Delhi Business Review ✠ Vol. 8, No. 1 (January - June 2007)

Case Study

THE TURNAROUND OF INDIAN TEA SECTOR

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INTRODUCTION

TEA Board of India, as a part of turnaround strategy has started promoting and re-positioning the 'Made In India' tag in the world tea market as a part of initiatives to augment the Indian tea exports. Chai Piyo, Mast Jiyo (drink tea, enjoy life) is the new USP to holdback the declining home consumption highlighting tea as healthy refreshing drink. Unlike now, a decade back tea exports from India were doing fairly well in the world tea market, with India as the largest producer and exporter of tea. But the last two years output declined drastically, and the exports dropped. Indeed, the situation is appalling.

While the world tea output & trade has grown multifold, the Indian production and exports have been experiencing the spectral downfall. There have been falling prices, reduced exports and sluggish consumption growth at home. Long gestation period and ROI spread over a time of minimum 5 years, high labour costs accounting for nearly 60% of tea production and, climatic changes critically affecting demand-supply imbalances, have led to these causes. The problem just does not end here. Surging competition from countries like Kenya, Indonesia, Vietnam & Turkey is also on all time high, which has further weakened Indian exports without affecting much the world tea market, or missing out on India as a leading source for quality tea. Primarily, the cause which is making dent in Rs. 10,000 crore-tea industry of India has deep roots in its micro-environment.

The Pertinent Problem

Earlier, the constraint was meeting up high domestic tea consumption requirements, which now ironically is witnessing slow consumption at home and thereby, tea prices crashing at home. The industry is facing crisis with prices witnessing inevitable downturn in the world tea market auctions since 1998, and plunging exports. The slump in prices and exports can be attributed to cheap and inferior quality tea produced by many new tea-growing countries, thereby pushing premium quality Indian tea to face stiffer competition in the global market. The economic liberalization and free global trade under WTO has exposed the masked disabilities of treating agro plantations of India that are burdened with policies and legislations.

However, there are internal problems too. A fresh tea plantation takes a period of at least 5 years to produce tea. Application of industrial labour for welfare and social security legislations, apart from comprehensive welfare code exclusively applicable to plantations under the Plantations Labour Act has increased labour costs more than 60 percent for tea company plantations. Stringent labor laws and restrictive land ownership also prevent entrepreneurs from growing beyond a point. In addition, plantation income is assessed @ 50 to 65 percent for agricultural income tax. A small but significant proportion of

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problem pertains to quality issues of low grade and low priced imported tea being re-exported, tarnishing the image of Indian tea in international markets.

Segmenting Indian Tea Industry

Indian Tea Industry can be segmented into two geographical divisions – North India and South India. In North, or particularly, Northeast India, Assam and Sikkim are prominent in producing tea and are better known for representing Indian tea quality all across the globe. For South India, it is, Tamilnadu (Nilgiri), Kerala and Karnataka, who contribute to the remaining production of tea and majorly coffee. It is to be noted that in the current tea production scenario, South India produced 129.29 mkg of total volume of 466.37 mkg in 2006 between January to July whereas, North India contributed three times higher productivity at 337.08 mkg.

Major Tea Markets

The 75% of total tea produced in India goes to France, Germany, Japan, United Kingdom and United States. Tea exports to big markets like Russian Federation, United Arab Emirates and Iraq declined sharply due to weaker demands. The Indian exports continue to loose volume in CIS countries, Europe, US, and some middle-east countries. However, it succeeded in regaining a part of its share in Iraq when it went up from 13.36 mkg to 24.73 mkg in 2004. The year 2005 onwards, the exporters somehow managed to retain earlier trade volume in the Japanese market. Nominal growths have been registered in UAE and Iran too but dropped in Afghanistan and Pakistan market.

Current Production & Exports Scenario

Upto July 2005, the domestic tea production was at 458.68 mkg whereby, 320.82 mkg contributed by North India & 137.86 mkg came from South India. In July 2006, the tea production recorded growth of 889.17 and total Indian volume at 466.37 wherein, 337.08 & 129.29 contributed by North & South India respectively. The productivity from southern part declined while northern region had shown immense growth. However, a year back in 2003-04, the productivity from Northeast declined comparatively. The South Indian exports were higher by 24.5 mkg where as North India reported a reduction of 10.7 mkg.

India accounted for 458.69 mkg out of the total 926.17 mkg of world tea production in July 2005, and now 466.85 mkg out of the 889.17 mkg of world tea output in July 2006. The world tea production declined while India registered a phenomenal growth of +8.16 increases in productivity over last year. The total exports estimated during the period January to July 2005, were of value 9063277 INR (Rs.) at world tea auction rate @ 57.89 (Rs. kg) with a total of 95.73 (m kg) qty. exported inclusive of both north and south India as against world exports of 590.60 (m kg). During January to July 2006, the exports were valued of 8309649 INR @ 63.65 (Rs. kg) with total of 98.17 (m kg) qty. exported from both the regions as against world tea exports of 595.22 (m kg). This represents negative skewness in the India's tea export graph due to low productivity, and decline in prices in the world and domestic tea auction. Prices came down from the average of Rs.76.43 a kg in 1998 to Rs.61.71 in 2000 and Rs.61.66 in 2001. In 2003, the prices further were Rs. 56.03; in 2004, Rs. 64.57; and in 2005, Rs.57.89 and till July 2006, Rs.63.65 with strong price variability.

The export situation improved due to the tea imports (for re-exporting) as the total qty. exported increased from 95.639 mkg to 98.178 mkg, and that the tea productivity as well as the unit price per kg went comparatively higher from the northern region than the south as a benchmark of difference in the quality of the yields. However, the exports from Southern part were higher compared to Northern India yield. With the help of re-exports the total world exports made by India for tea stood at 95.64 mkg out of the total figure of 590.6 mkg in 2005, which grew marginally, to 98.17 mkg with +2.44 increments for the period January to July, 2006 out of the total world tea volume of 595.22. The overall world exports for tea also grew by 4.62 mkg in 2006.

Turnaround Representation of Indian Tea Industry

Years (Jan-July)	Production		Exports		Imports	Domestic Cosump-tion	Tea Auction Rate (Rs./Kg.)
	India	***World***	***India***	***World***			
2006	337.08 (North)	889.17	31.53 (North)	595.22	*12.14	*779	71.51 (North)
	129.29 (South)		66.64 (South)				49.57 (South)
	466.37 (Total)		**98.17** (Total)				**63.65** (All India)
2005	320.82 (North)	926.17	43.15 (North)	590.60	9.83	757	64.75 (North)
	137.86 (South)		52.58 (South)				44.11 (South)
	458.68 (Total)		**95.73** (Total)				**57.89** (All India)
↑ Growth	+7.69	-37	+2.44	+4.62	+2.31	+23	+5.76

*Projected Figures

(All Figures in million per kg. except Auction Rate in Rs. /Kgs)

Source: Adapted from Tea Board of India, 2006

Conditions in the World Tea Market

India still remains the largest producer and consumer of tea in the world. It also leads in global R&D in tea industry and in manufacturing and exports of tea machinery. The reasons are Indian climate, soil and availability of skilled labour that provides the absolute advantage.

India and China rank first and second, respectively, both in tea production & consumption. Both the countries account for nearly half of world's tea output exporting about 75 percent of their production, and 25 percent for home consumption. This is because of high consumption of tea in both these countries. Their contribution in world tea exports is also equivalent at 17% but the production accounts for 30% as against 23% of China. Other countries like Kenya, Sri Lanka and Indonesia produce only 25% of world tea but control 50% of the global trade. They export more than 90% of their production.

The Indian tea production grew at an average annual rate of 2.3% during last four decades and at 1.4% per annum in the last decade. In 2004, Indian tea production declined by 4.3 percent to around 820,200 tons due to unfavorable weather conditions and the closure of up to 70 tea gardens in Assam state. India accounted for 27.4% of world output, followed by China (24.6%), Sri Lanka (9.75%), and Kenya (9.4%). However, the total world output was 3.2 million tonnes in 2004 which was 50,000 tons more than in 2003 and 75,000 tonnes more than in 2002, with increase in several countries producing and exporting tea, some even with 100 percent exporters. While the overall world tea production continued to grow, the world tea exports registered 1.4 million tonnes in 2003, which was a 2.6% decline over 2002.

In 2005, the world exports showed +4.62 increase in figures, from recorded 590.60 (m kg) in 2005 to 595.22 (m kg) in 2006 during January-July.

Sly Competition

The domestic consumption dropped to 820.2 mkg from 857.1 mkg i.e. a fall of 36.9 mkg or - 4.3 per cent in 2003-04. There was a slump which was hard rooted, witnessing lowering productivity and lesser gains from world trade in terms of export values, whereas Kenyan tea production grew by 10.5 per cent the same year. Clearly, Kenya eating up the world shares at a higher pace than any other country did. In 2004, the production raised up to 324.6 mkg from 293.7 mkg. Kenya increased the production by 25 times. Comparatively, as much as 33% of cultivation area was expanded in India also to increase production but in Kenya, it got multiplied ten times during the same period.

Ironically, Indian tea exports to Kenya registered a three-fold growth. From 3.49 mkg in 2003 it went up to 9.99 mkg. The average price earned from this market also increased to Rs 46.88 per kg against Rs 40.26 per kg in the previous year. Kenya also emerged as an integral part of tea import in India. India is clearly losing both productivity and exports.

On the other hand, the imports into India registered a phenomenal jump. From a meager 9.86 mkg in 2003, it went up to 30.52 mkg marking a growth of more than 200 per cent. However, the average import price dropped to Rs 45.68 per kg from Rs 58.32 per kg. Fifty five percent imports were from Vietnam at 17.28 mkg against a meager 1.11 mkg in 2003. Whereas, Kenyan imports increased to 3.30 mkg from 1.22 mkg in 2003. Apart from these two countries, imports from Nepal, Indonesia and Sri Lanka remained more or less the same.

The Road to Turnaround

The turmoil in the global tea market for India is unfortunate. Backed by problems of domestic production constraints and fall in exports the situation demanded attention. To fight against the competition from new tea growing counties like Kenya, and arresting the declining competitiveness pertaining to land, labour, imports, quality, prices and shrinking home consumption need to be corrected before it has further multiplier effects.

As a part of strategic move, the Indian government announced a package of Rs. 47 billion to revive the tea industry by raising exports and volumes. The 60% of the amount is allocated to Northeast part, in particular to Assam that contributes high quality tea productivity and fetch profitably through high auction rates. The focus of investment would be on streamlining the tea plantations for productivity and costs, through industrial mechanization (reducing employment upto 30 percent, technology and tool that suit field operations like harvesting machines, modernize plantations like tissue culture), and locating and promoting Indian tea brands overseas.

Besides this, as a part of restructuring the expenditure incurred by plantations on welfare benefits to workers that fall within the responsibilities of state governments and local bodies are to be reimbursed by the government. Working capital should be made available to plantations at a special rate of interest not exceeding 5 percent. The electricity and the use of infrastructure shall be provided at more concessional rates. This will serve as indirect subsidies to make exports competitive.

Though Indian tea sector sustained the slump (1998 – 2004), it is quite evident that the situation has improved in terms of productivity and exports gradually, and the government legislations & policies on agro plantations can be the tool that can correct the disequilibria besides the climate.

Clearly, it is the time to rejuvenate the absolute advantage and the 150-year-old global leadership & heritage.