



Indian Tea Research



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Abbreviations

BLF	Bought leaf factory
CAGR	Compound annual growth rate
CoC	Code of conduct
CSO	Central Statistical Organisation
CSR	Corporate Social Responsibility
CTC	Cut, Torn and Curl
CTTA	Calcutta Tea Traders Association
ETI	Ethical Trade Initiative
HUL	Hindustan Lever Limited
KVK	Krshi Vigyan Kendra
ITA	Indian Tea Association
ITC	International Tea Committee
MNCs	Multinational Companies
NAS	National Accounts Statistics
NOC	No Objection Certificate
OECD	Organisation for Economic Co-operation and Development
PDS	Peerumadu Development Society
SHG	Self-help Group
TMCO	Tea Marketing Control Order
TPI	Tea Promoters of India
UPASI	United Tea Planters Associations of South India
USTPA	United Small Tea Producers Association
VCA	Value Chain Analysis

Glossary

Assessment: A study to determine whether, and to what extent, labour practices comply with the provisions of a code of labour practice. The term can refer to the study of a workplace, but can also apply to more general studies such as to an industry within a country. A 'study' means a systematic investigation that covers all points of the relevant code. Where this concerns a workplace, it means a study involving the gathering of robust verbal, documentary, visual and physical evidence. Preliminary studies meant for detecting the likelihood that code provisions are not being observed are referred to as risk assessments and are understood to be less robust. Where such assessments do not involve the actual inspection of the workplace, they are referred to as desk-based risk assessments.

Auction: Sale of tea in an auction room on a stipulated date, and at a specific time. Tea auctions are held in India, Sri Lanka, Indonesia, Kenya and Malawi. These auctions only sell teas from their particular areas. The London Tea Auction held every Monday morning (barring public or bank holidays) in the city of London, is the only true international tea auction, where teas from all over the world are sold.

Black tea: Fresh-picked green tea leaves are withered, spread out on racks to dry, and then crushed by rollers to release the juices from them (fermented or oxidised). The leaves turn brown and are then fired (or dried) by hot air and sorted into grades.

Blend: a mixture of teas from several different origins to achieve a certain flavour profile. Most branded teas in the United States use 20 or more origins to achieve their desired taste.

Blender: Tea taster who decides on the proportions of each different tea required to produce the flavour of a given blend.

Broker: The person who negotiates the buying and selling of tea from producers, or for packers and dealers, for a brokerage fee from the party on whose behalf he acts.

BOP-Broken Orange Pekoe:- Full-bodied black tea comprising broken segments of somewhat coarse leaves without tips. The smallest among leaf grades, it gives good colour in the cup and is used for several blends.

BP: Broken Pekoe - Full-bodied black tea comprising broken segments of coarse leaves without tips.

Brick tea: Chinese and Japanese teas mixed and moulded into bricks under high pressure. Once used as a form of currency.

Child labour: Child labour refers to work done by a child younger than 15 years, unless local legislation has set a higher age.

Code of practice/conduct: In the context of ethical trading, a code of practice (or code of conduct) is a set of standards concerning labour practices adopted by a company and meant to apply internationally, and in particular, to the labour practices of its suppliers and subcontractors.

Collective bargaining: The right to collective bargaining refers to the right that workers' organisations have to negotiate with employers or their organisations on behalf of their members to determine working conditions and terms of employment.

CTC: Cut, Tear and Curl, a machine process which cuts the withered leaves into uniform particles to facilitate complete oxidation. Typical of most black tea grown in India and other lowland producing countries, and used in teabags to create a stronger tea of deeper colour.

Dark: A dark or dull colour which usually indicates poorer leaf.

Dust: The smallest broken leaves left over after all manufacturing processes are finished.

ETI Base Code: The code of labour practice based on key conventions of the ILO that ETI requires its members to uphold. Its content was negotiated and agreed to by the founding trade union, NGO and corporate members of ETI. It is accompanied by a set of general principles governing its implementation.

Externality: A side-effect or consequence (of an industrial or commercial activity) which affects other parties without this being reflected in the cost of the goods or services involved; a social cost or benefit.

Fair trade: Fair Trade is an alternative approach to conventional international trade. It is a trading partnership which aims at sustainable development for excluded and disadvantaged producers. It seeks to do this by providing better trading conditions, by awareness raising and by campaigning. Fair trade differs from ethical trading in that its primary focus is on improving trading relationships rather than labour practices. It engages primarily with marginal producers, and aims to establish an alternative trading model rather than working within the confines of conventional international trading relationships.

Flush: Young tea-leaf shoots. The term also refers to the various harvests. 'First flush' is the early spring plucking and the 'second flush' is harvested in late spring and early summer. A second flush has a stronger flavour than the first flush.

Freedom of association: The right of all workers to join or form a trade union of their own choosing and carry out trade union activities without interference from their employer or from public authorities.

Green tea: Unfermented tea that is immediately heated (or steamed) to kill the fermentation enzymes. It is then rolled and dried. Naturally low in caffeine, the brew is very light in colour. Green teas range from a light, fragrant taste to a very bold vegetal flavour.

Import Quota: A form of protectionism used to restrict the import of goods by limiting the legal quantity of imports.

Oolong tea: Semi-oxidised tea from China or Formosa; a diplomatic tea in that Oolong is a compromise between black tea and green tea. It is more delicate than black tea and stronger than green tea. The floral Ti Kuan Yin produces a clear mellow brew and is famous for its light fragrance.

OP: Orange Pekoe: Of higher quality than Pekoe leaves, it is not a variety of tea but a term which describes the size of the leaf. It is a black tea comprising leaves of 8-15 mm. It has fewer tips than FOP, because it is plucked later in the season and generally refers to tea from Sri Lanka (Ceylon). Leaves are long, thin and rolled length wise.

Orthodox tea: Tea was processed this way for centuries, by hand, with great care. Some of today's great teas are still produced in this manner.

Pan-fired: A kind of Japan tea that is steamed then rolled in iron pans over charcoal fires.

Pekoe Souchong: Black tea, produced by a coarse plucking of the third leaf on the bush. Each leaf is rolled into a ball.

Pekoe: A grade of black tea produced by a medium plucking of the second leaf on the bush.

Ploughman's lunch: A meal featuring hearty meat and cheese sandwiches, pickled vegetables, sweets and served with tea as the main beverage.

Pouchong: A kind of scented China tea, so called from the Cantonese method of packing in small paper packets, each of which was supposed to be the produce of one choice tea plant.

Rooibus: Bush tea from Africa. Caffeine-free, it may be purchased as a variety or blended with herbs and flavourings.

Scented tea: Green, semi-fermented or black tea that has been flavoured by the addition of flowers, fruit or essential oils. Earl Grey is one of the most famous of scented black teas. Madame Butterfly is a green tea scented by the addition of flowers and flavouring.

Stakeholder: As developed for the concept of Corporate Social Responsibility the term refers to any individual, community or organisation that affects or is affected by the operation of a company. Stakeholders may be internal (e.g. employees) or external (e.g. persons performing work who are not employees, and maybe also customers, suppliers, shareholders, financiers or the community). For instance, in the context of ethical trade, the workers whose working conditions are the subject of codes of labour practice are recognized as having the greatest 'stake' in ethical trading.

1.1. Introduction

World tea production reached 3523 million kilograms in 2006 and China, with 28.9 per cent share of the total world tea production, dominates the market. India was the market leader at the international level with regard to production and consumption till 2005. At present, India is the second largest producer of tea in the world, and produces around 955.9 million kilograms of tea, accounting for 27.1 per cent of tea produced worldwide. The tea industry accounts for the employment of more than 2 million people in India. It occupies an important role in the Indian economy not only due to its capacity to earn foreign exchange, but also because it impacts the livelihoods of scores of people employed directly and indirectly by the industry.

The Indian tea industry witnessed many structural changes over a period. The emergence of small tea growers and Bought Leaf Factories, which create a new paradigm in the tea industry by putting forward a low cost of production in terms of workforce and technology, is one of the major changes in the recent history of the tea industry in India. Crises in the tea industry and closing down/ abandoning tea estates are some of the other features which faced the industry in the recent period. In early 2005, the industry witnessed the old model of production section being replaced by withdrawal from production and concentration on the market of major companies, especially Tata and HUL, in India. In the South, it is a new paradigm shift from the colonial mode of production to participatory management in tea cultivation. In the North, McLeod Russel acquired the HUL tea gardens and became the largest global plantation company.

The plantation model of the tea industry works with its own structure and development mechanisms and it relied on Plantation Labour Act for its operation and regulation. Various Acts and Rules regulate and control the structure and function of the plantation sector in India. The plantation sector works in a strong network of capital assets and has its own methods of addressing issues such as the quality of green leaves, production of 'made tea', and social, economic and social responsibilities at the field and market levels.

Tea is grown in 16 Indian States, of which Assam, West Bengal, Tamil Nadu and Kerala account for about 95 per cent of the total tea production. The industry in India includes small and big growers and government plantations. Small tea growers in India are economically and socially

vulnerable as they are mostly marginal farmers, Dalits or from tribal communities. Many of them do not possess rights over the land they cultivate. Though the quantity of tea produced by small tea growers has increased over time, the profit accruing to them is very marginal. The reasons for this are several, chief among them being: low price-realisation owing to poor quality and inefficient and incompetent production structures in garden, inability of small tea growers to access international markets directly etc.

The small tea growers segment is ill-equipped to address the social, economic and environmental responsibilities at the production level. It is important to empower this segment to respond to the preferences of consumers who seek environmentally, socially and ethically superior products. The recent crisis, since 2001 onwards in the Indian tea industry has however challenged the plantation model economy. During the crisis, around 36 plantations were closed down or abandoned and which directly affected thousands of workers and the economy of states. It also resulted in the drastic expansion of the small tea-growers sector in India. However, the tea industry in India overcame sluggishness in production and has been increasing production since 2002. Many tea gardens have also re-opened and the move has also started to re-open more closed gardens in India.

1.2. Rationale of the Study

The big tea companies would not remain profitable in the long run as well because such kind of situation would adversely impact the quality of the tea produced and would affect the profitability of the companies in the long run. Secondly, the growing NGO movement and consumer campaigns are demanding from the large companies that they take responsibilities of their entire supply chain, from plucking of green leaf to the consumers. Such larger movements are visible in the form of OECD guidelines under its 10 chapters, UN Global Compact's 10 principles in the area of human rights, labour standards, the environment and corruption, the ILO tripartite declaration of principles concerning MNEs and social policy containing detailed guidelines on labour situations-in the field of employment, conditions of work, and industrial relations and also the recent UN Human Rights Norms on the Responsibilities of TNC and other Business Enterprises with regard to Human Rights which emphasizes on ensuring the observation of human rights, right to equal opportunity and non-discriminatory treatment, rights of the workers, use of due diligence and promotion of economic, social and cultural rights. There are also other CSR initiatives like Ethical Trading Initiative (ETI), Fair Trade certifications, etc., which are gaining momentum.

In the context of these global developments, given the fact that workers and small tea growers continue to live in abject poverty, and the companies refuse to take on the issues in the environment in which they operate, there is a danger of the community refusing to give these big companies license to operate. The crisis in the tea industry in the recent period has thrown up new issues, which have not been adequately researched. For example, it is crucial to find out why in the same region, some plantations are closing down and some are still functioning normally; how some could remain profitable despite implementing the Plantation Labour Act.

The social, economic and economical impact of tea production and processing in India needs to be assessed by using case studies of a select few companies which has linkages with the international tea market. The role of the tea auction centres also needs to be analysed along with how it could be improved as the auction system brings in a lot of advantages for the producers being a transparent and cheaper trading system, but at the same time, there has been criticism of collusion between big buyers and brokers to keep the price low. It is also important to study the phenomenon of the rapid expansion of small tea growers and BLFs and their impact on the estate system of production. These issues concern workers, employers as well the government. Hence, every attempt should be made to ensure that all the three actors collaborate in such research. The study also looks into the opportunities for developing linkages between small tea growers and other stakeholders, especially corporate companies in the tea industry.

1.3. The Purpose of the Study

The purpose of the present research would be to integrate it with researches being conducted in other 5 tea producing countries by SOMO which has taken the initiative to coordinate, facilitate and conduct a global tea research programme together with research partners in a number of major tea-producing countries, such as Indonesia, India, Sri Lanka China, Vietnam, Kenya and Malawi. Research in Indonesia has already started while research in Kenya and Malawi will start in the beginning of 2007. The findings would be used to inform a broad audience of tea companies, sector organisations, civil society organisations, trade unions, government bodies and the media in the Netherlands, Europe as well as in te- producing countries with the aim of improving labour, social, environmental and economic conditions in the global tea industry and increasing the competitiveness of the tea industry as a whole.

Objectives

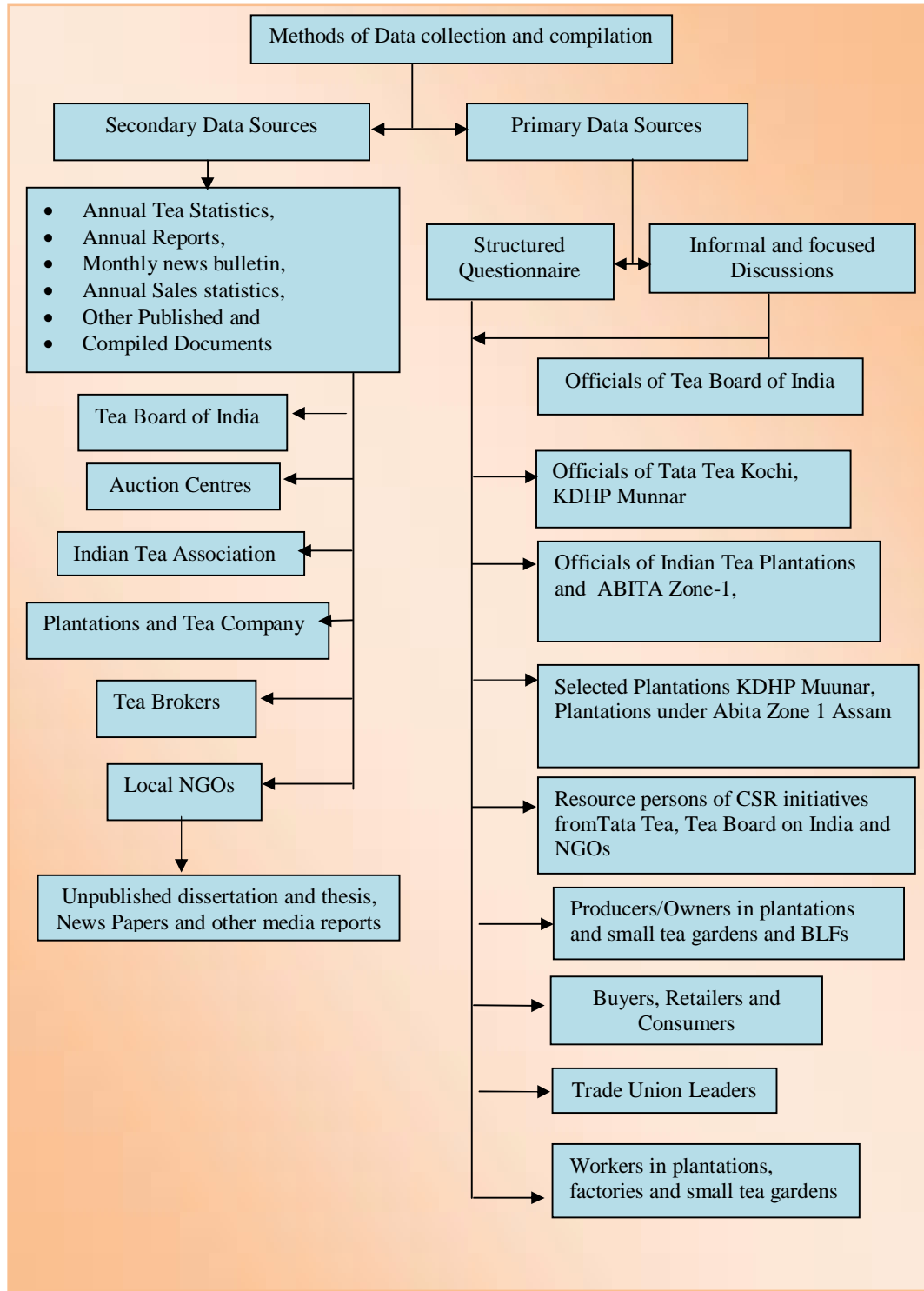
- To identify critical issues in the tea sector of India (production, processing, export, trade and regulations) from the perspective of sustainable development and poverty eradication.
- To assess social, economical and ecological conditions under which global tea production and trade takes place and the impacts of the industry on sustainable development and poverty eradication.
- To assess the key social, economic and environmental issues through out the tea value chain starting from India and up to the consumers both local as well as international.
- To analyse the present roles and responsibility of global tea market players in India, including identification of key influence points for responsible practices.
- To analyse opportunities and bottlenecks for tea (production, processing, retail, packing, exports in tea-producing countries and to make recommendations to various stakeholders on how to improve conditions in the global tea supply chain.

1.4. Methodology

There would be two components of the research. The first part would be to provide a general overview of the tea industry-providing key information about various aspects of tea industry around production, trade, economic and legal aspects. The Second part would be to get into more intensive case studies. The case studies would aim to collect more detailed information into the social, environmental and economic conditions under which tea is produced.

The research focuses on the Indian tea industry, including big plantations and small growers of four regions in India. The study mainly relies on secondary data and primary survey including informal discussions, focused group discussions and questionnaire survey methods.

The secondary data relied on company websites, annual reports, official statements from the companies, tea market reports, reports from auction centres, Annual reports of the Indian Tea Association, UPASI and the Tea Board of India, unpublished dissertations and thesis from Indian universities (North Bengal University and Dibrugarh University), government and international bodies reports (like FAO, UN bodies etc), parliament questions and reports and media and news paper reports. The method of data collection and compilation is given follow.



The primary survey for the study covered all the stakeholders in the process of the tea value chain. It covered workers and small growers at one end, and the consumers from the other. Attempts were made through the questionnaires to capture different perspectives from the

various stakeholders. The study in all four regions specifically covered: Small growers, Plantations, Leaf agents, Bought Leaf Factory owners, Brokers, Buyers, including those who bought directly from gardens, the Auction Secretaries, Up-country buyers, Trade Union members and Wholesalers, retailers and consumers.

In plantations sector, study focused on major plantations company on the basis of their share in international value chain of tea market. In early 2005, the industry witnessed the old model of production section being replaced by withdrawal from production and concentration on the market of major companies, especially Tata and HUL, in India. Tata Tea and Hindustan Lever are the major two companies which hold major market share of tea in India. In this changing scenario, the study looks at how CSR are practicing in Indian plantation and how it lead to the business model of achieving high productivity and competitiveness in international standards. On March 31, 2005 Tata Tea limited formally exited from its South Indian Plantation Operation (SIPO), in handing over tea estates to the newly formed Kannan Devan Hills Plantations Company Private limited (KDHP) by deed of sale and transfer. The KDHP company comprises 17 estates and 15 factories spread over 23884 hectares of which 8900 hectares are currently under tea cultivation.

McLeod Russel has been growing tea in India since 1869. McLeod Russel gardens is well known for the best-managed gardens in India in terms of yields, labour productivity and fuel consumption and it contributes a major share of tea production in Assam. Its productivity, for instance, at 2175 kg per hectare, is much higher than the average productivity of 1700 kg per hectare of India. McLeod Russel is one of the largest bulk tea producers in the world, at an annual capacity of 75 million kilograms from India itself is considered one of the largest plantations in the world and company is the world's largest tea plantation company. The company operates with 54 tea estates in Assam and West Bengal, which is marketed worldwide under the registered Elephant trade mark.

The field work covered only one or two plantations of one company as the practice, working condition and regulatory mechanism is similar under of company. For instance, Assistant Director of KDHP Kerala, stated that they have similar practices in all their 17 estates only productivity and quality of green leaves varies depends on geographical specificities. During the field work, workers selected randomly from plantations and factories by purposive sampling methods. Apart from the these major plantations, study also looked the practice of Abita Zone 1 (a branch of the Indian Tea Association due to its intervention in various aspects of CSR and productivity. Abita, established in 1889), Kolkata, functions in the Assam region through its different Zones. At present there are 132 tea estates are registered with Abita. Abita initiated

many programmes which focussed to workers of tea estates which aims to lead workers productivity and overall productivity of tea cultivation under their area. All estates under Abita cover the family welfare programmes which are assisted by Government of Assam. The findings on working conditions and productivity of workers and initiatives of CSR practices are formulated based on these selected workers and plantations.

Apart from the direct stakeholders, the survey also covered other key agents like resource persons from the Tea Board from its Kolkata and Regional Offices and other centres, UPASI, Coonoor; association members in different regions, and trade union leaders. Consumers were queried to assess their awareness of the quality of tea, the prices they paid for good quality tea or CSR issues attached to the tea industry.

The survey looked specifically at small growers, workers in tea gardens and plantations from South and North India. It is important to consider both the small farmer and the casual labourer while attempting to understand the sustainable livelihood implications of poor people in the value chain.

The formal questionnaire method, also applied during the survey, focused mainly on small tea growers and workers in tea gardens and producer's representatives from plantations. Questions were also framed to capture details of production, workers and social and environmental benefits of the workers. In the production scenario, the survey tried to capture the details of production of green leaf, cost and benefit of production, leaf prices, and marketing problems and so on. Workers and their wages were also addressed in the survey. The analysis section of the study, which uses quantitative and qualitative methods to analyse macro level data and field level data to strengthen each results of different aspects.

1.5. Overview of Chapters

The introductory chapter maps out the manner in which discussions develop into arguments that address the competitiveness of the tea plantation economy and its global value chain and livelihoods of the small tea growers and workers in the Indian tea industry.

The second chapter describes the structural foundation of the Indian tea industry. It begins with the profile of production, various types of tea production in India, growth patterns of small tea growers, Bought Leaf Factories, quality constraints of green leaves and made tea etc., of the Indian tea industry. The crisis in the Indian tea industry and low production in estates has, however, led to expansion among small tea growers, as well as created a new and competitive model in the industry.

In 2006, tea production in India touched 955.9 million kilograms. Of this, North India accounted for 76.3 per cent with 729.6 million kilograms, while South India had a share of 23.7 per cent with 226.3 million kilograms. Currently, the number of small holdings (as per the membership of various small growers' associations in different states), stands at 1, 26,256 though only 56.8 per cent (71676) of these small growers have so far registered with the Tea Board. Around 53.9 per cent of small growers are concentrated in South India and 46.1 per cent is in North India.

The third chapter discusses Indian tea markets both in national and international markets. India holds fourth position in the world tea market and accounts for 12.9 per cent of the world market. Kenya still dominates the international market with 19.9 per cent share, while China and Sri Lanka stand second and third in the international market.

From being a predominant consumer of loose tea, the Indian tea market has slowly transformed into a brand-dominated packet tea market. In India, packet tea is processed by multinational and other big Indian companies.

Chapter four locates the position of various stakeholders in the global value chain of the Indian tea industry. The concept of the value chain is used as an organised system of exchange from production to consumption with the purpose of increasing value, and transforming inputs and competitiveness. The concept of the global value chain is one among the several approaches to study inter-firm relations. It draws on the simple idea that the design, production and marketing of products involve a chain of activities divided between different enterprises, often located in different places.

The value chain of the tea industry involves various stakeholders and their conflicts of interests and convergence in the process of operationalizing at various levels. The 'structured and pre-determined' role of stakeholders in the tea industry and the interaction among them maintain the price mechanisms and value-additions in the tea industry. Big companies play a major role in the value chain of the Indian tea industry and they dominate pricing as well as domestic and international markets.

This chapter goes on to state that small growers and workers in both plantations and small tea gardens and small and regional buyers often fail to negotiate with other dominant stakeholders especially big companies and big buyers in the value chain in this process. It is also about identifying strategic interventions that the small tea sector can make to strengthen local business competitiveness in infrastructure and re-position regulations. This could help them look at competition as an advantage, rather than as a hindrance.

Chapter five outlines the legal act and production and social cost of the Indian tea plantations. The PLA is unique in the fact that it requires the employer to provide the workers with medical facilities, housing, sickness and maternity benefits and other forms of social security measures.

Chapter six addresses CSR in the tea sector and the constraints in its implementation at various stages. The chapter also outlines social, economic and environmental responsibilities in the tea sector as well as rights of workers and consumer awareness in India. CSR means the commitment to contribute to sustainable economic development-working with employees, their families, the local community and society at large to improve quality of life in ways that are good both for business and for development. Though studies point out that a majority of consumers say that they are influenced in their purchasing by knowledge of a company's responsibility, their attitudes are not reflected in their actions. The actual purchasing behaviour of consumers does not match what they say. The chapter concludes with the major initiatives towards CSR in the tea industry in India.

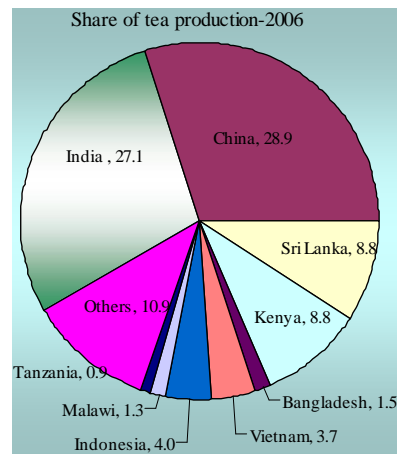
Chapter seven covers recent accomplishments in the tea industry, especially in the plantation sector. The chapter discusses many structural changes in the industry. It includes the withdrawal from production and concentrate on the market of major companies, new paradigm shift from the colonial mode of production to participatory management in tea cultivation and the emergence of largest global plantation business. The trade-off between production and brand business and emerging trend of crops diversification in plantation economy are also focused on this chapter.

The last chapter concludes with discussion and arguments on the study. It brings in the nature of problems at various levels and with different stakeholders and demonstrates how it influences the value chain of Indian tea industry by summarising each chapter. The chapter also makes an attempt to find out feasible intervention points and make recommendations for market inter linkages and linkages of various stakeholders in the global value chain of the tea industry. More specifically, the arguments attempts to demonstrate how recent accomplishments in the Indian tea industry including the trend from production to brand business and relating and linking CSR to productivity of workers and industry emerge the Indian tea industry to be more competitive at the international level.

Production profile of Indian Tea Industry

2.1 World Tea Production

World tea production in 2006 reached 3523 million kilograms, 103.9 million kilograms more than the previous year. India was the market leader at the international level with regard to production and consumption till recently. However, the latest data (2006) demonstrates that China, with 28.9 per cent share of the total world tea production, dominates the market. India comes second with 27.1 per cent of the market share. China's tea production has increased from 934.86 Million kilograms in 2005 to 1020 million kilograms in 2006 whereas India's production has increased from 934.86 in 2005 to 955.9 in 2006.



Apart from China and India, tea production also increased in Vietnam, Malawi in 2006 from previous year. Kenya recorded slow production from 2004 onwards; production declined to 310.6 million kilograms in 2006 from 324.6 Million kilograms in 2004. As seen in Table 2.1, production also declined in Indonesia and Sri Lanka in 2006 as compared to the previous year.

Table 2.1 Production of Tea in World

Country	2004	Share	2005	Share	2006 (P)	share
India	892.96	27	927.98	27.14	955.9	27.1
China	835.23	25.2	934.86	27.34	1020	28.9
Sri Lanka	308.09	9.3	317.2	9.28	310.8	8.8
Kenya	324.6	9.8	328	9.59	310.6	8.8
Bengladesh	55.63	1.7	58.62	1.71	53.26	1.5
Vietnam	97	2.9	109	3.19	132	3.7
Indonesia	164.82	5	165.85	4.85	139.8	4.0
Malawi	50.09	1.5	37.98	1.11	45.01	1.3
Tansania	30.69	0.9	30.36	0.89	31.35	0.9
Others	551.23	16.7	509.15	14.89	382.8	10.9
Total	3310.35	100	3419.58	100	3523	100.0

(Figures in million kilograms and share as % of total world production)

Source: Tea Statistics (2005), J Thomas & Company Pvt. Ltd and www.indiateaportal.com

China accounted for 28.9% of world tea production, followed by India (27.1%), Sri Lanka (8.8%), and Kenya (8.8). The Shares of Kenya and Sri Lanka has declined since 2004 and China's share has increased from 25.2 from 2004 to 28.9 in 2006.

2.2. Production Profile of India

The industry in India includes small and big growers and government plantations. Though the major portion of tea production in India is highly concentrated in some specific regions, it is scattered in different states. India holds around 19 per cent (521403 ha.) of the total area of tea cultivation in the world (2774797 ha)¹. On the basis of the ownership pattern, tea estates can be broadly classified under the following heads²:

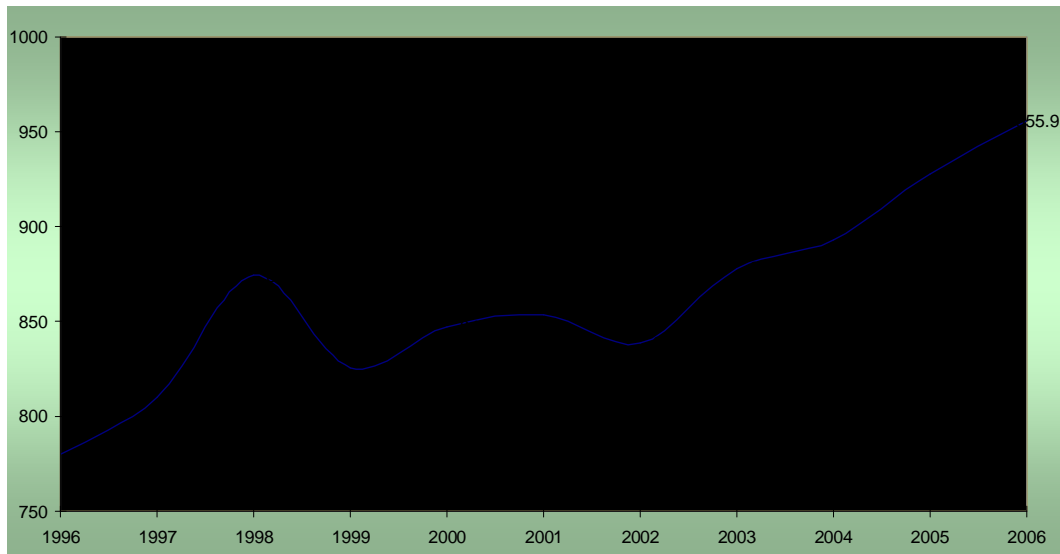
1. Small holdings, which may be anything from one acre to twenty-five acres (10.12 Ha) in extent, owned by the proprietors;
2. Small gardens, having a tea area below 200 hectares, owned by a single proprietor or partnership firms. this may be further subdivided into;
 - (i) Where tea is cultivated and the green leaf is taken to a nearby factory for processing;
 - (ii) Where both the cultivation and the processing of tea is undertaken.
3. Estates owned by limited liability companies. It may again be further subdivided into Public Limited and Private Limited Companies;
4. Estates owned by big companies; and
5. Estates owned by government undertakings and co-operatives.

The total production of tea in India shows an increasing trend from 1999; and though the trend fluctuates from year to year, the production has moved positively upward. In 1998, tea production was 874 million kilograms, whereas it sharply declined to 825.9 million kilograms in 1999. Figure 2.1 shows the trend of tea production in India since 1996.

¹ Tea Statistics (2005), J. Thomas & Co. Pvt. Ltd, Kolkata.

² Report on the Tea Industry by the Parliamentary Committee on Tea, Rajya Sabha, 2003.

Figure 2.1 Trend of Tea Production in India



Source: Tea Statistics (2005), J. Thomas Pvt. Ltd. and www.teaboardofindia.in

The widespread closing down of estates and the neglect of the existing plantations were the major reasons for the decline in tea production in the 1999-2001 period³. No plucking was done in many of the small/medium gardens due to low profit. The unequal cost-profit ratio also leads the producers to neglect production. However, the tea industry in India overcame sluggishness in production and has been increasing production since 2002. Many tea gardens have also re-opened and the move has also started to re-open more closed gardens in India.

2.3 Production in North and South India

Tea is grown in 16 Indian States, of which Assam, West Bengal, Tamil Nadu and Kerala account for about 96 per cent of the total tea production. Table 2.2 shows that Northern India holds a major share in tea production with 76.3 per cent of total production in India in 2006, whereas Southern India leads in tea exports with 50.6 per cent of the total production being exported.⁴

³ There are a number of attempts to understand the tea industry crisis and its wider impacts on different aspects in India. For instance, *Labour File* Vol.5, No 7-9, July-September 1999 and Vol.1, No.3, May-June 2003. In addition, CEC conducted a micro level study on the West Bengal tea industry crisis and its impacts on workers. See '*Tea Plantations of West Bengal in Crisis*, CEC, May 2003.

⁴ Details of exports are discussed in the next section.

Table 2.2 Tea Production and Share between North India and South India

Year	Total Production (Qty. Million kilograms)			Share of the total Production (as %)	
	N. India	S. India	All India	N. India	S.India
1995	568.63	187.4	756.01	75.2	24.8
1996	598.22	182	780.2	76.7	23.3
1997	604.9	205.3	810	74.7	25.3
1998	670.7	203.4	874.1	76.7	23.3
1999	623.2	202.7	825.9	75.5	24.5
2000	640.7	206.2	846.9	75.7	24.3
2001	650.8	203.1	853.9	76.2	23.8
2002	631.8	206.7	838.5	75.3	24.7
2003	648.3	229.8	878.1	73.8	26.2
2004	662.2	230.8	893	74.2	25.8
2005	701	227	928	75.5	24.5
2006	729.6	226.3	955.9	76.3	23.7

Source: Tea Statistics (2005), J. Thomas & Co. Pvt Ltd and www.indiateaporatal.com

However, there was a fall in North Indian production by 29.1 million kilograms, i.e, 634.5 million kilograms against 663.6 million kg in 2003. But since 2003, the production and share is increasing in North India. For instance, production increased by 28.6 million kilograms in 2006 from 2005. But in South India, the output dropped by about 4.5 million kilograms in 2006.

2.4 Productivity of Tea Cultivation in India

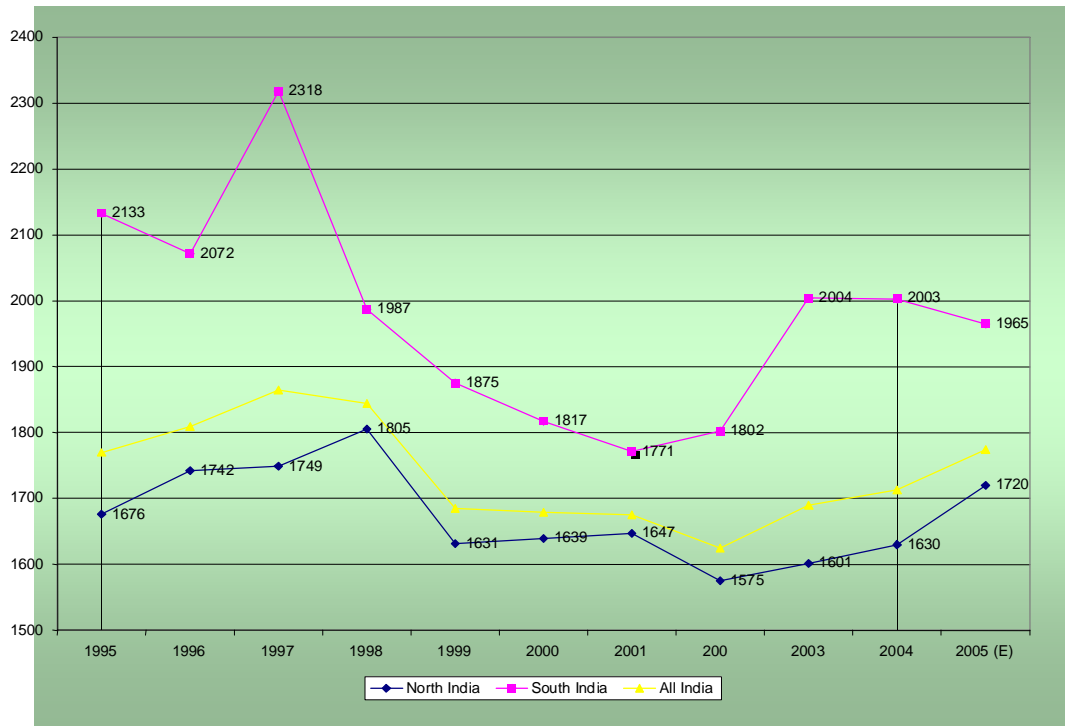
India's performance in terms of productivity (1690 kilograms) is lower than Kenya's (2235 kilograms.) but better than Sri Lanka's (1611 kilograms)⁵ in terms of average yield per hectare of total production of tea. Kenya has a much higher growth in yield per Ha than India. India has shown steady growth since 1971 as against Kenya's growth, which has been very rapid.⁶ Productivity patterns in the small tea gardens and large-estate sectors vary and productivity is high in the small tea sector.

However, the average yields on smallholder farms are lower at about 60 per cent of the yields realised on estates, but showing a steady decline in recent years. The reason for the lower yields is the low levels of fertiliser use and poor husbandry practices. The figure below shows the changes in productivity over a period. Productivity of tea has decreased from 1809 kgs in 1996 to 1774 kgs in 2005(E). Recent years show that productivity is decreasing over a period.

⁵ Tea Statistics 2002-03, Tea Board of India, Kolkata.

⁶ B Sivaram (2000) Productivity Improvement and Labour Relations in the Tea Industry in South Asia, ILO .

Figure 2.2 Productivity of Indian Tea Industry



Productivity is highly related to the age of tea bushes, temperature, drought and changes in rainfall. South or north-facing tea bushes, slope of the land, etc are also important in productivity. Productivity varies in plantations from region to region and even within one plantation. The same plantation provides different grades of made tea. The management is also influential in achieving high productivity.⁷

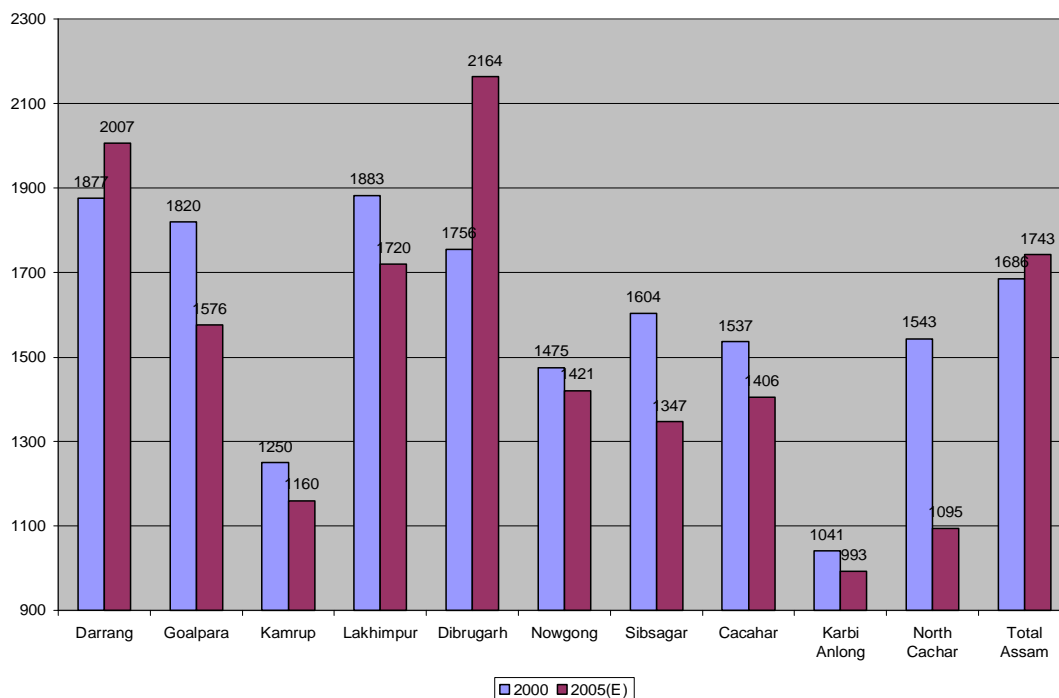
The recent data from Tata Tea estates, KDHB (Kannan Devan Hills Plantations Company Private Limited) in Munnar shows that the productivity has increased drastically after the new management. The productivity has increased from 687 kgs/Hectare to 3743/hectare in the phase of new management.⁸ This management is known as participatory tea management where all workers and employees are shareholders in plantation sector. It is reported that they feel it belongs to them and this has been influential in achieving high production and productivity.⁹ The yield per Ha in Southern India (2004 kilograms) is higher than that of the Northern India (1601 kilograms). It has to be noted however, that in Northern tea gardens unlike in the southern gardens, plucking does not take place through out the year and hence the volume is low.

⁷ Discussions with tea producers in Kerala and Munnar.

⁸ Details of changes in the new management are given in separate section in next chapter.

⁹ Details of KDHB and Tata Tea will be discussed in following chapter.

Figure 2.3 Productivity in Districts of Assam



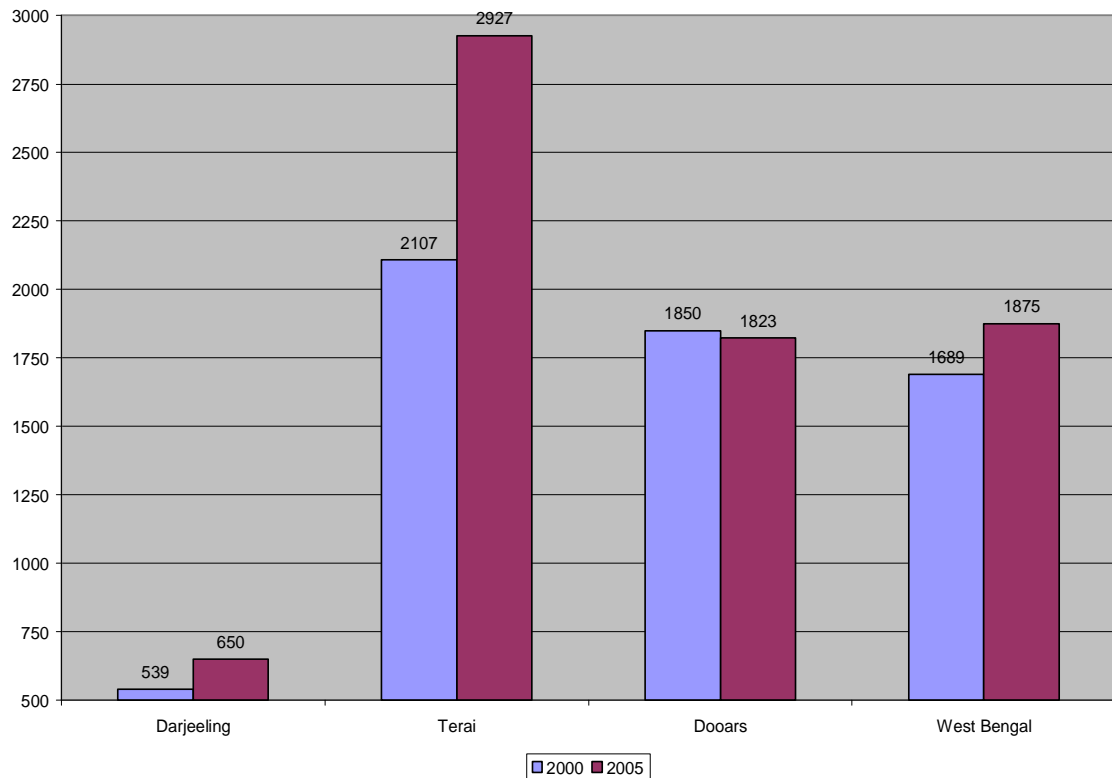
In South India, tea yields are high in Madurai, Trichur, and Coimbatore. By comparison, tea yields are low in North India in general, and Darjeeling in particular. Yields in Darjeeling are low, because they collect only the finest two leaves and the bud to enhance the unique flavour which has been described as 'muscatel'.¹⁰ The low productivity in Darjeeling tea is also due to its old age bushes.¹¹ The productivity of Darjeeling is very low (545 kilograms), and it has pushed down the total productivity of West Bengal (1770 kilograms) which is given in the following table(figures in Kg/Hectares).¹² Except Darrang and Dibrugarh , in all other districts, productivity has declined during the period 2000-2005. In Dibrugrh, it increased from 1750 to 2105 in 2005. The figure below shows productivity in West Bengal.

¹⁰ (Indian tea industry, ICRA sectoral analysis report).

¹¹ Discussions with producers in Darjeeling and Auctioneers in Kolkata.

¹² Tea Statistics (2004-05), Tea Board of India.

Figure 2.4 Productivity of Tea Industry in West Bengal



2.5 Types of Tea Production in India

The pattern and types of production is tea directly linked to the market demand and different sale practices of each region. The market demands sometimes force producers to change the nature of production and mode of manufacturing of tea. The nature of production mainly includes chemical to organic forms; and the type of tea shifts from orthodox tea to CTC. The consistent demand for organic tea from Germany, for instance, forced some producers in Coonoor to stay with organic cultivation¹³. The high demand from the EU countries for Darjeeling tea forced them to stick to orthodox production in some of the Darjeeling plantations. Tea is traditionally classified based on the degree or period of fermentation (oxidation) the leaves have undergone.

White Tea : Made from young leaves (new growth buds) that have undergone no oxidation. White tea is produced in lesser quantities than most of the other types, and can be

¹³ Discussions with producers from Darjeeling and Coonoor.

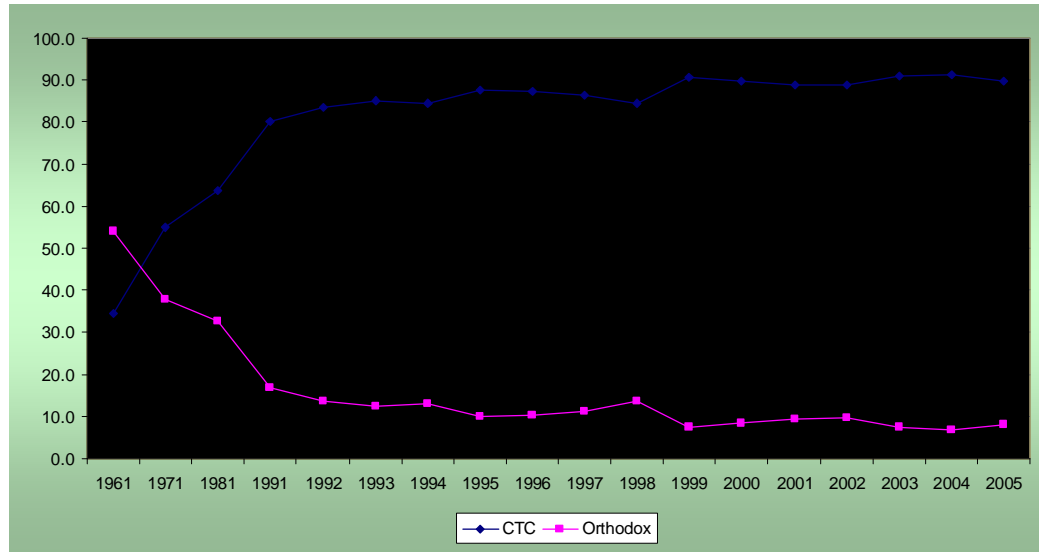
correspondingly more expensive than tea from the same plant processed by other methods. It is also less well-known in countries outside China.

Green tea : In the manufacture of green tea, the oxidation process is stopped after a minimal amount of oxidation by application of heat. The tea is processed within one to two days of harvesting.

Oolong: Oolong is semi-fermented tea, where the oxidation process takes 2-3 days.

Black tea : In Black Tea production, the tea leaves are allowed to completely oxidise. Black Tea is the most common form of tea in South Asia (India, Sri Lanka, Bangladesh, etc) and also in Kenya. Black tea is further classified as either orthodox or CTC (Crush, Tear, Curl). Orthodox and CTC teas are further graded according to the post-production leaf quality by the Orange Pekoe (OP) system. Black Tea contributes 97.7per cent of production, and Darjeeling Tea 1.2 per cent of production (or around 5 million kilograms annum).

Figure 2.5 Production of Orthodox and CTC Tea in India



In India, till the 1960s, orthodox tea dominated India's tea production. Till the 1980s, the share of orthodox tea was significant (32 per cent) as given in the table 1.3. However, since the 1990s, the constitutes of CTC tea has recorded a sharp rise and now shares 90.8 per cent of tea production in India. The shares of orthodox tea (6.9 %), and Darjeeling tea (1.2 %) Green tea (1.1%) are very marginal.

Table 2.3 The trends in production of various type of teas in India

	North India					CTC	Orthdx.	Darjlng.	Green	Total				
	CTC	Ortdx.	Darjlng.	Green	Total									
1961	118.8	115.1	10.1	29.3	273.3	3.3	76.2	1.6	81.1	122.1	191.3	10.1	30.9	354.4
1971	210.2	93.2	10.3	18.6	332.3	29.8	71.4	2	103.2	240	164.6	10.3	20.6	435.5
1981	299.3	119.3	12.2	7	437.8	58.2	63.8	0.6	122.6	357.5	183.1	12.2	7.6	560.4
1991	461.9	79.5	13.9	7.6	562.9	141.7	47.4	2.2	191.3	603.6	126.9	13.9	9.8	754.2
1992	485.1	65.9	12.4	7	570.4	125.6	33.9	2.4	161.9	610.7	99.8	12.4	9.4	732.3
1993	507	55.7	13	5.8	581.5	139.3	38.5	1.5	179.3	646.3	94.2	13	7.3	760.8
1994	498.8	50.8	11.1	7.3	568	137	47.4	0.5	184.9	635.8	98.2	11.1	7.8	752.9
1995	520.7	29.2	11.3	7.4	568.6	141.7	45.2	0.5	187.4	662.4	74.4	11.3	7.9	756
1996	542.8	36.9	10.6	7.8	598.1	138.1	43.4	0.5	182	680.9	80.3	10.6	8.3	780.1
1997	549.5	37.1	10.1	8	604.7	150.6	54.2	0.5	205.3	700.1	91.3	10.1	8.5	810
1998	594.1	59.5	10.3	6.8	670.7	144.1	58.8	0.5	203.4	738.2	118.3	10.3	7.3	874.1
1999	576	32.5	8.7	6	623.2	172.1	30.2	0.4	202.7	748.1	62.7	8.7	6.4	825.9
2000	590.1	35.7	9.3	5.6	640.7	170.3	35.3	0.6	206.2	760.4	71	9.3	6.2	846.9
2001	592.1	44.4	9.8	4.5	650.8	167.4	34.8	0.9	203.1	759.5	79.2	9.8	5.4	853.9
2002	570.4	48.4	9.2	3.8	631.8	174.7	31.1	0.9	206.7	745.1	79.5	9.2	4.7	838.5
2003	608	26.9	9.6	3.8	648.3	191.6	37.2	1	229.8	799.6	64.1	9.6	4.8	878.1
2004	618	28.8	10.1	5.3	662.2	196.8	32.5	1.5	230.8	814.8	61.3	10.1	6.8	893
2005	649.8	32.3	11.3	7.6	701	181.8	43.3	1.9	227	831.6	75.6	11.3	9.5	928
2006	678.5	30.6	11.7	8.8	729.6	189.6	34.9	1.8	226.3	868.1	65.5	11.7	10.6	955.9

Source: Tea Statistics (2005-06), Tea Board of India.

Made tea or Tea manufactured from green tea leaves is generally classified into two types viz. Black Tea and Green Tea. Green Tea is different from Black Tea since fermentation of green leaves is arrested in manufacturing Green Tea. Black Tea includes two types, such as Orthodox tea and CTC (Crushing, Tearing and Curling) tea. Both of these teas vary due to their manufacturing differences. Orthodox teas are manufactured with the help of orthodox roller in the process of rolling while CTC machine/Rotervan is used in rolling process in manufacturing CTC teas. India and Kenya produce more CTC whereas Sri Lanka produce more orthodox tea. The tea processing in any factory in the traditional way includes 5 phases, such as Withering, Rolling, Fermentation, Drying, Sorting and Grading.

The production method of orthodox tea consists of five stages: withering, rolling, fermentation, drying and sorting.

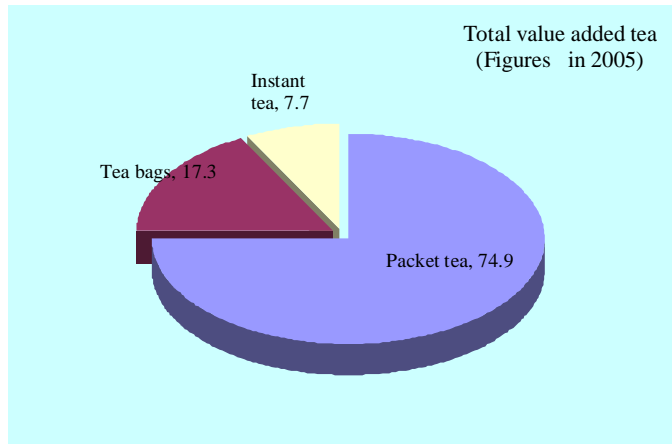
- The freshly-picked green leaves are spread out to dry on ventilated trays. During this process, approximately 30 per cent moisture is extracted from the leaves, making them soft and pliable for further processing. The leaves are then rolled by applying mechanical pressure to break up the cells and extract the cell sap. After 30 minutes, the leaves still damp from the sap, are sieved to separate the finer leaves. These are spread out immediately for fermentation, while the remaining coarse leaves are rolled for a further 30 minutes under higher pressure. If necessary, this process is repeated several times. A short rolling time produces larger leaf grades, while longer rolling breaks the leaves up more resulting in

smaller grades. During the rolling process, the cell sap runs out and reacts with oxygen, thus triggering the fermentation process. At the same time, the essential oils responsible for the aroma are released.

- After rolling, the tea is spread out in layers approximately 10 cm high for one to three hours in a cool, damp atmosphere to finish off the fermentation process. During this process, the substances contained in the cell sap oxidise. In this production phase, the green leaf gradually turns a copper colour. The colour and typical odor tell the person supervising the process how far the fermentation has progressed. Various chemical reactions cause the leaf to heat up during fermentation. It is critical for the quality of the tea that the fermentation process be interrupted at its peak, when the temperature is at its highest.
- Next, the tea is dried with hot air at a temperature of approximately 85°-88°C in order to interrupt the oxidation process. The residual moisture is thereby extracted from the leaves, the extracted sap dries on the leaf and the copper-colored leaf turns dark brown to black. Finally, the dried tea is sieved to separate the different leaf grades. The orthodox production method provides teas of all leaf grades: leaf, broken, Fanning and Dust. Leaf grades only refer to the leaf size, however: they are not necessarily an indication of the quality of the tea.

Apart from Orthodox, CTC & Green-tea, powder tea which is known as “Instant tea” is also being manufactured in India and in a few other tea-producing countries of the world like Kenya and Sri Lanka.

The Instant tea is manufactured in separate factories known as Instant tea factories. The procedure for manufacturing Instant tea is different from that of Black Tea or Green Tea. The raw materials used for manufacturing Instant tea are green tea leaves and/or tea



waste. The manufacture of Instant tea in India started in 1960. The figure above shows the share of export of value added tea.

Instant tea and Tea bags are generally known as ‘convenience tea’ since these are convenient for consumers and less hazardous. Moreover, in order to preserve the quality of tea during its different stages of trading activities particularly in retail trading and also to maintain the uniformity of the quality to the extent possible, Black Tea or Green Tea are packed either in original form or in blended form in small consumer packs. These are known as ‘Packet tea’. Depending on the system of tea processing, tea is classified into Black Tea and Green Tea. Black Tea is obtained by so called fermentation process whereas for making Green Tea, fermentation is prevented. The type of the tea and its production such as orthodox, CTC or even organic tea

mainly depends on the demand from the domestic and international market. The changes in international demands greatly influence the production of various types of tea.

2.6 Bought Leaf Factories

The Bought Leaf Factories (BLFs) have a major role in controlling the mechanism of price determination and quality of tea. BLFs do not have their own tea plantations and depend on small farmers for green leaves to produce made tea. BLFs have direct linkage to the wholesalers, up country buyers and foreign market. Several BLFs have mushroomed in West Bengal and in South India in recent years. Several BLFs do not have efficient technicians. This has led to the flooding of inferior quality tea in the domestic market. Smaller players offer this tea at cheaper rates. Market analysts say that the poor quality tea produced by these players not only affects domestic price levels, but also damages the quality perception of the Indian tea in export markets.

There has been a steady growth in the numbers of private tea manufacturing factories in India in the post 90's. Table 1.4 shows that in 2004, there were more than 162 tea factories in Assam producing 77 million kgs of tea, 79 factories in West Bengal producing 50 million kgs of tea and 185 factories in Tamil Nadu producing 81 million kilograms of tea. In Kerala, 18 factories produced 3 million kgs of tea.¹⁴

Table 2.4 Growth of BLFs in India

Region	2001		2002		2003		2004	
	No.	Production (in Mn.Kg)	No.	Production (in Mn.Kg)	No.	Production (in Mn.Kg)	No.	Production (in Mn.Kg)
Assam	119	43.0	139	53.29	151	65.32	162	77.6
WB	44	24.6	56	33.44	69	37.74	79	49.59
Others	4	0.5	4	1.67	8	2.78	9	3.04
North India	163	67.5	199	88.4	228	105.8	250	130.23
TN	155	65.6	159	67.43	182	75.9	185	80.72
Kerala	13	2.1	13	1.49	17	3.03	18	2.95
South India	168	67.6	172	68.6	200	78.19	205	83.79
India	331	135.2	371	157	428	183.99	455	214.02

Source: Tea Statistics (2003), Tea Board of India and Tea Statistics (2005), J Thomas Pvt. Ltd.

The average price at state level shows that estate factories fetch a higher price compared to co-operative and Bought Leaf Factories except in Tripura. In Tripura, BLFs get better price than estate factories. The adoption of advanced technology in BLFs also facilitates many of them to

¹⁴ Tea Statistics (2004-05), Tea Board of India, 2003.

achieve the production of high quality tea and a high price from auction. The newly-opened Bought Leaf Factories are technically better off with upgraded technologies than many of the estate factories.¹⁵ Hence, the made tea is also better in terms of quality at the level of manufacturing. In many of the Bought Leaf Factories, performance is mainly influenced by the basic raw materials, i.e green leaves from the small growers. Since the competition from BLFs has been high in recent period the BLF's owners never strictly monitor the leaf standards. At the same time, it is also noted that some of the BLF owners are in constant contact with small growers and maintain the standards and so they can maintain good quality and get higher price in auctions. Even if new BLFs also sell tea outside, it can be seen that BLFs produced tea fetches lesser price in the tea auctions compared to the estate factories. However, in individual cases, some of the BLFs get high price for their tea in auctions.¹⁶ In the Niligiris itself there are 55 BL factories and some of them obtain an average price that is higher than estate factories.¹⁷ On the other hand, some of the BLFs could auction only at a lower price which is far below the average auction price. However, the average auction price of the BLF is far below the average price of the estate factories.¹⁸

2.7 Quality constraints of Green Leaves

The term 'quality' in its broadest sense is used as a description of all the characters of tea by which it is judged on its market value. So quality means the summation of the desirable attributes comprising internal and external characters like aroma/flavour, strength, colour, briskness and character of infused leaf. In scientific terminology, a maximum platform of quality in terms of chemical characterisation of tea has been set by the Bureau of Indian Standard (BIS), followed by setting up of 'safety' requirement of teas under the Prevention of Food Adulteration Act', 1954 and Rules, 1955 (PFA).¹⁹ It should be made clear that terminologies like super fine, pekoe, tipsy, broken, silvery and so on, associated with tea culture, are different from the specifications on the minimum chemical limits of tea. Most of the chemical parameters are influenced by standard of plucking, climate and seasonal variations. The quality of tea is a highly variable attribute. There is a saying that teas of today may not match with those of tomorrow even in the same garden and factory.

¹⁵ Discussions with officials from regional office, Tea Board of India, Guwahati and BLF owners in Assam.

¹⁶ Discussions with Auction Secretary, Auction centre, Guwahati.

¹⁷ Monthly sale details, Tea Auction Centre, Coonoor.

¹⁸ Yearly average auction price from all tea auction centre in India, Tea Statistics (2004-05), Tea Board of India, Kolkata.

¹⁹ See details in www.teaboardofindia.com.

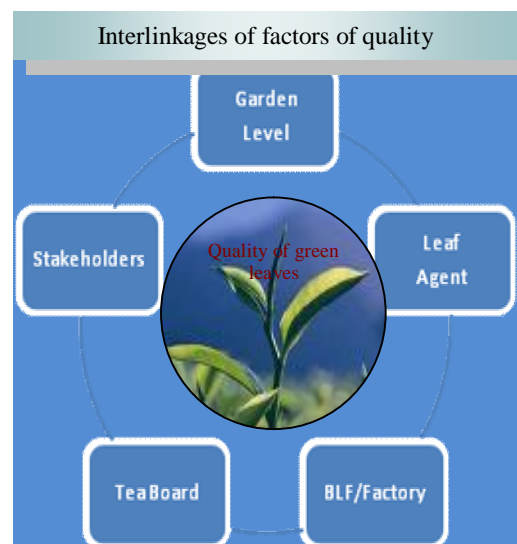
The 'quality' of the tea conforming to the specification laid down in the PFA Act may vary. The quality of tea also varies between garden to garden and also between the teas manufactured at different times in a particular garden. The green tea leaves of the plant belonging to the species of *Camellia Sinensis* have a natural 'aroma'. The efforts of the tea manufacturer are generally aimed at to maintain the natural aroma in the made tea as far as possible.

The quality of 'tea' depends primarily on the nature and chemical composition of the plucked leaf which is again dependent on the type of bush, the growing conditions and the kind of plucked leaf like coarseness, fineness, etc. Only careful and proper processing will bring out the full potential of the green leaf. Each of the characteristics on which tea is assessed by trade is affected by one or more the factors involved both in the field and in the factory. Since a variety of factors play a role and the production of a particular character is usually obtained at the expense of another, pre-processing and processing conditions are generally adjusted so as to bring about the most desirable characters in a tea made from a given material.

So the factors affecting tea quality apart from those involved in processing can be distinguished into 3 groups vis; genetic, environmental and cultural:

- (i) Tea quality is primarily determined by the genetic properties of the tea planted and those of the tea bush in particular.
- (ii) Both soil and climate is influence the quality of tea. Climatic condition including temperature, humidity, sunshine duration, rainfall, north-south facing gardens are important in determining quality.
- (iii) Field operation like pruning, fertilising, shading, plucking round and plucking standard are also playing the important role in determining the quality of tea.

South and north facing of tea gardens/bushes and other climatic conditions, shade/ rain fall also affect quality of leaf. Generally, the producer and the Tea Board control the quality of the product, but at different levels. At the same time, brokers also play an influential role in maintaining the quality of the product. On the one hand, they maintain continuous interaction



with the producers and on the other hand, they get an indication of the market from the buyers. The various factors at different levels are described below.

Table 2.5 Various Phases of Quality Determinant Factors

Garden/Plantation
Gardens: geographical factors Nature of tea garden, climate change - drought/rain and temperature Age of tea bushes and quality of leaf- e.g. two leaves and a bud Re-plantation at the proper time and Scientific pruning, Workers experience Mode of plucking, interval between the plucking time Keeping the leaf without damage and time taken to reach the factory
Processing/Factory Level
Grading system, hygiene, fermentation Weathering, other manufacturing methods
Brokers
Instructions and training to producers and factory labourers Update the quality check even at the stage of manufacturing Instructions to change the quality based on updated market demand Fixing grading and price
Consumer Level
The quality and the requirements of the tea at the level of consumers (flavour, colour etc.) are entirely different from pre-auction levels (quality of made tea). Tea comes in to the market only after the blending process The key control on the product comes under blenders/packagegers Increasing preference on social and environmental responsibility Demand steady in quality and price

Source: Formulated based on field work

The intervention of the Tea Board and other agencies to create awareness to increase quality and technical upgradation among BLFs has however increased productivity and quality of made tea. Table 1.5 shows the impact of quality upgradation programmes for BLFs in Coonoor.

Table 2.6 Impact of Quality Upgradation Programmes for BLFs

Parameters	Existing Practices	QUP Technologies Recommended	Achievement in QUP Exp. Conducted factories (in per cent)
Raw material	3 to 4 leaf and bud	2 to 3 leaf and bud	38.5
Withering	Five hours	12 hours	92.8
Rolling (Temp.) 38.5%	> 350°C	> 350°C	38.5
Fermentation	30 minutes	90 minutes	85.7
Drying	290°F	250°F	42.8
Theaflavin [(TF)% for brightening and briskness]	< 0.5	> 1.0	10
Total liquor colour (TLC)	< 2	> 3	32.8
No. of cups per kg of tea	< 300	> 450	-
Tea grade	Moderate	Premium	38.5
Price Realisation	Rs. 35/-	Rs. 45/-	25

Source: Tea Board & UPASI – KVK (2004)

Table 1.5 shows that the grade of tea has increased by 38.5 per cent and price realisation has increased by 25 per cent and price realisation has increased from Rs.35 to Rs.45 after quality up-gradation programmes for BLFs. In case of withering, the impact is 92.8 per cent. This indicates that quality and productivity improve when BLFs receive proper training. Small growers agree that they benefit from the trainings and awareness programmed initiated by the Tea Board of India. One of the small growers observes, 'earlier many of us used knives while plucking leaves. But after training by UPASI , we have stopped the practice.'²⁰

2.8 Impacts of Adulteration in Tea market

The adulteration process at various level also influence quality of green leaves, made tea and tea which available in the market. The adulteration process affects tea mainly in three ways: quality, supply and demand, and the price of tea. The usual methods of adulteration involve various phases as described below.

1. Garden: Different grades of green leaves are collected together. For example, grade A which is generally considered two leaves and a bud, and Grade B are not separately collected. When the two grades are mixed, it affects the quality of green leaves. Plucking of green leaves after the prescribed duration makes the leaf stronger and increases quantity but also affects the quality in major way.
2. Leaf Agent: The leaf agent often mixes different grades of green leaves before selling it to the BLF. The process of mixing different grades of green leaves also reduce the price of the leaf. As a result, BLFs get low quality leaf to produce made tea.
3. BLFs:
 - 3.1. BLFs produce various kinds of tea of different grades as similar as estate factory. They sell tea at various levels at auctions, through direct sales and local wholesalers/semi-wholesalers and retailers which is based on quality and price and market demand.
 - 3.2. It is reported that most of the BLFs resort to adulteration while producing made tea. Local communities point out that some BLFs use a wild root, or a variety of potato to adulterate made tea. The waste left in the tea production at the big estate factories are mostly taken to the BLFs. The use of such inferior products to increase the volume of tea directly affects the quality and increases the supply of made tea within a short period in a particular locality. It also affects the longevity of made tea.

²⁰ Discussions with small tea growers in Coonoor, Tamil Nadu.

It is widely reported that adulterated tea in various ways increase in supply of made tea in regional market. It has also been argued that tea prices decline due to these adulterations.²¹ In some cases, it is reported that, stringent action was taken against some of the factories which produce 'adulterated and low quality tea', but it still demands constant monitoring and action.²² The increase in the supply of tea leaf at garden levels has led to a decline in the demand and price in leaf market. To increase the overall volume of leaf, the agents take leaves without checking the quality. This affects the overall quality and finally leads to low prices. The practice of leaf agents of mixing different qualities from different small growers is an easy method to cover up minor defects in the leaf. The changes in the overall quality of leaves leads to low prices from the BLFs, and it ultimately leads to lower prices for small growers even if some of them always maintain minimum standards for their green leaves.²³

2.9 Workers in Tea Industry

The tea industry is labour intensive and women are major workers among them. Though there is only a marginal increase of women workers from 2001 to 2005, women workers still constitute the majority of workers of tea industry in India. In the context of closure of tea gardens and crisis in tea industry, a number of studies have pointed out the issues and challenges of workers in tea industry. Over the years, adolescent workers²⁴ have declined and now they account for only 2.8 per cent at the all India level.

Table 2.7 Estimated number of labour employed in Tea Industry

Category	2001	2002	2003	2004	2005
women workers	606009 (49.2)	618134 (49.2)	618630 (49.2)	620750 (49.4)	623727 (49.5)
male workers	579471 (47.0)	589607 (47.0)	589854 (47.0)	597835 (47.5)	600035 (47.7)
Adolescent	46670 (3.8)	47359 (3.8)	47726 (3.8)	39025 (3.1)	35038 (2.8)
Total	1232150	1255100	1256210	1257610	1258800

Source: www.teaboardindia.com

²¹ Discussions with Brokers, BLFs and Buyers in Kerala and Tamil Nadu.

²² Discussions with brokers and auction secretary, Kochi and Coonoor.

²³ Discussions with small tea growers in Peerumedu, Kerala.

²⁴ Adolescent workers do not come under the category of child labour.

Table 2.8 Workforce in Indian Tea Industry-State wise

Category	2001	2002	2003	2004	2005
All India	1232150	1256210	1256210	1257610	1258800
Assam	611063	619663	619322	617518	618139
Karnataka	3837	3953	4403	4508	4769
Kerala	77198	79524	87184	90358	90148
Other States	16818	17055	16614	16527	16659
Tamil Nadu	267665	275723	268351	266027	266383
Total North India	883450	895900	896272	896717	897500
Total South India	348700	359200	359938	360893	361300
West Bengal	255569	259182	260336	262672	262702

Source: Tea Statistics (2003) , Tea Board of India, www.teaboardofindia.com

2.10 Production of Small Tea Growers

Small growers have been a part of the Indian Tea Industry only for the past few decades. They were initially confined to Nilgiris district in Tamil Nadu, and to a small extent in Kerala and Himachal Pradesh. The trend of growing tea over small areas spread to Assam, West Bengal and Bihar only during the 90s.

As per the membership of various small growers' associations in different states, the number of small holdings currently stands at 1,26,256. Only 56.8 per cent (71,676) of these have so far registered with the Tea Board,²⁵ owing to the reason that small tea growers, particularly in the north-eastern regions, do not possess documents for the land they possess.²⁶

Table 2.9 Registered Small Tea Gardens in India

Region	Registered with Tea Board	Reported by Associations	Per centage of Registered growers
South India	61773	68000	90.8
North East	5595	45132	12.4
North India	9903	58256	17.0
Total India	71676	126256	56.8

Source: Compiled Report on Small Tea Growers (2006), Tea Board of India

²⁵ Tea Act for Registration, Tea Board of India, Kolkata.

²⁶ Steps taken by Tea Board of inida for small Growers Development, Compiled report, Tea Board (2006), Kolkata.

Despite the number of small growers having increased over the period, especially in the post 90s, large estates still account for major production of tea (78.8 per cent) in India. In Sri Lanka however, small growers produce 61 per cent of the country's tea and in Kenya, small holdings accounted for 61.6 per centage of production in 2000.²⁷ In India, the majority of small tea growers are from Southern India, mainly the Nilgiris region.

Table 2.10 Share of Small and Estate Tea Gardens in India

Region	Small Growers			Big Growers		
	No. of Estates	Area in Ha	Production	No. of Estates	Area in Ha	Production
Assam	98.2	15.2	14.5	1.8	84.8	85.5
W. Bengal	96.5	8.4	17.1	3.5	91.6	82.9
Others	98.0	42.5	20.3	2.0	57.5	79.7
Northern India	97.9	14.5	15.4	2.1	85.5	84.6
Tamil Nadu	99.6	57.1	55.0	0.4	42.9	45.0
Kerala	97.5	13.0	3.4	2.5	87.0	96.6
Karnataka	50.0	3.9	4.0	50.0	96.1	96.0
Southern India	99.4	41.9	39.2	0.6	58.1	60.8
All India	98.7	20.6	21.2	1.3	79.4	78.8

Source: Tea Statistics (2003), Tea Board of India.

The number of small tea gardens has registered a high increase in Southern India, particularly in Tamil Nadu. Around 53.9 per cent of small growers are concentrated in Southern India whereas the share of small tea growers in Northern India is 46.1 per cent.

Table 2.11 Share of Small Growers in Various States
(Figures in brackets show the per centage share against All India levels)

Region	Small Growers			Big Growers			Total		
	Nos	Area	Pdn.	Nos	Area	Pdn.	Nos.	Area	Pdn.
Assam	42492 (33.7)	41249 (38.9)	62770 (35.2)	780 (47.7)	229434 (56.0)	370557 (56.1)	43272 (33.9)	270683 (52.5)	433327 (51.7)
W.Bengal	8398 (6.7)	9500 (8.9)	32245 (18.1)	308 (18.8)	103613 (25.3)	155776 (23.6)	8706 (6.8)	113113 (21.9)	188021 (22.4)
Others	7277 (5.8)	7355 (6.9)	2108 (1.2)	148 (9.1)	9967 (2.4)	8292 (1.3)	7425 (5.8)	17322 (3.4)	10400 (1.2)
North India	58167 (46.1)	58104 (54.7)	9712 (54.5)	1236 (75.6)	343014 (83.7)	534625 (81.0)	59403 (46.5)	401118 (77.8)	631748 (75.3)
TN	61985 (49.1)	43157 (40.7)	78764 (44.2)	228 (14.0)	32462 (7.9)	64357 (9.7)	62213 (48.7)	75619 (14.7)	143121 (17.1)

²⁷ Smallholder Model in the Tea Industry of Sri Lanka And Kenya (2001), Feasibility Study on Community Participation on Tea Plantations Plan Sri Lanka; Management Frontiers (Pvt) Ltd.

Kerala	5999 (4.8)	4810 (4.5)	1969 (1.1)	154 (9.4)	32157 (7.8)	55803 (8.5)	6153 (4.8)	36967 (7.2)	57772 (6.9)
Karnataka	16 (0.0)	83 (0.1)	232 (0.1)	16 (1.0)	2045 (0.5)	5601 (0.8)	32 (0.0)	2128 (0.4)	5833 (0.7)
South India	68000 (53.9)	48050 (45.3)	80965 (45.5)	398 (24.4)	66664 (16.3)	125761 (19.0)	68398 (53.5)	114714 (22.2)	206726 (24.7)
Total India	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Tea Statistics(2003), Tea Board of India

Out of the tea produced by small tea growers in India, Northern India's share is 54.5 per cent. Of this, small tea growers in Assam constitute the major share, both in the number of estates as well as in the production. In Southern India, the major share of production as well as the number and area of production of small tea gardens belongs to Tamil Nadu.

Indian Tea Markets: International and Domestic

3.1. Tea Exports: Status and Challenges of India

In a global context, developing countries in South Asia and East Africa account for more than 85 per cent of world tea production and exports²⁸. India and Sri Lanka are dominant in both these respects. Developed countries account for about 62 per cent of world tea imports. Kenya has dominated the world market for several years and its rate of growth is much faster as compared to other competitive countries, including India. India has 12.9 per cent of the market share and is ranked fourth among tea-exporting countries in the international market. While Kenya still dominates the international market with 19.9, China and Sri Lanka have declined their market share in 2006 as compared to the previous year. India's exports on the other hand, have increased from 12.3 per cent in 2005 to 12.9 per cent in 2006.²⁹ Table 2.1 shows the recent trend of world export and the country's position in a global scenario.

Table 3.1 World exports of Tea

	2004		2005		2006 (p)	
	(Mn.Kg)	Share	(Mn.Kg)	Share	(Mn.Kg)	share
India	197.67	12.8	191.85	12.3	203.86	12.9
China	280.19	18.2	286.56	18.4	286.46	18.1
Sri Lanka	290.6	18.9	298.77	19.1	298.77	18.9
Kenya	333.8	21.7	339.13	21.7	313.72	19.9
Vietnam	70	4.5	88	5.6	106	6.7
Tansania	24.17	1.6	22.5	1.4	24.13	1.5
Indonesia	98.57	6.4	102.29	6.6	96	6.1
Malawi	46.6	3.0	42.98	2.8	42.5	2.7
Simbabwe	14.91	1.0	8.45	0.5	11.38	0.7
Others	183.39	11.9	179.8	11.5	108.96	6.9
Total	1539.9	100.0	1560.33	100.0	1578.56	100.0

Source: Tea Statistics (2005) J Thomas & Company Pvt. Ltd and www.teaboardofindia.com

Indian exports at 203.86 million kilograms (including 21.9 million kilograms of imports from other countries for re-export³⁰) showed a welcome increase of 12.01 million kilograms over the previous year. In 2003, India exported 183.63 million kilograms of tea with an export value of Rs

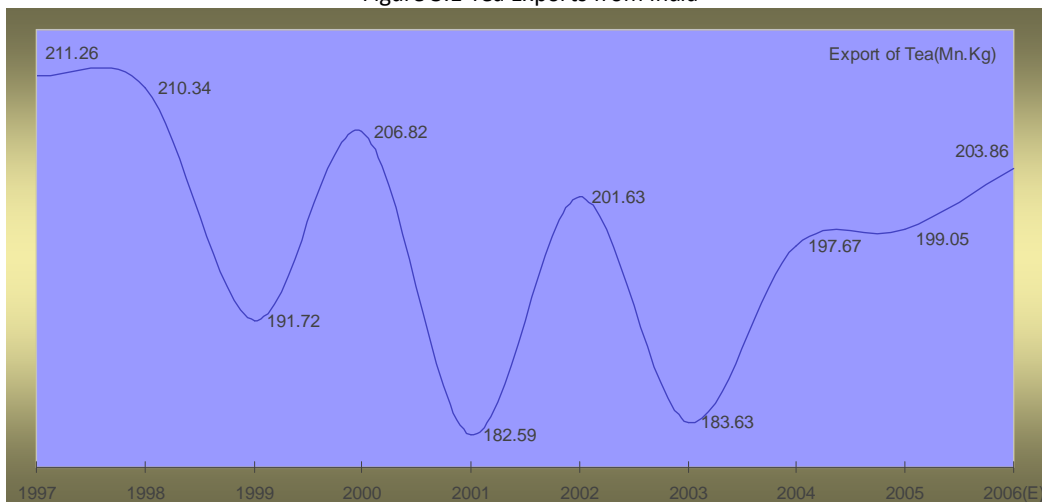
²⁸ Tea statistics, www.teaboardofindia.com.

²⁹ www.indiateaportal.com.

³⁰ See next section of import and re-export from India.

1636.9 crores. In 1997, for instance, it was 211.26 million kilograms with an export value of Rs. 2003 crores³¹. As in production, export from India has also been increasing from 2003 onwards after the negative growth rate since 1997. Exports have surpassed the 200 million kilograms after 2002.

Figure 3.1 Tea Exports from India



Source: Tea Statistics (2005) J Thomas & Company Pvt. Ltd and www.teaboardofindia.com

3.1.2 Exports Share from South and North India

As against the past, the share of exports of the total production from South India was significantly higher than North India in 2006. It was 117.12 million kilograms or 57.5 per cent of the total share exported, while exports from North India were a mere 86.74 million kilograms or 42.5 per cent. Export have increased by 20.29 million kilograms from South India, while it has declined by 14.1 million kilograms in North India. Table 3.2 shows the recent export of tea from North India and South India.

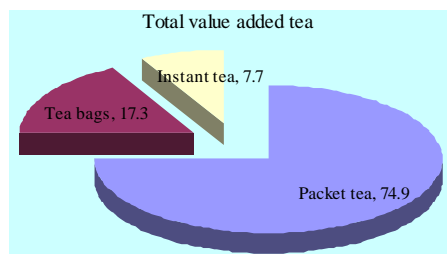


Table 3.2 Region wise exports

Year	North India		South India	
	Qty (Mn.kg)	Value (Rs.Crs)	Qty (Mn.kg)	Value (Rs.Crs)
2004	100.84 (51.0)	1203.86 (65.4)	96.83 (49.0)	637.28 (34.6)
2006(E)	86.74 (42.5)	1038.62 (56.7)	117.12 (57.5)	792.36 (43.3)

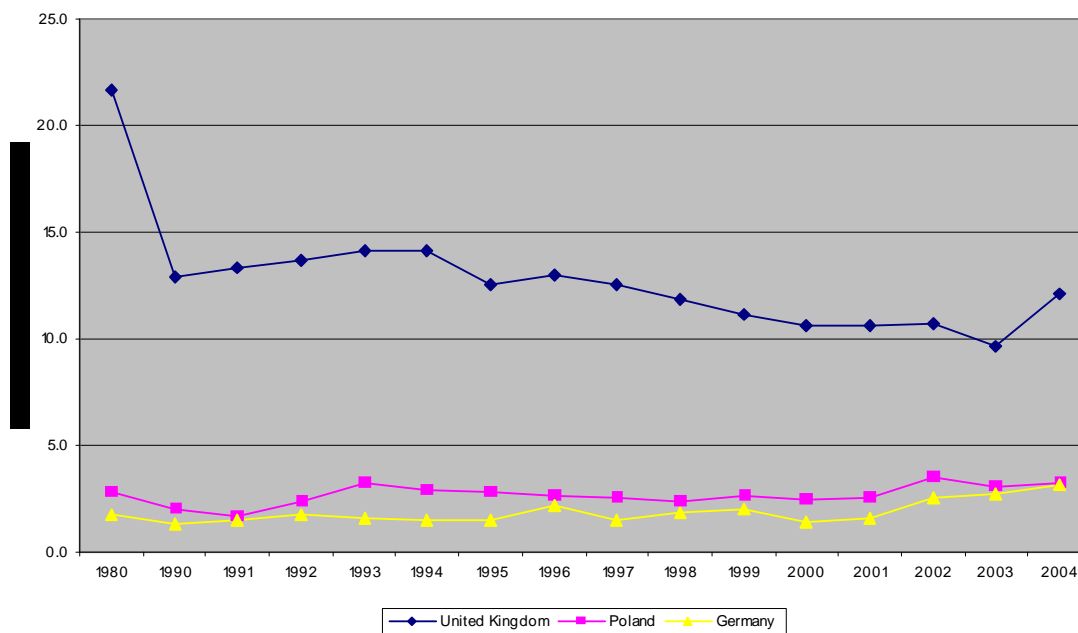
Source: Tea statistics, www.teaboardofindia.in

³¹ Economic Survey (2005), Government. of India.

3.1.3 Trend of Export to Various Destination

Figure 2.3 shows Russia, the UAE, and Germany were among the countries that imported a slightly higher volume of tea from India between January and June in 2007 compared to 2006. The other major markets include Pakistan, USA and Egypt. India holds a high market share in countries like the UAE, Germany, Poland and Kazakhstan. However, exports to Iraq has declined drastically from 23.42 million kilogram in 2006 to 3.35 million kilogram in 2007.

Figure 3.2 India's Tea Export to major EU Countries



In these countries, India is the top sourcing partner for tea. Exports to the UK, UAE and Germany showed steady gains, but shipments to the CIS and Poland declined substantially. There has been a changing preference towards orthodox tea in India's major markets. Considering India's strengths and global consumption trends, thrust markets identified for export of tea include UAE, Iraq, Kazakhstan, UK, USA, Pakistan, Hong Kong, Netherlands, Canada, Germany, Japan, Russia, Poland and Saudi Arabia³².

The exports share of India's tea also goes to the EU market apart from the Russian federation. UK markets share the majority of Indian tea from the EU members. The norms and standards and the drinking habits also vary among the EU countries. The Indian tea industry also faces a serious threat from the export markets to EU countries as the industry and government failed to

³² Export Potential of Indian Plantation Sector : Prospects and Challenges, Exim Bank: Research Brief, www.eximbankindia.com.

strengthen existing markets and penetrate newer ones. The emerging trend of supply from other countries forces India to make its policy more aggressive to improve the volume of exports to EU countries. Sri Lanka, China and Kenya dominate EU markets with their higher volume of exports³³.

There is an emerging market in Pakistan and Iraq, despite the overall decline in exports, which explains the trade prospects in the Indian tea industry. The new trend in exports is Iraq, which is now the second largest importer of India's tea after the Russian Federation and CIS countries³⁴. Though Iraq is undergoing political and economic instability, it is a favourable market for Indian tea. Iraq consumes an estimated 110 million kilograms of tea every year. Exports to Iraq from India were 44 million kilograms in 2002³⁵. However, exports dipped to 12.7 million kilograms in 2003 due to the war in Iraq. Exports to Iraq in the first three months of 2004 have risen by 0.9 million kilograms from 0.7 million kilograms in 2003 to 1.6 million kilograms in 2004. Going by actual Iraqi imports so far, estimates of a 50 million kilograms order from Iraq appear too ambitious. It is expected that the export would rise to 9 million kilograms of tea in the current year and estimates that Iraq could import a total of 17 million kilograms from India.

3.1. 4 Major Determinant Factors of Export from India

The international demand and export is also determined by the various standards and norms at the international and national level. The standards and norms vary from country to country³⁶. These norms may not be the same for other countries. The consumer's consciousness and initiative regarding the issues have a major role in influencing sale practices. For instance, in New Zealand, the consumer has the option of choosing the packet by reading the label, which gives details of quality and environmental justice³⁷. In a similar way, organic tea producers in Tamil Nadu are selling their tea to the market through direct marketing. The tea packet describes the quality and procedures of tea production and their environmental consciousness³⁸.

The high demand for organic tea from the EU countries³⁹ and specifically for Darjeeling tea from the UK market⁴⁰ can be considered specific choices of export. The price and quality are also important to the export of Indian Tea. The low price product from Kenya and other countries

³³ Discussions with Tea Board officials and other stakeholders in the tea industry.

³⁴ Tea Statistics (2003), Tea Board, Govt. of India, Kolkata.

³⁵ Annual Report, J Thomason & Company Pvt Ltd. and Tea Statistics, Tea Board, Govt. of India, Kolkata.

³⁶ Discussions with major brokers and buyers from Coonoor.

³⁷ Discussions with some of the buyers from Guwahati.

³⁸ Packet tea is available at a major shopping malls in Tamil Nadu.

³⁹ Discussions with producers from Coonoor and Darjeeling.

⁴⁰ Tea Digest, CTTA, Kolkata.

badly affected India's export. Also, the new economic policies affect the export-import trend⁴¹. The hike in the exports is attributed to the opening up of markets in Iraq, Pakistan and other Gulf countries⁴². The emerging demand from the Middle Eastern countries is one of the factors for high exports growth from Southern India.⁴³

Along with international demands, the increase in production of Kenya also affects monthly exports of India in 206-07⁴⁴. For instance, in the first eight months of 2007, exports fell 19.3 per cent to 86.03 million kg while the production remained steady, exports in July fell 46 per cent to 10.3 million kg. The high competition from other producing and exporting countries has affected competition in international market. Some other factors challenging the export potential of Indian tea include various tariff and non-tariff measures imposed by some tea importing countries, lower off take by Russia due to change in consumer preferences, lower production of orthodox teas which have a larger demand worldwide, quality problems and the higher cost of production and prices of Indian tea.

New policies and opening up of route through the border areas of Pakistan also led to high increase in export in 2006-07. Exports from south India are expected to go up, following the opening up of non-traditional markets like Libya. International relations and political stability are also important to promote exports, for instance, exports to Pakistan and Afghanistan markets⁴⁵. The political and economic instability of Russia in the 90s, for instance, affected the demand for orthodox tea that was mainly produced in the Coonoor area of Tamil Nadu⁴⁶.

The political conflict and economic strategy of the ruling government also have a direct impact on trade-offs between the countries. The tea export market in Pakistan is one of the examples of this regime. However, the export prospect to Pakistan is highly persuasive in the future. Industry sources said tea export prospects to Pakistan have brightened to some extent, after the country recently announced a five per cent reduction in duties from 30 per cent to 25 per cent. The reopening of the Iraqi market coupled with loosening import restrictions in Iran indicates that exports should grow in the near future.

There is a lack of planned strategy for marketing of Indian tea in the international market. It is widely shared by all stakeholders that as a regulatory body of the tea industry, the India Tea Board has to take more initiatives to promote tea in both the Indian and the international

⁴¹Interview with Secretary, Auction Centre, South India.

⁴²The detailed Discussions on exports to Pakistan and Iraq included in the next section.

⁴³Discussions with various stakeholders in South India and Research Director, Tea Board of India, Kolkata.

⁴⁴Monthly data on exports, tea statistics , www.teaboardofindia.com

⁴⁵Discussions with buyers in Kolkatta and Guwahati.

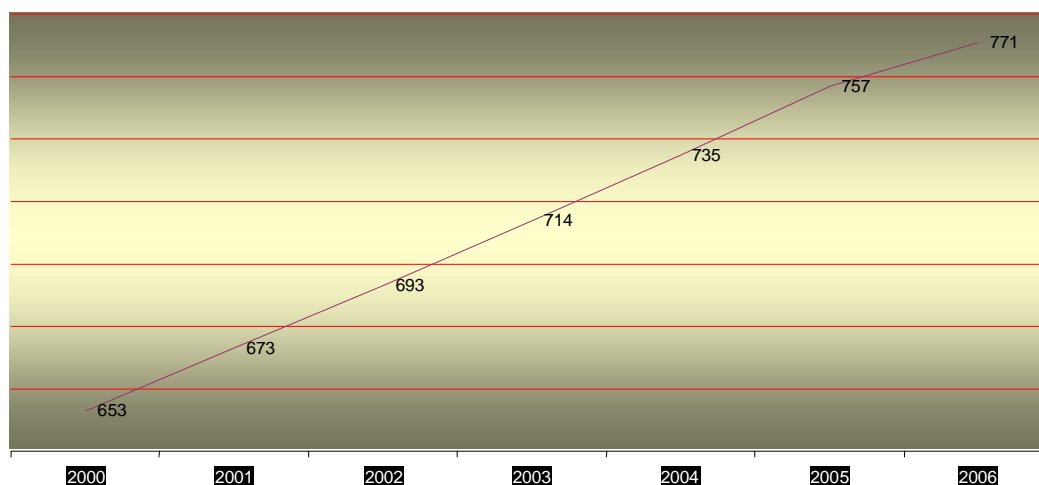
⁴⁶Discussions with buyers and brokers in Coonoor.

market. An extensive campaign and aggressive intervention is the only the first step to improve the international market, especially in the context of competitive participation from other countries. The trend in the world market shows that Sri Lanka, China and Kenya have edged out India, where they already have a higher volume of exports than India. India is also facing a high volume of imports and this increasing trend has many implications on the tea industry. It is directly linked to the price of Indian tea and to the domestic market. The following section looks into the domestic consumption of India and its implications on the Indian tea industry.

3.2. Domestic Consumption

India is still the largest consumer of Black Tea in the world with domestic consumption accounting for almost 80 per cent of the total tea production in the country. The pattern of domestic consumption has shown a steady and positive growth since 2000. From a mere 73 million kilograms in 1951, domestic consumption has increased to 653 million kilograms in 2000. In addition, compared to the previous years, there is a marginal increase in 2004, 2005 and 2006 at 735, 757 and 771 million kilograms respectively⁴⁷. The following figure shows the pattern of domestic consumption in India.

Figure 3.3 Domestic Consumption (Mn.Kgs)



The major tea-consuming states in India include Maharashtra (87 million kilograms), Uttar Pradesh (82 million kilograms), Gujarat (64 million kilograms), Rajasthan (58 million kilograms) and Madhya Pradesh (42 million kilograms).⁴⁸ The average annual per capita consumption of tea

⁴⁷ Tea Statistics, (2003), Tea Board of India, Kolkata.

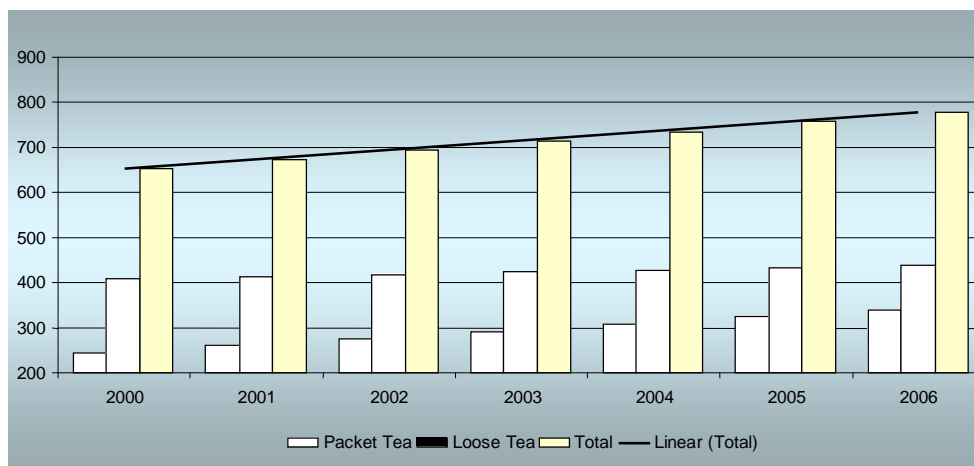
⁴⁸ NSSO 55th report, as quoted in A. F. Ferguson & Co. (March, 2002) Report on Primary Marketing of Tea in India, Tea Board, GOI.

in India varies considerably from region to region. It fluctuates from a maximum of 1.2 kilograms in Punjab to a minimum of 0.36 kilograms in Orissa.⁴⁹

The Indian domestic tea market is predominantly a loose tea market, constituting around 60 per cent of the total tea consumption, while the rest is served by packet tea. Over the past couple of years however, there has been a shift in the domestic market from loose tea to branded packet tea. The growth of packet tea has increased in the overall domestic consumption in India. The share of packet tea has increased from a meager 15 per cent in the early 1980s to over 40 per cent currently. Big companies sell tea in branded loose and packet tea. Since 1985, the branded tea segment has registered good growth and its share in the total tea market is currently around 40 per cent.

The following figure shows the trend of loose and packet tea consumption in the domestic market in India.

Figure 3.4 Domestic Consumption of Packet and Loose Tea (in Mn.Kg)



Source: Tea Statistics (2005) J Thomas & Company Pvt. Ltd and www.indiateaportal.com

Small local players in the unorganized sector are major stakeholders in loose tea markets at various levels. Later on, large players such as Hindustan Unilever Limited and Tata Tea took over the tea market as branded packed tea producers. They created and nurtured the perception that non-branded packet tea is inferior. Consumers were offered branded teas in a variety of aromas and flavours, packed in compact, attractive packets.⁵⁰ Most of the big players such as Tata Tea and Hindustan Lever Limited claim through their marketing strategies that they provide good quality tea at economical prices in order to capture the market from all strata of society.

⁴⁹ Ibid.

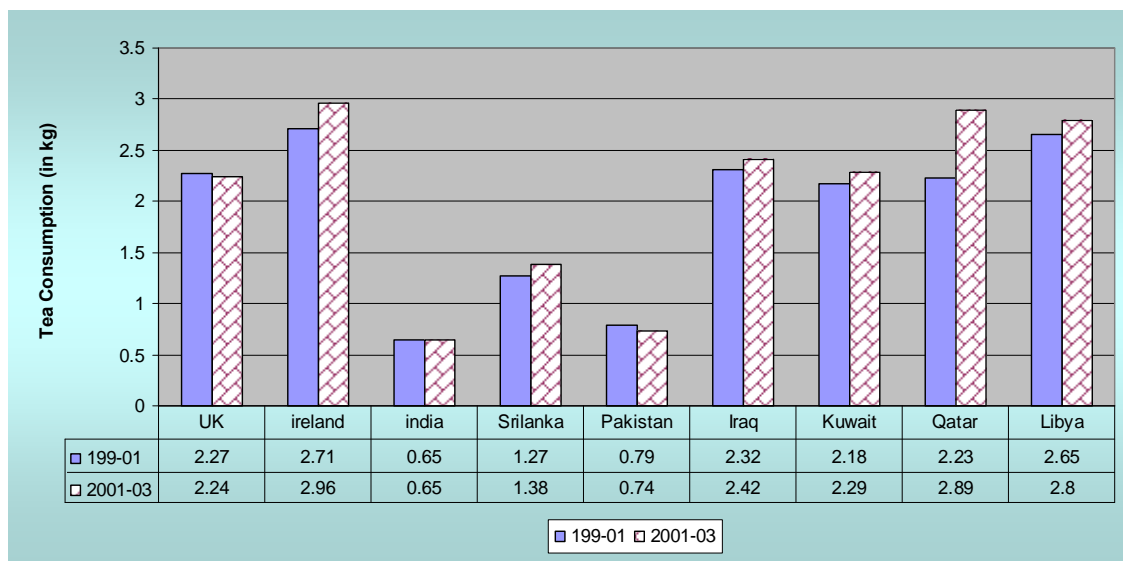
⁵⁰ Saji (2005), Indian Tea Industry: Value Chain and Domestic Market.

3.2.1 Per Capita Domestic Consumption of Tea

Domestic consumption constitutes around 80 per cent of total tea production in India. However, the per capita consumption of India is very low compared to other countries. Figure 2.6 shows that per capita consumption⁵¹ of tea in India is very low and it is stagnant during the period 1999-01 to 2001-03, compared to other major countries. Despite a steady growth rate in domestic consumption, the per capita consumption in India is still one of the lowest in the world at 0.65 grams per head. The average annual per capita consumption of tea in India is relatively low vis-à-vis other countries like UK (2.24 kilograms), Ireland (2.96 kilograms), Turkey (2.6 kilograms) and Sri Lanka (over 1.38 kilograms)⁵².

It has been noted during the course of field work that there is a need for joint venture promotion of domestic consumption in India.⁵³ It shows that there is high potential to explore in domestic market. The per capita consumption of tea is very low among the young population in India. Therefore, the regulatory body of the tea industry along with the other stakeholders have to come together to sustain the domestic market and explore fresh market potential in the future.

Figure 3.5 Per Capita Consumption of Tea in Various Countries



Source: Tea statistics (2003), Tea Board of India

⁵¹ Per capita consumption is average consumption per head of total population in Kilogram.

⁵² Tea Statistics (2003), Tea Board of India, Kolkatta.

⁵³ The advertisements and other promotional ventures of soft drinks dominate in urban and villages spaces in India. The majority of the youngsters have some prejudices about the habit of drinking tea.

Chapter 4

Trade Characteristics: Value Chain and Stakeholders

4.1 International Value Chain of the Indian Tea Industry

The concept of value chain is understood as an organised system of exchange from production to consumption, with the purpose of increasing value, changing the margin of price and profit and transforming inputs and competitiveness. The global value chain (GVC) concept is one of a number of approaches to inter-firm relations. This approach draws on the simple idea that the design, production and marketing of products involve a chain of activities divided between different enterprises, often located in different places.⁵⁴

The value chain concept can also be defined as the combination of design, product development, marketing, production and retailing by which products progress from conception to the final consumer.⁵⁵ The tea value chain is acquainted with the role of various stakeholders who control and who add value along the chain. The tea industry in India is a buyer-driven commodity chain⁵⁶, despite the fact that marketers dominate the tea industry by concentrating on marketing.

The pre and post-auction value chain for tea is long and complicated and involves a number of stakeholders. This includes producers including small tea holders, workers, BLF owners, brokers, buyers, blenders and national and international buyers and retailers. The buyers include buying agents (at the auction centres), sub-agents (in the upcountry markets), wholesalers and semi-wholesalers (in the smaller upcountry markets and international level). Other major stakeholders include retailers and consumers. The schematic representation shows multi-stakeholders and its inter-linkages of the value chain in Indian industry.

⁵⁴ John Humphrey and Hubert Schmits (2000) 'Governance and Upgrading: Linking Industrial Cluster and Global Value Chain Research', Working Paper No. 120, Institute of Development Studies (IDS), University of Sussex, UK.

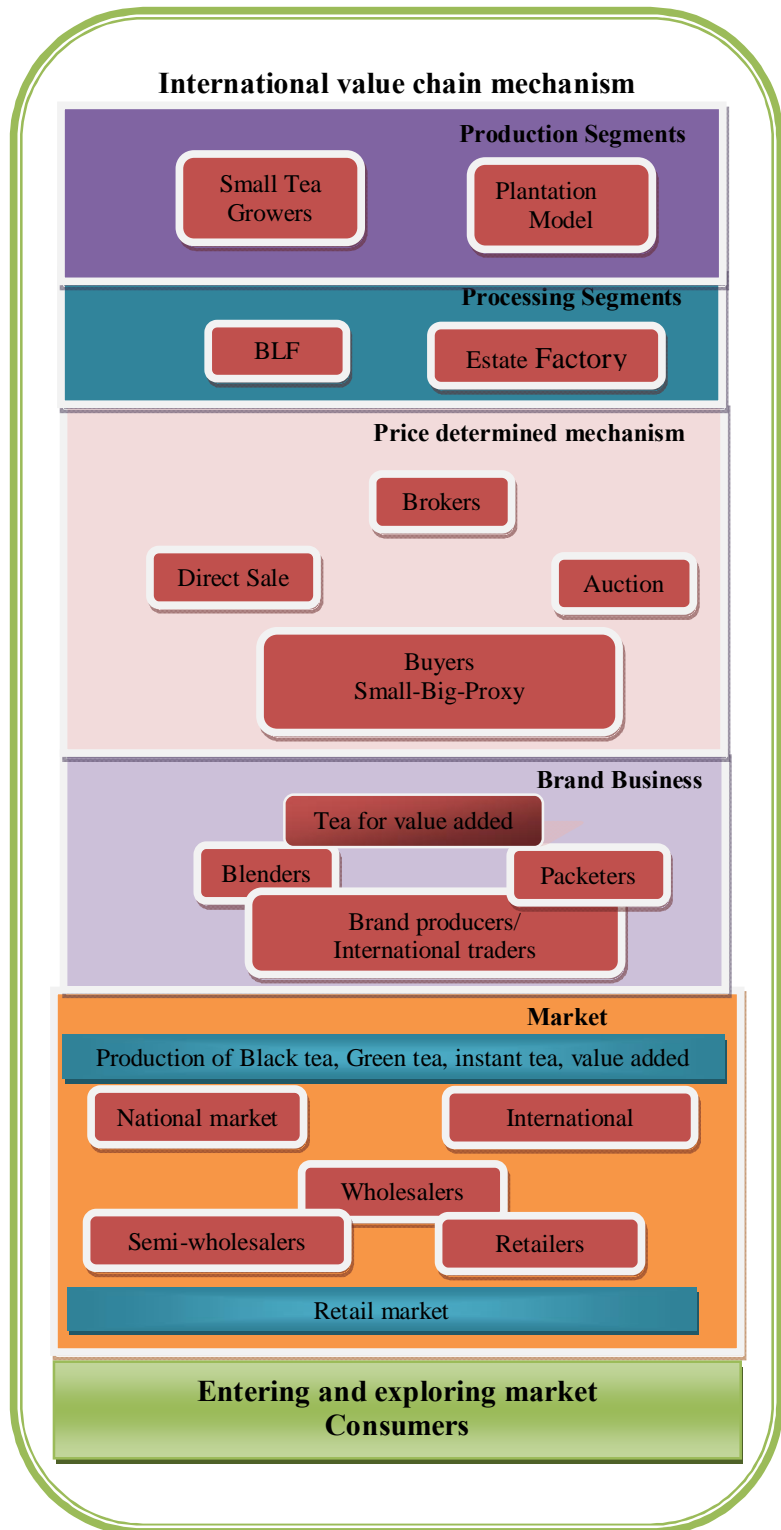
⁵⁵ Wilkinson 1995, quoted in John Humphrey and Huber Schmits (2000).

⁵⁶ The value chain is also organised in many different ways mainly as a producer-driven commodity chain and buyer-driven commodity chain. Generally, buyer-driven commodity chains refer to those industries in which large retailers, marketers and branded manufacturers play pivotal roles in setting up decentralised production networks in a variety of exporting countries, typically located in the third world. The distinction between buyer driven and producer-driven value chains highlights the role of retailers and brand name companies (the buyers) in structuring global trade in labour intensive products and the role of producers in structuring global production in capital and technology intensive industries.

4.2 Stakeholders of Value chain of Indian Tea

The value chain of the tea industry involves various stakeholders, and their roles are sometimes conflicting and affect convergence at operational levels. The ‘structured and pre-determined’ role of stakeholders and the interactions among them however help maintain the value-additions and the price mechanism in the industry. The section below defines the role of major stakeholders in the value chain of the Indian tea industry.⁵⁷

(a) Tea producers cum sellers, who are either estate factories or BLFs or cooperative factories who manufacture tea from tea leaves. These producers are considered as sellers in tea auctions. Presently, dealers who purchase/procure tea from such estate factories/BLFs/cooperatives are not allowed to sell their tea in the public tea auctions



⁵⁷ The formal description of key stakeholders, see <http://commerce.nic.in/Proposed%20e-auction.pdf> and detailed Discussions of other stakeholders are included in the Discussions of developing the argument of value chain in small tea growers in concerned sessions.

- (b) Auction organisers, who are designated as Tea Auction Committees or Tea Trading Associations. An auction centre provides the producer with an opportunity to have his product inspected, tasted, graded, valued, catalogued and exhibited, so to speak, by specialists; the brokers, who know the particular need of buyers and countries, choose and bid, depending on the marketing conditions and the tea on offer⁵⁸.
- (c) Tea brokers, who are auctioneers of tea, and sell tea on behalf of sellers at the auction centres.
- (d) Tea buyers, who are purchasers of tea in the auction centres. These buyers are not necessarily the bidders for tea in the auction centres all the time. They could be packeters/blenders who buy for their own brands or packets. Buyers are also agents who buy tea at auctions on behalf of other tea dealers.
- (e) Warehouse keepers are those who store tea to be sold in the auction in warehouses. Producers-cum-sellers can also store their teas meant for auctioning in their own warehouses. There are no restrictions on the location of such warehouses for storing teas at present. The details of role and functions of major stakeholders are described separately below.

4.2.1 Tea Brokers: Determining Role

The auctioneers play a significant role in the whole transformation of the value chain and tea auction. A tea auctioneer has a regular dialogue with the producers and buyers and is able to monitor changes in demand and production patterns. They always give instructions to producers to make good tea. The value and demand of the tea is fixed through negotiations and convergence with producers. His standing in the trade depends on how prompt and accurate he is in giving information to both the sections. The auctioning companies offer manufacturing advisory services to producers in response to changing market requirements, so they are able to relay the positive and negative attributes of tea to its manufacturers. Though producing companies have expertise in processing techniques the auctioneers merely act as guides, because they are more in touch with market realities. Auctioneers also constantly update their data bank of crop figures in different parts of the world, price levels at all auction centres, availability of various grades and types of tea, consumption trends, etc. It was also seen that they keep in direct contact with semi-whole-sellers⁵⁹. This requires strong international connections as well as a network of correspondents all over the world. The auctioning

⁵⁸ Discussions with brokers and producers in Coonoor and Guwahati.

⁵⁹ Discussions with Auctioneers in Cochin.

companies occasionally give short-term finance⁶⁰ to tea producers for the purchase of machinery, capital investment, etc., and recoveries are effected from the sale proceeds of tea.

They taste and value tea, based on prevailing market conditions and these valuations, released to all members of the trade, act as guidelines for the sale. The brokers divide tea into different grades based on quality, make samples and fix prices. The quality of tea is measured by a tea taster from each auctioneer based on different criteria such as flavour, colour and thickness. The tea which arrives at the warehouses is catalogued and samples are distributed to all the registered buyers so that they can come prepared for the auction. The prices also depend on the demand from the internal and external markets.⁶¹

The auctioneers then collect the sale proceeds from the buyers on or before the specified prompt date, normally within 14 days and remit them to the producers after deducting the brokerage of one per cent and government levies such as sales tax. The buyer's payment is assured more or less automatically within 14 days from the date of the sale at the auctions, known as the 'prompt date'⁶². The strength of the auction system lies in the sanctity of the prompt date for the timely remittance of sale proceeds to the producers and this is where the integrity and financial standing of auctioning companies comes into play. On receipt of payment, the buyers are issued a 'Delivery Order' for the teas to be collected from the warehouses. The auctioneers also do a considerable amount of promotional work to ensure maximum competition for the teas on offer in their catalogues.

The brokers are also allowed to produce printed catalogues with the name of the garden and essential particulars of tea available for sale every week. They also circulate market information, together with their own views on the market conditions in India and abroad. The tea traders associations of each region maintain and administer the auctioning system and facilitate the good governance of tea auctions.⁶³

4.2.2 Dynamism of Buyers

The buyers are the other major stakeholders in the auction system to stabilise the price mechanism and sale practice. The profile and nature of buyers is dynamic and have different connotations in the market. 'Buyer' means any person, firm, company, corporate body or

⁶⁰ It is not official but depends on the personal relationship with buyers and brokers to promote the business. Discussions with brokers from Coonoor.

⁶¹ Saji (2005), Indian Tea industry: Value Chain and Domestic Market.

⁶² Ibid.

⁶³ See Report of Primary Marketing of Tea in India (2002), A F Ferguson & Co. submitted to Tea Board, GOI, for detailed Discussions on rule and practices of auction system in India.

cooperative society including a consignee or commission agent with a place of business in tea in India who receives tea by way of stock transfer from the manufacturer. They can be engaged in purchasing or procuring tea either from public tea auctions or directly from manufacturers of tea, but the term 'buyer' excludes those who buy only instant tea and other value added products of tea i.e. tea bags, packet teas, flavoured tea, quick brewing black tea etc. , and also excludes the secondary buyers who do not source their tea either from auctions or from manufacturers.

Indian buyers at auction centres are more fragmented compared to some of the international auction centres⁶⁴. Many of the buyers are registered in more than one auction centre in India. For example, Tata Tea itself has a number of registered buyers and they are registered in various auction centres. It is also the same in companies such as Hindustan Lever and Wagh Bakri. In other words, many buyers represent one big brand company, for instance Tata, and they sell tea to their regional packagers as proxy buyers.⁶⁵ The high fragmentation rate of buyers may not be severe due to this multi registration system with the various auction centres. For example, Tata has registered buyers in six auction centres in India.

Tea buyers are also buying agents who buy tea at auctions on behalf of other tea dealers or companies. The details about whom each buyer is bidding in auction are not transparent. Buyers also keep secret as to whether they buy tea from auction to sell in the same state or to up-country buyers. Major portion of 'dust tea' from the Auction centre in Guwahati sent to the South India and 'leaf tea' for Gujarat, Rajasthan and Madhya Pradesh. Buyers claim that information about to where exactly the tea goes and who they represent is a business secret. Indian buyers at auction centres are more fragmented compared to some of the international auction centres.⁶⁶ Several buyers are registered in more than one auction centre in India. For example, Tata Tea alone has a number of registered buyers and they are registered at various auction centres. It is also the same in companies such as Hindustan Lever Limited and Wagh Bakri. In other words, several buyers represent one big brand company, for instance HUL or Tata Tea, and they sell tea to their regional packeters as proxy buyers.⁶⁷

⁶⁴ A F Ferguson & Co. (March, 2002) Report on Primary Marketing of Tea in India, Tea Board, GOI, for detailed Discussions on rule and practices of auction system in India.

⁶⁵ See section 7.3 for further Discussions packagers.

⁶⁶ A F Ferguson & Co. (March, 2002) Report on Primary Marketing of Tea in India, Tea Board of India.

⁶⁷ See details in Saji (2005).

4.2.3 Small and Regional Buyers

Among the scattered buyers, the small buyers are a majority. Since small buyers focus on regional level, it would be an advantage to the regional/local marketers. It would further help to get tea at local/village level at a reasonable price. The small buyers play a major role in the domestic loose tea market, where loose tea has the major share (60 per cent). In addition, they focus on the regional level and maintain a low price, which is widely focussed on the majority of the people. The loose tea traders at the regional level mainly procure their requirements from auction centres and none of them have their own plantations. Loose tea traders represented by small buyers at the regional level procure their requirements mainly from auction centres and none of them have their own plantations. Most of the packagers are dominated by big players and come under the roof of one or two companies. They also produce their own products and fulfil their requirements from the auction centres. The scattered and fragmented small buyers have less power to hold the price realisation, but it takes place only if big buyers are dominant.

4.2.4 Packeters and Marketers

Marketers play a major role in the value chain of the tea industry. They include packeters/blenders and a majority of them are national brand companies. Large retailers or marketers only supply the specifications for the branded products they order. These companies design and/or market but do not form part of the production field. They form a new breed of manufacturers that do not have factories. This separates the physical production of goods from the design and marketing. For instance, Wagh Bakri, a large regional player focused in Gujarat will not integrate its operations backward by acquiring tea estates.⁶⁸ They meet their requirements from auction centres.

4.2.5 Retailers

The role of retailers in the value chain is also significant, as with the trend of increasing imports, these retailers are importing greater quantities of tea. The emerging retail market in India also redefines the function and space of retail market in India and it includes tea markets as well. They determine when and what products are to be made available as well as their characteristics (quality, appearance, packaging and so on). This involves interpreting market trends and specifying what products should be produced to meet these trends. It may also involve

⁶⁸ Discussions with retailers in Kolkata.

specifying the processes to make the product. Supermarkets, however, may merely dictate the 'what' and leave the 'how' to the supplier.

4.2.6 Role of Major and Big Companies

Current trends show that big companies are withdrawing from production and concentrating only on brand business.⁶⁹ Big companies are becoming increasingly reluctant to operate in the old estate system of production because it is highly labour intensive and the bulk of costs for producing tea goes towards labour wages (in some cases as much as 60 per cent). Recent economic policies in India and opening up to the international market has been marked by the efforts by companies to slice up the value chain and break the production process into many steps. MNCs are no longer as keen on production processes as they are on organising and managing commodities and diversifying the production with various other agricultural and other commercial crops i.e, garments, footwear, consumer electronics or big brands of tea.⁷⁰

Big companies capture the value of the product at various stages of the value chain. Among Indian tea companies, the two biggest multinationals are Hindustan Lever with over 45 per cent of the retail market share followed by Tata Tea with an estimated market share of 28 per cent in the packet tea segment. Goodricke Group Ltd. is the third most important multinational tea company in India. Due to this control on the entire production process from tea shrubs to tea bags, these companies have considerable influence on supply and demand and thereby on the tea trade policies of the tea producing countries. These major companies also control the small tea growers by controlling the packet tea segments in various producing countries.⁷¹

4.2.7 Role of Workers and Small Growers

The workers who are important stakeholders in the value chain often do not have any knowledge of the trade initiatives and the CoC or CSR in international standards.⁷² They have no role to play in its development and implementation of various codes of conducts and standards. However, the active participation of trade unions plays a major role in enhancing worker's role in international value chain of Indian tea industry.⁷³

⁶⁹ Details of changing production scenario of Indian tea industry discusses in the following section of case study.

⁷⁰ see Shatadru Chattopadhyay (2006)the details of how MNC dominates the tea market in India,. International workshop of tea industry in India., Darjeeling.

⁷¹ Ibid.

⁷² Discussions with male and female workers in various tea gardens in north and South India.

⁷³ Discussions with representatives of trade unions in tea industry in Kerala. Assam and West Bengal.

The role of small growers is marginal in the whole value chain process of the tea industry. At present, their role is only in production sector and as we have seen, only up to the level of supply of green leaves to BLFs. They share 21.2 per cent of the total production of tea in India. Many of them are not aware of the different processes of tea value chain and role of the key stakeholders of industry. Small tea growers as reported above share only a marginal benefit and the larger profits go into value added processes and into the final products.

4.2.8 Position and Role of Consumers

Consumers are the ultimate decision makers. Tea marked as high quality in auction centres may not be in demand by the consumer.⁷⁴ Consumers even from the locality of tea gardens may not prefer tea which directly comes from the gardens i.e., without blending, because of preferences of their taste. Historical factors and agents have influence over the preference of consumers and these preferences have evolved over a period of time. Consumer preferences are heterogeneous and they have a decisive role in the value chain of tea in the domestic market. The agents and actors in the buyers' chain make tea dependent upon the nature of the consumers at various levels and strata of society.

Consumers have been seen to demand environmentally, socially and ethically-superior goods⁷⁵ and play a major role in the value chain of the tea industry. It is important to understand how their social consciousness, based on criteria of environmental and social responsibility influences selection of products. Their understanding on various social issues within the tea sector is based on how informed they are about the environmental and social conditions under which products they buy have been produced.

The study on consumer demands in OECD markets revealed that the actual effects of social and environmental issues on the perception and behaviour of consumers are mixed and unclear.⁷⁶ Existing market research reveals that consumers of OECD are increasingly attaching importance to this issue and are interested in buying goods that match their expectations. However, the actual purchasing behaviour of consumers does not match their statements and attitudes.⁷⁷

A survey conducted on consumer reactions to socially responsible and environment- friendly tea in India demonstrates that consumers displayed a low level of involvement with the social and

⁷⁴ Some of the buyers pointed out that they buy tea from auction and sell in the consumers but after blending with regional preferences. Consumers preferences vary region to region; Discussions with semi and small buyers in Kochi, Kerala.

⁷⁵ Minton and Rose, 1997.

⁷⁶ Barbara Flies et. al, CSR and TradeL Informing Consumer about social and environmental conditions of globalised production, OECD, Trade Policy working paper, <http://www.ois.oecd.org>.

⁷⁷ Ibid.

environmental issues in the food and beverage industry.⁷⁸ Research reveals that the social and environmental issues do not influence buying decisions of the consumers. In general, though they are aware about certain issues they are merely passive onlookers. Social issues in isolation failed to evoke any interest. The concept of tea grown with adherence to social and environmental norms created positive responses. Uniqueness and distinctiveness got high scores. In all, 20 per cent of the respondents claimed awareness of the tea production process. Mumbai claimed the maximum awareness (27 per cent) followed by Kolkata (23 per cent) and Bangalore (21 per cent) and the lowest awareness was recorded in Delhi (8 per cent).

4.2.9 Function of the Tea Board of India

The Tea Board plays a key role in the industry as a regulatory and promoting body. It is a statutory body set up under the Tea Act, 1953 to promote all round development of the tea industry and comes under the administrative control of the Ministry of Commerce and Industry, Department of Commerce. It also has certain regulatory functions such as issue of Exporters' License, Tea Waste License and Tea Warehousing License, etc.⁷⁹ Tea Board takes many initiatives to promote tea market, tea production and improve the quality of green leaves and made tea. Self Help Groups in Assam and West Bengal, provision of education loans and subsidies to tea cultivation, national and international promotion of Indian tea are some of the initiatives of Tea Board which took place in the recent period.⁸⁰

The Tea Board has taken several initiatives to support the tea industry in the 10th and the 11th plan. In 10th plan period, the Board was implementing a number of developmental schemes for enhancing the productivity, quality and marketability of Indian tea. The major focus was on various plantation

Box 4.1

Major functions of Tea Board of India

- Development and promotion of the tea industry.
- Extension of tea cultivated areas and increase production
- Improvement in the quality of green leaves and made tea through quality up-gradation programmes
- Undertaking promotional campaigns for increasing exports of tea and domestic promotion
- Promotion of co-operative efforts of growers
- Implementing developmental schemes and productivity and develop marketability
- Implementing self-help groups to enhance high quality in green leaves.
- Research and development initiatives.
- Initiated price sharing formula for small growers and price subsidy schemes.

⁷⁸ Fransiska Krisch (2006) Report on findings of a study Of consumer reactions to Socially responsible and Environment friendly tea , CEC, delhi and fakt consult for management, training and technologies, Germany, Traidcraft, UK.

⁷⁹ Tea Board, see details of Tea Board and its function at www.teaboardofindia.org

⁸⁰ Discussions with Research Director, Tea board of india, Kolkata and regional representatives in Kerala and Assam.

development activities, such as replanting, rejuvenation, and creation of irrigation facilities.

The price-sharing formula between small tea growers and the manufacturers to enable the small growers to get a reasonable share of the price obtained for the made tea, price subsidy scheme, quality up-gradation programme and so on, are some of the major initiative to enhance the production segments especially for the small tea growers in India. Introduction of Self Help Groups in different states has also improved the quality of green leaves from the small tea sector.

Special efforts are also being made to address the problems of the small growers of tea. These include measures like fixation of a price-sharing formula, implementation of a price subsidy scheme and carving of a special tea term loan package. One of the most important initiatives taken by the government in the small sector has been the quality up-gradation programme which was launched in South India in July 2000 and is continuing successfully so far. The Tea Board has also launched a full fledged scheme for quality up-gradation and product diversification, aimed at modernising the tea factories. The measures taken not only seek to alleviate the income-related problems of the small growers, but also recognize the inherent advantages and immense potential of the small grower sector in driving Indian tea exports. In the 11th plan, the tea board modified the schemes that existed in the 10th plan period. In the new schemes, the Tea Board has given priorities to human resource development and research and development to achieve sustainability in the growth process of Indian tea industry. The fund has also increased from the previous plan period and it is Rs. 25 crores from Rs. 6 crores in the HRD itself. From the fund, 50 per cent will be used for the healthcare of tea workers, another 25 percent for the education of their children and the rest 25 per cent for the training of tea workers.

Analysis of the different sale practices in the following section may help to understand how the different stakeholders' roles and their interaction with each other control the market. It also explains how the contracts and conflicts work and maintain the market at the domestic and international level.

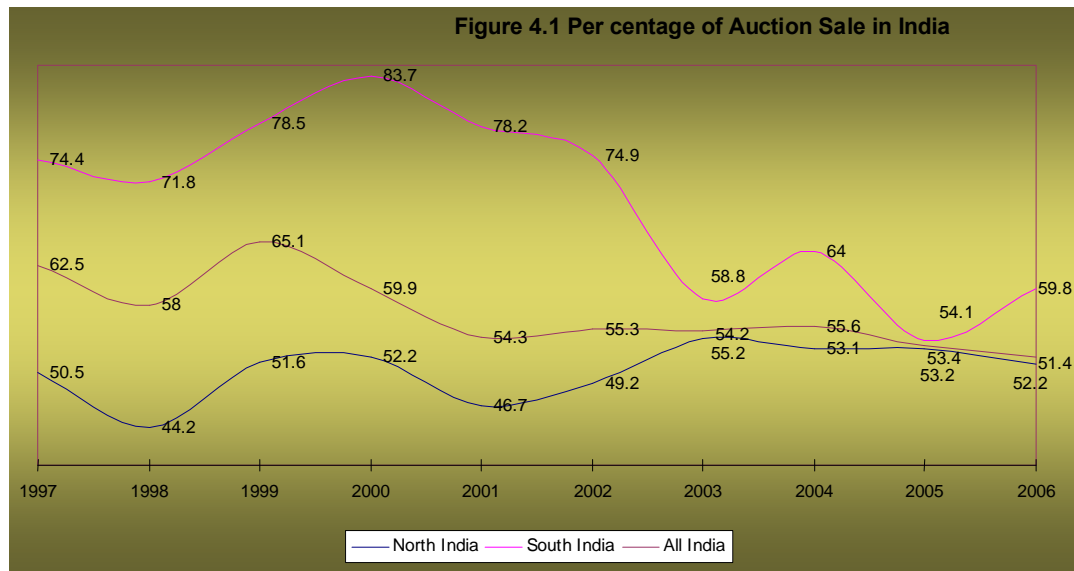
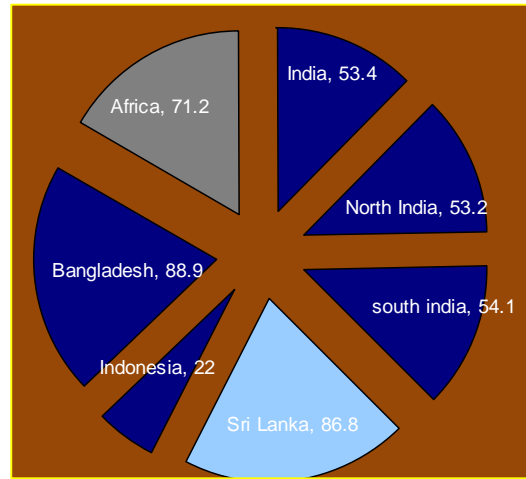
4.3 Direct Sale vs Auction Sale

There are mainly two types of sale practices in the industry; one is through the auction centres and the other through direct marketing from the tea estates. The function of the auction systems is the same in all regions within India. The nature of direct sale may vary from region to region. It is basically the choice of the producers and the rule of sale practice, which depends on

the interactions with sellers and buyers. The producers in India were free to choose the method of marketing of their tea through auctions or by entering into private contracts for sale at home or abroad⁸¹. However, over a period of time, the quantity sold through auctions showed a declining trend. Despite the various benefits of selling tea through the auction system, private sales have been on the rise in all the regions in India. Direct sale is increasing and most of the producers prefer direct sale to the auction system.

The increase in direct sale has become dominant in North India where there are more big growers

than in South India. It is also due to the high possibilities of the direct marketing of organic tea and orthodox tea to foreign market countries where tea is sold at much higher prices as compared to the auction price. Figure 4.1 shows the recent trend sales in auction centres.



Source: Annual Report (2005), J. Thomas and Co. Pvt Ltd. and www.teaboardofindia.com

⁸¹ Ibid.

4.4 Indian Auction System

Auctions have traditionally been the main platforms or primary marketing of tea in India and serve as the principal price-determining mechanism for tea in the country. The auction system is governed or strongly regulated by provisions of the Tea Marketing Control Order (TMCO), 1984.⁸² This included a provision (Clause 17) containing the stipulation that 75 per cent of the tea produced is to be sold through auctions. This compulsory sale excluded the plantation-packed tea and bulk tea exports. Indian auctions are conducted weekly, possibly throughout the year and the auction days vary in each auction centre. The different days at various auction centres encourage buyers to participate at different places.⁸³ Generally, national buyers are registered at almost all the auction centres.

As we have seen above, the functioning of auction system includes many processes. There is a time lag in preparing the catalogue; transport (factory to warehouse and delivery to upcountry buyers etc.) compared to private sales. However, it makes it more transparent, systematic and comfortable for all producers and buyers. Above all it has been in practise over the years. The time lag may be reduced in private sales, but it only benefits the large buyers or big companies, who deal with the national packagers/sales. The Tea Board amended the TMCO in 2003, with a view towards increasing the volume of sale through auctions and further increasing competition.

⁸² Tea Digest, CTTA, Kolkata.

⁸³ See the details of rules and regulation and auction days in various auction centres in www.teaboardofindia.in.

Major Phases of Traditional Tea Auction System

In

I Pre-auction sale stage

1. Fixation of unit based on which the teas are required to be moved from seller to the ultimate buyer. While tea is measured in unit of kg, tea is moved from one place to another in packs (bulk packing)
2. To handle large quantity of tea in number of packages, the concept of lot size has been introduced as a unit for handling tea through auctions. Any lot consists of number of packages and such number of packages may differ from lot to lot.
3. A number is allotted in respect of such lot for identification.
4. The producer cum sellers despatch tea under an invoice number consisting of number of packages of tea. Generally such invoice is in respect of one grade of tea produced by the seller. For availing benefits towards marketing of tea, one grade of tea produced by a seller may be divided into number of lots.
 - i. Despatch of lot-wise teas by the manufacturers to the warehouses approved by the concerned auction organisers.
 - ii. Issue of garden invoice simultaneously by the manufacturers to the concerned brokers/auctioneers by indicating information invoice number, grade of tea, number of packages, type of packages, gross tare, net weight of tea in each pack, period of manufacture, date of despatch from the garden, amount of cess paid, warranty on the standard of tea conforming to PFA.
 - iii. Issue of arrival & Weighment Report (AWR) by the warehouse owner addressed to the concerned broker/auctioneer but it is forwarded to auction organisers for maintaining closing date prescribed by Te Board.
 - iv. Auction organiser towards such AWR to brokers/auctioneers.
 - v. Cataloguing of lots with detailed information like name of the manufacturers/sellers, number and type of packages, gross weight, net weight, grade of tea, date of arrival in warehouse date of despatch from garden etc.
 - vi. Inspection of tea in the warehouse by the concerned brokers and drawing of samples from the lot stored in warehouse.
 - vii. Preparation of small packs of trade sample out of total sample drawn in a lot based on the eligibility criteria of the auction buyers.
 - viii. Despatch of such trade samples to different eligible buyers by the brokers.
 - ix. Brokers carry out tasting of tea to assess its quality for the purpose of valuation (organoleptic)
 - x. Valuation exercise based also on the existing market trends and quality of the tea.
 - xi. Issue of such valuation report in respect of each lot to all the auction buyers by the brokers

II. Stage of tea auction sale

1. Offering of lot-wise tea for sale in the auction hall on the auction day by the brokers/auctioneers as per timings prescribed the auction organisers
2. Buyers are generally physically present in the auction hall except availing the proxy bidding channel to offer bids
3. Selection of highest bidder for any lot and declaration of out lots in absence of reasonable bid from the buyers.

III. Post auction sale activities

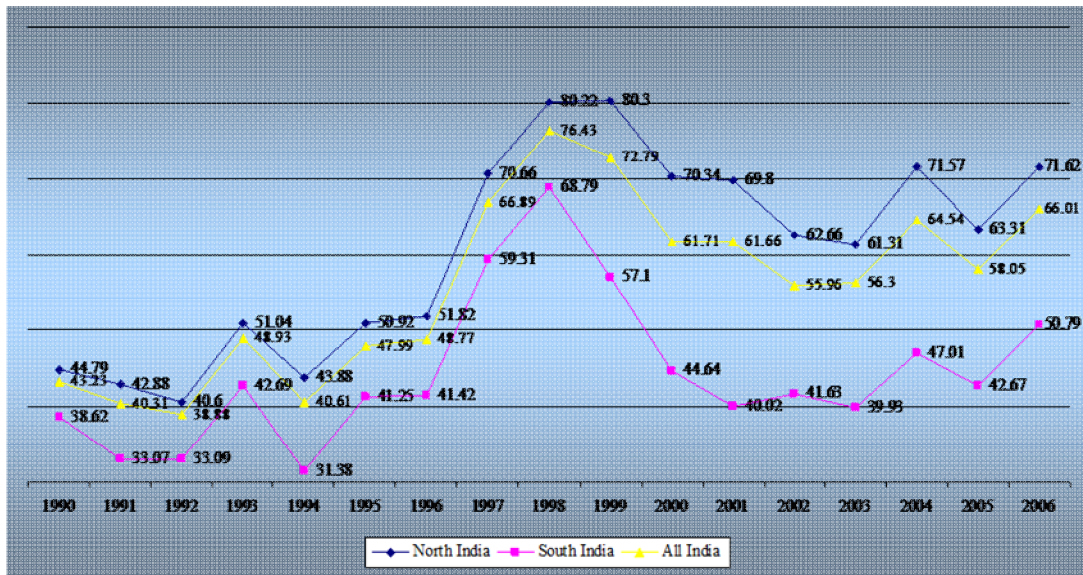
1. Issue of delivery order and tax invoices to the highest bidder by the broker In North India, two types of buyers are operating, credit buyer and cash buyer. Credit buyer can take delivery of tea from the warehouse before prompt date without payment. But cash buyer is required to pay in cash before taking delivery of tea.
2. Receipt of payment towards tea price from the buyers within stipulated prompt date.
3. Payment to manufacturer by the broker within prompt date after deduction VAT/SST/CST/Warehouse charges etc.
4. Deposit VAT/SST/CST to the Commercial Tax Department of concerned state government.
5. Payment of warehouse charges to the Warehouse owner by the broker.

4.4.1 Trend of Auction Price

Though it is widely accepted that the auction system would seem to approximate a 'fair market' in which prices are determined solely by the interplay of supply and demand, the system does not always work well for all producers especially small and marginal producers. Auction prices vary considerably with both the quality and quantity of tea on offer, and the demand for tea at any given time. Very often, similar quality tea bids different prices at different times of auction.

Figure 4.2 shows price realisation since 1990 shows that it is highly fluctuated and there is no period of high price in auction. After the heady levels witnessed in 1998, followed by fairly satisfactory prices up to 2000, the tea industry has had to contend with constantly declining margins in the last three seasons⁸⁴. The fluctuation in price realisation is year to year since 2003. In 2006, the North Indian auction average price has increased to Rs. 71.62 per kilogram showing a increase of of Rs. 8.01 per kilogram from the previous year. Similarly, the South India auction average at Rs. 50.79 per kilogram was higher by Rs. 8.12 per kilogram⁸⁵. Overall in South India, price realisation is relatively low though South India relies more on auction sales.

Figure 4.2 Auction Price of Tea in South India and North India



Source: Annual Report (2002), J. Thomas & Co. Pvt. Ltd, and www.teaboardofindia.in

The price of tea is higher in north Indian auction centres. The difference in quality and production of orthodox tea lead to a higher price in north India. Since 2005, exports from South

⁸⁴ Annual Report (2002), J Thomas & Co. Pvt. Ltd, Kolkatta.

⁸⁵ Tea Statistics, www.teaboardofindia.com.

India have increased and it is higher than export from North India. Though price realisation has increased in South India, it is still far below North Indian auction. The export demand in South India is mainly from South Asian countries and the unit price is far below the EU market. The margin favour to North India varies from Rs. 11.35 in 1997 to Rs. 29.78 in 2001 and Rs. 20.83 in 2006.

The fall in price on an average is considered to be one of the reasons behind the recent crisis in the tea industry in India. The domestic price of tea witnessed a brief boom during 1998 but started falling sharply from the first half of 1999 till 2003. As the fall continued unabated, the government relaxed the condition of compulsory sale through auctions on the appeal of the tea industry and permitted the free sale of tea through any channel⁸⁶. This relaxation, however, did not help in the price recovery, but a major portion of tea was sold through direct sale rather than through auction. This did not result either in a higher price or producer’s profit. In Kerala, for instance, on the eve of the relaxation of sale, the producers started selling their product directly to semi-wholesalers and retailers by avoiding the registered buyers/other middle-men. The long delay in payment to the producers in direct sale created negative impacts and they were running huge losses. It forced them to rely on the auction system because of the prompt payment there. The continuous fall in prices, falling even below the cost of production, severely affected the tea growers and several gardens were forced to shut down⁸⁷.

4.4.2 Auction Price and Retail Price

While the auction prices continued to fall, this fall was not reflected in the retail prices of tea, which ruled high as depicted in the box. While the producer and the consumer were affected, this was not the case with the buyer. There is a wide difference between the auction price and the retail price when the products reach the consumers⁸⁸. There is a general consensus that the huge difference between the auction price and retail price will go to brokers, traders and other middlemen at the cost of the producers. Yet, the ‘middlemen’ have a major role in the tea industry’s value chain. It is difficult for the producers to sell their products to customers, who are scattered all over the India.

Retail price of Tea-

Region	Rs/kg
Kolkata	120
Delhi	120
Chennai	115
Kochi	100
Mumbai	130

⁸⁶ TMCO, 2001, Tea Board of India.

⁸⁷ The Discussions on recent crisis and re-opening tea gardens is given in a separate section below.

⁸⁸ See A F Ferguson & Co. (2002) Report on Primary Marketing of Tea in India , Tea Board, GOI, for detailed Discussions on rule and practices of auction system in India.

However, the real profits are in the retail 'packed tea' market. For example, in India the average tea auction prices are less than Rs. 50/- per kg but in retail, the tea is sold for Rs.140/- per kg.⁸⁹ While the prices for tea at auctions is falling around the world, market share and profit of tea companies is increasing in the recent period. Most of the major companies pack and sell their own tea without bringing it to the tea auctions and they are also the biggest buyers of the tea from the auctions.⁹⁰

4.4.3 Price-Realisation Mechanism

The sale and determining of prices takes place as a result of the interaction and inherent negotiations by various stakeholders. As stated, it is also a system of participation by various stakeholders i.e, producers, brokers, warehouse keepers and buyers.⁹¹ As we have seen, the price realisation is held by the negotiation and convergence of brokers and buyers. It is also important that negotiations happen among the buyers themselves. The expected rate for different grades is also based on the demand of the upcountry buyers. There is a consensus that the buyers often push the price down in consultation with other buyers. If larger players dominate the auction, it may lead to low price realisation. As we have seen in the earlier section, the brokers value the tea and fix the price. The price fixing mechanism depends on the quality/grade of tea, market demand and export potential. Quality is a major factor in determining the price.

There is a widespread consensus that stakeholders influence price. However, systematic studies are lacking to conditionally prove this argument. A number of discussions have pointed out the high degree of collusion that prevails auctions and strong possibility of consensus among brokers, buyers and buyers themselves. Consensus would tend to reduce the price of tea in auction and it would also affect price in private/direct sales.⁹²

There is an assumption that buyers often push down the price in the auction.⁹³ It helps them to buy their lot size at low prices. The compulsory sale of 'minimum lot size' in auctions may lead to the pulling out of small buyers. The low participation in the auction and low competition are the major reasons for lower price. Large buyers who buy more quantity and buyers representing big companies dominate in the auction and play a major role in price fixation and sale practice. Due to low participation, they can easily bid with lower than the earlier price of the tea of same

⁸⁹ Tea Statistics (2005-06), Tea board of India.

⁹⁰ Discussions with various buyers in tea auction centres in India.

⁹¹ See details of function of auction system and price mechanism in A F Ferguson & Co. (2002) and Saji (2005).

⁹² Discussions with producers, buyers.

⁹³ Discussions with various brokers and buyers in India.

grade.⁹⁴ In this way, big companies play a major role in price realisation and dominate the large segments of the market of tea.

There is a conscious effort from big companies to lower tea prices at auctions.⁹⁵ This benefits them mainly in two ways. They dominate auctions and buy large amounts of tea at lower prices. Additionally, they buy tea for their other requirements through private sales or directly from producers. The base price for this is the auction price. If they can offer a price which is marginally better than the auction prices, it can benefit both parties. Producers are also benefited by exemption of tax and other charges which they have to remit in auction sales. This is why despite the various benefits of selling tea through the auction system, private sales have been on the increase in all the regions of India.

There is a demand for strict monitoring of the quality of tea as very often, low quality products pull down the auction price of the entire stock.⁹⁶ In addition, there is also a demand by some producers and brokers for action to be taken against BLFs/factory owners with regard to this. Closing down the erring BLFs/factories or cancelling their licenses is recommended if the quality of the product is low.⁹⁷

The price realisation is also based on demand from the market and upcountry buyers. The details about whom each buyer is bidding for at the tea auction centre are not transparent. Nobody knows whether one buyer is buying the tea to sell it in the same state or to some upcountry wholesalers. For example, it is widely known that a major portion of dust tea in the Guwahati auction centres goes to south India and leaf tea goes to Gujarat, Rajasthan Madhya Pradesh, etc. Buyers claim that information about where exactly the tea goes and whom they represent is a business secret. The compulsory sale of 'minimum lot size' may lead to the pulling out of small buyers, because small buyers buy small

Box 4.3

Limitations of Traditional Auction

- Transaction time and transaction cost.
- Accommodation for limited number of registered buyers in the auction hall for bidding on any auction day due to paucity of getting space in the auction hall.
- Dominance of buying agents (commission agent) in the auction room.
- Large number of CST buyers (principal registered buyers) is not allowed to bid in the auction room particularly in South Indian auctions.
- Shorter time for price discovery (roughly 20 to 30 seconds per lot).
- Probabilities of price fixation by big buyers
- Unable to provide the producers with the best possible prices.

⁹⁴ Discussions with brokers.

⁹⁵ Many brokers disagree with this process. They claim that if auction prices become higher their profits will increase. However, this needs to be addressed separately.

⁹⁶ Discussions with Brokers in India.

⁹⁷ See Saji (2005) for further Discussions in tea auction and quality of tea.

portions and their focus may be at the regional or local level. However, several buyers and producers are of the opinion that sales through the auction system are ideally suited for tea, because of the infinite varieties and grades and the scattered and often remote locations of estates.⁹⁸ The introduction of e-auction in the traditional system may also work in such a way that it curtails the participation of small buyers and makes the auction centre a place only for big players⁹⁹.

4.5 E-auction and Price Realisation

The age-old trading system has now, somewhat reluctantly, entered the electronic age. The tea industry decided to launch the new electronic auction system from November 1, 2002¹⁰⁰. The function of the traditional auction is well maintained and transparent, except the nature of the buying pattern. The auction works as follows. The auctioneer knocks down a lot and announces the name of the buyer along with the highest price received for the lot. Once a consignment has been knocked down, it cannot be reopened. The highest bidder must accept the entire lot.

The new system, which replaces the traditional human-oriented auctioning, will enable entire lots to be sold off in one go. In the electronic system, the trading will be console-based, whereby the price of the tea on sale will be displayed on a screen for about ten minutes. The general

consensus is that it will make the system faster. These speed up access to information and facilitate participation. Bids can be submitted at any time and the sale process is not

Box 4.4

Prospects in E-auction

- Reduction of transaction cost and time;
- Accountability of all transactions;
- Transparency;
- Direct participation of any buyer from anywhere
- Speed up and maintaining a database;
- E technology has been introduced only in few pre-sale activities like cataloguing, sale activities like bidding process and post sale activities like delivery orders etc.;
- E auction is being carried out with the requirement of presence of bidding buyers in the auction hall limiting the number of buyers to bid in any auction day and restricting the buyers to bid from suitable location for him;
- Single user log in (single user access);
- Shorter time for price discovery due to display of limited numbers of lots for bidding at a time;
- Equal opportunities for the purchase of tea at competitive rates;
- Distribution of tea into international markets at fair prices and access to reliable information.

⁹⁸ V. Ramaswamy, A strong role for Tea Auctioneers

<http://www.thehindubusinessline.com/2003/09/22/stories/2003092200010900.htm>.

⁹⁹ Discussions with small buyers in Kerala and Coonoor. The detailed Discussions of the e-auction and big buyer are included in the following sections.

¹⁰⁰ *The Economic Times*, Wednesday, July 24, 2002

geographically confined. Transaction cycle times and the stages in handling are reduced. Also, tea need not be transported to warehouses as inspections can be done using samples couriered to buyers from the plantations. The e-auction has been introduced as part of the implementation of the Ferguson Committee Report. The detailed study on the auction system in India by the Ferguson Committee suggested that the auctioning system would have to be strengthened. It suggested substantial reforms in the existing auction system as part of the objective to reduce transaction time and cost in auction sales, to make the auction system more competitive vis-à-vis competing with the primary marketing channels of tea.

The major reforms are: the removal of sale quantity regulations in North India, ex-estate sales and the reduction/modification of the prompt period. Finally, most importantly, it had also recommended the introduction of an electronic bidding mechanism at the auction room¹⁰¹. On the basis of the recommendation by the committee, the tea industry has decided to launch the new electronic auction system¹⁰², but, in fact, report did not make a detailed analysis of the drawbacks of the existing system or the substantial benefits of the new system.

Though the tea industry has decided to introduce the e-auction system, the traditional system is dominantly functioning in the auction room where e-auction has already been introduced. In other regions, Guwahati for instance, the discussion regarding e-auction is still on. In Coonoor, only 10 per cent of the total sale is taking place through the e-auction system and it is the same even in Cochin. The existing centre run by the Calcutta Tea Traders' Association (CTTA) will continue to function. Each auction will function independently of the other and on different dates as the industry decides.

A section of the industry, however, seems to be sceptical about the proposed project for the reason that the key issues do not involve quick sales. The major doubts include the sampling cost and credit period. The question of a new system has arisen because of problems in the existing one¹⁰³. The sampling procedure and value adding are the same for both the systems. A sample has to be sent to the buyer and upcountry buyers. These are some of the issues which need to be addressed in a wider context. Some of the salient specific issues and gains of the e-auction system are listed below, which are formulated, based on the discussion from the various stakeholders in India. Most of them agreed that the maintenance of a database would be the only positive achievement in the short period of time.

¹⁰¹ Study on Primary Marketing of Tea in India (2002), Report of A. F. Ferguson & Co, Tea Board, GOI.

¹⁰² *The Economic Times*, Wednesday, July 24, 2002

¹⁰³ Ibid.

The stakeholders point out many limitations/problems of the e-auction system. Theoretically, the objectives and implementation are to increase efficiency and make it more profitable, but that is problematic within the context of the existing auction system in India. The problems, of course, vary according to the region and auction centre. However, most of them are relevant only in the short term. Some of the problems are listed in the box.

In 2004, half of the auction halls were furnished with computer monitors for electronic auctions. The sales are held in the afternoons after the traditional auction. A dozen or so invoices are projected onto the buyers' screens and they have four minutes to place their bids. Like e-bay, the competition can get quite spirited as the time limit approaches¹⁰⁴.

One of the secretaries of the North Indian auction centre suggested that there was a lot of scope for this new trading system in the future of tea trading. 'There will come a day when buyers around the world will sit

in front of their computers and bid on our teas here in Assam', he said. 'The tea industry must be forward-thinking in order to survive'. The auction system itself is fighting for survival. With the advent of e-mail and overnight delivery, many estates are bypassing the auction system in order to sell directly to retailers around the world. Samples can be delivered quickly and prices can be negotiated over the phone or Internet¹⁰⁵.

Box 4.5

Challenges of E-Auction

- E-auction is only a part of the whole mechanism of the sale process
- Uneasiness with the electronic system, since many of them have never used it.
- Practical difficulties in the implementation of an E-system
- Huge initial investment as fixed cost
- Running expenditure would increase at each auction centre
- Difficulties of the small buyers
- Lack of competition.
- Maintain uniformity in quality and adequacy of supplies of tea
- High capital investment
- High demands to IT expertise
- More Capital and knowledge to local traders

¹⁰⁴ Bruce Richardson, The Changing Face of Indian Tea, (Appeared in Fresh Cup magazine, December 2004-
<http://elmwoodinn.com/about/documents/TheChangingFaceofIndianTea.pdf>

¹⁰⁵ *ibid.*

Legal Act and production and Social Cost

5.1 Plantation Labour Act and other Legislation in Indian Tea Industry

Many enquiries and rules were set up even in pre-independence period. Plantation Labour Act (PLA) was one among those enquiries and was shaped based on recommendations of ILO. This is one of the significant Acts in the Indian Tea Industry and has implications along with associated Acts which are related to the tea industries. In addition to PLA, there are other social security legislations, which have provisions for Provident Fund and gratuity and so on, and there are compensations schemes for injuries and so on, such as broad-based social security measures, umbrella of legislations which apply to the plantations in India. The other major Acts in the plantation sector are : Weights and Measures Act, The factories Act 1948, The Equal Remuneration Act 1976, The payment of Bonus Act 1965 and The Minimum Wages Act 1948. The Plantation Labour Act 1951 (PLA) provides for the welfare of plantation labour and regulates the condition of work in plantations. The term 'Plantation' has been defined under the Plantations Labour Act 1951 to mean any plantation to which the Act whether wholly or in part, applies and includes offices, hospitals, dispensaries, schools and other premises used for any purpose connected with such plantations. Section 1(4) of the Act applies to any land used or intended to be used for growing tea, coffee, rubber, cinchona and cardamom which covers 5 hectares or more and in which fifteen or more persons are employed or were employed on any day of the preceding twelve months. The Plantation Labour Act is administered by the State Governments. The State Governments are, however, free to declare any plantation land less than 5 hectares or less than 15 persons to be covered by the Act. In every Plantation covered under the Act, medical facilities for the workers and their families are to be made readily available as may be prescribed by the State Government.

The conditions of plantation labour are governed by the Plantations Labour Act and the rules promulgated by the state Governments. The PLA is unique in the fact that it requires the employer to provide the workers with medical facilities, housing, sickness and maternity benefits and other forms of social security measures. The Act provides for setting up of canteens, crèches, recreational facilities, suitable accommodation and educational facilities for the benefit of plantation workers and their families in and around the work places in the plantation estate. The Act provides that no adult worker and adolescent or child shall be employed for more than

48 hours and 27 hours respectively a week and every worker is entitled to a day of rest in every period of 7 days.

The Act applies in the first instance to tea, coffee, rubber, & cinchona and cardamom plantations, but the State Government may apply it to any other plantation. Under statutory social commitments various statutory and non-statutory benefits are provided to plantation labour. Non-statutory benefits include fuel, roads and concessional ration. The plantation industry partakes the characteristics of both agriculture and industry and, is therefore, subjected to taxation under the Central Income Tax as well as Agriculture Income Tax (AIT) besides

other levies and taxes. AIT is presently confined to plantation crops only.

Under the Plantation Labour Act, 1951, the following provisions relate to the social sector:

Housing facility : Section 15 of the PLA requires every employer to provide and maintain necessary housing accommodation. Further, rule 65 of the Assam Plantation Labour Rules, 1956 states that houses shall be allotted on the basis of one house per worker. Similar provision has also been incorporated in the West Bengal Plantation Labour Rules, 1956. PLA is the only social security legislation, which imposes a mandatory obligation on the employer to provide housing facilities

Medical facility: Section 10 of the PLA, 1951 stipulates that for every plantation, there shall be provided and maintained so as to be readily available such medical facilities for the workers and their families. Rule 35 of the Assam Plantation Labour Rules, 1956 also requires that there shall be two types of hospitals in plantations vis. garden hospital and group hospital. Similar provision has also been incorporated in the West Bengal Plantation Labour Rules, 1956.

Educational facility: Section 14 of the PLA stipulates that the state government may make rules requiring every employer to provide educational facilities for the children between ages of 6 and 12, of the workers employed in any plantation where work force exceeds 25 in number. The Assam Plantation Labour Rules, 1956 (Rule 52) also requires that every employer shall provide and maintain a primary school or schools for imparting primary education to the children of the plantation workers. Further, as per Rule 55 of the said rules, the employer of the plantation shall appoint one teacher for every 40 children or part thereof on the roll of the primary school. Rule 57 stipulates that no fee shall be charged from the workers' children attending the primary school. It may be mentioned that the concerned state Govts. have been providing primary education facilities in the tea growing areas of South India, West Bengal and Cachar in Assam State. However, the garden owners are providing educational facilities in the tea growing areas of Assam valley except Golaghat district. Similar provision has also been incorporated in the West Bengal Plantation Labour Rules, 1956.

Drinking water: Section 8 under the PLA stipulates that in every plantation, effective arrangement shall be made by the employer to provide and maintain at convenient places in the plantation a sufficient supply of wholesome drinking water for all workers. Rule 8 of the Assam Plantation Labour Rules, 1956 provides for drinking water in the tea growing areas of Assam. Similar provision has also been incorporated in the West Bengal Plantation Labour Rules, 1956.

5.2 Constraints in plantation- social cost of production

As per the estimates made by an Inter-Ministerial Committee set up by the Ministry of Labour & Employment, the social sector cost component alone works out to about Rs.7.20 per kg of made tea.¹⁰⁶ The wage rates of tea garden workers are generally fixed through bipartite agreement between the representatives of employers and employees of the tea gardens. However, in Kerala, the settlement wages are fixed at minimum wage levels as stipulated under the Minimum Wages Act of the State. The details of wage rates in the major tea producing States are as follows:

The daily wages for Adult (both Male and Female) workers employed in the tea plantations is given below:

Table 5.1 Daily Wages of Tea Workers in North India

Plantation Districts/States	Daily wage (Rs)		Agreement Date
	Adult	Increment	
Assam Valley (From 01.11.2005-31.12.2009)	51.10	w..e.f 01.11.06-2.60 w..e.f 01.05.07-3.70 w..e.f 01.19.08-3.70	30.11.05
Cachar (From 01.04.2005 to 31.05.2006)	46.25		
Darjeeling (From 01.04.2005 to 31.03.2008)	48.40	1 st year-2.50 2 nd year-2.50 3 rd year-3.00	25.07.2005
Dooars (From 01.04.2005 to 31.03.2008)	48.40	1 st year-2.50 2 nd year-2.50 3 rd year-3.00	25.07.2005
Terai (From 01.04.2005 to 31.03.2008)	48.40	1 st year-2.50 2 nd year-2.50 3 rd year-3.00	25.07.2005
North Dinajpur (From 01.04.2005 to 31.03.2008)	48.40	1 st year-2.50 2 nd year-2.50 3 rd year-3.00	25.07.2005
Tripura			
2004	26.05		
2005	28.50		
2006	30.00		
2007	30.00		

¹⁰⁶ Report of committee on legislation plantation sector, 17th September, 2007, Department of commerce ministry, Government of India. www.commercemin.in.

Table 5.2 Daily wages of Tea Workers in South India

States	Worker	Basic (Rs)	Daily Allowance (Rs)	Total (Rs)	w.e.f
Kerala	Adults	34.72	43.32	78.04	01.04.2005
	Adolescent	26.04	43.32	69.36	
Karnataka	Adults Adolescent	(The DA up to 2703 points have been merged with basic wages)		71.00 63.90	01.04.2005
Tamil Nadu	Rs. 72/- (plus attendance bonus of Rs. 2)				01.10.2004
1. Nilgiris	Rs. 73/- (plus attendance bonus of Rs. 1)				
2. Nilgiri-Waynad					
3. Anamallais	Consolidated pay of Rs. 72 per day and there is no time limit prescribed. The wage matter is pending before the special industrial Tribunal, Chennai.				01.01.2002

Apart from usual wages, plantations in North India provide food grains at a concessional price by the employers. Further, the employers of the State of Assam and West Bengal provide the fuel for cooking to the workers. This offsets the lower wage rate for them as compared to plantation workers in South India. Based on the said exercise and considering the six working days in a week, Tea Board has also prepared a statement on state-wise settlement for daily wage rates and daily cost incurred towards supply of only food grains to tea garden workers separately for tea plantation districts of Assam Valley, Dooars & Terai and Tripura for the period 1997 to 2006 year wise. These are as under:

Table 5.3 Total cost for Workers in North India

	Assam Valley			Dooars & Terai			Tripura		
	Daily Settlement wage rate	Estd. Daily cost for food grains	Total	Daily Settlement wage rate	Estd. Daily cost for food grains	Total	Daily Settlement wage rate	Estd. Daily cost for food grains	Total
2003	48.50	13.33	61.83	45.90	13.28	59.18	26.50	17.25	43.75
2004	48.50	13.33	61.83	45.90	13.02	58.92	26.50	17.25	43.75
2005	51.10	14.63	65.73	48.40	14.11	62.51	28.50	18.59	47.09
2006	51.10	14.63	65.73	50.90	14.11	65.01	30.00	18.59	48.59
2007	54.80	14.63	69.43	53.90	14.11	68.01	30.00	18.59	48.59

The impact of providing for social infrastructure and facilities is about Rs.4.12 per kg in North India and Rs. 3.44 per kg in South India. The detailed estimation of annual expenditure for providing statutory facilities in North and South India is given below.

Table 5.4 Estimated Annual Expenditure for North Indian Tea Plantations

Head	Fixed cost (Rs. in crore)	Recurring cost (Rs. in crore)	Total (Rs. in crore)	Cost (in Rs. Per kg of made tea)
Housing	76.40	34.40	110.80	1.85
Sanitation & conservation	25.00	-	25.00	0.41
Medical	5.80	75.00	80.80	1.35
Education	Nil	6.10	6.10	0.10
Drinking water	Nil	25.00	25.00	0.41
Total	107.20	140.50	247.70	4.12

Table 5.5 Estimated Annual Expenditure for South Indian tea Plantations

Head	Fixed cost Rs. in crore	Recurring cost Rs. in crores	Total Rs. in crore	Cost (in Rs.per kg. of made tea)
Housing	Nil	10.25	10.25	0.76
Sanitation & conservation	Nil	5.94	5.94	0.44
Medical	Nil	23.36	23.36	1.73
Education	Nil	1.47	1.47	0.11
Drinking water	Nil	5.43	5.43	0.40
Total	Nil	46.45	46.45	3.44

Estimate total turn over of tea industry during 2006 vis-a-vis required annual expenditure for providing statutory facilities under PLA.

Table 5.6 Estimated Value of Tea Produced in 2006

(figures in Rs Crs)

	North India	South India	All India
Total Turnover	6269.97	1623.67	7893.64
Total Estimated cost for providing facilities for Statutory Provisions	247.70	46.45	294.15
Per centage to total turn over	3.55%	2.86%	3.73%

The average price of tea is about Rs.70 per kg in North India and is around Rs. 45-50 per kg in South India. The impact of social costs in per centage terms works out to about 5-8 per cent. The profitability of the industry at the current level of prices both in the local and international markets does not provide the way to meet this cost. The total cost both fixed and variable for providing these facilities, is around Rs.300 crore per annum. In an industry with a turnover of about Rs.7800 crore, this burden is too high. Any fall in the prices would further raise the per

centage of social cost. It cannot be presumed that in an industry which is highly labour intensive, the margins of profits are going to be as adequate as to bear this quantum of burden of the social cost. Based on these estimates, the committee recommended that the social sector cost do need to be shared by the government to the extent they can be covered under the various ongoing social sector schemes of the Central / State Governments as was recommended by the Inter-Ministerial Committee earlier.

Overall liability-the estimated cost per kg and the estimated total annual requirements of funds for providing following social sector benefits to the tea garden employer is summarised as follows:

Table 5.7 Overall Liability of the Tea Plantations in India

Facilities	Cost per garden	North India		South India		All-India	
		Total cost (Rs.Crores)	Cost per kg of made tea (Rs)	Total cost (Rs.Crores)	Cost per kg of made tea (Rs)	Total cost (Rs.Crores)	Cost per kg of made tea (Rs)
Housing	Rs. 2.00 lakh per house as construction cost and Rs. 5000 per house as maintenance cost	110.80	1.85	10.25	0.76	121.05	1.65
Sanitation and conservation	Rs 2.00 lakh per garden	25.00	0.41	5.94	0.44	30.94	0.42
Medical facilities	Rs.6.00 lakh per garden as recurring cost and Rs. 5 lakh per dispensary as construction cost in Assam and Rs. 4 lakh per dispensary in North India other Assam	80.80	1.35	23.36	1.73	104.16	1.42
Education facilities	Annual recurring expenditure @ Rs. 20,000/garden and Rs. 60000 as salary per garden of Assam Valley other than Golaghat	6.10	0.10	1.47	0.11	7.57	0.10
Drinking water	Rs 5.00 lakh/garden	25.00	0.41	5.43	0.40	30.43	0.41

6.1 Corporate Social Responsibility and Indian Tea Industry

The social, environmental and economic consequences due to the operations of a business have a direct impact on human lives. Therefore, an enterprise is considered responsible if it assumes responsibility for minimizing the negative impact and maximizing the positive impact due to its operations on all its stakeholders, within its sphere of influence, in relation to recognition and fulfillment of human rights.

The social, economic and environmental issues are the emerging focal points in industry. This gives the opportunity and the space for wide-ranging discussions at various levels. There is a demand from consumers for products which are environmentally or ethically superior, and for CSR commitments that will contribute to sustainable economic development. Various types of moral consumer behaviours have been observed such as the selection of products based on a criterion of environmental¹⁰⁷ and social responsibility¹⁰⁸ as well as consumer boycotting.¹⁰⁹ This pattern therefore calls for involving employees, their families, the local community and society at large to improve the quality of life in ways that are both good for business and for development.¹¹⁰

CSR standards, codes and practices may be individual company quality requirements (such as those expressed in purchasing and sourcing agreements), driven by consumer expectations and shareholder reputational concerns. Alternatively, they may be importer codes and standards, for example, those driven by concerns over liabilities for food safety. There are also CSR codes developed by NGOs, driven by ethical principles, and adopted by mainstream buyers, such as the UK Fairtrade scheme. In recent years, due to weaknesses in both business and NGO-led codes, consensus-based (often multi-stakeholder-driven) codes and certification schemes have developed. Table 6.1 summarises major standards and practices of CSR.

¹⁰⁷ Strong C, 1997.

¹⁰⁸ Ibid.

¹⁰⁹ Smith C N, 1990.

¹¹⁰ Minton, A. and Rose, R; 1997 and Robert J. C, 2004.

Table 6.1 CSR Standards, Codes and Practices

Economic	Social
Monetary flows to the public sector Employment and human resource Development Procurement and supply chain management Technology transfer and intellectual property rights	Health and safety of employees Labour standards and working conditions Corruption and bribery Human rights Violence and conflict Social impact assessment and Management Community and stakeholder engagement (non-commercial) Charitable giving Social/community investment Social reporting and management systems
Environment	Corporate Governance
Environmentally safe production, products and services Resource and energy efficiency Environmental impact assessment and management Environmental reporting and Management systems	Rights and treatment of Shareholder Governance policies and business Principles Information disclosure and reporting Responsibilities of the Board Customer/end-user care

At the core of the CSR concept is the fact that it reflects both the social imperatives and the social consequences of business success, and that responsibility accordingly falls upon the corporation. But the precise manifestation and direction of the responsibility lies at the discretion of the corporation. CSR has thus been treated as differently from business activities. This helps to fulfill the core profit-making responsibilities and social responsibilities of government.¹¹¹

Types of CSR standards

National CSR Standards
<i>National legislation</i> – frequently the environmental and social standards required by markets, are the same or similar to those already required by national laws, which in many cases are not being met or enforced. This includes: occupational health and safety legislation in the workplace, labour standards, anti-corruption and bribery laws, tax breaks for charitable giving, product and consumer safety and duty of care, environmental protection legislation, environmental impact assessment requirements, export and excise requirements, rights and treatment of shareholders, requirements for disclosure of company information
<i>Business start-up CSR standards</i> – these are the minimum national environmental, social and corporate governance standards that newly established firms would need to meet to operate within a country and to enter domestic markets
<i>Business expansion CSR standards</i> – firms that wish to grow may come up against new national CSR standards that were not applicable when smaller. Specific thresholds may apply, such as the need for a formal Health and Safety policy if shifting from contract to permanent employees. Alternatively, it may be that growth means taking on new assets or processes that carry certain environmental or safety requirements
<i>Investment promotion</i> – in some jurisdictions, firm eligibility for the benefits of locating within enterprise Zones or Export Processing Zones, or receiving tax credits etc, may include compliance with certain regulatory CSR standards or codes

¹¹¹ Friedman, M 1970.

International CSR Standards
<i>Trade-related CSR standard</i> – the eligibility criteria for joining quota and other preferential trade schemes may involve CSR standards. For example, in June 2005 the EU adopted the special incentive arrangements for sustainable development and good governance within its Generalised System of Preferences (known as the "GSP Plus"). ^{ix} This provides additional benefits for countries implementing certain international standards in human and labour rights, environmental protection (Reg No. 980/2005). GSP plus will apply 27 key international conventions on sustainable development and good governance (including the Kyoto Protocol on global warming, Cartagena Protocol on GMOs).
<i>Stock market listing requirements</i> – the growth strategy of some larger firms in emerging markets is to achieve a listing on the domestic, or on other country's, public stock market. Increasingly, stock markets require the periodic publication of CSR information around social and environmental risks and performance
<i>Socially responsible investment (SRI) funds</i> – the investment criteria of some large pension funds and insurers now include environmental, social and corporate governance standards. For example, pension funds and insurers now own 70% of the top 1000 US companies, pushing higher corporate responsibility standards in global sourcing and investment
International principles-many countries are now signatories to international conventions, codes and principles on environmental, social, economics and corporate governance, or are exporting to countries who are signatories. Examples include: UN Heritage (whi can affect tourism sector), ILO conventions (which can affect the apparel sector) and the Extractive industries Transparency initiatives (ETI) principles for transparency in payments and receipts of non-renewable natural resource revenues.
Market Based CSR Standards
Buyer CSR sourcing criteria-CSR standards and practices of buyers and purchases on environmental quality and labour rights are frequently incorporated into purchasing agreements. For example, in the early 1990s, sweatshop allegations lead to branded manufacturers in the apparel industry revamping their labour and environmental standards to avoid worldwide consumer boycotts and media attention
Tendering criteria- more generally , public sector and private sector clients may include CSR standards as part of tender pre-qualification requirements, within in tender documents, as criteria for evaluating competing bids, or as terms of conduct
Project Finance requirements—CSR standards may be required of firms seeking project or corporate financing or insurance from commercial and development banks. For example, in June 2003, the IFC developed the Equator Principles, a voluntary of guidelines for commercial banks to manage environmental and social issues in project finance lending. The principles have now been adopted by 34 financial institutions, representing 80% of project finance to emerging markets.
CSR standards in joint ventures- part of the competitiveness or growth strategy of smaller, junior firms, may be to enter into joint ventures with larger domestic or international companies. For the principal partners/s, the joint venture may carry reputational and operational risks if the juniour firm has lower CSR standards. Meeting these higher CSR standards may thus form part of JV agreements.
Local community expectations for CSR- moving into new countries or regions may offer firms a competitive advantage, eg to extract lower cost minerals , or access cheap labour. However, the communities resident in the area, especially if rural and economically deprived areas, may have very different expectations of what constitutes acceptable social responsibility by the relocating firm. This may include expectations around employment opportunities, security arrangements and environmental pollution. Though these standards may not be so directly relevant to international buyers they may be relevant to the firm staying in business.
End Customers and the media-the purchasing decisions of end customers (and the way in which these decisions are influenced by the media)may not exactly match the sourcing criteria applied by large buyers or distributors. Understanding the CSR priorities of the very end users may be one way to access new markets, or influence buyers to change or raise their CSR standards so creating opportunities for competitive advantage.

Subsequently, concerns with corporate social performance, stakeholder relations, corporate citizenship, links with financial performance and developments in the field of ethics have

become extensions of CSR theories and practices.¹¹² It is important to mention here, the key initiatives of HUL and Tata like ETI/ETP/Fair Trade/Individual Company Codes, etc. For instance, Tata Company has made many initiatives to make the company more competitive in international market. The initiatives they have taken to implement or strengthen CSR is the way to develop their sustainable business model in long term. They have taken initiatives to identify geographical specific diseases, specific occupational hazards to understand how occupational hazards and specific disease will occur in some specific regions. For instance, goiter is reported by the many workers in estates of certain region. This is due to various factors not simply the symptoms of impact of any occupational hazards.

6.2 CSR and Small Tea Growers

In the emerging new model of the tea industry however, small tea growers with low costs of production, are hardly in a position to address issues of CSR. Financial constraints are the main reason for this, as CSR processes add to costs of production. As expressed by some brokers and buyers, 'Implementing CSR in the tea sector adds to production costs. The Plantation Labour Act (PLA) also addresses issues in tea sector and CSR is an additional cost for the producers for the same processes. It seems needless.'¹¹³ However, the international tea market demands that tea is produced in a socially and environmentally responsible manner. The initiatives of small growers like Peerumade Development Society (PDS) in Kerala who are involved in fair trade practices etc. are exceptions.¹¹⁴

While major companies like Hindustan Lever Limited or Tata Tea are profitable, currently small growers get low returns and therefore compromise on the quality of leaves in order to get minimum levels of earning out of their cultivation. CSR practices have remained confined to few big tea companies, are still equated with philanthropy and have not been integrated within core business strategies. This has more to do with the tea management culture developed over more than 100 years.¹¹⁵

The value chain of tea is often used by the global brands to pass on the costs of necessary improvements down the supply chain to their suppliers while claiming the benefits of these improvements as well as the commercial gains from their CSR stance. The growing NGO movement and consumer campaigns are demanding that large companies take

¹¹² Schwarts, M S & Carroll, A B 2003.

¹¹³ Discussions with some of the brokers and buyers, Kolkata.

¹¹⁴ Detailed Discussions on PDS is given in following section.

¹¹⁵ See Shatadru Chattopadhyay (2006).

responsibility for the entire supply chain, from plucking of green leaves to reaching the end consumer. The following table summarises the major concerns and issues of CSR in small holdings.

Table 6.2 The TBOD for CSR in Tea Industry

Threats	Opportunities
Protectionism by backdoor	Business case benefits: Better alignment with consumer concerns, cost savings, productivity and innovation
The burden of compliance and monitoring	Growers as beneficiaries of CSR initiatives
The CSR paradox: Small growers unable to generate benefits from CSR	Broader benefits of CSR, eg. Lifelong learning community development
Barriers	Drivers
Lack of technology, expertise, training and investment necessary to make improvements	Supply chain pressure from TNC codes of conduct and demand certification
Few CSR initiatives oriented towards growers	Shifting markets, the need to align production towards changing consumer preferences, internationalisation of standards
Little understanding of business case. Supply chain initiatives rarely extend beyond first level suppliers	Local pressure from regulation, public policy and civil society
More pressing need to upgrade technology management and marketing	Strategic business case benefits
Price competition and limited consumer Pressure	

Source: Shatadru Chattopadhyay (2006)

As discussed in the earlier chapter, MNCs capture the value of the product at various stages of supply chain. In the Indian tea industry, the two biggest multinational tea companies are Hindustan Lever Limited with over 45 per cent share followed by Tata Tea Limited, with an estimated market share of 28 per cent in the packet tea segment. Goodricke Group Limited is the third largest multinational tea company in India. Most multinational and big national tea companies have their own estates along with trading, processing, blending and packaging facilities. Ownership of both plantations and processing factories is called horizontal integration. However, there is a vertical integration also as they control transport companies, fertilizer companies, shipping agencies etc. Due to control of the entire production process from tea shrubs to tea bags, these companies have considerable influence over supply and demand and thereby on the tea trade policies of the tea producing countries.

Small tea growers and tea industry workers in India are in a crisis situation owing to distortion of trade practices at both domestic and international levels as well as control of MNCs over the global tea market. Globalisation has been marked by the efforts from MNCs to slice the value chain, and break the production process into many steps. MNCs are currently engaged in moving away from production processes and limiting themselves to organizing and managing commodities i.e tea, garments, footwear, consumer electronics.¹¹⁶

6.3 Worker's rights: focus area of CSR

A core area of CSR is the role and rights of workers. Fair wages, working hours and conditions, child-care centres, healthcare, redundancy, protection against unfair dismissals etc have been the key issues which CSR policies have addressed. Workers who are key stakeholders often have no awareness on the 'Code of Conduct' and have no role to play in its development or implementation. Therefore the issue of collective bargaining and the role of trade unions vis-à-vis tea industry need further examination in the present models of CSR.

Discussions on female workers and their role in decision-making processes are rarely addressed. Women workers constitute the majority in both large and small tea gardens in India. Though trade unions address issues of workers, attention to female workers is minimal. It has been observed from the field that female workers are marginalised in CSR. Women are also stakeholders as customers, shareholders, suppliers, supply chain workers, and community members. Whether from a social justice, stakeholder or business case perspective, CSR should systematically address question of gender equality.

6.4 CSR and the Business Case in the Tea Industry

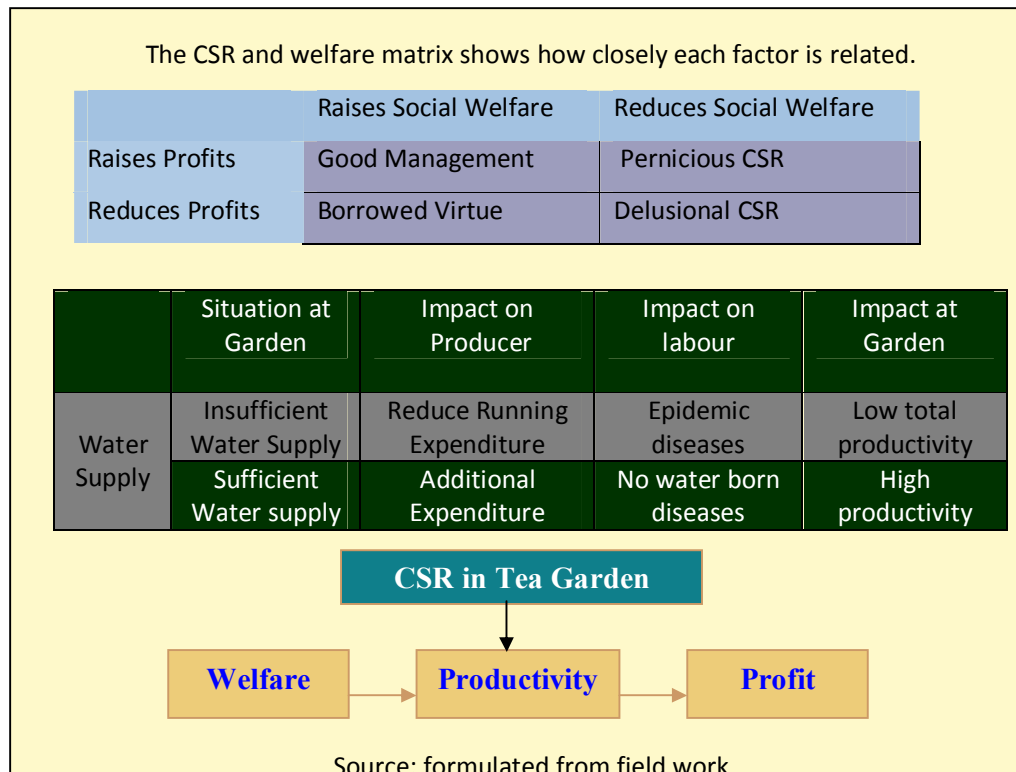
CSR policies that are currently being practices in tea gardens give rise to questions about whether the tea sector implements them for economic reasons or because CSR policies have intrinsic merit.¹¹⁷ There has been few or no empirical tests in support of the intrinsic merit¹¹⁸ and this makes CSR policies open to accusations of being mere gimmicks for profitable public relations and marketing strategies.

¹¹⁶ Ibid.

¹¹⁷ Donaldson, T & Preston, E L. 1995.

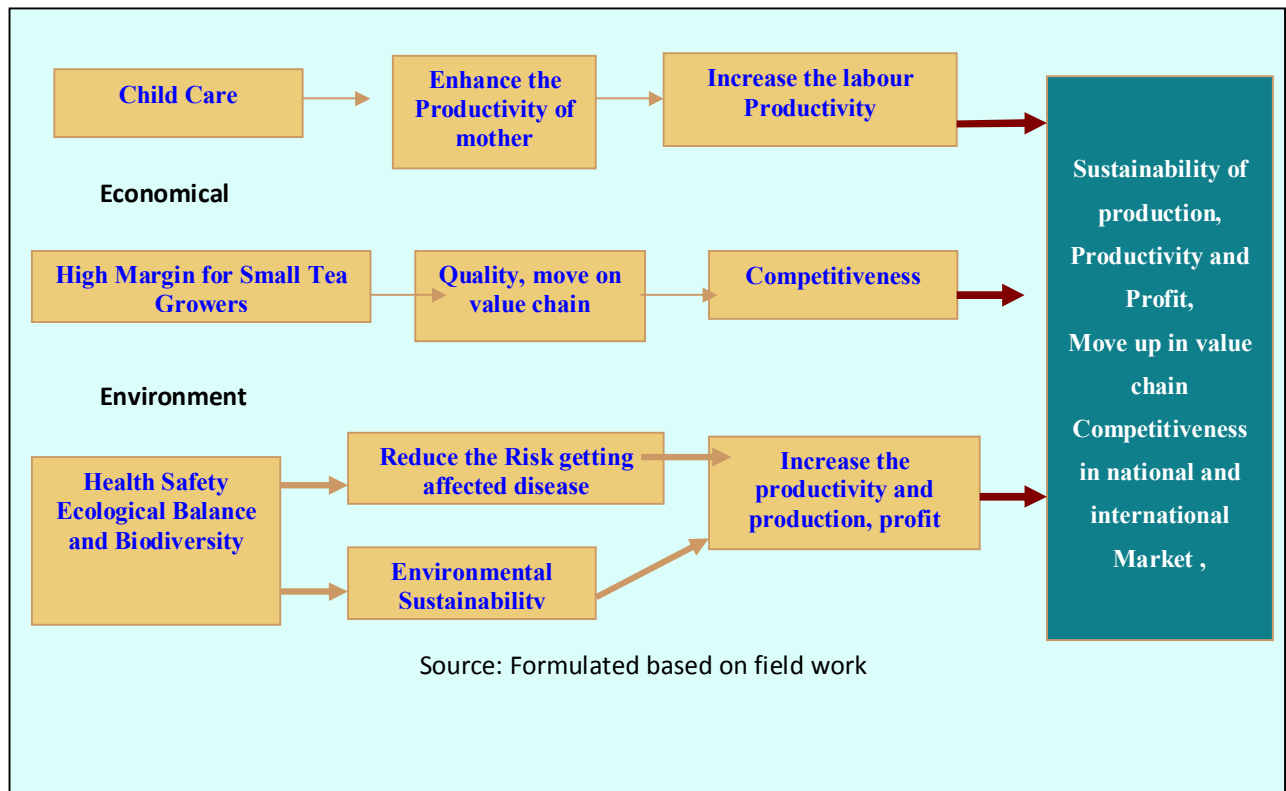
¹¹⁸ Harrison. J G & Freeman, R E. 1999.

Figure 6.1 CSR and Welfare Matrix



The following figure demonstrates the three broad areas under which CSR works, though each aspect of CSR has many indicators.

Figure 6.2 Process of CSR in Small Tea Sector



As demonstrated above, the social, environment and welfare measures are deeply related to the business case of the tea industry. Since the industry is labour intensive, the productivity of the worker is closely linked to the productivity of the industry as a whole. Welfare measures in different areas directly influence the workers as well as the industry. CSR practices denote different things to the various stakeholders. Field observations have shown that though many stakeholders are aware about CSR practice in the tea industry, they hardly address these issues in their business.¹¹⁹ For instance, brokers point out that it is necessary to look into the matter of social and environmental responsibilities as the international market is more case sensitive to these issues. While these matters are discussed with producers, compulsion is not used in the effort to get them to implement CSR in their gardens, for fear of losing their business. The following table summarises the perspectives of various stakeholders regarding CSR and its implementation in the tea industry in India.

Table 6.3 Perspectives of Stakeholders on CSR and Tea Industry in India

Stakeholders	Perspectives
Workers at Small Tea Gardens/Estates	Not part of it, not addressing labour issues, especially women No role of decision making process and CoC
Small Growers/other tea producers	Increase or add the existing cost production How CSR increase the productivity and business case is not clear Whether there should be the same social, economic and environmental responsibilities of the big planters and the small growers How the cost of improvement in the small holdings are shared between different actors is a major issue as the margins lies mainly at the upper end of the value chain. The big tea companies need to share the cost of improvements and this should not be pushed to the small holders as their sole responsibility.
Trade Union	CSR is going beyond law; there should not be any efforts to dilute the mandatory laws with voluntary CSR guidelines. The CSR practices should be evolved in consultation with the trade unions and should play a role in its implementation
Research Institutes/ Statutory Board/NGOs	PLA already exists, whether CSR adds to the cost, can we focus on fully implementation of PLA or rather

¹¹⁹ The issues of CSR are discussed with all stakeholders in major tea producing regions, namely Assam, West Bengal, Tamil Nadu and Kerala, in India during the field work.

	go for CSR, Benefits of CSR to producers are still ambiguous and doubtful
BLF	No direct control over production Knowledge to be acquired for usage of fertilisers
Brokers	No control over production sector, but dialogue with producers and buyers are on
Auction Centres	CSR is out of their control and it works only as a platform for auction
Registered Buyers	Looks for quality and price. Though they are aware about the CSR never insist on producers
Upcountry Buyers	CSR is not part of the business since consumers are not demanding
Retailers	No mechanism to trace back to garden Consumers are not demanding, and many cases their preference on regional mark instead CSR at gardens
Consumers	Not aware of the CSR but prefer good quality of tea.

Source: Formulated from field work

6.5 Ethical Trade Initiative

The Ethical Trading Initiative (ETI) is an alliance of companies, NGOs and trade unions working to promote and improve the implementation of corporate codes of practice which cover supply chain working conditions. ETI is a UK -based partnership of NGOs (including Oxfam, the Fairtrade Foundation and Save the Children), trade unions and High Street companies. ETI’s aim is to ensure that internationally recognised labour standards are observed at all stages in the production of High Street goods sold internationally. The ETI seeks to achieve this by ensuring implementation of codes of conduct that embody such standards, and backing them by monitoring and independent verification. The table below shows the CoC and its implementation.

Table 6.4 Code of Conduct of ETI

Base Codes	Implementation
Employment is freely chosen Freedom of association and the right to collective bargaining are respected Working conditions are safe and hygienic Child labour shall not be used Living wages are paid Working hours are not	Member companies accept the principle that the implementation of codes will be assessed through monitoring and independent verification; and that performance with regard to monitoring practice and implementation of codes will be reported annually. Companies will engage with other members in the design, Implementation and analysis of pilot schemes to identify good practice in monitoring and independent verification and share this experience with other members. Company members will draw on this experience in

excessive No discrimination is practiced Regular employment is provided No harsh or inhumane treatment is allowed	establishing where relevant with other ETI members' work plans to implement programmes of monitoring, independent verification, and reporting, and will report progress against these programmes to and through the ETI in a format and timing to be agreed. Workers covered by the code shall be provided with a confidential means to report failure to observe the code and shall be otherwise protected in this respect
--	--

Source: Shatadru Chattopadhyay (2006)

6.6. Fair Trade and Tea Industry

For the fair trade movement and its supporters, fair trade is a means of helping small-scale producers (and workers) in developing countries improve their quality of life by providing them with a more profitable and stable trade relationship. Basic components of fair-trade are summarised in the box.

- a price that covers the cost of production and provides for a living wage for producers and workers;
- price premium to be invested in development;
- credit allowances or advance payments; and long term relationships

The fair trade Labelling Organisations (FLO) International was founded in 1997 as an umbrella organisation of the 17 national fair trade labelling initiatives. Since 2002, producers and traders are represented on the board and are part of various committees. FLO international is a publicly-recognizes non profit multi-stakeholder association involving labeling initiatives, producer organizations, traders and external experts. FLO International offers the service of development of fair trade standards that benefit small farmers and workers, promote sustainable production, guarantee a fair price and an extra fair-trade premium. Fair-trade standards go further than codes of conduct and other social labels, such as besides minimum requirements that producers and traders must meet, FLO expects them, through progress requirements, to continuously improve working conditions, to increase the environmental sustainability of their activities and to invest in organization development workers and small farmers.¹²⁰

Workers and management has to decide jointly about the use of the fairtrade premium received for labelled products. Joint Body with representatives of management and workers has to be created to manage this fund. The premium is to be used for improvement of the socio-economic situation of the workers in the gardens.

¹²⁰ Fairtrade standards exist for food products such as tea, coffee, cocoa, honey, juices, wine grapes, fresh fruit and vegetables, Dried fruits, nuts and spices, and non food products such as flowers and plants, sports balls and seed cotton.

Fair Trade Criteria for Tea¹²¹

The fair trade criteria for tea consists

- The generic standards for hired labour in the case of tea plantations
- The generic standards for small farmers' organisations in the case of smallholder tea producers associations.

Those generic standards are complemented by product specific standards for tea, mainly consisting of trade standards.

The main fair trade admission criterion for a facility is that the employer needs the revenues of fair trade to be able to promote social and economic development of the workers. The labour standards follow ILO conventions on ending discrimination of workers, child and forced labour, freedom of association and collective bargaining, conditions of employment and occupational health and safety. The requirements are divided into minimum requirements that have

Key principles of fair trade

Opportunities for economically disadvantaged producers: Its purpose is to create opportunities for producers who have been economically disadvantaged or marginalised in the conventional trading system.

Gender Equity: Emphasis is often placed on ensuring that women's work is properly valued and rewarded. Women are always paid for their contribution to the production process and are empowered in their organisations.

Transparency and accountability: Fair Trade involves transparent management and commercial relations in order to deal fairly and respectfully with trading partners and customers

Capacity building: Fair Trade assists in developing producer independence through sustained relationships with trading partners that provide continuity, and often include management skills development, improved access to markets, and financial and technical assistance.

Payment of a fair price: A fair price in the regional context is one that has been agreed through dialogue and participation. It covers not only the costs of production but enables production that is socially just and environmentally sound. It provides fair pay to the producers and takes into account the principle of equal pay for equal work by women and men. Fair Traders ensure prompt payment to their partners and, whenever possible, help producers with access to pre-harvest or pre-production financing.

Working conditions: Fair Trade means a safe and healthy working environment for producers. The participation of children (if any) does not adversely affect their well-being, security, educational requirements and need for recreation, and conforms to the UN Convention on the Rights of the Child as well as the law and norms in the local context.

Environmental Sustainability: Fair Trade encourages producers to engage in production practices that manage and use local resources sustainably. Fair traders often work directly with producers in regions of high biodiversity in order to develop products based on sustainable use of their natural resources, giving communities incentive to preserve their natural environments for future generations.

Promoting Fairer Trade: Fair Trade organisations educate the public about the importance of purchasing fairly traded products, highlight the need for change in the practices of conventional trade, and publicly demonstrate how fair trade is a successful model that emphasises social justice and environmental sustainability, over the endless drive for increased profits.

to be met from the moment the producers get certified, and progress requirements, on which producers must show permanent improvement. The organisation should have "export ability",

¹²¹ FLO 2003 Fairtrade Standards for Tea (for Small Farmer's Organisations) and Fairtrade Standards for Tea for Hired Labour.

i.e., the capacity to bring a quality product to the market. In addition, demand for the producers' fair trade product must exist.

6.6.1 Standards for Small Farmers' Organisations

FLO defines small producers as those who are not structurally dependent on permanent hired labour, managing their farm mainly with their own and their family's labour force. Similar to the hired labour situation, an admission criterion is that the organisation needs the fair trade revenues to promote social and economical development of small farmers. The standards demand a democratic structure of the small farmers' organisation with a General Assembly with voting rights for all members as the supreme decision-taking body and an elected Board. The 'export ability' and environmental criteria are the same as those for the hired labour situation.

If a small farmer organization employs a significant number of workers, specific standards apply that are similar to those as for a hired labour situation. Where a smaller number are employed and/or where workers are casually hired by farmers themselves, few specific labour standards apply. However, some of the labour standards such as on forced and child labour are applicable to all producer organizations, regardless of the number of employees. Children cannot be employed (contracted) below the age of 15. The standards do allow that children help on the farm as part of the farmers' family labour as long as schooling and the social, moral and physical development are not jeopardised.

6.6.2 Market Situation for Fair Trade Tea

In 2002, there were 49 fair trade certified tea producer organisations and estates in 7 countries (China, India, Nepal, Sri Lanka, Tanzania, Uganda and Zimbabwe). However, only 37 of them sold (part of) their product under fair trade conditions.¹²²

India, Sri Lanka and Tanzania together supply 85 per cent of all fair trade tea. Fair trade tea comes from plantations with own tea factories as well as from private tea factories buying (partly) from smallholders. Co-operative ownership of a factory is rare. There are 27 exporters and 49 importers involved in the trade of fairtrade tea. Exporters have to obtain a license from FLO and importers have to obtain a license from the

Fairtrade Tea Producers (Nos)	
China	33
Egypt	1
India	30
Kenya	1
Nepal	1
Peru	1
S Africa	5
Sri Lanka	14
Tansania	6
Uganda	4
Vietnam	1
Total	67

¹²² FLO (2003) Report 01 / 02 Mainstreaming fairtrade labelling.

national initiative operating in the country of import. FLO International checks whether the sales volumes reported by certified producers, licensed exporters and licensed importers match. Some well known fairtrade suppliers are Tea Promoters India and Stassen from Sri Lanka.¹²³

Fair trade labelled tea was first introduced in 1994 in the UK and Germany. Sales of fairtrade tea as reported by FLO are given in the above table. The market for fair trade tea is dominated by the UK, followed by Germany and the Netherlands. The highest market share is obtained by Switzerland, followed by Denmark and Italy. The recent introduction of fair trade tea in the US seems to be quite successful. With the latest introduction in Belgium, fairtrade tea is present in all 17 countries with a national initiative.

Farm-gate or factory-gate fair trade prices are negotiated based on market prices and vary according to origin, (organic) quality and flavour. On top of that price comes the fair trade premium. Consumer prices for fair trade tea may be higher than conventional prices not only because of this premium, but also because the traders need to pay a license fee to the national initiative and because of a lack of economies of scale.

6.6.3 Prospects for Fair Trade Tea

Total sales of fair trade tea can be expected to continue to grow at 15 to 20 per cent a year. Growth especially in the UK and US is expected to continue and because they are large tea markets, developments in those two countries will be decisive for total fair trade tea sales.

In the UK, sales volumes of all fair trade products are growing steadily. The fair trade label enjoys increasing recognition and the success in one product is reinforcing growth in the other. Given the relative low share of fair trade tea in the total UK tea market, there is still room for considerable growth. The 1.5 per cent market share of fair trade coffee could be taken as a reference¹²⁴. A 1.5 per cent share of fair trade tea would translate in volumes of around 1900 - 2000 MT for the UK¹²⁵. With a growth rate of 20 per cent per year, this volume would be reached in 2007. In the US, a market share of 0.5% may be expected for 2005 which would translate in volumes of 470 MT. This would require very high growth rates of around 100 per cent, but those are not uncommon shortly after introduction. Also in France, strong growth can be expected as consumer awareness for fair trade has grown dramatically in recent years and supermarkets are starting to admit fair trade products on their shelves.

¹²³ Fair Trade Organisatie, personal communication.

¹²⁴ EFTA 2001. Fairtrade in Europe 2001.

¹²⁵ Taken into account a declining total tea consumption.

6.7 CSR and Trade Initiatives in Tea Industry

The following section provides case material from a selection of corporate-community ventures and initiatives from small tea growers in India tea sector.¹²⁶ There is a widespread impression in the tea production sector that the produce of small tea growers is of inferior quality and fetches low prices at auctions. The case studies in the following section disproves this and demonstrates the fact that small growers who are organised well can perform just as well, and in fact serve as role models. An interesting fact about small initiatives is that they are all the results of joint ventures of various stakeholders at different levels. This initiative fetches higher prices when compared to other estate factories that hold major shares in the direct market with their own brands.

6.7.1 Peerumade Development Society (PDS) in Kerala

Peerumade Development Society (PDS) is a registered NGO working for the integrated and sustainable development of the rural poor in Idukki District, Kerala. PDS has initiated the 'comprehensive organic tea promotion programme' for small and marginal farmers in Idukki district. As part of this, PDS promotes a joint venture of The Sahayadri Organic Tea Factory and The Sahayadri Tea Farmers Consortium in the region. The factory currently supports around 1088 farmers who are members of Consortium.¹²⁷ It is an attempt to promote long term sustainable organic production methods, and takes into account environmental issues and helps marginal farmers get premium prices for the tea produced in the neighbouring areas of Peerumadu. Though the initiative attempts to focus on production sector marketing is also one of the major challenges it seeks to address.¹²⁸ PDS has also initiated quality awareness programmes i.e. plucking and pruning methods, for small growers in the region in association with the Tea Board.¹²⁹

PDS has adopted Fair Trade practices in an attempt to enable small farmers to use them for economic and social development. They would otherwise have been unable to develop at a sustainable pace owing to unviable returns from their gardens. Fair Trade benefits reach the smallest of the marginal growers and basic capacity building also help to attain sustainable

¹²⁶ The details of CSR and trade initiatives of Indian Tea Industry is drawn from Saji (2007), *Chai Time: Sustainable Livelihood for Small Tea Growers through CSR*, Partners in Change, New Delhi.

¹²⁷ Note on PDS, prepared by PDS, Idukki, Kerala.

¹²⁸ Proposal for promoting marketing activities of organic tea through various visual, audio and print media in the state of Kerala by SOTF, unpublished document collected from SOTF, Peerumade, Kerala.

¹²⁹ Quality Up-gradation Project for Tea- in Small Sector, Supported by Tea Board & PDS, Peerumade, Kerala.

development. A farmer's consortium has been formed, which is democratically elected and has a transparent form of administration.

The general body of the farmers is empowered to change the consortium members if the majority of the members decide that such a change is warranted. The benefits of Fair Trade are decided by the general body and projects are taken up after its approval. Frequent meetings are held and there is a minimum requirement for the general body to meet at least once a year. A women's development wing has been formed and entrusted with the task of upgrading quality of green leaves harvested, improving on the standards of organic cultivation and identification of projects that could be taken up under the fair trade premium norms.¹³⁰

The factory has the capacity of producing 6-8 lakh kgs of made tea per annum, though the factory is currently under-utilizing its capacity. A positive scale of economics and proper utilization of their potentialities would enable them to fetch relatively higher prices for their farmers.

Marketing organic tea in domestic as well as in international markets is a challenging task. Despite the potential available in domestic markets lack of proper channels and options are proving constraints to expanding the market.

6.7.2 United Small Tea Producers Association (USTPA) - Nilgiris.

United Small Tea Producers Association (USTPA), which has been formed in association with Partners in Change (PiC), New Delhi, is a new initiative among small growers from Nilgiris. It has the broad objective of promoting sustainable livelihood for small tea producers. USTPA is the outcome of a series of consultative workshops organised by PiC with small tea growers in Nilgiris with the purpose of exploring different possibilities of jointly addressing the crisis in the tea small holdings in Coonoor. Initially USTPA started with around 400 small growers from five neighbouring villages in Nilgiris. The major areas of focus within the initiative are to:

- Improve the living and working conditions of small tea producers and workers
- Promote coherent, collective, coordinated and concerted (4Cs) approach of small tea producers of TN with regard to various social, economic and environmental issues related to the tea sector
- Engage with various stakeholders in the tea industry on behalf of the small tea producers
- Initiate various agricultural improvement programmes in the small tea producing areas

¹³⁰ Discussions with PDS resource person.

Positive changes that have occurred within a short period

- Organised small growers and negotiated with other stakeholders, especially with the Tea Board within a short span of time.
- Availing subsidies and other grants from the Tea Board as a result.
- Created awareness among small growers regarding quality improvement and the importance of co-operation among each other for their own well-being and for sustainable livelihoods.
- Made efforts to directly involve national level companies and purchase directly from small tea gardens in order to procure better prices in the long run.
- Attempted to move up in the value

Constraints:

- Difficulties in finding markets for green leaf.
- Dependence on the leaf agent and BLFs for selling their green leaf
- Measures to mitigate the ecological imbalances and other environmental problems owing to large-scale conversion of forest land into tea cultivation are proving to be a challenge because the region is known as for large scale forest conversion into tea cultivation.

6.7.3 JustChange, Gudalur, Tamil Nadu

JustChange is a network pioneered by the Adivasi Munnetra Sangam (AMS) from Gudalur, and three more people's organisations - Bhoothan Vikas Mandal (BVM), SAWARD and Sahabagyi Vikas Abhiyan (SVA) in Gudalur.¹³¹ The basic objective of the initiative is to ensure that the profits are shared by the various stakeholders who engage in trading including workers and consumers. JustChange seeks to link these producers, consumers and investors in a co-operative chain where they can work for the mutual benefit of all within the chain, irrespective of where they might reside.

The network seeks to change the structure under which trade is conducted in a way that will change the power relationships between labour and capital. Stan Thekkekkara, Chairman and CEO, says that 'We need a structure that recognizes that labour and capital have important roles to play in the economy, and in a way, ensure that they are not in competition with each other but work in tandem for mutual benefit',¹³²

¹³¹ See details of this trading initiatives at <http://www.justchangeindia.com> and <http://www.adivasi.net>.

¹³² <http://www.feasta.org/documents/review2/thekaekara2.htm>.

The final value of the tea when consumed goes back to the common pot and when books are closed, the surplus is divided between all the shareholders. JustChange challenges the notion that investment is just a matter of the capital employed, that one can scoop up the entire surplus of any economic activity simply by putting up the necessary capital. Instead, JustChange offers a structure where it is possible for any participant in any economic activity to be seen as an investor as long as they are willing and prepared to work as part of this structure. JustChange ensures that the generation of surplus is not for the benefit of any one participant but for all. The purpose of economic activity then changes from the creation of wealth (profit) to the creation of well-being for all.

However, it has been observed that the impact of this trade practice is limited to a particular region and so also its viability. It can therefore be considered as one of the alternative methods available to the industry.

6.7.5 Self Help Groups (SHGs) in Assam

The movement began with initiation from the Tea Board keeping in view the prime objective of the X plan period (2002-06) that sought to stress on the improvement of quality and enhance the productivity of the existing tea areas.¹³³ It has become imperative to organise the small tea growers sector by forming tea producer's societies/SHGs for achieving this goal.

SHGs demonstrate modern post-harvest technologies in leaf handling, storage and transportation to produce and supply better quality of green leaf to the manufacturing units.¹³⁴ Small growers are being motivated to set up SHGs amongst themselves so that it becomes easier not only for obtaining technical support but also for disposal of the green leaf directly to the manufacturing factories at reasonable prices.

Main Objectives

- Technology and information dissemination
- Collection, storage and transportation of leaves
- Procurement and supply of inputs

Financial assistance to set up leaf collection centres in places close to growers' fields, purchase of weighing balances and leaf carry bags/crates etc is given to SHGs by way of 100 per cent

¹³³ Discussions with Director, Tea Board of India, Kolkata.

¹³⁴ See the details of schemes in Tea Plantation Development Scheme: Scheme for Setting up of Pilot Tea Producers Societies (SHG) amongst Small Tea Growers, Tea Board, Dispur, Guwahati.

grants. 50 per cent of the cost of purchase of transport vehicles required for carrying the leaf from the collection centres to the processing factories¹³⁵ is also provided. Apart from the financial assistance, to produce better quality and impart managerial and technical skills, the board would send two people from each society for training so that each society had trained managerial and technical expertise in-house.¹³⁶ SHGs have helped create awareness about the importance of quality products and enthusiasm within the small tea sector and receive support from the small growers. As some of the members point out,¹³⁷ “Earlier the price of green leaf was fixed by the BLF or leaf agent, now we fix the price of our green leaf.”

Constraints of SHGs

Most SHGs find that their activities at the garden-level do not help small growers to move upward in the value chain, and there is a tendency to limit themselves to the lower levels of the value chain. There is a need to form groups which can participate in decision-making at various levels of the value chain.

It has also been noted that though the concept of SHGs has been adapted from Kerala, SHGs are not working in that State.¹³⁸ While SHGs are formed to help in marketing they do not play significant roles in the process. On the contrary they buy low quality tea and blend it according to the demand, which is more for low-priced tea rather than quality.¹³⁹ Discrimination based on gender is also one of the reasons that SHGs have roles to play only at the lower levels of the value chain rather than in the decision-making process.

As part of the CSR trade initiatives big companies like Tata Tea Limited and Hindustan Lever Limited have initiated various projects for the welfare and economic benefits of their workers. CSR practices in the small tea sector would help forge links between big companies and the small tea sector. The effect of CSR is limited and consumers are not knowledgeable about the products they purchase. There are problems in marketing organic tea in domestic as well as in international markets. Though there is a lot of potential in the domestic market itself, the lack of different channels and options to expand the market are some constraints.

¹³⁵ Ibid.

¹³⁶ Discussions with Director, Tea Board of India, Kolkata.

¹³⁷ One of the members in SHGs pointed out that this is the one of the positive outcome which they can communicate with others, SHG units, Assam.

¹³⁸ As stated by the one of the resource person from Tea Board, Kolkata. It also shows that lack of association and initiatives are the one of the factors of the tea sector in Kerala which lags behind attain the financial assistance from the Tea Board.

¹³⁹ It is also noted in session above that the SHS groups in the participated in marketing sell low quality tea in the rural areas mainly in tea shop and it is noticed that it is harmful and not tested for quality control.

Additionally, the small tea sectors fail to address environmental issues. Large-scale conversion of forest land to tea cultivation, and measures to correct ecological imbalance and other environmental problems sometimes pose challenges to small growers. Fair Trade initiatives have impacted small growers, even though there are certain questions that are unaddressed. The role for trade unions is extremely limited in Fair Trade practices. The trade unions interviewed mentioned that the issue of collective bargaining needs to be further elaborated in Fair Trade norms. It is demonstrative in nature and may not be able to replace the normal trade of tea. The issue of monitoring needs to be understood better. Some other questions are also important. For instance:

- Can CSR be the same for big, medium and small growers?
- Should the yardstick be the same for all of them or should there be different CSR requirements for different growers?
- How can one bring in the essential differences?
- How can the CSR Code be observed throughout the supply chain?
- How is the cost of observance shared?¹⁴⁰

There is widespread ambiguity on CSR and fair-trade/ETI practices. Different stakeholders look at the concept of CSR, its implementation and various trade initiatives differently. It has been observed that many stakeholders are aware about the CSR practice and tea industry though they hardly address the issues in their business. How can a uniform code be implemented? Achieving consensus of multi-stakeholders on a uniform code and different international standards are challenges in the Indian tea industry.

¹⁴⁰ Shatadru Chattopadhyay (2005).

Case Study- Recent Changes and CSR Practices in the Indian Tea Industry

7.1 Recent Accomplishments

The Indian tea cultivation is structured into a plantation model which is rooted from the colonial period itself. The Indian tea industry witnessed many structural changes over a period. Emergence of small tea growers and Bought Leaf Factories, which create new paradigm in tea industry by putting forward low cost of production in terms of workforce and technology, is one of the major changes in the recent history of the tea industry in India. Crisis in tea industry and closing down/ abandoning tea estates are the some of the other features which face the industry in the recent period.

In early 2005, the industry witnessed the old model of production section being replaced by withdrawal from production and concentration on the market of major companies, especially Tata and HUL, in India. Tata Tea and Hindustan Lever are the major two companies which hold major market share of tea in India. Tata Tea



initiated the withdrawal process from production sector in South India and later in North India as well. Similarly, Hindustan Lever also sold their gardens in North India. In the South, it is a new paradigm shift from the colonial mode of production to participatory management in tea cultivation. Tata Tea transferred its garden to the new company, KDHP with compliant employees as major stakeholders. In the North, McLeod Russel acquired the HUL tea gardens and moved to the highest global plantation company. Tata and HUL intend to focus on brand

business and explore market substantially rather than the plantation business which contributes to low margin.

Apart from the changing scenario of production sector and intensifying brand products and markets, the tea industry has also witnessed the new business model of the major companies in tea plantation, which is diversification of crops. The highly volatile price and fluctuation of international market forced the companies to develop new business model to sustain in industry. Most of the companies initiated new projects on diversification of products, developing retail market and nature-based tourism in and around their tea gardens.

In this changing scenario of the Indian tea industry, this case study tries to understand how Indian tea plantations accomplish their CSR is being practiced at international standards and strengthen and move the international value chain of tea industry. The attempts to move to multi-crops and other farming business include retail agri-markets merges as a new business model in the Indian tea industry.

In this changing scenario, the study looks at how CSR are practicing in Indian plantation and how it lead to the business model of achieving high productivity and competitiveness in international standards. The study contextualises two case studies based on two regions in India. The first, to understand the process of withdrawal of TATA tea in production sector and how the new company , KDHP developed its new model of production structure and its impact on the workforce in the industry. In the second case study, we look at the changing scenario of HUL moving out of production and the emergence of McLeod Russel as the worlds largest plantation company. The study also encompasses the nature of production and company's CSR practice in tea gardens. The study portrays how these plantation segments achieve international standards of CSR by achieving high productivity, quality and maintain good workforce in the changing scenario of plantation model to participatory plantation management and to business model in the recent period in the Indian tea industry.

7.2 South India-Plantation Model to Participatory Management

7.2.1 Tata Tea as major Players in Tea industry

Tata Tea group companies which include Tata Tea and the UK- based Tetley group, represent the world's largest global branded tea operation with products and brands in over 40 countries. Among India's first multinational companies, the operations of Tata Tea and its subsidiaries focus on branded product offerings in tea but with a significant presence in the plantations sector in India and Sri Lanka. The consolidated worldwide branded tea business of Tata Tea Group contributes to around 86 per cent of its consolidated turnover with the remaining 14 per

cent coming from bulk tea, coffee, and investment income.¹⁴¹ In India, with an area of 26500 hectares under tea cultivation, Tata Tea produces around 60 million kg of Black Tea annually.¹⁴² The company enters into the tea market to reach consumers in different strata of society.¹⁴³ The Tetley Group, headquartered in Great Britain is a leading international tea company selling over 60 Tetley branded products to over 40 countries worldwide. Tetley is the second largest tea bag brand in the world; it is the number one tea bag brand in Great Britain and Canada and has significant market shares in the United States, Australia, Poland and France. Beyond these markets, Tetley is steadily growing its presence in the rest of Europe, particularly the former Eastern block countries and throughout the Caribbean and lesser-developed markets such as Bangladesh, Pakistan and Russia where Tetley was launched last year. Tetley has a customised portfolio of offerings for each country, ranging from black, green, fruit and herbal teas, iced ready-to-drink tea and an extensive range of exotic speciality tea. The Tetley brand is accorded ‘Super Brand’ recognition in Great Britain.

Tata Tea has a substantial interest in the Sri Lankan tea industry through Watawala Plantations, Sri Lanka, where it focuses on production and marketing of tea, rubber and palm oil. Kannan Devan Hills Plantation Company, established on March 31, 2005, has major interests in production and manufacture of Black Tea at its 17 estates in Kerala. Tata Tea has a minority stake in the entity.¹⁴⁴

According to the latest report by AC Nielson (June 2007), Tata Tea has led with a major market share in the packet tea segment in India. The table shows the trend of market share in the packet tea segment in India. The company outperformed with a volume share of 19.2 per cent as compared to Unilever’s 18.6 per cent. The market share of Unilever has reduced to 18.6 per cent in 2007 from 26.1 per cent in 2002. As

Year	HUL	TTL
	Volume share (%)	
March 2002	26.1	16.3
March 2006	1.5	16.7
March 2007	19.5	18.5
June 2007	18.6	19.2

depicted in the table, in 2002, Hindustan Lever owns a major share at 26.1 per cent and Tata Tea was only 16.3 per cent. Meanwhile the share of other branded products also became major players in brand tea market in loose and packet forms of tea.

¹⁴¹ See details in www.tatatea.com.

¹⁴² Annual Report of Tata Tea Pvt. Ltd.

¹⁴³ The company has five major brands in the Indian market — Tata Tea, Tetley, Kanan Devan, Chakra Gold and Gemini — catering to all major consumer segments for tea. The Tata Tea brand leads market share in terms of value and volume in India and has been accorded ‘Super Brand’ recognition in the country. Tata Tea’s distribution network in the country with 38 C&F agents and 2,350 stockists caters to over 1.7 million retail outlets (ORG Marg Retail Audit) in India.

¹⁴⁴ Details of *KDHP* and its function will be discussed in the following section.,

Every year, TTL produces about 65 million kg of tea of which an estimated 30 million kg of black tea comes from its Southern estates. It has around 29,000 workers at its North Indian plantations and 24,000 in the South. Around 2,400 plantation workers from Southern estates belonging to the 'concessional' category had opted for VRS in early 2005. In revenue, branded tea contributes a major share in TTL and particularly following the acquisition of Tetley, TTL's branded tea sales had grown to 83 per cent of total revenues. Plantations, which account for just 11-12 per cent of revenues, continued to have a high operating cost even amid low tea prices in the recent past.

In line with its objective of gradually moving out of the tea plantation business and focussing more aggressively on its branded teas, Tata Tea transferred its plantation businesses, including the assets and liabilities relating to its 17 tea estates, the regional office and connected service departments at Munnar, to a new private limited company formed by the employees of TTL in 2005.

This new endeavour is mainly because of the policy of the company to exit from plantations in order to develop and expand the branded business of the company in India and globally. As per the new policy, Tata Tea Ltd would focus more on the branded segment of the domestic and international tea markets to enhance its market share.

The new company's, TTL, Managing Director, stated that it is a win-win situation as the employees in conversion land will have no threat of extinction, but allows large layers of cost to be taken out and they can be owners of the property rather than have a confrontational employee-employer relationship. He also added that they want to manage a gradual phased exit from plantation, because ownership of a plantation is not necessary to source the product. They need to exercise their options in consumer interest as they are working with Tetley for the last 5-7 years. They will concentrate on branded tea and are looking to meet the high competition in future. He stated that 'branded business is the business of Tata Tea'.¹⁴⁵ Tata Tea has decided to focus on

Reasons for restructuring plantation model

- Low price in auction
- Demand volatile in international market
- High production cost
- Company focused on brand growth
- Management skills different for plantation and brands
- Global Sourcing opportunities
- Complete ownership of production is not essential to be a key players in industry
- Demands long term supply arrangements
- Considerable scope to enhance plantation value with focus
- Negative tradeoff between cost and profit
- Strain of competing in social and other standards
- High margin in brand business
- High risk at production segments

¹⁴⁵ *Business line*, November 12 2004.

its branded tea business since it gives more margins. Currently, 83 per cent of its total business comes from the branded business while the share of bulk business in total turnover has come down to just 8 per cent.¹⁴⁶

7.3 New model in plantation segments

On March 31, 2005 Tata Tea limited formally exited from its South Indian Plantation Operation (SIPO), in handing over tea estates to the newly formed Kannan Devan Hills Plantations Company Private limited (KDHP) by deed of sale and transfer. The new company was formed with the participation of ex-employees of Tata Tea in Munnar, Kerala. This new venture is also called participatory management of production sector in tea cultivation. Around 13000 employees of tea plantations are part of the shareholders of the new company. Around 97 per cent of its employees have contributed about 68 per cent of its equity.¹⁴⁷ The new initiative of this participatory management has been discussed widely in the industry as a new model of plantation. It is also significant in the context of withdrawal from the production sector by tea companies which were dominant in the plantation business.

The new venture of entrepreneurship, KDHP, is a core group of 56 managers who will be responsible for the further development and function of new company. The company comprises 17 estates and 15 factories spread over 23884 hectares of which 8900 hectares are currently under tea cultivation. As commented by the Managing Director of KDHP, 'we see this as an exciting opportunity to create an excellent and unique business entity, and are guided by the need to protect the interests of all our employees and to preserve the ecology of these hills'. His view on the new venture is a 'production of high quality teas with optimum productivity is our prime concern'.¹⁴⁸ This new model rewrites the colonial mode of production in plantation and is also designed with new initiatives and phases. It includes the active involvement of the trade union, participatory style of functioning, representation from staff and workers in the board of directors of the company, improvement in quality, achievement of high productivity, replanting and introducing high yield clone tea.

In the first stage of transition, the business of the 16 estates in the High Range in the Kanan Devan Hills was transferred to the new company. The new company administers a total of 24,137.51 hectares of land. The company has on its rolls 13,115 employees including 11,996 workers, 322 supervisors and 63 management staff.

¹⁴⁶ *Financial Express*, November 14, 2004.

¹⁴⁷ *KDHP News*, vol.1 No.2, August 2005.

¹⁴⁸ *Ibid.*

In the new venture, Tata Tea Ltd will be minority shareholder in the new private company with 19 per cent stake. As pointed out by a trade union leader though Tata has only a minor entity in this new venture Tata still holds the label 'Kannan Devan'.¹⁴⁹ Now KDHP is looking for new labels in the national and international market to be independent from the major suppliers of Tata tea. High presence in auctions is also one of its plans and this may boost sustainable development of the new company. Apart from the minimum share of TATA tea in this new venture, it provides full welfare measures to the employees as in the previous phase of their business. The fully fledged General Hospital in Munnar and other social responsibilities such as schooling, welfare measures are also still provided by Tata Tea.

The new order at KDHP effectively means decentralisation and a reshaping of attitudes to workers' rights and responsibilities. It leads in a more collaborative approach in the management of tea plantations, a sharp departure from the old colonial methods. KDHP has very high social and environmental standards and the move is on to obtain the multiple fair trade certification floated by entities in developed countries.¹⁵⁰ Instead, buyers may seek to partner with KDHP, in view of the scope for ethical sourcing. KDHP will forge a relationship with Tata Tea as a preferred supplier. Initially, KDHP plans to offer its teas as the auction under their estate names, but the new company is a major supplier to Tata Tea. Now, the company holds a fair-trade certificate and initiative are on to take part off ethical trade partnership, and new label for company and promote direct export and launching a new product in local market.

High Productivity

Both yield and labour (plucker) productivity has increased substantially compared to previous year. For instance, in first quarter of 2005, (April to June 2005) is 63.53 lakh kgs as against the budget of 59.90 lakh kgs and 47.53 lakh kgs harvested for the same period of the previous (old management) year. Similarly, plucker productivity reached 49.87 kg (end of June, 2005) as against the budget of 46.33 kg.

Initially, there was a bit of uncertainty as well as jubilation among the Tata Tea plantation workers in Munnar. One of the trade union leaders of INTUC opined that this move is good because the workers were also being made stakeholders in the new enterprise. An AITUC leader commented that many details had to be discussed and the consent from all the shareholders of Tata Tea had to be obtained before the move became a reality.¹⁵¹

The success of the KDHP, a new venture formed under the 'employee buyout' scheme, is giving new hope to the crisis ridden tea plantations in Munnar. The company, established in April 2005, has recorded a post-tax surplus of Rs.2.37 crores in the very first year of operation and is set to

¹⁴⁹ Discussions with trade union representatives, Munnar.

¹⁵⁰ Discussions with officials of KDHP.

¹⁵¹ *Business Line*, February 12, 2005.

attain greater heights.¹⁵² The major initiatives for the new venture was providing the options of VRS scheme for employees of tea plantations; about 3,000 out of the 16,000-odd workers opted for the VRS.

In a radical shift from the past, the company has introduced a bottom-up management plan rather than the top-to-bottom hierarchical approach that has been the norm in the plantation industry.¹⁵³ The company gets a participatory nature because of the inclusion of representatives from workers and staff. Divisional Advisory Committees have been set up to advise the company on daily administrative functions as well as welfare and safety aspects.¹⁵⁴ The committee has a representation from the workers. Two men and two women workers and a supervisor are elected from among the shareholder-employees. The committee holds weekly meetings to discuss matters such as manpower deployment and material requirement. There are advisory committees at the factory level.

The Divisional and Factory advisory committees liaise with consultative committees that hold monthly meetings to advise on matters like cost control and productivity enhancement. There are various sub-committees to advise on functions like marketing and business diversification. Many stakeholders have projected increasing productivity as the major impact of the new management.

A productivity-linked incentive scheme has been introduced by the company. The average productivity has increased from 29-31 kilogram of plucked leaf per employee to 46-49 kg. It is

Social, Cultural and Environmental Development

- Comprehensive labour welfare programmes that offers free housing, healthcare and community development facilities
- Tata Tea has initiated various welfare projects to provide welfare and economic benefits to their workers. Srishti - located in Munnar, Kerala.
- DARE- Educational and special help to children who have learning disabilities.
- Vocational Training Centre (VTC) - conducts courses in blacksmithy, carpentry, tailoring and knitting. Aranya- A natural dye manufacturing unit
- Manages 63 hospitals and 2 large referral hospitals with 1700 beds and 87 doctors
- Manages 280 adult literacy centres, and 173 childcare centres
- Has established 110 schools to educate children of estate employees, and has instituted scholarships for these children
- Manages a programme for physically disadvantaged children in its estates
- Initiatives research to identify specific region based and occupational hazards in tea estates and attempt to conduct sustainable cure on the diseases
- The Tata Group has already adopted a comprehensive written code of conduct for each company in the group called the 'Tata Code of Conduct' which serves as a guide to its employees on the standards of values, ethics and business principles, which should govern their conduct.

¹⁵² *Business Standard*, March, 2005.

¹⁵³ *Financial express*, November 15, 2006.

¹⁵⁴ See details of various committee in the new management in *KDHP News*, vol.1 No.2, August 2005

reported that a sense of ownership among the employees has resulted in high productivity compared to the previous management.

Both yield and labour (plucker) productivity has increased substantially compared to the previous year. For instance, in the first quarter of 2005, (April to June 2005) it is 63.53 lakh kgs as against the budget of 59.90 lakh kgs and 47.53 lakh kgs was harvested for the same period of the previous (old management) year. Similarly, plucker productivity reached 49.87 kg (end of June, 2005) as against the budget of 46.33 kgs. The plucker productivity was only 31.89 kgs in the same period in previous year. It is varying within estates and productivity was high in Gundumallay estate and Kadugumudi division, where plucker productivity was to 69.56 kgs. Same estates under the upper division also recorded a high yield in the same period which it was 1047 kg.¹⁵⁵

The major source of increase in productivity is, as pointed out by various stakeholders, the fact that employees are also part of the stakeholders. This brings a new paradigm of sense of ownership of entrepreneurship. Some of the employees also reported that since the number of workers has reduced over a period, the workload of present workers has increased. As they reported, 'we are covering the same area of gardens with low number of workers, though they give us incentives that are marginal. Workload and working hours have increased compared to the earlier management'.¹⁵⁶ The CSR and other welfare matters are mostly with the earlier company Tata. For instance, Tata runs the General Hospital in Munnar and its service is same to the workers as it was in earlier management. The CSR initiatives such as DARE and Aranya are completely managed by Tata Tea Ltd in Munnar.

The company has ambitious plans to diversify

Vision and Initiatives of KDHP

- Participatory management
- Representation of staff and workers in Board of Directors of company.
- Improve quality and maintain sustainable production
- Achieve high productivity
- Introduce new brand label
- Give priorities to promote social and environmental standards and basic rights and interests of workers.
- Active involvement of Trade Union
- Preserve Ecology of the region
- Introduce Tea based tourism and transform and use Tea Bungalow to Tourist cottages
- Re-plantation and introduce high yield clonal.
- Promote multi-crops includes horticulture, floriculture, and cultivation of medicinal and aromatic plants
- Expand markets and develop direct exports

¹⁵⁵ KDHP News, vol.1 No.2, August 2005.

¹⁵⁶ Discussions with plantation workers during the field work in KDHP estates.

their plantation business. Along with these intensive changes in production segments, KDHP also gives equal importance to developing tea based tourism in Munnar.¹⁵⁷

The company will promote plantation tourism by utilising some 26 managers' bungalows, now equipped with modern conveniences, while retaining their heritage value for home-stay by eco-tourists. While the core tea plantation activity will get a boost, KDHP is particularly enthused due to a recent policy initiative by the Kerala state government, stating that 5 per cent of the land holding can be used for diversifying into new businesses such as horticulture, floriculture and cultivation of medicinal and aromatic plants.¹⁵⁸ Key initiatives have already been taken for producing strawberry and a variety of vegetables. It is awaiting a key legislation that permits a small per centage of tea plantations to be converted for other useful purposes. The company is planning to produce organic tea and 'White Tea' for export. Re-plantation is also being taken up in phases in a bid to increase the production.¹⁵⁹ The table below summarises the perspectives of multi-stakeholders on the new participatory plantation management of KDHP.¹⁶⁰

Stakeholders	Impacts and Perspectives	
Workers at gardens	Workload has increased due to shortage of workers. Incentives are marginal for overtime and more production.	No change in welfare schemes but it is better when compared to other tea gardens in neighbouring districts.
Workers applying medical spray	Limited equipments for medical spray and high risk.	
Workers at factory	Not much change, salary is not matching with their other Tata Tea workers in factories owned by Tata	Information on welfare measures and new schemes are not delivered on time and properly.
Supervisor at gardens	Work load has increased.	Number of workers under one supervisor has doubled in this new management.
Trade union representatives	Workers becoming shareholders is better but need to provide better bonus and other incentives. Need to introduce new label which may boost sustainability in growth pattern.	Not much benefits for works due to high works load. Involvement of trade union in a better way could provide relatively a better-off situation compared to other gardens.
Official of KDHP	Productivity has increased and reduced cost of production, participatory management with various sections of the stakeholders of company.	Introduce wide welfare schemes and diversification, tea tourism, etc.
Official of KDHP	Move to new label and direct auctions.	Exploring international market and sustainability in prices.
Welfare	Relatively better in housing and other	Keeping good standards as the

¹⁵⁷ www.kdhpc.com

¹⁵⁸ *Business Line*, February 12, 2005.

¹⁵⁹ *Ibid.*

¹⁶⁰ Discussions with various stakeholders of tea industry in Munnar and Kerala

Departments	facilities.	earlier Tata management
CSR official of TATA Tea	Tata provides all welfare measures as in earlier management. General Hospital is providing better facilities to patients.	Introduced specific schools and hospitals. Conducting intensive study on regional specific diseases and its causes to permanent cure.
Official of Tata Tea	Follow of international standards and codes to increase welfare and productivity. Conducted health survey and initiated awareness programmes and proper treatments for needy patients.	KDHP is participatory management and Tata providing and maintaining welfare schemes and social standards.

7.4 Changing Model in North India: Trade off between Production and Brand Business

The tea industry in Northern India has also witnessed structural changes in plantation business. At the time of withdrawal of major companies such as Tata Tea and HUL from the plantation business, McLeod Russel took an initiative to be a major global plantation company by acquiring large-scale plantations in Assam and West Bengal.

After the success of the Kanan Devan model in its Southern estates, Tata Tea Ltd has decided to exit from all plantation activities and it has prepared a new model for its North India Plantation Operations (NIPO). The new company named Amalgamated Plantation took over Tata Tea's North India plantation business with effect from April 1, 2007.¹⁶¹ Along with employee participation, the new entity will also have equity participation by International Finance Corporation (IFC), Infrastructure Leasing & Finance Services (ILFS), and Globally Managed Services (GMS)¹⁶².

With this move, Tata Tea is finally exiting from its North Indian plantation business to sharpen its focus on branded tea business. By moving out from the production sector, R K Krishna Kumar, vice chairman, Tata Tea stated that 'Tata Tea is now moving to give profitable NIPO a new additional dimension in terms of including worker participation but equally importantly to pursue crop diversification.'¹⁶³ This new venture has also instigated many new schemes to reshape new business attempt and sustainability of the production sector. For instance, to boost employee participation, the employees were being offered 100-per cent interest-free loans for a period of seven years, and the contribution would be Rs 8000 for the workers and Rs 20,000 for the staff¹⁶⁴. Tata Tea continues to hold up to 20 per cent of equity in both North and South India organisations. Along with the transferring the production sector to the brand products, they are

¹⁶¹ *Business Standard*, November 1, 2006.

¹⁶² *Ibid.*

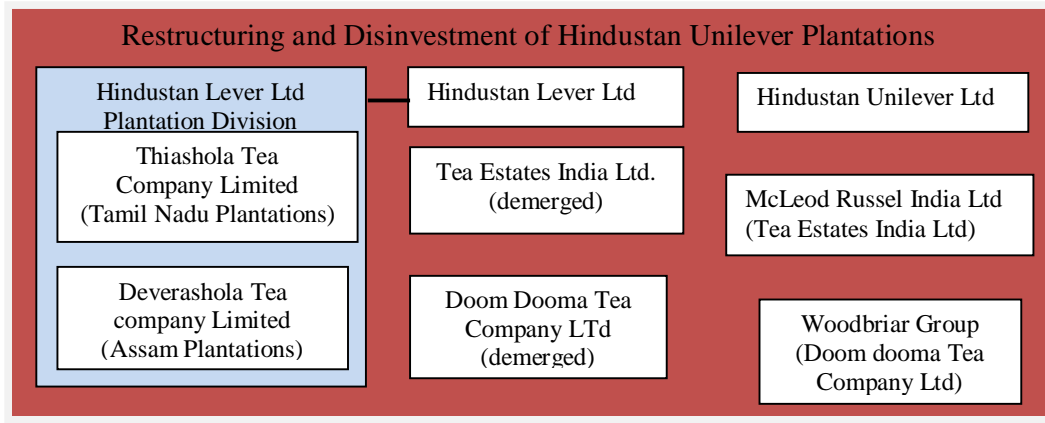
¹⁶³ *Financial Express*, February 20, 2007.

¹⁶⁴ *Business Standard*, November 1, 2006

also diversifying from tea to various products and they are looking at multiple products in the frontier markets.

7.5 Hindustan lever: Withdrawing from Plantation Business

Hindustan Unilever Limited (HUL), formerly known as Hindustan Lever Limited, is India's Fast Moving Consumer Goods Company with a wide coverage across society in India. The owners of the world's highest selling tea brand, Lipton, with US\$4.1 billion in sales. The company purchases 12 per cent of total global Black Tea production, making it the world's largest buyer of tea. HUL, producing everything from ice creams, shampoos, soaps, chemicals and tea products had sales of US\$3.26 billion in India in 2006. In terms of tea products, HUL recorded US\$352 million in sales in 2006.



HUL plantation business has changed and they have entered into a new phase of marketing business after the final phase of exit from plantations in 2006-07. This restructuring process is built upon both Tata's and HUL's change in orientation: away from producing tea and towards being sellers of tea products. Both companies realised that their levels of profits could be greatly increased by selling branded and processed tea products rather than owning plantations.

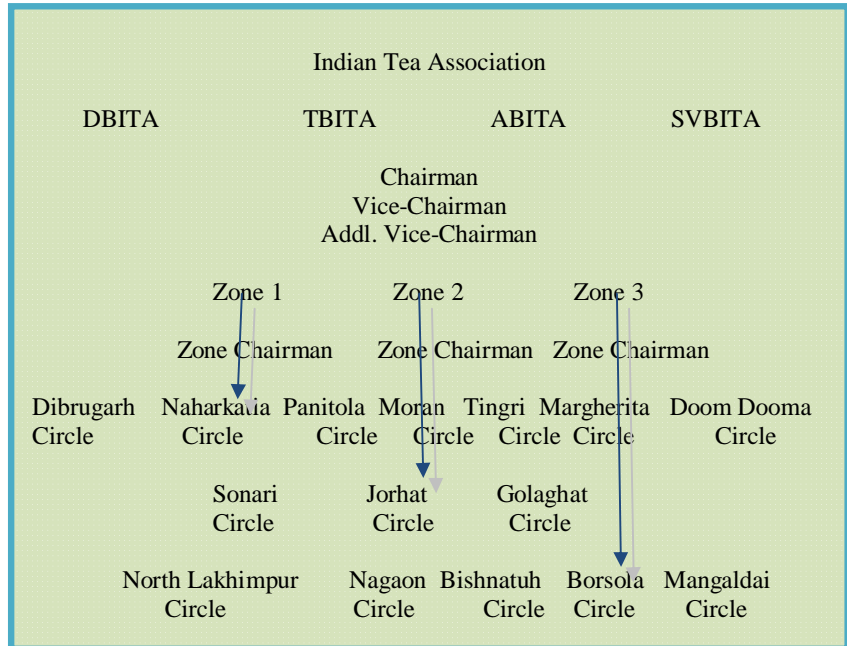
As it is moving forward to concentrate on marketing, HUL transferred HUL's 100 per cent share holding in Doom Dooma Tea Company Limited (DDTCL). DDTCL owns 7 tea estates in Tinsukia district of Assam with a tea planted area of approximately 3100 hectares, 3 factories and 6100 people. The average output from these tea estates has been approximately 6000 metric tons. The tea gardens of DDTCL are in the quality belt of Assam and are in close proximity to the tea gardens of MRIL group.

By December 2005, HUL announced the transfer and sale of Doom Dooma to McLeod Russel India. With the same April 2005 announcement, HUL parcelled together its holdings in Tamil Nadu, encompassing 6,300 permanent workers, 3,700 hectares of plantations and six processing

plants, into a demerged company called 'Tea Estates India Limited'. On 1 March 2006, HUL announced the completion of the sale and transfer of Tea Estates to the Woodbriar Group. Of the total, between 2005-2007, HUL managed to withdraw from the plantation business and concentrated into brand business and marketing of FMCGs. This move has reflected their total profit, which is after tax profits, of US\$464 million, an increase of 32 per cent compared to 2005.

7.6 Competent in CSR and Productivity

Abita, established in 1889, a branch of the Indian Tea Association (ITA), Kolkata, functions in the Assam region through its different Zones. The broad structure of ITA and Abita is given in box. Each of the Zones is headed by the Zone Secretary and the ITA, the Abita and the Zones work in close



collaboration on all issues of importance to the association. Abita mainly provides all legal matters including related labour, land and other statutory matters to the tea estates under its membership. At present there are 132 tea estates are registered with Abita. Abita initiated many programmes which focussed to workers of tea estates which aims to lead workers productivity and overall productivity of tea cultivation under their area.

- Major initiatives from Abita**
1. 1999-Mother Club
 2. 2001-Health programme for women workers
 3. 2002-Creche Development 2002
 4. 2004-Safe Motherhood Programme
 5. 2007-Young Child Survival
 6. 2007-CHAI
 7. 2008-Child Protection Programme

All estates under Abita cover the family welfare programmes which are assisted by Government of Assam. Apart from the welfare programmes Abita initiated a number of programmes to enhance the social infrastructure in the estates under Abita. The welfare-oriented programme

integrated to various civil society organisations like UNICEF and other national and international organisations.

As stated, the majority of worker in tea gardens in Assam are from tribal communities and other marginalised communities. The social-economic indicators show that they are economically and socially deprived. The school drop-out rate of children (43.5 per cent) is high in tea workers and it is far higher than the state average (30.5). It is a general fact that the workers in tea gardens are isolated from the mainstream society and the interaction with mainstream society is very low. The low rate of literacy and deprived health status among workers always stood as major constraints in giving them access to major initiative of the state Government and other organisations. In this context, Abita initiated to various programmes aims to create awareness and consciousness among workers regarding health, cleanliness, sanitation and over-all development. The major programmes of abita with the UNICEF are:

1. Joyfull Learning (Anandamoyee Shiksha).
2. Creche Development and Nutrition 2002-04
3. Safe Motherhood Programme 2004
4. Water and Sanitation (WES) programme
5. Child Protection and special emphasis on the Girl Child

It is reported that there are direct and indirect positive outcomes of all these programmes. The major outcomes classified as short term and long term achievements. The secretary of Abita Zone-1 pointed out that they have observed that DOTs programme for TB Patients achieved direct impact on workers. Workers could get cure in a very short time and it positively reflects their productivity.

One of the women workers stated that, 'after taking treatment under DOTs programme, I was relieved from Tuberculosis and now can work continuously in garden'.

She claimed that she could collect green leaves upto

80kg per day after the treatment. Another programme, which is initiated with WHO mainly, focussed on women workers in tea gardens. There is high incidence of TB reported among workers in tea gardens. It is reported that this initiatives is highly successful in tea gardens as all old and new causes brought under DOTS.

The Government of Assam declared Dibrugarh district as a children-friendly district and this is considered a positive outcome of one of these initiatives. In 2007, Abita initiated the Community Health and Advancement Initiative in India (CHAI) with the objective to improve quality of life of workers and other surplus labours in tea gardens. CHAI India, a partnership between Taso,

Mothers Club
Health care programme promoted by Mcleod Russel. It is a unique institution comprising of about 20 senior women workers on each estate, who provide the guidance on health care, family planning and sexual health, including prevention of AIDS, good practices in hygiene at home and for babies. Reduction in infant mortality, which is lower than the national average, in the region is one the immediate result of this initiative.

Mercy Corps, Darjeeling Earth Group and the Abita , endeavors to improve the lives of community members living on tea estates and the neighbouring communities. CHAI’s initiatives started in January 2007 in Dibrugarh and Tinsukia districts of Assam. It aims to improve the quality of life of people through health, economic development and youth initiative. Major objectives of CHAI are to promote viable micro and small enterprises, increase employment opportunities through skill buildings and scholarships to student of low-income households. It also focuses on surplus labour force in tea gardens by providing skill development to engage in value added tea products and its marketing through various channels.

The major benefits and outcomes reflected these various initiatives are listed below:

1. Increase number of delivery cases in hospital
2. Reduced IMR and Under Five Mortality
3. Increased short-term savings
4. Improved domestic and personal hygiene
5. Created awareness about seasonal and occupational related hazards and their preventive measures
6. Reduce the number of anemic patients
7. Increased workers productivity about 25-30 per cent in short term period
8. Abolished child labour

7.7 Contouring into a Global Plantation Company-McLeod Russel

McLeod Russel has been growing tea in India since 1869. McLeod Russel gardens is well known for the best-managed gardens in India in terms of yields, labour productivity and fuel consumption and it contributes a major share of tea production in Assam. Its productivity, for instance, at 2175 kg per hectare , is much higher than the average

Profile of McLeod Russel plantation company			
	Assam	Dooars	Total
Number of Estates	48	6	54
Production (in Mn.kg)	68.9	6.1	75.09

All estates are participating with the Ethical Tea Partnership and, are GMP/SAP & EU MRL compliant.

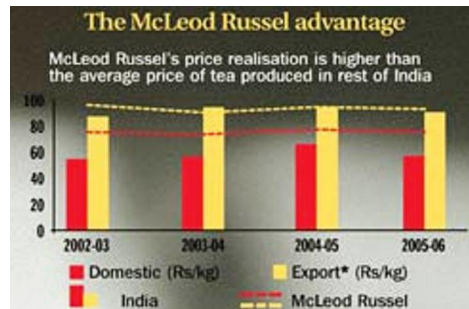
productivity of 1700 kg per hectare of India. McLeod Russel is one of the largest bulk tea producers in the world, at an annual capacity of 75 million kilograms from India itself is considered one of the largest plantations in the world and company is the world’s largest tea plantation company. The company operates with 54 tea estates in Assam and West Bengal , which is marketed worldwide under the registered Elephant trade mark. The company directly employs 104, 063 people, a large number of whom are women. The largest Indian tea exports company integrate supply chain in international market mainly in UK and Europe. The company

has developed its own brand in tea business from bulk tea production of McLeod Russel India Limited and battery division which marketed the popular Eveready batteries and flashlights.

McLeod Russel and CSR Policies

- **Sustainable Agriculture:** Soil and water conservation through Best Practice field management systems and these include composting, soil rehabilitation and reforestation.
- **Environment:** Promotes methods of growing tea using sound environmental practices that encourage bio-diversity and healthy soil.
To comply with legal requirement of supplying every household with a fire wood ration, company initiated the use of providing uprooted tea bushes to employees rather than allow further destruction of the region's forests.
To reduce environmental impact use only environmentally friendly chemicals
Pest management systems comply with numerous minimal residue levels (MRLs) in accordance with European Legislation
- **Social:** provide free accommodation and sanitation facilities to all employees
Provide free primary education for employees' children it achieved through construction of school in each tea garden.
Provide better recreational facilities to employees and provides blankets, cloths and other basic necessities in time to time.
- **Health:** Central Hospital provides advance facilities and good number of staff apart from the medical facilities in every garden.
Company has also initiated health care programme called 'Mothers Club' which provide guidance and awareness on health and hygiene related matters in the region.
- **Freedom of work**
- **Freedom of Association:** Allows every employee the right to form and join a Trade Union.

The company was created after the de-merging the tea division of Eveready Industries and succeeded in outbidding several tea companies and facilitated McLeod Russel to concentrate on its major business of tea production. As a result, the major shift started in 2005. In July 2005, McLeod Russel acquired Borelli Tea Holdings Limited from Magor family based in England and took over the 17 tea gardens of its Indian subsidiary Williamson Tea Assam Ltd. The acquisitions of the Doom Dooma Tea company and the Moran Tea company India in 2006 and 2007 respectively established MacLeod Russel as the largest tea producing company in the world. McLeod Russel started off with an initial capacity of 42 million kilograms and now, after the major acquisition of major estates its annual bulk tea production exceeds more than 17 million kilograms. The company sees the



expansion of their plantation as their vision that tea requires a global plantation company. In the context of the highly fluctuated price in market, and changes in global demand, increasing domestic consumption, they are buying gardens to become a major supplier of tea as it can hold a major hand in influencing price or controlling price, or to have a hand in price fluctuations. Whoever controls high supply may able to influence price stability. The target of the company has set for itself is to get to a size of about 140 million kilograms in the next few years and figure out the next stage of growth. With the expansion of plantations the company employs over 100,000 people and focusses on traditional cultivation which is labour intensive. The company also moved to buy bulk tea and blend with company's tea and sell it into market. It also creates a platform for buyer that 'one stop shop at one stop' as the Director describes it.

Impact of Divestment of Major Companies on Workforce of The Tea Industry

The process of recent divestment of major companies in tea sector resulted multiple impacts in various segments of the industry. As pointed out in my many discussions, it directly affected the workforce in the tea industry. The crisis in tea industry, closed down or abandon tea estates, itself created uncertain work space for whole dependents on plantations. As stated, the most of the workers in tea plantations are from migrants, marginal and tribal communities and the alternative jobs are very limited in the tea growing regions. It is widely discussed about the agrarian distress and hunger death of the workers in the closed tea gardens in India.¹

HUL and Tata Tea's restructuring programmes come at a time when tea workers in India have felt the greatest decline in their conditions in recent period. The collapse of tea plantations across the industry and the illegal abandonment of workers by employers have brought ruination and death. HUL divested around 12000 permanent workers itself during the period of 2005-06. Apart from the temporary and contract workers it has affected the dependents of the workers as well. Workers need to vacate their shelter from the company line (*layam*) once they are out of work. Though many of them are opted for Voluntary Retirement Scheme (VRS) majority of them are jobless or temporarily accommodated in small tea gardens in nearby villages.

Between the years 2001-2006 Tata Tea decreased its total wage payments by 12.5 per cent reduced its provident fund payments to workers by 43 per cent and decreased welfare payments by 40 per cent. Whereas in 2001, 21 per cent of Tata Tea's total spending was in the form of payments to workers as of 2006 this was reduced to 15 per cent of total spending. The employees of Tata Tea have reduced to 34,596 in 2006 from 58,888 in 2001. The biggest divestment was the transferring of 17 plantations in Munnar to KDHP in 2005. As Tata reported, 'this move is to give ownership to workers' by transferring 75 per cent ownership to workers and local management. Some of the Trade Union representative remarked that though workers became shareholders of the new company they were taking on an enormous risk of production segments. And, it is shifted from a highly profitable company to a company which much less capacity. It has reflected in the recent bonus of KDHP to the works. The bonus is depending on the total profit of the company and now bonus has reduced to 10 % from 13 per cent which was the rate at Tata Tea. Tata Tea has initiated plans to demerge its 24 plantations in West Bengal and Assam into Amalgamated Plantations Private Ltd. This will affect more than 30,000 workers by reducing the company's direct workforce.

7.8 Emerging Trends of Crops Diversification in Plantation Business

The unsustainable and highly fluctuated price and international market of tea force planters depend on other alternative crops in their gardens. The tea industry finds alternative cropping as a new business model within the existing plantation model. The recent move in different tea growing region is to diversify their focus on tea cultivation. As stated, KDHP in Munnar decided to start cultivation of horticulture, floriculture, and cultivation of medicinal and aromatic plants and tea-based tourism. Most of the planters are of the opinion that relying on tea production alone can not sustain in this uncertain tea market. They consider multi-crops system be an alternative factor to cope with price oscillation in the industry.

Tata Tea has a plan to enter the business of farming pigs, catfish and fruits and vegetables via cooperatives in their tea gardens to supply the proliferating retail chains.¹⁶⁵ Tata Tea has tied up with Globally Managed Services(GMS)of IT entrepreneur to venture into horticulture, animal husbandry and even pisciculture.¹⁶⁶ These initiatives are introducing new ventures into non-tea areas in existing tea estates in Assam and West Bengal.

GMS is the firm that is picking up a stake in Tata Tea's demerged tea estates in Assam and West Bengal. GMS also advises the Khaitans of Williamson Magor on developing tea tourism. The company runs two pilot projects at estates in Assam. Once these are successful, Tata Tea could be selling oranges, tomatoes, a wide variety of fish, dairy products and even pork and duck meat (products already identified) to organised retail chains across the country by creating a new organisation called Agriculture Services Organisation (ASO).¹⁶⁷ In Assam, Jatropha is cultivated as it is the best alternative to tea plantation and many small growers have started to cultivate it as alternative to tea bushes to produce bio-diesel.

The tea industry is increasingly looking at options of alternative cropping as a means to sustain of its business. While the cyclical and somewhat uncertain nature of the tea plantation has made many companies exit the business altogether, others are looking at taking alternative crops as business models that can allow companies to achieve sustainable competitiveness while allowing tea garden workers also to have a sustainable livelihood.

The Indian Tea Association (ITA), the apex body of the North Indian plantations which account for 80 per cent of the country's production too feels that as a long-term measure, efforts should be made to identify surplus/ marginal lands within tea estates for planting alternative crops with

¹⁶⁵ *Business Standard*, November 1, 2006

¹⁶⁶ *Financial Express*, April 5, 2007

¹⁶⁷ Dipankar Borah, Tata Tea's vice-president for North India Plantation Operations (NIPO), said much of it is at a conceptual stage, with the plan drawn up by GMS, *Financial Express* April 5, 2007.

commercial potential in case tea yields are not economical on these patches.¹⁶⁸ At present, many of them find it difficult to cross some legal hurdles to find crop diversification in tea plantation as per the Plantation Labour Act.

In Assam and West Bengal, the respective State governments for growing teas have given the lands only. Even if the executive nod is given for changing this norm so as to enable crop diversification, legislative changes would be necessary for making this activity possible in the case of states like West Bengal where land ceiling law also acts as a hindrance.

¹⁶⁸ Business Standard

Chapter 8

Conclusion: Policy options and Recommendations

This chapter summarizes the major discussion and finding of the study how workers and producers of the tea industry relate the legislative issues and codes of conduct of the industry. It attempts to delineate the prevalent characteristics of different stakeholders in the tea industry and tries to formulate the feasible intervention options and institutional innovations to make the Indian tea industry more competitive at the international level. This study tried to look various CSR practices, constraint and challenges of practising CSR in tea plantation and how competitive production segments can be developed so that they can be integrated into the international value chain of the tea industry to empower the producers and workers. Low income returns, limited market accessibility, high cost of production, high cost of social infrastructure, low quality of production, low price realisation, fluctuating international demand and so on are the existing challenges facing the tea industry in India. Though many attempts have been initiated by various institutions, government bodies, Indian Tea Association, the Tea Board and non-profit organisations to introduce new initiatives to develop social infrastructure and other development programmes in many regions, it needs constant and multi-stakeholders approach to effective by implement these programmes.

Workers in the Tea Industry

The majority of the workers in small tea gardens are temporary and casual workers and most of them are migrants. The wage rate is below than the official minimum wage rate in all states except Kerala. However, in some regions of Kerala, the wage is fixed according to the weight of green leaves which workers collect each day rather than regular daily wage. It is reported that very often, they are paid less than the official minimum wage. In addition, payment is also irregular in many small tea gardens in India. Since the workers do not have any other alternative, they are forced to stay back in tea gardens. In many regions, workers are appointed only during the peak season and family labour replaces hired labour in the off season or when the price of green leaf is low.

There is no role for workers in decision making in the value chain of the tea industry. Welfare measures and working environment of workers have hardly been addressed in gardens in all the producing regions in India. Workers do not have any common platform for collective

bargaining/negotiations for their basic rights such as minimum wages, adequate working conditions and health care facilities and so on.

Workers under the plantation of case study avail housing drinking and sanitations with other basic welfare facilities. The majority of workers are women and at present there is no child labour in plantation. However, there are adolescent workers in plantations. Many plantations, especially plantations in under ABITA-1 in Assam, initiated major programmes to support children and women workers. No training has been conducted for the workers to upgrade their skills and to use fertilizers/medical sprays to prevent health problems. It has been observed that workers are not offered any measure to look after their health and safety. Health measures and health care are the responsibility of individual workers. There is lack of training and safety measures for workers and information on water/seasonal related diseases and its preventive measures are also limited in many plantation. No social-environmental benefits are allotted to workers at small tea gardens and in many cases, workers receive only some gifts other than the usual wages during the festival season.

Inadequate working conditions and lack of training for the workers lead to low productivity of labour in small tea gardens. Lack of health care facilities make workers incompetent and affect their productivity as well. Unavailability of skilled labour and inefficient working conditions have a major role in the low production and productivity in small tea segments as a whole. Incompetence of workers and low productivity are the main challenges that the small tea sector face in competing at international standards and participating in fair trade and so on. Though there is active participation of Trade Unions in all plantations under the case study, the role of workers in the decision-making process is very limited. With the initiatives of trade unions workers get benefits of bonus and other benefits by increasing their productivity in KDHP, Kerala.

Recommendations

- Initiate an institutional mechanism with representation of multi-stakeholders from the tea industry, Government bodies and nodal agencies to provide better social infrastructure for workers in all tea gardens.
- Development schemes meant for workers such as training programmes and skill up-gradation programmes, healthcare, adequate housing facilities and other necessary welfare measures.
- Institutional support for governing promotional schemes for workers is required and workers should be adequately represented in such schemes.

- Initiate programmes to create awareness among workers regarding personal and domestic hygiene, occupation hazards and various water/seasonal related diseases and its preventive measures.
- Initiate participation from workers to the major decision-making process and programme for sharing the short-term benefits of their productivity.

Tea Gardens/Producers

Lack of title deeds for cultivable land for tea cultivation is a major concern for small tea segments in India. This is severe in the case of West Bengal where, for example, around 6000 petitions are pending for N.O.C. in recent times. Absence of title deeds prevents cultivators from registering with the Tea Board. In all regions, except Tamil Nadu, the registered small growers are very few. 90.8 per cent of small tea holders are registered in South India, whereas it is only 17 per cent in North India. The high share of unregistered small growers is also a major problem since they fail to avail of subsidies and financial assistance under various schemes of the Tea Board and other financial institutions.

There are no measures to maintain high quality leaf in small tea segments. Leaf agents still play a major role in the quality of green leaves. It has been observed from the field that leaf agents often mix various quality leaves together before selling it to the BLFs. This is mainly to maintain minimum quality of leaves because it contains a high share of low quality leaves. The price fixation is based on overall leaf quality though some of BLFs have their own grading system based on quality. This automatically reduces the price of leaves. In many regions, especially in Dibrugarh, the lack of transport facilities and long distance from gardens to factory are also deciding factors in determining the quality of leaves.

The situation in plantation sector is much more different and it is more competitive at the international level. There are many initiatives to upgrade the competitiveness in the production sector and the new participatory plantation management of KDHP in Kerala is one among these initiatives. It has also created a space for participation of workers as board members and owners of the tea gardens. There are many programmes to increase worker's productivity in many plantations in North and South India and base-line surveys are conducted to know the basic conditions in the plantations.

The multi-stakeholders approach in production sector is lacking in small tea segments. There is no interconnectedness and dialogue among stakeholders in various value-addition processes of the value chain in the tea industry. Many nodal agencies are ineffectual in the development of the production sector due to the lack of social and collective networks among small holders.

Furthermore, co-operatives and Self Help Groups have limited their role in the initial phase of production. In many regions, Self Help Groups are stuck at the phase of leaf collection and cannot move up further in the value chain in the tea industry.

Almost all cultivators reported that they are unable to meet the high cost of production and fail to maintain their gardens properly. Uniform standards for proper maintenance in small tea gardens are very limited though agencies like UPASI with the Tea Board have made many initiatives to upgrade the quality of production. Only a few cultivators could maintain their garden in a sustainable manner by regular harvesting, fertilising, weeding, pruning, control of pests and diseases and carrying out other sundry activities on time. This is mainly due to inadequate returns from cultivation and lack of proper training and awareness on the part the cultivators.

Recommendations /Feasible Intervention Options

- Provide better and immediate legal advises to solve land matters. This is crucial for the sustainable nature of production, quality and better utilization of land.
- Monitoring and creating new development schemes for small and marginal tea cultivators can also sustain all regions if there is high participation from cultivators.
- Strengthen and increase the participation of all association of tea producers at all India level and provide quality up gradation programmes at various levels of production through various agencies and institutions.
- Develop a mechanism to maintain quality of leaves and fair price at garden level with the involvement of various stakeholders, development agencies and Government bodies in the locality.
- Provide inter-linkages and participation with various stakeholders including civil societies, Tea Board and other international agencies. This would also help to obtaining feasible financial assistance from various agencies and Government institutions.
- Increase subsidies to various production and marketing processes specifically and implement its efficient use in a sustainable way.
- Develop market inter-linkages with multinational companies with the aid of various nodal agencies to mitigate the impact of short-term industrial fluctuations, crisis of one sector to another, decline of price and quality and cost of production and so on. The underlying social and economic issues related to the international market which contribute to this situation in the long term should also be addressed. The innovative quality up-gradation programmes by UPASI, KVK and the Tea Board underline how formal institutions can develop and deploy new strategies for otherwise imperiled smallholders (Neilson and Bill Pritchard, 2006).
- Introduce Self- Help Groups in each region to reduce dependence on leaf agents so as to ensure fair price to producers and quality of leaves. Initiatives should be taken to expand their formulation in various phases of value chain of tea industry other than those centred around cultivators and leaf agents.

- Provide basic infrastructure facilities to workers in tea gardens which will reduce the social cost of the tea gardens.
- Strengthen the role of BLFs in Value Chain. Initiate a multi-stakeholders approach to strengthen the role of BLFs in the value chain of tea industry. This would provide the inter connections and inter linkages among the various stakeholders and enhance their role in competitiveness and growth of tea industry in India.
- Quality upgradation: Create a role for them in the value chain of industry and create awareness of how their role in the value chain industry is important. This will make small plantations themselves take part in the quality upgradation programmes. Various stakeholders and Government bodies should make an attempt to improve the quality of production from each tea garden. There should be a continuous mechanism to encourage, monitor and sustain to provide high quality made tea into auction/private sale.
- Monitoring: There should be strict monitoring by the Government or Tea Board in the production of tea to prevent adulteration of tea. The monitoring process should be at different levels of intervention of the production process. There should be strict procedures for providing license and this should also based on the production profile of tea gardens.
- Open-up markets: Various stakeholders and nodal agencies work together to open up markets at the international level for all tea gardens. This would enhance direct participation from Big Companies in the production segments of the tea sector. Provide various schemes to start multi-crops/agri business in tea garden premises.
- Introduce value-added tea products and its markets by associating and participating with tea workers and surplus labour in tea industry. It will also improve the standard of life of works and their dependents.

Buyers, Retailers and Consumers

Tea buyers purchase tea from the auction centres and directly from producers and BLFs. It has been observed that the number of buyers participating in the Auction has declined over the period. As stated, direct sale is increasing over the period and most of the buyers prefer direct sale from producers. It is reported that the Auction dominates with the proxy buyers of multinational companies. The role of small and regional buyers in price mechanism is very limited since they buy a relatively small size of the total stock. It is reported that the buying mechanism and its supply to the up-country markets are kept private within buyers and it is conceived as their trade secret. Buyers find hardly any need to address the issues of social and economic responsibilities and welfare measures of workers at gardens in their trade mechanism. Tea buyers are not necessarily the bidders for tea in auction centres all the time They also act as multiple roles such as either packeters/blenders who buy for their own brands or packets, buying agents who buy tea at auctions on behalf of other tea dealers and even as retailers in their own localities.

It is reported that many of the retailers come across difficulties for registration and getting license from the Tea Board. In the loose tea market, very often, various levels of adulteration are prevalent which is done by the retailers mainly to increase their profit from the 'original' tea. This also denies the 'real' taste of good quality tea to consumers as their preferences mainly rely on retailers. Regional packeters and retailers sell packet tea of their own brand in their locality. It has been observed that the sale of stolen tea from factories is prevalent in many tea-producing regions. Generally, retailers prefer tea with which they can make good profit and they are not sensitive about the social and economic responsibilities issues in tea gardens. There is no interface between producers and retailers., However, retailers play a major role in deciding consumers' tastes and preferences especially in rural markets. Unregistered retailers are quite common and lack of institutional set-up forbid them from getting access to the tea markets.

Due to the consideration of short-term profit, low quality, adulterated tea and imported tea are sold in retail markets in the rural areas. There is no interface between producers and retailers and this influences the promotion of high quality tea. It is reported that adulterated tea in local markets push down the demand for quality tea and it may harmful to health as well. Consumers may not avail and access quality tea and what they are offered is mostly based on the retailer's preferences.

Consumers' preference for tea is very limited mainly because the market is dominated by various soft-drink companies. Many consumers behave that tea is not a healthy drink. There is a lack of availability of good tea-drinking (teashops) outlets at different regions and even in tea-producing regions. Lack of tea promotion with its various varieties, for instance, tea as a health drink, is lagging in the tea market. Continuity in generic-promotion schemes through various phases and ways are limited. There are no direct linkages of interaction with tea producers and consumers. Consumers prefer good-quality tea, but are hardly conscious about the social, environment and economic responsibilities at gardens. As stated, though consumers are willing to pay the same, their behaviour patterns do not show their preferences. The domination of branded tea of multinational has created their own consumers over the period due to various schemes and options. At present, the market is very limited. So, to choose high quality tea specifically from small tea segments, even if consumers intend to do so is difficult, if not impossible.

The low per capita consumption of tea in India shows that there is high potential to utilize the market. If an initiative is taken to strengthen the domestic market, it would also demand an increase in the volume of production. Consumers are becoming more quality conscious, but the

choice for them is limited. The expansion of tea market in this present market scenario is very difficult. The existing process of tea industry provides no space for consumers to be part of the whole value chain of tea industry. As noted by other studies, consumer behaviour and consumption patterns in India hardly get space to address the social and environmental issues and workers' conditions in the tea industry.

Recommendations /Feasible Intervention Options

- Initiatives should be taken to increase sales through the Auction sale by creating some mechanism to increase participation of buyers from different segments. The movement from development agencies and the consumer campaigns may build the direct linkages with buyers and small tea growers which may create awareness and increase demand for their tea at the Auction.
- Initiate institutional reforms to create awareness and provide sale promotional schemes to retailers to provide better quality to consumers. This will also make buyers and retailers more conscious about social and economic issues in the tea gardens.
- Initiate the participation of non-profit organizations and other stakeholders as at present, intervention of various stakeholders is limited at the retailer and consumer level.
- Intensify various schemes for generic promotion of tea with wide varieties of tea products. It is important to introduce a variety of tea outlets/accessibility of quality tea with the joint venture of various stakeholders.
- Extensive and intensive promotion schemes should be launched through the various channels including media and other public spaces.
- Create awareness about social and environmental responsibilities of the product and sensitiveness of working environment at the production sector through various forms of communication.
- Introduce outlets of various-priced and various varieties of tea where consumers, irrespective of class get access to good quality. Urban-centered outlets only provide access to a minor portion of consumers otherwise. This would also provide linkages with the production sector and consumers. The promotional programmes and studies need to address the different segments of society irrespective of purchasing power and behaviour of customers and social groups. This also creates a situation where consumers can choose their own tea in various retailers rather than focusing on very few classes of consumers in urban areas.
- Initiate the linkages with production sector and the consumer level through the involvement of the retailers. Various marketing channels appropriate to region to region (for instance, use of Self-Help Groups, PDS shops and so on) should be used for this.

In the changing scenario of the Indian tea industry, this study tried to understand how Indian tea plantations accomplish their CSR practice at international standards and strengthen and move the international value chain of tea industry. The attempts to move to multi-crops and other

farming business include retail agri-market emerging as a new business model in the Indian tea industry. The study also looked at how CSR is being practiced in Indian tea plantations and how it leads to the business model of achieving high productivity and competitiveness at international standards. The study contextualizes three case studies based on two regions in India. The first, to understand the process of withdrawal of TATA tea in production sector and how the new company, KDHP developed its new model of production structure and its impact on the workforce in the industry. In the second case study, we look at the changing scenario of HUL moving out of production and the emergence of McLeod Russel as the world largest plantation company. The study also encompasses the nature of production and company's CSR practice in tea gardens. The third case study looked into how Abita Zone 1. initiated CSR practices in their gardens and what is the outcome of these initiatives. The welfare programmes, improving health care programmes, child development programmes, etc., could develop awareness and achieve positive outcome on workers and tea industry. There are many short term and long-term impacts upon workers standard of living and their productivity. The overall changes in the profile of workers also transferred the ambience and productivity of tea gardens under the association of Abita Zone 1, Dibrugarh.

Apart from the changing scenario of production sector and intensifying brand products and markets, the tea industry also witnesses the new business model of the major companies in tea plantation, which is diversification of crops. The highly volatile price and fluctuation of international market forced the companies to develop a new business model to sustain in industry. Most of the companies initiated new projects for diversification of products, developing retail market and nature-based tourism in and around their tea gardens.

The study made an attempt to understand how these plantation segments achieve international standards of CSR by achieving high productivity, quality and maintain good workforce in the changing scenario of plantation model to participatory plantation management and to business model in the recent period in the Indian tea industry.

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1. <http://www.indiatea.org/>
2. <http://www.swannteas.com/abouttea2.html>
3. <http://www.teaportal.org>
4. <http://www.indiateaportal.com>
5. <http://www.indiancommodity.com/Gen/tea.htm>
6. <http://www.indiainfoline.com>
7. www.indiastat.com
8. <http://www.jthomas-india.com>
9. <http://www.carrittmoran.com>
10. <http://www.teauction.com>
11. <http://www.teatalk.com>
12. <http://www.theteashop.com/faq.htm>
13. <http://www.wmtea.com>
14. <http://www.teaandcoffee.net/0602/world.htm>
15. <http://www.teacouncil.co.uk/>
16. <http://www.teanet.com/>
17. <http://www.indiatea.org/>
18. <http://www.lochantea.com>
19. <http://www.indiatea.org>
20. www.teaindia.org
21. www.tea.nic.in
22. <http://commerce.nic.in>

4. Institutions associated with Indian Tea Industry

Tea Board of India
14, B.T.M. Sarani,
Brabourne Road
P.O. Box 2172
Kolkata 700 001, India
Phone: (91) 33 235 1411
Fax: (91) 33 221-5715
Email: teadevex@cal.vsnl.net.in
<http://teaboardofindia.nic.in>

Indian Tea Association
Royal Exchange
6 Netaji Subhas Road.
Kolkata 700 001
India
Phone: (91) 33 210 2474
Fax: (91) 33 243-4301
e-mail: ita@cal2.vsnl.net.in

Consultative Committee of Plantation Association
Royal Exchange
6 N.S. Road,
Kolkata 700001, India

United Planters Association of Southern India
Glenview, P.B. No. 11,

P.O. Coonoor
Nilgiri 643 101
Tamil Nadu, India

Calcutta Tea Traders' Association
Royal Exchange
6 N.S. Road,
Kolkata 700001, , India

Tea Association of India
Indian Exchange
4 Indian Exchange Place
Kolkata 700001, India

Darjeeling Planters' Association
Royal Exchange
6 N.S. Road,
Kolkata 700001, India

Coonoor Tea Traders Association
P.B. 31, Coonoor
Nilgiri 643 101,
Tamil Nadu, India

Federation of Tea Traders' Association
74 New Barden Lane
Mumbai 400 003, India

Guwahati Tea Auction Committee
G. S. Road, Dispur
Guwahati 781006
India

Indian Tea Planters' Association
P.O. Box 74
Jalpaiguri 735 101
West Bengal, India.

Tea Packeters Association of India
9 Shakespeare Sarani
Kolkata 700071, India.

The Tea Trade Association of Cochin
Sebrof House
Willingdon Island
Cochin 682003, India.

Federation of All India Tea Traders' Association
S P Mukherjee Road
Siliguri 734405, West Bengal, India.

Federation of All India Tea Traders' Association
1 Allenby Road,
Bikaneri Building, 2nd Floor
Kolkata 700020, India.