BRIEFING PAPER

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# Tea Export and its Impact at the Grassroots

*Trade can be a powerful source of economic growth. International trade can expand markets, facilitate competition and disseminate knowledge, creating opportunities for growth, poverty reduction and human development. But while broad based economic growth is necessary for human development, it is not enough. To ensure that benefits of international trade percolates down to the grassroots stakeholders, complementary domestic policies need to be put in place.*

*CUTS implemented a project entitled, 'Grassroots Reachout & Networking in India on Trade & Economics (GRANITE)' in eight Indian states. The objective of the project was to generate a more coherent civil society voice on economic governance in India in the context of globalisation and its effects on the livelihoods of the poor, particularly the marginalised and women.*

*In light of India's Foreign Trade Policy (2009-14) this case study looks into the Tea economy of West Bengal (Jalpaiguri and Darjeeling), explores the export-oriented value chain in the sector and shows how various stakeholders are interrelated. The study investigates into whether export of Tea has increased (or not) after introduction of the Foreign Trade Policy of India; what has been the impact on various stakeholders; what are the bottlenecks for exporting Tea; and what could be the probable measures that will help in improving the export scenario.*

## Foreign Trade Policy of India

Trade can be a powerful source of economic growth. International trade can expand markets, facilitate competition and disseminate knowledge, creating opportunities for growth, poverty reduction and human development. Trade can also raise productivity and increase exposure to new technologies, which often spur growth. But, while broad-based economic growth is necessary for human development, it is not enough. To ensure that the benefits of international trade percolate down to the grassroots stakeholders, complementary domestic policies need to be in place. Synergy between trade and human development thus requires proper international trade policies, along with complementary domestic policies.

In this context, the GRANITE-II project attempts to understand whether and how India's National Foreign Trade Policy (NFTP), 2009-14 has impacted (or not) export of specific products being studied. The idea is to identify various channels that facilitate the trickle down effects of international trade at the grassroots. In a nutshell, the project attempts to find concrete answers to the following questions:

- Whether export of specific products is increasing (or not increasing) after the introduction of the Foreign Trade Policy of India?

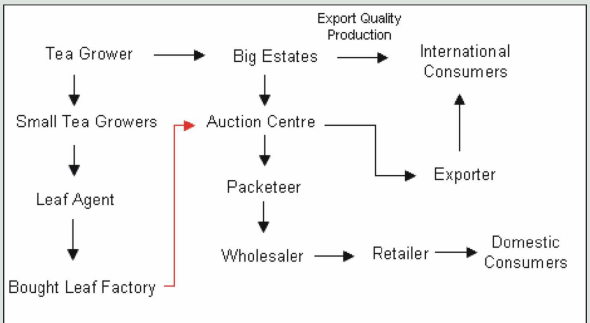


**Figure 1**. Supply Chain in a Tea Economy

- What has been the impact on the stakeholders of the sector?
- What are the existing bottlenecks and what could be the probable measures that will help in improving the export scenario?

With a view to finding answers to the questions mentioned above, CUTS conducted a case study on the tea sector in Jalpaiguri and Darjeeling districts of West Bengal. The briefing paper is an attempt to put forward major findings of the study along with the recommendations based on the findings.

## An Overview of the Tea Economy of West Bengal

A simplistic version of the supply chain of the tea economy has been shown in Figure 1. As evident from the Figure, there are two broad categories of tea grower. **First,** there are the big growers locally called *set gardens* owned by big companies and produce made tea and, **second,** are the small tea growers (STG) having area up to 10.12 hectares of land, who sell the green leaf either to the Bought Leaf Factories (BLF), via leaf agents, or to the set gardens. The set gardens have large stretches of tea plantations with own factories for manufacturing made tea and also a greater capital outlay at their disposal. Owing to large size of the tea plantations, the big estates always maintain captive labour for which they have to pay a number of welfare benefits to the workers, apart from their daily wage.

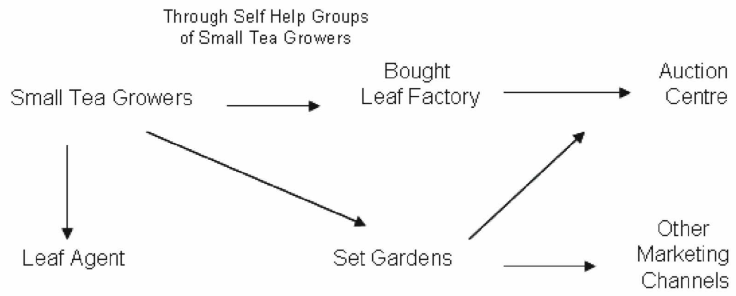


**Figure 2**. Pre-Auction Supply Chain of Small Tea Growers

Some of the companies having set gardens dedicated to export-oriented tea production do the necessary value additions, viz., blending, packaging etc., on their own and export them directly to different countries through their own marketing channels. This category of exporters is popularly called *Producer Exporter*. It is to be kept in mind that the first and second flush caters to international consumers (during Easters), whereas the monsoon flush and partly the autumn flush are sold domestically. The monsoon and autumn flush are sold either through auctions or private marketing channels.

The pre-auction supply chain for the STGs is, however, quite different, compared to that of the big tea producers, as shown in Figure 2. It can be seen from Figure 2 that the supply chain for the STGs terminates with the BLFs, set gardens or leaf agents. It is clear that they are not being able to participate in the steps that follow and hence can not reap the benefits of value addition from made tea.

The made tea sold through auctions are either purchased by agents or sub-agents who then sell those either to packeters or to merchant exporters or to the wholesalers in the domestic market. *Merchant Exporters* are those who do not produce made tea. They purchase made tea from public auctions, blend them, may or may not packet them (in case they do not sell under any brand) and export them. The packeters have their own brands and sell the tea purchased from public auctions through their own marketing channels.

## Major Findings of the Study

### *Impact of climate change and fall in tea production*

Climate change has adversely affected both big and small tea producers in West Bengal, especially Darjeeling. The changed climate has not only led to an increase in average temperature in the mountain regions and plains, but also resulted in irregular rainfall. This, in turn, is causing drought and considerable crop loss. In the Darjeeling district, there has been a 10-15 percent fall in total production.

### *Shift in consumer preference*

There has been a sea change in consumer preference towards organic tea, i.e. those cultivated without using any synthetic chemicals and pesticides. This has been coupled with stricter Sanitary and Phyto-sanitary (SPS) measures adopted by the developed countries. Together, these two factors had a considerable effect on the farming practices employed by the big tea growers, who are dominant players in the export market. This, in turn, had a two fold effect – *first*, their cost of production has increased considerably and, *second*, a switch to complete organic cultivation has led to almost 25-percent fall in production.

Though it is believed that 15 percent of the same will be regained in the future, even then, this would translate to a permanent loss of 10 percent of the

**Table 1: Labour Wages & Welfare**

| **Description** | **Amount (₹/Kg)** |
|---|---|
| Daily Cash Wages | 67.00 |
| Green Leaf Plucking Incentive | 4.50 |
| Food Grain (Ration) | 15.40 |
| Made Tea (400gm/Month) | 1.38 |
| Fuel | 3.50 |
| Housing Allowance (8% of Cash Wages) | 5.36 |
| Medical Allowance ( 5% of Cash Wages) | 3.35 |
| Uniform | 1.80 |
| Paid Holiday (12 National Holidays) | 2.68 |
| Sickness (Yearly 14 days) | 2.09 |
| Annual Leave (Yearly 15 days) | 3.36 |
| Maternity Benefit | 0.97 |
| Welfare Activity (Education, Club, Drinking Water) | 2.00 |
| Provident Fund (12% of Cash Wages) | 8.35 |
| Bonus | 11.39 |
| Gratuity (4.8% of Cash Wages) | 3.21 |
| **Total** | **136.34** |

produce. Together, this has led to a considerable revenue loss to the big growers and that, in turn, translates into labour agitations over non-payment of wages, provident fund, other employee benefits, etc., in the estates. "*I will be able to pay only if I get paid*" to quote one of the big tea estate owners interviewed during the study.

### *Labour welfare cost and labour shortage*

Tea industry is one such area where labour cost constitutes almost 60 percent of the total cost of production. This is due to a number of social welfare costs borne by the tea estates. The cost break up has been given in Table 1. Rising social welfare costs in an inflationary economy, coupled with sustained loss incurred by the big companies, is severely threatening the relations between two most important stakeholders in the economy – tea estate owners and tea plantation workers.

### *Greater promotion by the Tea Board of India*

Till early 1980s, India was the leading tea exporter of the world, but a number of events, such as disintegration of USSR (which was one of the major buyers), persistent fall in international prices and ever increasing cost of production, have eroded away the export competitiveness of Indian tea. While India was the leader in tea export, at present, she holds the fourth position.

According to the available data (Table 2) on the price of tea for major exporting countries, it is observed that though Sri Lanka has a higher unit price than India, yet it exported nearly 2,94,254 thousand kg of made tea, compared to only 1,78,754 kg by India in 2007. One of the reasons commonly cited by respondents covered in the study is the increase in domestic consumption of tea, which is 80 percent of the total tea production of India. The survey, however, revealed that this reason might hold true for the CTC (crush-tear-curl) variety and some orthodox varieties, but not Darjeeling tea.

This is because of the following reasons – *firstly*, domestic consumers are more used to taking tea with milk and sugar, whereas Darjeeling tea is traditionally taken sans milk and sugar; and, *secondly*, it is primarily export-oriented and the price charged for Darjeeling tea is much higher compared to the CTC variety easily available in the domestic market. The common perception of all the big producers is that the Tea Board of India is lacking initiatives put in by Tea Board of Sri Lanka and Kenya in promoting their tea in international markets. However, suggestions on what role can the Tea Board of India play to improve the situation were not forthcoming.

### *Lack of packaging facility*

Packaging is considered to be a very crucial component for getting the attention of consumers. As pointed out by one of the respondents. *The quality of packaging in Sri Lanka is far better than India*. In many cases, Indian tea is sent to Sri Lanka for packaging before reaching the consumers. The import duty on improved packaging machinery is also quite high and considered unaffordable by many stakeholders.

### *Training of small tea growers*

Since 1999-2000, the number of STGs started increasing. This has been partly due to greater profitability from tea production *vis-à-vis* paddy or vegetable cultivation. Most the STGs who switched to tea cultivation had little or no knowledge about the cultivation practices and hence had nowhere to go in the event of any pest attack or other problems. The present study included conducting eight focussed group discussions (FGDs), thereby getting the perspectives of almost 100 STGs.

One major finding has been that though the Tea Board of India through the Tea Research Association and the Tea Management Department of the North Bengal University organises seasonal training camps in various parts of North Bengal, yet the number of such trainings was considered insufficient. In 2010, 20 such workshops had been organised, but in 2011 no such workshops have taken place. When asked about whose suggestion they take in the event of any pest attack (e.g., red spider) or plant diseases, their reply was, either the shops selling pesticides or any senior

**Box 2: Why Many of the STGs Had to Still Depend on the Leaf Agents?**

Almost all the stakeholders interviewed under the study admitted that leaf agents do exploit many of the STGs by not paying them a fair price for the produce. Question arises as to why then a majority of the STGs still depend on them? Some of the reasons which came up during the FGDs with the STGs are as follows:

- The leaf agents are the primary and the most easily available source of credit to the STGs, both in general as well as in the lean seasons
- The leaf agents have a good rapport with the BLFs and the latter often accepts leaf of '*not so good quality*' if sent only via the leaf agents
- The leaf agents provide transportation for carrying the green leaves to the BLFs, which otherwise, if borne by the STGs, would increase the latter's cost of production

**Table 2: Year-wise Movement of Tea Price for Major Tea-exporting countries (US$ per kg)**

| | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Sri Lanka** | 2.28 | 2.36 | 2.28 | 2.24 | 2.25 | 2.41 | 2.58 | 2.64 | 3.26 | 4.02 |
| **India** | 2.38 | 2.04 | 1.95 | 1.79 | 1.97 | 2.06 | 2.09 | 2.03 | 2.45 | 2.71 |
| **China** | 1.7 | 1.52 | 1.37 | 1.21 | 1.38 | 1.56 | 2.06 | 1.88 | 2.1 | 2.30 |
| **Kenya** | 1.93 | 2.12 | 1.67 | 1.58 | 1.63 | 1.61 | 1.59 | 2.07 | 1.99 | 2.34 |

planter in the villages. Further, often the BLFs and the leaf agents deny payment to the STGs by saying that the quality of green leaf is not up to the mark, a claim the STGs, with little or no technical expertise, cannot counter. This is what necessitates capacity building of the STGs on various technical aspects of tea cultivation.

***Predominance of middlemen (leaf agents)***

There are a group of middlemen, known as *leaf agents,* who procure green leaves from the STGs and sell them either to the set gardens or to BLFs. The main reason they operate is because production of green leaf by a single STG is very insignificant, compared to the huge amount required by the BLFs and set gardens. The leaf agents fill the gap and procure leaves from a number of STGs and supply leaves in bulk to BLFs regularly. For this, the leaf agents charge a commission from the growers as well as the BLFs. These leaf agents are well known for exploiting the STGs by siphoning off a significant amount of the price paid by the BLF for the green leaf procured.

For example, as mentioned by one of the STGs, *The commission they charge is not fixed and depends on their will. If suppose the BLF pays ₹12/kg, we will get hardly ₹7-8/kg. At times, even we do not receive the money and they would blame it on us saying that we cannot grow good quality leaf.* Though some growers who are members of STG Cooperatives (one of the greatest success stories by the Tea Board of India) have been able to free themselves from the clutches of these middlemen, yet a significant number still depend on the middlemen for selling the green leaf produced.

***Absence of transparent price-determining mechanism***

Price of green leaf is determined by the price of made tea sold in public auction. The simple equation followed by the BLFs and STGs is that since 4.65 kg of green leaf is required for preparing one kg of made tea, if the made tea is sold at ₹100 per kg (say), then after deduction of the processing cost (₹30 per kg, say), the BLFs would pay ₹(100-30)/4.65, which is equal to ₹15.03 per kg. No matter how simple this mechanism looks, the reality is not so simple.

In practice, green leaf sold today will require at least a month for payment realisation. An alternate model is often followed. The BLFs offer a rate to the STGs not determined by auction sale, but rather private sale (fixed on a daily or weekly basis). This has both good and bad sides to it. Since a major portion of the made tea produced by the BLFs does not enter public auction, hence the STGs get weekly payment for the green leaf, which is beneficial to them. On the flip side, the price offered by the BLFs may or may not reflect the fair price of green leaf.

## Conclusion & Recommendations

In conclusion, it may be said that a holistic national tea development plan needs to be developed in consultation with various stakeholders involved in the tea supply chain. Tea which used to be a major foreign exchange earner for the country needs to regain its lost glory, through a multi-stakeholder effort.

Looking at the problems facing the tea sector, it can be concluded that the Foreign Trade Policy of India alone cannot provide any solution. The complementary domestic policies need to be in place to improve the condition of different stakeholder categories. Further, the Tea Board of India's role as a regulator and implementing agency needs to be strengthened. This section will first put forward the recommendations concerning the Foreign Trade Policy of India and then deal with those concerning the domestic policies and, lastly, point to issues where Tea Board of India can play a crucial role. There is also a set of general recommendations to conclude.

***Areas where the Foreign Trade Policy can play an instrumental role***

- Use of Accelerated State Infrastructure Development for Exports (ASIDE) for Infrastructure Development, viz., roads, warehouse etc.;
- Use of the Focussed Market Scheme for export promotion in selected countries – Tea Board of India has already developed guidelines for availing the scheme and it is available on their website;
- Adoption of appropriate trade policies for trading with countries like Pakistan and countries in the Middle East, where the per capita consumption of tea is higher than India. Further, quality restrictions in these countries are not as stringent as other developed countries; and
- Sri Lanka, being a member of the South Asian Free Trade Area (SAFTA), the foreign trade policy should look into better regional integration and have a common processing and packaging facility such that tea from India gets packed using Sri Lankan technology. The integration should look at reducing the transportation cost of Indian tea from India to Sri Lanka and vice versa.

***Areas where complementary domestic policies can play a crucial role***

- In recent years, the Government of India is implementing a plethora of schemes and policies that are aimed at pro-poor development. For education, there is *Sarva Siksha Abhiyaan*; for health there is National Rural Health Mission; for food there is National Food Security Mission, etc. These missions aim at holistic development of the grassroots. Further, the best part of these policies had been that there are officials who are accountable for not delivering the services. If the labourers in the tea estates could be brought under the purview of these missions, it will help reduce the social welfare cost borne by the tea estates.
- There is a need for providing alternate employment to the labourers in tea plantations through their capacity building and skill development on handicrafts and cottage industries, viz., preparing woollen products, processed food, etc., which can be sold through their small counters in the tea estates or through established retail marketing chains. It has to be kept in mind that there is a need to involve the tea estate owners as well, so that they do not fall short of labour. Many estates are promoting tourism as well, where tourists can visit the

estates and stay with the labourers and pay them a nominal amount towards food and lodging expenses.

***Areas where Tea Board of India can play a crucial role***

- Interest charged under the Special Purpose Tea Fund (SPTF), a flagship scheme of the Tea Board of India, needs to be looked into, especially for Darjeeling, where the productivity is much below the national average and also the gestation period for a new bush to become economically viable is also much longer (almost eight years).
- A training calendar needs to be prepared for the STGs, in consultation with their associations, and implemented either through the Tea Research Association or through the Tea Management Department of the North Bengal University. In any case a greater Reachout Model is required, it calls for increasing the existing staff members and funding, which needs to be looked into.
- The Tea Board of India should significantly increase its financial allotment to help the STGs build their own BLFs.
- There is a need for setting up a separate Directorate for the STGs, which will specifically deal with their problems and adopt and implement appropriate policies.

This Briefing Paper has been prepared by Arnab Ganguly, Keya Ghosh and Sumanta Biswas of and for CUTS Calcutta Resource Centre, as part of the project entitled, 'Grassroots Reachout & Networking in India on Trade & Economics' (GRANITE Phase II) with support from Oxfam India & Royal Norwegian Embassy, New Delhi