up-to-date machinery.

Then comes the period of gestation during which time the estate will not get any returns. On the other hand, it will be required to spend year after year some more funds for upkeep. During this period of six to seven years the following expenses have to be incurred:
(i) wages,
(ii) expenses on labour welfare,
(iii) salaries of the field and office staff,
(iv) expenses connected with the fostering of the growth of tea seedlings like weeding, manuring, etc.,
(v) planting of shade trees, and
(vi) interest charges on capital sunk so far.

After six to seven years the estate comes into bearing and from then on, after meeting the interest charges, salaries, wages and such other day-to-day charges, the following items will have to be added to the expenditure:

(i) reserves for emergencies like trade depressions,
(ii) depreciation on buildings, factory and the tea bushes, and
(iii) expenditure on fertilizers, insecticides, pesticides, etc.

All these imply that the per hectare expenditure that has to be incurred in establishing a tea estate is relatively large.

III Cost of Production—an Analysis

It is difficult to separate and classify the various
elements which constitute the cost of production of tea. The difficulty is not so much in the case of other industries because the various firms belonging to the same industry have more or less the same system of allocating the different items of expenditure. In the tea industry, each company has its own system of allocating and classifying the different items of expenditure. One would like to see a "standard abstract of charges" which would enable one to tell at a glance the emphasis which different estates place upon the different aspects of production. To have such a standard abstract of charges would mean a thorough overhauling of innumerable accounting methods which is not practicable. However, we may take the analysis of tea estate expenditure of ten above-average South Indian concerns made by the United Planters' Association of Southern India in its memorandum submitted to the Borooah Committee on Tea Industry, in order to find out the trend in costs during the period 1950 to 1965.

\footnote{United Planters' Association of Southern India, \textit{The Case for Tea}, Coonoor, the Nilgiris, 1968, p. 37.}
<table>
<thead>
<tr>
<th>No.</th>
<th>Items</th>
<th>1950</th>
<th>1965</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Depreciation</td>
<td>63.87</td>
<td>377.98</td>
</tr>
<tr>
<td>2</td>
<td>Interest on Borrowings</td>
<td>0.54</td>
<td>3.43</td>
</tr>
<tr>
<td>3</td>
<td>Directors' Fees, Managing Agency, Secretarial and Other Administrative Expenses</td>
<td>75.31</td>
<td>164.30</td>
</tr>
<tr>
<td>4</td>
<td>Transport Charges to Auction Centres and Other Selling Expenses</td>
<td>103.27</td>
<td>233.46</td>
</tr>
<tr>
<td>5</td>
<td>Insurance</td>
<td>43.85</td>
<td>88.92</td>
</tr>
<tr>
<td>6</td>
<td>Garden Management Expenses: Estate Managers, Assistants, Field, Factory and Office Subordinate Staff Expenditure</td>
<td>295.31</td>
<td>446.80</td>
</tr>
<tr>
<td>7</td>
<td>Labour Cost</td>
<td>1,091.69</td>
<td>2,926.04</td>
</tr>
<tr>
<td>8</td>
<td>Repairs and Renovations to Buildings and Machinery</td>
<td>91.34</td>
<td>257.87</td>
</tr>
<tr>
<td>9</td>
<td>Fertilizers, Dusting and Spraying Materials</td>
<td>188.21</td>
<td>540.47</td>
</tr>
<tr>
<td>10</td>
<td>Packing Charges and Other Estates Stores not Covered by the Above Items</td>
<td>221.41</td>
<td>372.80</td>
</tr>
<tr>
<td>11</td>
<td>Land Rent and Land Tax</td>
<td>8.67</td>
<td>27.64</td>
</tr>
<tr>
<td>12</td>
<td>Green Leaf Transport</td>
<td>15.11</td>
<td>128.64</td>
</tr>
<tr>
<td>13</td>
<td>Other Expenses Including Power, Fuel, Duties, etc.</td>
<td>487.18</td>
<td>1,441.27</td>
</tr>
</tbody>
</table>

**Total** 2,735.53 6,974.39

Till the World Depression of the thirties tea estates, in general, made decent profits and, in many cases, the profits were ploughed back into new areas and, therefore, the acreage under tea expanded. The increase in acreage posed no problem as there was an expanding market. But during the earlier phase of the Depression prices slumped to a dangerously low level. The First International Tea Agreement (1933-1938) was successful in arresting the declining price level. World War II had a salutary effect on tea prices. As a matter of fact, there were shortages of tea and the prices were relatively high. Hence, the tea plantations of India did not experience any difficulty. The area under tea did not expand much because of the restrictions imposed by the International Tea Agreement. After World War II, the industry has been experiencing fluctuating fortunes, because while the prices have been fluctuating the cost of production has been rising more or less continuously.

Table 35 shows that between 1950 and 1965, "depreciation" increased by about six times. "Interest on borrowings" also registered a similar increase. "Directors' fees, managing agency and other administrative expenses" more than doubled. "Transport charges to auction centre and selling charges" also more than doubled. So did "insurance".
"Garden management expenses", which relate to the salaries and allowances of estate managers, field, factory and office subordinate staff increased only by 51 per cent. "Labour Cost" increased by about 156 per cent. Expenditure on "repairs and renovations to buildings and machinery" rose by a little less than three times. The cost of "fertilizers, dusting and spraying materials" rose by less than three times. "Packing charges and other estate stores not covered by items 1 to 9" rose by a little less than two times. The cost of "green leaf transport" rose by more than eight times. "Other expenses including power, fuel, duties, etc.," rose by almost three times.

Of the thirteen items, item No.7 "labour cost" and the last item "Other expenses including power, fuel, duties, etc.," accounted for about 62 per cent of the total expenditure in 1965. Labour cost alone accounted for about 42 per cent.

Government import restrictions coupled with heavy import duties and the general policy of controlled development involving a minimum of competitiveness among manufacturers and suppliers by strict licensing of manufacturing capacity must inevitably result in higher
cost of supplies. The labour policy of the Government has a bearing on cost increases. With the insistence on maintaining employment levels, the industry cannot adopt any rapid change in labour utilization without risking the hostility of trade unions and the disapprobation of the Government. Further advance in labour welfare measures are being sought without regard to its impact on the cost of production. The imposition of new taxes and the enhancement of the rates of licence fees, cesses, and duties on land, buildings, transport or sale have increased the cost of production. The excise duty has been raised every now and then. The average rate of excise duty on North Indian tea rose from 41 paise per kg. in 1963 to 62 paise per kg. in May, 1967, while that on South Indian tea rose from 28 paise per kg. to 45 paise during the same period. The all-India average rose from 38 paise per kg. to 58 paise per kg. between 1963 and May, 1967. The excise duty, cess, land tax, licence fees, etc., add to the cost of production directly whether the product is sold or not. Some of the levies have to be

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5 Ever since the Second World War began, tea estates have been required to spend on stocking of foodgrains, deposits on which have to be paid months in advance before the delivery of stock.

paid even if the estate does not produce anything e.g., the special land tax on plantations in Kerala.

A misconception needs to be cleared at this point: It is not uncommon in official circles to advance the argument that management or administrative costs can be reduced. Such an argument is not confined only to official circles. For example, Mr. Himansu Roy in his book, *Tea Price Stabilisation—The Indian Case*, says as follows: "The higher cost of production in non-Indian sector are mainly due to much higher managerial overheads." Also, the terms "overhead" and "management expenses" are used to mean the same thing.

It is wrong to assume that management costs can be reduced. A look at the itemised costs as shown in Table 35 should be enough to convince anybody that the cost of tea plantation management is a minor item. In 1965, in the case of the sample of ten above-average tea companies of South India, this item accounted for only 6.4 per cent of the total expenditure per hectare. As compared with all the other twelve items, this item registered the least increase as between 1950 and 1965, the increase amounting to only about 51 per cent. Yet, a competent management is the dynamic core of a business enterprise and its price

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cannot be lowered without lowering the standards of management. Any reduction in this item is likely to greatly damage the unit's earning capacity. According to Harvey Leibenstein, management and organisational improvements have much greater impact on development than they are given credit for.  

The term "overhead" is frequently misunderstood and mis-used. It refers to the items which cannot be properly distributed among particular works or expenditure activities of the company and are described as general charges. The following are the items that normally go into "general charges".

**General Charges**

1. Salaries and allowances
2. Visiting charges and agency fees
3. Travelling expenses
4. Car expenses
5. Fire insurance (except factory and machinery)
6. Staff personal accident insurance
7. Rents and taxes
8. Office expenses
9. General transport

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10. Livestock — feeding, shoeing, etc.
11. Repairs to bungalows (including maintenance)
12. Houses of workers
13. Minor buildings
14. Furniture and vehicles
15. Hospital supervision
16. Hospital provisions, medicines, etc.
17. Sickness benefit
18. Maternity benefit
19. Subscription to medical association
20. Engagement expenses:
   (a) Creche and sundries
   (b) Feeding children
   (c) Bonus
   (d) School
   (e) Reimbursement for cumblies (coarse blankets)
   (f) Travelling expenses
   (g) Holiday pay
   (h) Annual leave with wages
   (i) Company's contribution to employees' provident fund
   (j) Recruiting expenses
21. Tools (general)
22. Sundry expenses
23. Estate audit
24. Upkeep of cart roads
25. Remittance charges
26. Architect and builder
27. Water-supply
28. Gratuity to aged workers
29. Staff recruitment allowances and gratuity
30. Dearness allowance to staff
31. Riots and/or civil commotion insurance
32. Outside boundaries

The misconception about these items should be recognised in any serious study of the cost of production of tea companies.

Reserve Bank's Study

In its study "Finances of Tea Plantation Industry During the Third Plan" the Reserve Bank of India makes the following comments regarding the cost of production:

"...... the profit margin (gross profits as percentage of sale) of the companies declined from 20 per cent in 1960-61 to 14 per cent in 1965-66 reflecting the impact of the rise in the operating expenses. In particular, salaries, labour and welfare expenses incurred and excise duty and cess paid by the industry have shown a steep rise. The plantation industry being labour-intensive, a major part of the cost of production (60 per cent) is incurred on labour alone and this formed as much as 30 per cent of the total income realised in 1960-61 and 1965-66. During the period labour costs, including expenditure on labour welfare, have gone up from Rs.13.2 crores in 1960-61 to Rs.15.6 crores in 1965-66 i.e. a rise of nearly 18 per cent. Excise duty and cess which amounted to Rs.0.4 crores in 1960-61 were considerably higher

at Rs.2.1 crores in 1965-66 i.e. a five-fold rise. These factors together with the increases in other items of expenditure, resulted in a fall in gross profits from Rs.6.5 crores in 1960-61 to Rs.5.5 crores in 1965-66. The increase in sales over the period (23 per cent) was substantially smaller than the rate of increase in the operating expenses, thereby adversely affecting the profitability of the industry. The industry was also faced with the problem of accumulated stocks which having declined from 60 million kgs. in 1960-61 to 53 million kgs. in 1963-64 rose to 77 million kgs. in 1965-66 resulting in a substantial lock-up of its resources. In terms of financial commitments, the value of closing stocks of finished goods and work-in-progress in respect of 129 companies studied increased from Rs.9.6 crores to Rs.10.3 crores between 1963-64 and 1965-66. Interest charges paid by these companies have risen continuously from Rs.32 lakhs in 1960-61 to Rs.74 lakhs in 1965-66 and as a proportion of gross profits rose from 5 per cent to 13 per cent during the same period.*

IV Policy of the Government

Government spokesmen often refer to the rising cost of production in the tea industry and its adverse effects. But nothing much is done to help the industry to bring down the cost. Mere exhortation without willingness on the part of the Government to examine the real causes for the increase in costs that continues to take place cannot be of any practical value.

It is a well-known fact that the only sure long-term remedy for the maladies affecting the tea industry is to reduce the cost of production. The cost of production
has been rising because of excessive taxation and the policy of the Government in regard to wages and labour welfare measures in tea plantations. Unless there is a change in public policy in regard to these, it is sheer impossibility to effect an appreciable reduction in the cost of production.

Oftentimes, the industry is accused of frittering away its large profits by declaring high rates of dividends. We hear that such and such a company pays a 25 per cent dividend and, therefore, the shareholder gets his money back in four years. It is said, therefore, that the industry can afford higher taxation and a larger amount on wages and labour welfare measures. Such statements arise out of lack of understanding over the question of capitalization. A company capitalized at Rs.2,500 per hectare paying a dividend of 22 per cent is a target of attack. The fact is ignored that the total capital tied up may be Rs.17,500 per hectare and the effective yield only 3 per cent. This reasoning is supported by the Reserve Bank of India figures which show an average yield on net worth of 5.2 per cent.

Another misconception that seems to prevail in official circles regarding the tea industry is that the producer is getting much less for his product than is warranted by
what the consumer pays. This idea ignores such costs as freight and handling, blending, packeting, advertising and retailers' margin. Government must accept the fact that the world price offered by buyers is based on the quality of the product and the supply and demand position in that quality range.

Because of the rising cost of production inflated by increasing excise duties and liberal awards to labour, Indian teas have been and are being priced out more and more in the overseas markets. The first real chance to correct this position came when the rupee was devalued on June 6, 1966. What is the purpose of devaluation if it is not to revitalise the nation's economy? However, simultaneously with devaluation the Government of India imposed an export duty on tea at a flat rate of Rs.2 per kg. For India to have denied herself this opportunity was to prevent the exporters from competing successfully with foreign producers. Whatever justification the Government had for this action ceased with the devaluation of the pound sterling and the Ceylonese rupee. Despite a number of representations made by the industry, it is a matter of regret to note that official circles have seen fit to maintain justification for the export duty on the allegation of excess profits in the industry and the industry's failure to plough back earnings into the estates.
It is not correct to say that profits have not been ploughed back into the estates, though more could have been. Says Mr. C. J. N. Will, Chairman of the Indian Tea Association, "I have spent some time in the past two years in other producing countries and I am confident that not only is our level of technology and productivity as good as the best anywhere, but our pace of development and expansion is such, in our factories and on our gardens, that we are already outstripping our most advanced competitors elsewhere. I think it is significant that, if we are freed of excise and export duties, we could today land our teas, more cheaply than many of our East African competitors, whom we have always assured to be amongst the world's most up-to-date tea producers."

Whilst the present difficulties of the tea industry started with the imposition of the export duty which affected adversely exportable teas, the subsequent effects of the devaluation of the pound sterling have been to lower tea prices uniformly everywhere. Hence, there is an urgent need for substantial relief. The relief announced by the Government of India by reducing the export duty by 11 paise from October 1, 1968, and the relief announced in the Budget proposals of 1969-70 (viz., reduction of

export duty on package tea by 10 per cent ad valorem and 5 per cent ad valorem on other teas) are inadequate to say the least. Though there seems to have been an improvement in the climate of thinking in official quarters, the Government of India has not necessarily as yet discarded all its tenets and beliefs.

Among the organised industries of India, plantations in general employ more labour for the financial outlay than any other. When wages and welfare measures are being considered, there is a tendency to apply universal standards which is not right. That tea plantation labour is being exploited is no more true. That wages, in tea plantations are low as compared to other organised industries and that the working conditions are not comparable with those in advanced countries is true. But, it is also true that workers in Indian tea plantations get higher wages than agricultural labourers. Besides, the former get free housing, medical aid and many other fringe benefits. In the post-Independence period, because of democracy and the declared objective of establishing a socialistic pattern of society, revolutionary legislative measures have been passed e.g., the Industrial Disputes Act (1947), the Payment of Wages Amendment Act (1957), the Minimum Wages Act (1948), the
Plantation Labour Act (1951), the Provident Fund Act (1952), the Bonus Act (1965), etc. Of these, the most important is the Plantation Labour Act which aims at putting in more money for the welfare of the workers by the construction of hospitals, creches, comfortable houses, etc., than the cost needed per hectare of tea for replanting. Penal measures and threats of penalty and incitement of labour against the employers by Government spokesmen with a view to placating labour have contributed to a virtual halt to rehabilitation, much needed though it is.

On the other hand, wages have been increased not only under the Minimum Wages Act but also revised from time to time. Other impositions such as compelling employers to sell foodgrains at ridiculously low fixed rates have added to the cost of production.

It needs to be stated here that interested State Governments have been trying to extract from the industry as much as possible by the imposition of a multitude of taxes before and after production. The underlying idea behind these impositions seems to be that since foreigners (the English) had the bigger stake in the industry, what does it matter if they are to have no
profits? That this notion is wrong and dangerous to the development of an export industry is obvious. Tea is an industry of the nation and if the industry suffers, the nation also suffers.

V Reduction of Cost of Production

Since reduction of the cost of production is one of the important ways of improving the competitive ability of Indian teas, in international markets, we may suggest a few measures which may help bring down the costs:

(1) Special Code for Tea Plantations

With the rapid growth of industrial and labour legislation in India after Independence, the need for a separate code to regulate conditions of work in tea plantations has been felt for a long time. Legislative enactments framed primarily for urban conditions, such as are found in the textile, jute and engineering industries, are clearly inappropriate to the conditions of work in plantation industries like tea, coffee and rubber. In urban industries, the workers are employed in the comparatively unhealthy atmosphere of a large factory and they work for a specified number of hours
In plantation industries, on the other hand, the bulk of the labour force works in open air. Many of the workers are permanent residents on the plantations having their homes there and, in many cases, they are allowed to cultivate estate land for their own use. The hours of work depend, to a large extent, on the inclination of the workers themselves. A basic task is set, but it is the worker who determines how long the task will take, whether the task will be completed, or whether indeed he will turn out to work at all. Thus, there are vast differences between the conditions of work in plantation industries and those in urban industries, and in these circumstances, it is inevitable that many of the provisions of the enactments designed for industries should require modification in their application to plantation workers.

At present, legislation in respect of plantation industries varies from State to State. Therefore, it is desirable that the Tea Plantation Code should be a Central Act, applicable to the whole of India, including portions of the existing Acts by which plantation industries are now governed. In the interest of uniformity, State Governments should receive no statutory or rule-making powers under the Act. The definitions used in the
various Acts pertaining to labour should be entirely
re-drafted to suit the peculiar conditions of plantation
industries.

(2) Scientific Research

Tea research is the core of the industry's progress
and should form the basis for organisational reform, so
necessary for the development of the industry. Intensive
research is essential for reducing the cost of production.

The Experimental Station at Tocklai in Assam and
the Scientific Department of the United Planters' Associa-
tion of Southern India have made significant contributions
to the development of the tea industry which, in their
turn, have led to cost reduction. (See Appendix I). The
contribution of the Tocklai Experimental Station relates
largely to the improvement of the culture and manufacture
of tea and from the Station the industry has learnt
better methods of soil preservation, pruning, shading,
draining, manuring and manufacturing. The Scientific
Department of the UPASI (Tamil Nadu) has contributed a
lot to the chemistry of tea, manuring and pests, diseases
and weed control.

In North-East India, there is still some lack of
contact between the planter in the field and the research workers in the Experimental Station. The principal difficulty of the Station is that of dealing effectively with the problem of different localities in North-East India where climatic and other conditions vary very much. However, the Station has been able to successfully tackle this problem to a large extent.

The research efforts in South India are production-oriented and the consensus of opinion among the planters there is that no alteration is required in the present structure of the research organisation maintained by the UPASI. It is heartening to note that a capital grant of Rs. 1.8 lakhs has been made by the Tea Board to UPASI for streamlining its research activities. The Board has also agreed to make a recurring grant for research and advisory work. Research is a worthy cause for which the research organisations can legitimately expect contributions from the tea cess.

There is still large scope for further research. Efforts need to be made to improve the quality of the tea produced as well as to reduce the cost of production. Scientific research into the various aspects of tea cultivation and the manufacture of tea as well as modern management techniques are essential.
(3) Innovations

Technological improvements or 'innovations' imply the adoption of new and previously unknown methods of production or new inputs rendered possible through advances in research and experience. Their effect is to yield a new and higher production function and lower per unit costs in the ranges of output in which the producers plan to operate. These innovations are of two categories, namely divisible and indivisible. The divisible innovations like the use of types of non-fixed inputs open up the technical possibility of producing the whole range of a given output schedule at lower unit costs. The indivisible innovations involve the use of new, 'lumpy' factor units which can be taken advantage of only when output is above a certain level, leading to a reduction in the average costs of production. The use of new types of machines is a typical example.

Innovations of the divisible type would constitute the main source of future increases in tea production. In this group may be included better organisation, supervision and co-ordination of various operations in the field and in the factory. Among the various other improvements that may be suggested in this sphere is the use of superior tea strains i.e., replantation with better varieties.
The problems of diffusion of technological changes are much less for the relatively organised tea plantation industry than for many agricultural industries. Leaving aside sociological and demographical problems, the principal difficulties in the way of diffusion of innovations are economic, stemming primarily from the fact that in many cases the initial capital is beyond the means of most tea estates, although in some of the larger plantations there is a built-in capacity for adopting technological improvements. Tea plantations of the former type deserve Government assistance.

(4) Standard Accounting

It is desirable that tea companies should adopt standardized methods of account-keeping. The division of estate and of headquarter expenses should not prove to be an insuperable difficulty. The following division may prove useful:

(i) Expenditure should be debited not to the office by which it was granted, but to the office on whose behalf it was incurred. Thus, stores intended for an estate, tea seeds and such other things would come under "estate expenditure" and not under "Calcutta expenditure" or "London expenditure".
(ii) Common services performed by the head office on behalf of the estates under its control should be divided on some simple basis (say, for instance, on the basis of area under tea) between the different estates. Only through the adoption of such a method can the real position of individual estates be ascertained and efforts made to reduce the costs.

(iii) Though for the satisfaction of the management, the expenditure on management may be broken into factory, old cultivation, new cultivation, road repairing, nurseries, plucking and so on, such division is not necessary for purposes of general comparison. The general test is applied when one considers the total expenditure on labour as compared with the total output of the estate or total price realised for the estate's crop. It is desirable, however, that the amount spent in cash and the amount spent in kind should be separately available. Where the management is required to sell foodgrains to labour at concessional price, loss on account of that item should be separately shown.

(5) Finer Plucking

It is a matter of common knowledge that any decline in quality is, in a large measure, due to "coarse plucking."
"Finer plucking", therefore, is of great importance to the quality of tea. Finer plucking takes longer time. Hence, the wages of the pluckers will be correspondingly more. The temptation to indulge in coarse plucking is insistent — a temptation which assails both the management and the workers. It can be lessened by adequate supplies of fertilizers in the form required by the producers, which will enable the growth of good leaf tea and pluckers will then be able to maintain the quantum of his or her pluckings. Finer plucking is the first step towards better quality tea. In the long run, it will bring down the cost of production too.

(6) Regular Supply of Stores, Machinery and Spares

Machinery, spares and foodgrains for labour are basic requirements of a tea estate.

Complicated and changing regulations regarding the import of machinery and spares have caused a lot of inconvenience and trouble to the producers. The lack of a few spares may result in closing down the factory. Hence, it would be a great advantage if the agents of the makers of steam and oil engines and boilers, and of tea machinery such as dryers and rollers, were permitted to carry reasonable stocks of spares and make them
available to factories at short notice to meet emergencies. Licences may be liberally issued for the import of specialized tea machinery, the performance standards of which are better than those that are produced indigenously. Spares and components should be allowed to be imported without difficulty.

The tea industry has been supplying foodgrains to its labour force at concessional rates since the War years and, by force of circumstances, has been placed in the invidious position of sole stockists of rice and, in many districts, other essentials also. This has necessitated the maintenance, at considerable expense, of an extensive supply agency which, in the face of great difficulties, has been trying to maintain stocks at the estate, though the stocks have fallen to dangerously low levels on many an occasion. In West Bengal, the difficulties have been particularly severe. Whereas in big industrial centres and cities, foodgrains have been made available at controlled rates, the tea industry has not been accorded the same privilege. The industry cannot bear this burden indefinitely — a burden which is imposed on no other industry. Supply of foodgrains at concessional rates must be the responsibility of the Government. The managements may at best be required to assist the Government in the distribution of the foodgrains to estate labour.
(7) Fuel
On many an occasion shortages of coal have caused considerable losses to tea estates. Some of them had to cut down their shade trees for fuel, shade which is necessary for good husbandry and which takes years to replace. Adequate quantities of coal must be made available.

(8) Fertilizers

The annual application of fertilizers is essential to replace the nitrogen removed from the soil in the process of harvesting each year's crop and here, again, forward planning is essential as the best effect is lost if the application of fertilizers is not completed at the appropriate time. Despatch from the supply centre must be well in advance of the time of manuring. Says the Borooah Committee Report, "supply of fertilizer should be ensured to the industry to reach the estates by the end of December at the latest, and that the prices of fertilizers are not increased further."11

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(9) Implements and Tools

In respect of such implements as are not available in India, a generous import policy should be followed in view of the importance of the industry to the nation's economy.

(10) Building Materials

The trouble in regard to building materials is mainly due to the overall shortage of supplies. However, the industry may be allowed a generous share as and when the available supplies permit. One of the major factors resulting in the manufacture of poor teas is shortage of sufficient withering space, factory space to house new machinery, and the existence of old damaged cement concrete fermenting floors. It would be better if those who can afford the financial outlay are granted licences to import fabricated steel work and wire mesh for withering sheds.

(11) Irrigation

The Tea Board's Irrigation Equipment Hire Purchase Scheme has not been availed of to any great extent. Out of Rs.20 million set apart by the Government, only an amount of Rs.8.75 million had been sanctioned till the end
of August, 1968, the main reason for the non-utilization of the full amount being insufficient surface water in the estates which is a pre-requisite for sprinkling irrigation.\textsuperscript{12}

The Central Government should take up with the concerned State Governments the question of tapping natural water supplies in the form of major and minor irrigation projects from which adequate water-supply for irrigation could be made available to groups of tea plantations. Government should consider tea production on par with the production of other agricultural crops for which it has been taking the responsibility of providing necessary irrigation facilities. The Governments of the principal tea-producing States derive substantial revenues from the tea industry by way of agricultural income tax and other levies. Hence, they should assist the industry in this respect where sufficient water is

\textsuperscript{12}\textit{Irrigation by spraying or sprinkling water on crops or fruit plants is very economical in the use of water. It also yields very good dividends. The growing trend towards this method is due to the resulting increase in yields and improved quality of crops. In addition, sprinkling saves a lot of irrigation water in sandy and sandy-loam areas. Also the necessity of spraying insecticides on crops is considerably reduced by its washing action as by rain.... Bigger landlords and fruit planters can surely gain by investments in this venture.} (H.L. Sally, \textit{Irrigation Planning for Intensive Cultivation}, Asia Publishing House, Bombay, 1968, p. 119).
available. If this is undertaken not only the yield per hectare will increase but water made available could also be supplied to other agriculturists to increase production of food and other cash crops. Besides, the tea-growing States will gain by way of additional revenues on account of increase in tea production.

(12) Pesticides and Weedicides

It has been estimated that about 10 per cent of the annual tea crop is damaged by pests and plant diseases. Since it is not possible to completely eradicate pests and diseases, the only alternative is to minimise losses by controlling the pests and diseases. The industry is faced with the problem of inadequate supplies of concentrates required for the preparation of pesticides. Besides, on account of import restrictions, pesticides become non-available during the season when they are required most. Government must make adequate supply of pesticides available at any time.

Weeds are also capable of causing considerable damage to the tea plant. It is necessary to keep them down in the interest of the health and growth of the plant. Unfortunately, weedicides are not produced indigenously
and they have to be imported. Here, again, relaxation of import control is necessary.

(13) Tax Relief

If the cost of production should come down and if the tea industry should make reasonably good profits, it is imperative that adequate tax relief should be granted without any further delay. The export duty on tea must be abolished and the excise duty should not be raised any further.

(B) PRICES AND PROFITABILITY

I Introductory

For the maintenance and growth of an important plantation industry like tea, which ranks second among the foreign exchange-earners of India, large financial outlays are required for working capital and development. However, in recent years, particularly from 1960 onwards, the industry has been facing fluctuating fortunes due to price variations, fluctuating output and severe competition from other producing countries, particularly Ceylon and East Africa. Since a relatively larger proportion of the total production of tea is exported, the price of tea in the international markets has an important bearing on
the profitability of tea companies. During the period 1961-62 to 1965-66, exports of tea from India varied between 53 per cent and 64 per cent of the total output, while the combined average prices of tea realised at Calcutta, Cochin and London auctions varied widely between Rs.5.28 per kg. in 1961 and Rs.6.04 per kg. in 1966. These wide fluctuations in the quantum of exports and prices inevitably had their impact on the profitability of the Indian tea industry. There was deterioration in the financial position of the tea companies in general from 1961 onwards. A declining trend in the rate of returns on the capital invested in the industry was visible. Consequently, the flow of fresh funds to the industry was adversely affected.

The estimated internal consumption of tea has also been rising, along with the increase in production. In 1960-61, it was 127 million kgs. and by 1967-68 it had risen to 180.7 million kgs., an increase of 63.7 million kgs. or an increase of over 50 per cent. As a result of the growing internal demand, the gap between exports and internal consumption has been narrowing almost continuously. The fast growing domestic market for tea has, however, enabled the industry to withstand the setbacks to exports in international markets. After having risen from 196
million kgs. in 1960-61 to a peak of 221 million kgs. in 1962-63 the exports declined to 208 million kgs. in 1967-68 despite a record output. Exports, as a proportion of total production of tea, declined from 61 per cent in 1960-61 to 52 per cent in 1967-68. In other words, the domestic market has been acting as a cushion absorbing much of the tea that could not be exported.

II Movement of Tea Prices

The U.K. is the largest single tea-consuming country and has been the centre of tea trade for centuries. Prices at the London tea auctions have a bearing on tea prices in the producing countries. However, in recent years, an increasing number of world buyers have been having their agents buying in the primary markets.

Table 36 shows the price of Indian tea in Calcutta, Cochin and London auctions separately as also the combined average of the prices in these auctions for the period 1951 to 1967.
Columns 7, 13 and 19 (Table 36) show the average of prices of Indian teas at Calcutta, Cochin and London auctions respectively. Column 21 shows the average of the prices at all the three centres. It can be seen from column 21 that over the period 1955 to 1968 the price of tea has been fluctuating, the lowest price being ₹5.28 and the highest being ₹6.48. On the other hand, cost of production has been rising continuously.

The price of tea depends upon the world supply and demand situation. It is not possible for exporting countries to command prices which would cover the cost of production in each producing country. Thus, while the price realised for similar quality teas of different countries may be the same, the cost of production varies from country to country. That is so because of differences in taxes, wages, labour welfare measures, etc.

Table 37 shows the average prices of teas of South India, North India, Ceylon, Kenya and Africa in London auctions. It will be seen that South Indian teas have suffered much more than those of North India and other producing countries. While the average price of South Indian teas fell by 0.57 d between 1953 and 1966, those of North India, Ceylon and Africa rose by 1 Sh. 9.23 d, 6.15 d and 6.82 d respectively.
**TABLE 57**

AVERAGE PRICES OF TEA OF IMPORTANT PRODUCING COUNTRIES IN LONDON AUCTIONS 1952 TO 1966

<table>
<thead>
<tr>
<th>Year</th>
<th>South India</th>
<th>North India</th>
<th>Ceylon</th>
<th>Kenya</th>
<th>Africa</th>
<th>All Teas</th>
</tr>
</thead>
<tbody>
<tr>
<td>1952</td>
<td>6.1.00</td>
<td>6.7.23</td>
<td>8.5.77</td>
<td>4.3.90</td>
<td>4.0.50</td>
<td>6.8.67</td>
</tr>
<tr>
<td>1953</td>
<td>7.7.05</td>
<td>7.9.72</td>
<td>8.10.02</td>
<td>7.3.21</td>
<td>7.1.91</td>
<td>8.0.54</td>
</tr>
<tr>
<td>1954</td>
<td>11.5.63</td>
<td>11.9.16</td>
<td>11.8.02</td>
<td>11.0.50</td>
<td>10.4.56</td>
<td>11.7.53</td>
</tr>
<tr>
<td>1955</td>
<td>9.10.23</td>
<td>11.5.19</td>
<td>11.11.62</td>
<td>8.2.41</td>
<td>8.2.61</td>
<td>11.2.26</td>
</tr>
<tr>
<td>1956</td>
<td>9.4.68</td>
<td>11.2.59</td>
<td>12.1.99</td>
<td>7.9.51</td>
<td>6.11.95</td>
<td>10.7.37</td>
</tr>
<tr>
<td>1957</td>
<td>8.3.36</td>
<td>10.4.72</td>
<td>10.8.27</td>
<td>7.6.92</td>
<td>7.0.65</td>
<td>9.9.33</td>
</tr>
<tr>
<td>1958</td>
<td>8.5.08</td>
<td>10.9.90</td>
<td>10.10.40</td>
<td>8.6.47</td>
<td>7.5.51</td>
<td>10.1.41</td>
</tr>
<tr>
<td>1959</td>
<td>8.2.02</td>
<td>10.6.02</td>
<td>11.2.02</td>
<td>8.7.44</td>
<td>6.11.91</td>
<td>10.0.35</td>
</tr>
<tr>
<td>1960</td>
<td>8.9.09</td>
<td>10.10.49</td>
<td>11.0.03</td>
<td>9.4.83</td>
<td>7.9.76</td>
<td>10.2.14</td>
</tr>
<tr>
<td>1961</td>
<td>8.6.27</td>
<td>10.5.44</td>
<td>10.2.36</td>
<td>9.2.32</td>
<td>7.10.69</td>
<td>9.9.20</td>
</tr>
<tr>
<td>1962</td>
<td>8.1.25</td>
<td>11.1.60</td>
<td>10.5.20</td>
<td>9.2.72</td>
<td>7.1.87</td>
<td>9.10.81</td>
</tr>
<tr>
<td>1963</td>
<td>7.11.57</td>
<td>10.2.80</td>
<td>9.7.37</td>
<td>8.11.82</td>
<td>7.2.46</td>
<td>9.3.66</td>
</tr>
<tr>
<td>1964</td>
<td>8.5.12</td>
<td>10.0.42</td>
<td>9.10.72</td>
<td>9.4.06</td>
<td>7.4.97</td>
<td>9.5.43</td>
</tr>
<tr>
<td>1965</td>
<td>8.2.79</td>
<td>9.7.30</td>
<td>9.4.77</td>
<td>9.0.77</td>
<td>8.1.75</td>
<td>9.2.61</td>
</tr>
<tr>
<td>1966</td>
<td>7.4.48</td>
<td>9.6.95</td>
<td>9.4.17</td>
<td>N.A.</td>
<td>7.8.73</td>
<td>8.11.72</td>
</tr>
</tbody>
</table>

NOTE: N.A. - Not available


That the prices of South Indian teas have suffered the most is confirmed by the movement of prices in Cochin and Calcutta auctions. Table 38 indicates the annual average of prices of tea at auction sales in Cochin and Calcutta:
### Table 38

**ANNUAL AVERAGE PRICES OF TEA AT AUCTION SALES IN COCHIN AND CALCUTTA 1950 - 1967**

(in ₹. per kg.)

<table>
<thead>
<tr>
<th>Year</th>
<th>Cochin</th>
<th></th>
<th>Calcutta</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Leaf</td>
<td>Dust</td>
<td>Leaf</td>
<td>Dust</td>
</tr>
<tr>
<td>1950</td>
<td>4.58</td>
<td>3.61</td>
<td>4.61</td>
<td>3.72</td>
</tr>
<tr>
<td>1951</td>
<td>4.53</td>
<td>3.94</td>
<td>3.78</td>
<td>3.54</td>
</tr>
<tr>
<td>1952</td>
<td>3.82</td>
<td>2.88</td>
<td>3.10</td>
<td>3.04</td>
</tr>
<tr>
<td>1953</td>
<td>4.20</td>
<td>3.28</td>
<td>4.36</td>
<td>4.05</td>
</tr>
<tr>
<td>1954</td>
<td>6.20</td>
<td>4.71</td>
<td>6.80</td>
<td>5.24</td>
</tr>
<tr>
<td>1955</td>
<td>5.06</td>
<td>4.29</td>
<td>4.44</td>
<td>4.27</td>
</tr>
<tr>
<td>1956</td>
<td>4.88</td>
<td>3.83</td>
<td>5.21</td>
<td>4.47</td>
</tr>
<tr>
<td>1957</td>
<td>4.25</td>
<td>3.54</td>
<td>4.62</td>
<td>4.09</td>
</tr>
<tr>
<td>1958</td>
<td>4.53</td>
<td>3.44</td>
<td>4.75</td>
<td>4.36</td>
</tr>
<tr>
<td>1959</td>
<td>4.83</td>
<td>3.97</td>
<td>5.05</td>
<td>4.67</td>
</tr>
<tr>
<td>1960</td>
<td>4.70</td>
<td>4.32</td>
<td>5.34</td>
<td>5.09</td>
</tr>
<tr>
<td>1961</td>
<td>4.68</td>
<td>4.45</td>
<td>4.68</td>
<td>4.63</td>
</tr>
<tr>
<td>1962</td>
<td>4.58</td>
<td>3.75</td>
<td>5.26</td>
<td>4.91</td>
</tr>
<tr>
<td>1963</td>
<td>4.65</td>
<td>4.25</td>
<td>5.15</td>
<td>4.79</td>
</tr>
<tr>
<td>1964</td>
<td>4.75</td>
<td>4.42</td>
<td>4.95</td>
<td>4.74</td>
</tr>
<tr>
<td>1965</td>
<td>4.55</td>
<td>4.53</td>
<td>5.44</td>
<td>5.01</td>
</tr>
<tr>
<td>1966</td>
<td>4.80</td>
<td>4.51</td>
<td>5.74</td>
<td>5.24</td>
</tr>
<tr>
<td>1967</td>
<td>5.79</td>
<td>5.04</td>
<td>5.98</td>
<td>4.86</td>
</tr>
</tbody>
</table>

**NOTE:** Seasonal years.


Table 39 shows the decline in the unit value per kg. of tea exported from India to principal importing countries of the world during the period 1965 to 1968.
The unit value of Indian tea exported to the U.K., U.S.S.R., U.A.R. and the U.S.A. declined by Re.0.47, 0.77, 1.13, 0.95 per kg. respectively between 1965 and 1968 in pre-devaluation terms. The total registered a decline of Re.0.70 per kg.

Indian teas received a sharp jolt when the pound sterling was devalued in November, 1967. The devaluation of the pound was followed closely by that of the Ceylonese rupee. The impact of these two devaluations was serious for the Indian tea industry. Before November, 1967, the position was fairly satisfactory with both price averages and exports showing a noticeable gain over the previous year's progress. But immediately after the devaluation of the pound sterling, demand from U.K. fell away at the Calcutta auctions, while Colombo which could now offer teas at an advantage over India started reporting a strong demand. Consequently, the price level started dropping sharply and exports also declined.

In response to the numerous representations by the industry and trade, the Government of India announced in February, 1968, the abolition of three separate slabs of export duty, and in its place introduced a flat 20 per cent ad valorem duty less 24 paise per kg. for all teas. The
The underlying idea was to give some relief to the producers of better quality teas. The change, however, benefited only a small proportion of the crop. No change was made in the system of levying export duty, which remains extremely complicated, particularly to those who ship on consignment basis to the London auctions.

The first sale of the 1968 season was held on April 15, 1968, in Calcutta and for the first time ever, some orthodox teas from Assam were available from estates pursuing perennial manufacture. While the good quality teas from Darjeeling and Dooars received fairly good prices, the comparatively plainer varieties fetched low prices. The Darjeeling price average at the end of June was Rs.10.27 which was 82 paise behind the average recorded at the same time in 1967. There was a good demand from the outmarkets but the effects of the devaluation of the pound sterling were apparent from the very beginning of the season. The bulk of the offerings, therefore, were sold at lower levels than in the previous years. The prices were between Rs.7.50 and Rs.9.50 per kg. There was a fall in the internal price level too. Another trend which set in from the very beginning of the season was the quality consciousness of both external and internal buyers.

In the month of July, demand from the U.K. showed a decline. The highest price realised during the month was Rs.11 per kg. for C.T.C. fannings from Upper Assam. This was, however, an exception and the general price level for good fannings was confined upto a maximum of Rs.9.50 per kg. In the month of August, demand from outmarkets was generally less and prices for most exportable surplus fell from week to week. The U.K. bought only limited quantities and during the second fortnight virtually stayed away from the auctions. The U.A.R. also bought only selectively. Tunisia, which had bought over 0.91 million kgs. during the corresponding part of the year in 1967, had not bought even a single kilogram of tea. In the third week of the month, the tea trade in Sudan was nationalised and thereafter no further teas were bought by that country. As a consequence of this, price averages for almost all categories continued to register a decline and the consolidated leaf average at the end of August at Rs.6.98 per kg. was 77 paise behind the figure a year ago.

In September, the general price level of tea continued to be depressed and was a cause for anxiety. Alarmed at the situation, the industry and the trade began impressing upon the Government of India the urgent need
for relief. Their contention was that in the post-sterling devaluation period there could be little justification for the retention of the export duty. This duty was imposed for the purpose of mopping up the excess profits accruing from India's devaluation of the rupee in June, 1966, and hence there could be no justification for retaining the export duty in the post-sterling devaluation period. They also argued that its removal would to some extent offset the loss on account of the devaluation of the sterling. Ultimately, the Government announced on September, 30, 1968, three relief measures:

(i) The export duty was reduced by 11 paise per kg. This was done by increasing the rebate on export teas from 24 to 35 paise per kg.

(ii) The special surcharge on excise duty of 20 per cent imposed at the time of Chinese aggression (under the Budget proposals of 1963-64) was abolished. Excise duty is a part of the cost of production of the producers and the advantage on account of the abolition of the surcharge amounted to 5, 8, 10, 11 and 13 paise per kg. respectively, for the five regional zones.
(iii) A replantation subsidy at the rate of Rs.3,500 per hectare in the plains and Rs.4,500 per hectare in the hills was also introduced.

While the subsidy scheme is generally welcomed by the industry, many have felt that its scope was limited and could well have been extended to extension of existing acreage and new planting. The relief in regard to export and excise duties is generally regarded as inadequate.

In October and November, 1968 prices continued to decline almost unchecked and in December the price level was almost back to what it was at the same time in 1966, and much lower than in 1967.

"The average price ranging between January 1 and August 2, 1967, was 3 Sh. 11.23 d per lb. which declined to 3 Sh. 5.67 d per lb. during the period January 1 to August 1, 1969, in London auction, while the average price in Calcutta dropped from Rs.8.42 per kg. during the period April 15 to July 25, 1967 to Rs.7.40 per kg. during the corresponding period in 1969."

According to FAO, "at the London auctions, the average price for all teas sold declined in 1968 from 49.8 to 47.6 pence per lb., a fall of 4.4 per cent to the lowest level since, 1953."\(^{15}\)

To sum up, there has been a sharp decline in prices, in 1967, 1968 and 1969.

III Sales and Gross Profits

The Reserve Bank of India, after studying the finances of 139 public limited tea plantation companies (with paid-up capital of over Rs.0.5 million) which accounted for 81 per cent of the paid-up capital of all such companies at the end of March, 1964, has made the following observations:\(^{16}\)

The profitability of the tea industry showed a declining trend during the period 1960-61 to 1965-66 (Table 40).

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\(^{15}\) FAO, Commodity Review and Outlook 1968-69, Rome, p. 67.

\(^{16}\) Reserve Bank of India Bulletin, Bombay, op. cit., p. 1395-1462.
<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Gross profits as percentage of sales (profit margin)</td>
<td>20.1</td>
<td>14.5</td>
<td>16.7</td>
<td>12.9</td>
<td>14.5</td>
<td>13.9</td>
</tr>
<tr>
<td>2. Gross profits as percentage of total capital employed (Return on capital)</td>
<td>12.2</td>
<td>6.8</td>
<td>10.2</td>
<td>8.1</td>
<td>8.8</td>
<td>8.8</td>
</tr>
<tr>
<td>3. Profits after tax as percentage of net worth</td>
<td>9.2</td>
<td>5.9</td>
<td>6.1</td>
<td>4.9</td>
<td>5.6</td>
<td>5.2</td>
</tr>
<tr>
<td>4. Dividends as percentage of net worth</td>
<td>7.2</td>
<td>5.7</td>
<td>5.5</td>
<td>4.7</td>
<td>4.7</td>
<td>4.7</td>
</tr>
<tr>
<td>5. Ordinary dividends as percentage of ordinary capital</td>
<td>15.0</td>
<td>11.7</td>
<td>11.0</td>
<td>9.5</td>
<td>9.8</td>
<td>10.1</td>
</tr>
<tr>
<td>6. Total dividends as percentage of total paid-up capital</td>
<td>14.2</td>
<td>11.2</td>
<td>10.6</td>
<td>9.3</td>
<td>9.5</td>
<td>9.8</td>
</tr>
</tbody>
</table>

**SOURCE:** Reserve Bank of India Bulletin, Bombay, Nov. 1966, p. 1396.

Profit after tax, which is the net residual item remaining after meeting the interest charges, tax provision and managing agents' remuneration showed a decline from Rs.31 million to Rs.20 million during the period 1960-61 to 1965-66. During the same period gross profits showed a decline of 14.9 per cent despite the rise in sales of 22.9 per cent (Table 41).
<table>
<thead>
<tr>
<th>TABLE 41</th>
</tr>
</thead>
<tbody>
<tr>
<td>COMBINED INCOME, EXPENDITURE AND APPROPRIATION ACCOUNTS OF 139 PUBLIC LIMITED TEA PLANTATION COMPANIES OF INDIA 1960-61 TO 1965-66</td>
</tr>
<tr>
<td>(in millions of rupees)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sales</td>
<td>324.0</td>
<td>328.8</td>
<td>345.3</td>
<td>359.7</td>
<td>363.6</td>
<td>398.1</td>
</tr>
<tr>
<td>2. Other income</td>
<td>2.8</td>
<td>3.7</td>
<td>3.5</td>
<td>3.1</td>
<td>3.1</td>
<td>3.7</td>
</tr>
<tr>
<td>3. Closing stocks of finished goods and work-in-progress</td>
<td>106.7</td>
<td>100.5</td>
<td>106.4</td>
<td>96.3</td>
<td>107.5</td>
<td>103.2</td>
</tr>
<tr>
<td>4. TOTAL</td>
<td>433.5</td>
<td>433.0</td>
<td>452.2</td>
<td>459.1</td>
<td>474.3</td>
<td>505.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>EXPENDITURE AND APPROPRIATION:</th>
</tr>
</thead>
</table>

| 5. Opening stocks of finished goods and work-in-progress | 98.6     | 108.7   | 100.5   | 106.4   | 96.3    | 107.5   |
| 6. Raw materials, components, etc., consumed | 53.3*    | 56.6*   | 59.2*   | 60.9*   | 66.9*   | 69.5*   |
| 7. Other manufacturing expenses | -        | -       | -       | -       | -       | -       |
| 8. Salaries, wages and bonus | 14.6     | 15.6    | 16.7    | 16.7    | 19.4    | 22.4    |
| 9. Employees' welfare expenses | 6.9      | 6.9     | 7.1     | 7.2     | 7.6     | 8.6     |
| 10. Provident fund | 0.1      | -       | -       | -       | 0.1     | -       |
| 11. Bad debts | 4.1      | 4.9     | 14.4    | 18.2    | 20.7    | 20.7    |
| 12. Excise duty and cess | 61.9     | 65.6    | 64.6    | 66.3    | 65.7    | 70.8    |
| 13. Other expenses | 12.0     | 12.8    | 13.8    | 14.9    | 15.8    | 16.6    |
| 14. Depreciation provision | 65.2     | 47.7    | 57.8    | 48.5    | 52.8    | 55.5    |
| 15. Gross profits | 3.2      | 3.5     | 4.4     | 5.5     | 6.0     | 7.4     |
| 16. Interest | 24.2     | 19.3    | 19.0    | 18.7    | 17.2    | 17.9    |
| 17. Managing Agents' remuneration | 5.3      | 4.9     | 5.3     | 4.3     | 4.2     | 4.4     |
| 18. Profits before tax | 59.3     | 48.1    | 36.7    | 42.4    | 43.7    | 45.7    |
| 20. Profits after tax: | 30.8     | 20.1    | 21.2    | 17.6    | 20.3    | 19.6    |
| (a) Dividends | 24.2     | 19.3    | 19.0    | 18.7    | 17.2    | 17.9    |
| (i) Ordinary | 23.1     | 18.2    | 18.0    | 18.6    | 16.2    | 16.8    |
| (ii) Preference | 1.1      | 1.1     | 1.0     | 1.1     | 1.0     | 1.1     |
| (b) Profits retained | 6.6      | 0.8     | 2.1     | 0.9     | 3.1     | 1.8     |
| 21 TOTAL | 433.5   | 433.0   | 455.2   | 459.1   | 474.3   | 505.0   |

* Cultivation expenses

In keeping with the declining trend in the gross profits and profits after tax, the profit margin (gross profits as percentage of sales) of the companies declined from 20 per cent in 1960-61 to 14 per cent in 1965-66 (Table 40) reflecting the impact of the rising operating expenses on labour welfare, excise duty and cess, interest charges on loans, etc. In addition, there was the problem of accumulated stocks.

IV Net Profits and their Appropriation

As regards profitability, the declining trend was clearly visible (Table 41). The financial position of the companies was comparatively stronger in 1960-61 than in 1965-66, despite the fact that the sales in 1960-61 were lower at Rs.324 million as compared with Rs.398 million in 1965-66. The companies set aside Rs.6.6 million (21 per cent) as retained profits out of the total net profits (profits after tax) of Rs.30.8 million in 1960-61 and the balance of Rs.24.2 million was paid as dividends, of which ordinary dividends amounted to Rs.23.1 million. In 1965-66, however, the amount set aside for ploughing back was lower at Rs.1.8 million (or only 9 per cent) out of the net profits of Rs.19.6 million. Equity shareholders who received 15 per cent on their paid-up capital during 1960-61 were also paid a lower dividend rate of about 10 per cent in the three years 1963-64 to 1965-66 (Table 40).
Both gross and net profits showed wide fluctuations during the period 1960-61 to 1965-66 (Table 41). Net profits were substantially lower at Rs.19.6 million in 1965-66 as compared with Rs.30.8 million in 1960-61. Of the total net profits (profits after tax), Rs.98.8 realised by the tea companies during the five-year period, (1961-62 to 1965-66) an amount of Rs.90.1 million (91 per cent) was distributed as dividends, the amount retained for plough-back in the industry being very low at Rs.8.7 million, which formed only 9 per cent of the net profits. Viewed in the context of the financial requirements of the industry for large-scale replantations and replacements, the dividend distribution policy of the companies seems to be somewhat liberal. This is further borne out by a comparison of the dividends distributed by tea companies with those by other public limited liability companies during the period 1960-61 to 1965-66. This is shown in Table 42:

**TABLE 42**

LIMITED LIABILITY COMPANIES OF INDIA — DIVIDENDS AS PERCENTAGE OF PROFITS AFTER TAX 1960-61 TO 1965-66

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Tea plantation companies (139)</td>
<td>78.4</td>
<td>96.2</td>
<td>89.9</td>
<td>94.9</td>
<td>84.7</td>
<td>91.0</td>
</tr>
<tr>
<td>All other selected public limited companies (1194)</td>
<td>59.6</td>
<td>65.1</td>
<td>65.8</td>
<td>60.8</td>
<td>61.2</td>
<td>63.8</td>
</tr>
</tbody>
</table>

IV Liquidity Position

The current liabilities of the tea companies rose faster than the current assets, indicating deterioration in their liquidity position. The rise in current assets between 1960-61 and 1965-66 was just 9.2 per cent as compared with 31.5 per cent in current liabilities, resulting in the fall in the ratio of current assets to current liabilities from 1.42 in 1960-61 to 1.18 in 1965-66. The current assets at the end of 1965-66 were thus just enough to meet current obligations. The ratio of current assets to current liabilities is shown in Table 43:

<table>
<thead>
<tr>
<th>TABLE 43</th>
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</table>

139 TEA COMPANIES OF INDIA - RATIO OF CURRENT ASSETS TO CURRENT LIABILITIES 1960-61 TO 1965-66

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ratio of current assets to current liabilities</td>
<td>1.42</td>
<td>1.38</td>
<td>1.30</td>
<td>1.26</td>
<td>1.22</td>
</tr>
<tr>
<td>Net working capital</td>
<td>71.3</td>
<td>65.9</td>
<td>56.8</td>
<td>50.0</td>
<td>46.7</td>
</tr>
</tbody>
</table>

**SOURCE:** Reserve Bank of India Bulletin, Bombay, November 1968, p. 1397.

Short-term borrowings rose by 95 per cent during the five-year period and their proportion to current liabilities recorded a rise from 23 per cent in 1960-61 to 34 per cent.
in 1965-66. It may be mentioned here that according to
the Purpose-wise Survey of Scheduled Banks' Advances
conducted by the Reserve Bank of India, advances to tea
industry as on March 31, 1966, amounted to Rs.354 million
(1.5 per cent of the total Scheduled Banks' advances) or
Rs.67 million higher than the level on March 31, 1964.
The level of net working capital (obtained by deducting
current liabilities from current assets) of the 139
companies at Rs.71.3 million in 1960-61 reached a low of
Rs.39.7 million in 1965-66 i.e., a fall of nearly 44 per
cent (Table 45). The progressive decline in the ratio
of current assets to current liabilities is disturbing
indeed.

VI Sources and Uses of Funds

Total gross assets formation of 139 tea plantation
companies amounted to Rs.156 million during the period
1961-62 to 1965-66 as against Rs.122 million (of 136 companies)
and Rs.151 million (of 113 companies) respectively during the
Second (1956-61) and First Plan (1951-56) periods as shown
in Table 44. However, the average annual rate of increase
in total gross assets during 1961-62 to 1965-66 (Third Plan
period) was 4.9 per cent which may be compared with 9.3
per cent and 4.0 per cent respectively during the First and
Second Plan periods. The proportion of gross fixed assets
in gross assets formation during the period 1961-62 to 1965-66 was 86 per cent with buildings and plant and machinery together accounting for 59 per cent. During the Second Plan period, however, gross fixed assets accounted for almost the whole of total gross assets formation with buildings, plant and machinery forming nearly 81 per cent (Table 44). The rate of increase in gross fixed assets declined progressively over the three Plan periods as can be seen from Table 45:
<table>
<thead>
<tr>
<th></th>
<th>First Plan</th>
<th>Second Plan</th>
<th>Third Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of Companies</td>
<td>113</td>
<td>135</td>
<td>128</td>
</tr>
<tr>
<td>Selected</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(1) Gross fixed assets formation (₹ million)</td>
<td>80.5</td>
<td>121.4</td>
<td>134.5</td>
</tr>
<tr>
<td>(2) Rate of gross fixed assets formation (per cent per annum)</td>
<td>7.7</td>
<td>6.9</td>
<td>6.0</td>
</tr>
<tr>
<td>(3) Net fixed assets formation (₹ million)</td>
<td>40.0</td>
<td>68.1</td>
<td>71.3</td>
</tr>
<tr>
<td>(4) Rate of net fixed assets formation (per cent per annum)</td>
<td>5.1</td>
<td>5.7</td>
<td>4.9</td>
</tr>
</tbody>
</table>


The rate of gross capital formation i.e., gross fixed assets plus inventories showed a decline from 5.7 per cent to 4.9 per cent between the Second and the Third Plan with the rate of growth in fixed assets formation declining from 6.9 per cent to 6.0 per cent per annum. The proportion of inventories in the gross assets formation was 20 per cent in the First Plan, 9 per cent in the Second Plan and 7 per cent in the Third Plan (Table 44). Among the other items of assets, investments by tea plantation companies have declined perceptibly.
As regards the sources of funds, the internal sources, constituting capitalised reserves and surplus (including retained profits) and various provisions which provided nearly 83 per cent of total funds in the First Plan accounted for about 61 per cent in the Third Plan. This is mainly attributable to the lower "reserves and surplus" which declined from 31 per cent in the First Plan to 18 per cent in the Third Plan. Consequent to the decline in the proportion of funds from internal sources, the external sources provided nearly 39 per cent in the Third Plan as against only 17 per cent and 28 per cent in the First and Second Plans, respectively. About one-fourth of the total finance came from borrowing, showing little change from the Second Plan position. But the share of bank borrowings significantly came down from 20 per cent to 14 per cent indicating that the relative importance of bank borrowing declined over the period, although the quantum of finance made available by banks showed a modest rise. Consequently, there was a greater resort to non-bank sources of funds, particularly in the form of trade dues and other current liabilities.

The pattern of assets and liabilities of the 139 tea plantation companies basically remained the same during the period 1961-62 to 1965-66 as Table 46 will show;
Though the pattern of liabilities and assets remained more or less the same throughout the Third Plan period, the share of paid-up capital which formed nearly 32 per cent of the total liabilities in 1960-61, was reduced to 29 per cent in 1965-66; on the other hand, the proportionate share of borrowings increased from 8.2 per cent to 12.8 per cent. On the assets side, the proportion of gross fixed assets which was 74 per cent in 1960-61 increased to 84 per cent in 1965-66. However, net fixed assets comprised 54 per cent at the end of 1965-66 as compared with 50 per cent in 1960-61.

VII Profitability of the Tea Industry in West Bengal and Assam Valley

The West Bengal and Assam tea industry is almost on the verge of collapse as can be seen from the following:

According to a press note issued by the Consultative Committee of Plantation Associations, "as a result of the growing imbalance between world tea production and demand, world tea prices have declined to the extent of 20 per cent over the past decade. Furthermore, owing to steadily rising costs of production — aggravated by Government's fiscal policies — more and more tea companies are operating at a loss. In a random sample of 90 tea companies in
North India those that incurred losses in 1966, 1967, 1968 were 8, 16 and 50 respectively. (The Economic Times, Bombay, February 12, 1970).

According to Mr. S.K. Saha, Chairman of the Terai Branch of the Indian Tea Association, "The Terai tea industry, comprising 47 estates spread over Siliguri and Kurseong Sub-Division, is on the verge of collapse. Profits after tax as percentage of net worth have come down from 33 per cent to 8 per cent in 1967. In 1968 it was a net loss of 8 per cent....All the figures for 1969 are not available yet, but the financial position in aggregate is worse than that of 1968 and the prospects for 1970 seem ominous." (The Economic Times, Bombay, February 13, 1970).

Speaking about the profitability of the tea estates of Dooars Mr. P.C. Bagchi, Vice-Chairman of the Indian Tea Planters' Association, points out that "profits as percentage of net worth were as high as 37 in 1954 and came down to just over 5 per cent in 1967. In 1968, Dooars tea gardens made a loss of 5 per cent as compared to their net worth. In 1969, the loss was further accentuated though full figures have not been collected by now." (The Economic Times, Bombay, February 14, 1970).
According to Mr. R. S. Ojha, visiting agent of Tongani tea estate, who has been in the industry for more than 20 years, "in the Assam Valley profits after tax as percentage of net worth which were as high as 27.5 in 1964, had dipped down to 10.5 per cent in 1967, while in 1968 and 1969 substantial losses had been incurred. Losses as percentage of net worth were 2 in 1969."
(The Economic Times, Bombay, February 17, 1970).

VIII Financial Problems of the Industry

The tea industry is at present faced with the problem of long-term finance for its development as a large portion of existing areas under cultivation need to be replanted, since more than half of the existing bushes are stated to be over-aged or uneconomic. It was estimated that as on March 31, 1963, 52.1 per cent of the tea bushes were between 26 and 60 years old and 21.4 per cent were more than 60 years old. Only 13.4 per cent of the bushes were below 10 years old and 13.1 per cent between 10 and 25 years old.17 According to the P. C. Borooah Committee Report, 41.6 per cent of the total area as on March 31, 1966 carry bushes in the 21-50 age-group while

31.4 per cent of the area consists of bushes above 50 years old. Since the economic life of the tea bush is 40 years, about 31 per cent of the area has to be replaced or replanted immediately and arrangements to replace the other 41.6 per cent in the 21-50 age-group should be made with the least possible delay. The urgent need of reducing the cost of production in order to meet the threat of external competition also emphasises the necessity of replacing the existing old bushes with newly developed varieties and improved techniques of agriculture, besides modernising and expanding the processing capacity in the industry. The Working Group on Plantation Crops for the Fourth Five Year Plan also recommended that the tea industry should undertake the planting of new extensions of tea at the rate of 3 per cent annually of the existing area under tea. The tea industry thus requires adequate short-term and long-term finances for its development. However, its reduced profitability and the inadequate plough-back of its profits have not only resulted in the industry's larger dependence for funds from external sources, but has also come in the way of obtaining adequate finance from the various financing agencies. The short-term requirements of finance for

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working expenses are generally obtained from the commercial banks against the hypothecation of crops. The estates' title deeds are also usually required to be deposited with the financing banks as collateral security for the loans, thereby restricting the use of these title deeds for obtaining finance from other sources. As regards long-term finance, the Tea Board has been operating the following schemes for purposes of new plantations and machinery and equipment:

(i) Tea Plantation Finance Scheme
(ii) Irrigation Loan Scheme
(iii) Tea Machinery and Irrigation Equipment Hire Purchase Scheme

The Plantation Finance Scheme, introduced in 1962, has a fund of Rs.45 million, from which loans are made to finance new plantings and replantings. The Irrigation Loan Scheme with a fund of Rs.10 million met little response, but a total of Rs.47 million had been advanced to provide tea machinery and irrigation equipment under the hire purchase scheme.19

The Agricultural Refinance Corporation, State Finance Corporations, State Governments and Co-operatives also provide long-term finance for certain developmental activities. In order to make larger finances available, a Seminar organised by the Indian Institute of Foreign Trade in collaboration with the Tea Board in June 1967, made the following recommendations: (a) It specifically recommended that the Government should place larger funds at the disposal of the Tea Board for the Tea Plantation Finance Scheme. (b) Also, the Board should guarantee, on second mortgage, the loans to be provided by the Agricultural Refinance Corporation through the Scheduled Banks as in the case of the Tea Plantation Finance Scheme, and the repayment term for these loans should be increased to 20 years. (c) The Agricultural Refinance Corporation should also consider making available loans to cover the pre-production portion of working capital on the same terms as long-term finance. (d) The limit for drawing loans should also be increased from the existing 50 per cent of the value of the property to 75 per cent. (e) Above all, the rate of interest should be reduced.

IX Falling World Tea Prices and the Kampala Conference

During the first ten months of 1968, world production of tea totalled 618 million kgs., being 17.5 million kgs.
more than the production for the corresponding period of 1967.\textsuperscript{20} These figures do not include production in China and Indonesia, but both the countries are known to be producing increasing quantities year after year. Though there are no authoritative figures for world consumption of tea, it is commonly believed that the level of consumption has not risen to any appreciable extent during the year 1968, despite the promotional measures.

Cumulatively, over the years 1965 to 1967 world production, it is estimated, must have exceeded world consumption by about 35 to 45 million kgs. against which there could only have been a negligible rise in consumption. This surplus production has been largely responsible for the slump in tea prices.

If we take the London auction prices as an index of the world tea price levels, it will be seen that the unit value of tea of any origin sold in London has registered a sharp fall between December 1, 1967, and December 1, 1968. The following were the unit prices:\textsuperscript{21}

\begin{thebibliography}{99}
\bibitem{20} The Economic Times, Bombay, January 16, 1967.
\bibitem{21} Ibid.
\end{thebibliography}
To discuss the slump in world tea prices, the Food and Agricultural Organisation arranged a conference of world’s leading tea-producing countries as also of principal importing countries at Kampala (Uganda) between January 6 and January 14, 1969.22

Addressing the Conference, Dr. Albert Viton, representative of the FAO, told the delegates that export earnings from tea for all the tea-producing countries of the world fell by 2 per cent or $10 million between 1966 and 1967 and further declines were likely for 1968 and for some more time to come unless production is curtailed and matched with consumption or consumption increases in proportion to production. He suggested that international

<table>
<thead>
<tr>
<th>Country</th>
<th>December 1967</th>
<th>December 1968</th>
</tr>
</thead>
<tbody>
<tr>
<td>North-East India</td>
<td>5 sh. 3.5 d</td>
<td>4 sh. 3.1 d</td>
</tr>
<tr>
<td>South India</td>
<td>3 sh. 10.1 d</td>
<td>3 sh. 3.8 d</td>
</tr>
<tr>
<td>Ceylon</td>
<td>5 sh. 1.3 d</td>
<td>4 sh. 4.1 d</td>
</tr>
<tr>
<td>Kenya</td>
<td>5 sh. 1.1 d</td>
<td>4 sh. 0.5 d</td>
</tr>
<tr>
<td>Malawi</td>
<td>3 sh. 7.7 d</td>
<td>3 sh. 3.38 d</td>
</tr>
</tbody>
</table>

22 This is the third ad hoc consultation on tea organised by the FAO. The first was held at Nuwara Eliya, Ceylon, in May, 1965, and the second at London, in February, 1967.
action (beyond the present system of reviews and exchange of information) should be immediately taken if the declining tea prices were to be arrested.

It was generally believed before the Kampala Conference began that an understanding would be reached between India, Ceylon and the African countries over the need for international regulation of production and exports of tea. But as a counter-blast to the appeal of the FAO representative came the announcement of Uganda's Minister of Agriculture, Mr. John Kakonge, on the opening day of the Conference itself, that Uganda will not accept limitations on her tea expansion programme because the tea industry was very important for the economic development of the country. The tea-producing countries of Africa were, in general, against schemes which would come in the way of an expanding industry like tea. From the point of view of arriving at a decision to curtail the world output of tea, the Kampala Conference was, therefore, a failure. However, a significant agreement was arrived at in so far as the Conference decided to set up a permanent machinery for keeping the problems of tea industry and trade under constant study and review. It was also decided to set up a Working Group consisting of eight members each of producing
and consuming countries. The producing interests in India and Ceylon were disappointed at the outcome of the Conference because they had anticipated a definite decision for international regulation on production to emerge from it.

X Need for United Action

The most anxious question facing tea producers all over the world, and India and Ceylon particularly, is how to arrest the steady decline in the unit price of tea and what steps are necessary to see that there is some improvement in the price. It is clear that it is only through joint action that the producing countries can hope to arrest the declining price level.

History repeats itself. The present situation is somewhat reminiscent of the early thirties, when the International Tea Committee assessed the potential annual tea supply of producing countries (including China and Indonesia) at 573 million kgs. and absorption at 430 million kgs. resulting in an excess supply of 143 million kgs.

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24 The Indian delegation to the Kampala Conference was led by Mr. T.P. Singh, Additional Secretary, Union Ministry of Commerce, and included Mr. A.K. Roy, Chairman of the Tea Board.
An International Tea Agreement was already in force then. An effort to bring China, Japan, Formosa, French Indo-China and Africa within the Agreement had proved unsuccessful even though their exports were following a declining trend. The signatory countries had, therefore, to work the scheme without the co-operation of the non-regulatory countries, but the result was definitely favourable to the industry.

In 1934, it had been recognised that a steady increase in world consumption was a sine qua non of export regulation. In fact, the regulation of production, regulation of exports and the steps to increase consumption were regarded as the essential parts of a scheme of rationalization of the industry. Without such rationalization, it would have been impossible to find markets for the surplus of 143 million kgs. of tea even during the first year of the Agreement.

Though the situation of today has not reached the stage of the thirties, there is no gainsaying that unless some corrective steps are taken jointly by the producing countries in the near future, it may well degenerate and throw the world tea industry out of gear. In recent years, world production of tea has been growing at the rate of
2.9 per cent per annum, while the rate of consumption in the major importing countries has been a little more than one per cent. According to a survey by UNCTAD, the likely result of this state of imbalance is for the world to have a surplus of about 68.2 million kgs. of tea by 1970, which will rise to the staggering figure of 150 million kgs. by 1975. A similar survey by FAO forecasts a surplus between 79.5 million kgs. and 147.2 million kgs. by 1975. The Indian tea industry will have to suffer the most in that event, India being the world's largest producer. What the tea industry needs is a scheme of rationalization somewhat similar to that of 1924, namely a regulation of exports coupled with measures to increase consumption.

The question of what is happening to all the surplus teas that are produced is an interesting one. It was generally believed that the greater part of the surplus production after exports remained with the producing countries causing a depression in the internal price of tea. But it is now known that a good proportion of such surplus goes to build up the unsold stocks in the auction centres. In London, the stock of tea in warehouses at the

end of February, 1969, was placed at 103.1 million kgs.
which was 11.4 million kgs. more than the stock at the
end of February 1968. These stocks have increased by
35 per cent over the past few years, and at the present
level they are equal to six months' consumption of tea
in the U.K. The need for clearing these stocks for
consumption is very important in the effort to secure a
price revival.

There is vast scope to promote consumption of tea
not only in the developed countries, but also in the
developing countries. One important advantage in
favour of tea is that it is the cheapest of beverages and
will probably continue to remain so. Another favourable
factor is that as a nerve-soothing drink and as a food
item, it can be used in a variety of ways which have
by and large remained untapped and not popularised and,
therefore, offer a vast potential. Intensive research is

26 The Economic Times, Bombay, April 1, 1969.

27 Tea promotion in developed markets cannot be
neglected. The fact that the consumption of tea in the
U.K. in the third quarter of 1968 fell to the level
since records were started in 1940 is an unfortunate
reminder that tea's place in the diet of the British
people cannot be taken for granted.
necessary regarding new methods of using tea and the old method of preparing a good cup of tea should be propagated among the potential tea-drinkers. Since the idea is to promote tea as a commodity, the promotion campaign would benefit all the exporting countries and would be more successful if carried out by a joint body of exporting countries. The importance of joint promotion had long been recognised by the industry and campaigns designed to increase tea consumption were undertaken by the International Tea Market Expansion Board. But, its activities were terminated in the early fifties, though joint promotion continued in some countries.

Regarding regulation of over-production and export, India and Ceylon are not only willing, but also they spearheaded the move in the Conference at Kampala. The African countries were unwilling to join up because, with lesser costs of production and absence of taxation, they are not suffering on account of the slump to the same extent as either India or Ceylon.

When this question was being discussed at the Indo-Ceylon bilateral talks in Delhi during 1968, it had been suggested that if only India and Ceylon would completely abolish the export duty without increasing the excise
duty on tea, East Africa would soon lose its privileged position in the world markets and feel compelled to align itself with India and Ceylon in the matter of international regulation. But neither the Government of India nor the Government of Ceylon would consider any proposal to abolish the export duty completely.

The progress in implementing the Indo-Ceylon bilateral arrangements was very slow and it took nearly one full year to set up the Indo-Ceylon standing committee to facilitate joint action on promotion, research, etc. Despite the slow progress in Indo-Ceylon joint action, there is no denying the fact that the two countries have fully realised that without joint action nothing substantial can be achieved in the direction of stopping the declining prices.

It is heartening to learn nearly two years after the proposal to set up an Indo-Ceylon Tea Consortium was mooted that the body will be set up and that it will engage itself on its main task of promoting the export of tea from both countries. It is regrettable that there should have been such inordinate delay in setting up the consortium. During the period of two years both India and Ceylon have suffered a sharp decline in the
export of tea in terms of both quantity and unit price. Had the consortium been set up earlier it would have probably succeeded in arresting this decline to some extent and found some badly needed markets for the tea of both countries. The agreement signed on November 15, 1969 between the two countries for setting up a tea consortium has not come a day too soon. 28

India and Ceylon have also agreed on the following institutional and other matters in respect of the establishment of the consortium:

(i) There should be two separate national companies established under the laws of each country. There is no objection to the Ceylon company engaging in production in addition to marketing.

(ii) That the major shareholders of the national companies should be the growers and the Governments. Tea merchants and exporters might also be allowed to participate in the share capital.

(iii) The board of directors of the national

companies should consist of nationals of the respective countries, who should be representatives of only tea growers and the Governments.

(iv) The authorised capital of the two national companies should be Rs.50 million each.

(v) The consortium should be a joint management committee of six directors, three from each national company, the President and Vice-President of the consortium being elected from the Chairmen of the two companies.

The Tea Board of India and the Ceylon Tea Propaganda Board will conduct necessary surveys to determine areas of operation.

Even now it is stated that there is some disagreement between India and Ceylon in regard to the ratio in which they should share the export cut for next year. Since the two countries account for nearly 80 per cent of the world export in tea, and the current level of export from India and Ceylon are nearly equal, there should be no great difficulty in arriving at a reasonable apportionment of the quota for the two countries. Any minor difference in this regard should be settled amicably by discussions.
between the representatives of the two countries and
should not be escalated for further prolonged discussion.

The basic function of the consortium should be to
step up the export of tea, more particularly to countries
where the present level of consumption is low or non­
extistent. Several of India's recent tea delegations have
been reporting favourably on the potential markets for
Indian tea abroad and yet the Government does not appear
to have taken effective steps to explore these markets.
Now that a consortium is being set up there should be
no delay in exploring these markets to the fullest extent.

Both the countries produce quality teas which rank
as the best in the world. The only snag is how to offer
the teas at competitive prices, the main competitor in
this case being Africa. If the Governments of India
and Ceylon which have taken such great pains to bring a
consortium into being also realised how necessary it is
to offer the tea at competitive prices in a world market,
they can surely also find the ways and means to achieve
that object. A substantial fiscal concession, like the
abolition of the export duty, at this stage, (without
any increase in excise duty) could create a climate that
would easily induce the consortium to go ahead with its
task of improving the old markets and capturing the new
markets.
The Kampala Conference should have been able to convince East African countries, though they might not feel compelled to join a scheme of international regulation of production and export now, they would sooner or later find that it does not pay to stand out. It would be in their own interests, on long-term considerations, to join the scheme with India and Ceylon from the very beginning. If East Africa cannot be persuaded to think on these lines, it would be good for India and Ceylon to work the scheme themselves on a voluntary basis. Being the world's two largest tea-producing countries, joint action between Ceylon and India is bound to have a strong influence over the other producing countries.

Voluntary or statutory regulation over production and exports is, however, at best only a temporary remedy for a world slump. The positive and more permanent remedy lies in increasing the world consumption of tea. The FAO Working Group on tea is to recommend short- and medium-term measures for stabilising tea prices at equitable and remunerative levels. The Group is also to recommend on arrangements for action by exporting countries and the tea trade to promote consumption. This is the first time that the ways of increasing world consumption have come up for intensive examination at an
international conference. It is hoped that the Working Group will put forward concrete suggestions to increase world consumption of tea.

The establishment of this multi-national body to help cure the ailing tea industry has been approved by FAO's Committee on Commodity problems and it has been named the FAO Consultative Group on Tea. The Group will consider the trends in production, consumption, prices and promotion of tea and prepare proposals for the consideration of Governments for international arrangements to stabilise the tea industry. It is hoped that the FAO's Consultative Group will be able to win the co-operation of the major importing countries also to the principle underlying the agreement to cut exports by 40.9 million kgs. (90 million lbs.) arrived at the Mauritius Conference (August 1969). For India, it will mean a reduction of 13.6 million kgs. in tea exports. Producers have welcomed the recommendation because a drop in volume is likely to be compensated by a rise in price.29