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

Case Study

THE TURNAROUND OF INDIAN TEA SECTOR

Himanshu Dutt*

INTRODUCTION

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

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

The Pertinent Problem

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

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

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

Segmenting Indian Tea Industry

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

Major Tea Markets

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

Current Production & Exports Scenario

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

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

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

Turnaround Representation of Indian Tea Industry

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

*Projected Figures

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

Source: Adapted from Tea Board of India, 2006

Conditions in the World Tea Market

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

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

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

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

Sly Competition

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

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

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

The Road to Turnaround

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

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

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

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

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

Book Review

CELEBRATING SILENCE

Sri Sri Ravi Shankar, Art of Living Foundation, Jaico Book House, ISBN: 8179923681, Paperback, Rs.125/-

Celebrating Silence is a collection of the weekly discourses of Sri Sri Ravi Shankar, organized by theme rather than by chronological order. Sri Sri discusses topics ranging from doubt and fear to love and dispassion. He describes what it means to be on a spiritual path - a path of service, sadhana, and surrender. He leads us through an understanding of God and back to our inner Self - that which we really seek, often without knowing.

This paperback is a rich resource for anyone on a spiritual path since it contains so much wise advice on things of ultimate concern, such as love of God, service, longing, and seeing the Divine in others.

This book, contains excerpts from five years of talks given around the world. The material is arranged into three thematic sections: the first covers some of the bad habits and selfish ways that we want to change; the second zeroes in on what it means to be on a spiritual path with discussions of service, surrender, and freedom; and the third examines “You, God and Beyond.”

Sri Sri Ravi Shankar believes that vows are a helpful tool when it comes to working on bad habits. By making a conscious intention not to do something for a certain period of time, we begin to focus our energies and learn the spiritual art of patience. Another strategy he suggests comes out of the Hindu tradition: If you cannot eliminate vices, magnify them. For instance, Mahatma Gandhi used to be greedy for the poor – wherever he went, he raised money for them.

Shankar says: “What is the point of getting angry about small events? Be angry about the infinite, about Brahma . . . If cravings gnaw at you, crave the truth. If jealousy haunts you, be jealous about seva (service).” He suggests that we learn to be tender with our flaws realizing that in time, they will wither away. And here’s some good advice: “Make your smile cheaper and your anger expensive.”

Contentment still eludes so many people living in the lap of luxury. This spiritual teacher offers the following counsel: “Though the river is vast, a little sip quenches your thirst. Though the earth has so much food, just a small bite satisfies your hunger. All that you need are tiny bits. Accept a tiny bit of everything in life – that will bring you fulfillment.” Contentment comes from the freedom that grows out of being satisfied with tiny blessings.

Sri Sri Ravi Shankar is especially cogent in his suggestions on how to deal with jealousy and handle rudeness. Handling the incivility of others is good training: “The next time someone is rude to you, make sure you do not get upset. Just return a broad smile. If you can digest rudeness, nothing whatsoever can shake you.”

Lavanya Rastogi

About Sri Ravi Shakar & the Art of Living Foundation:

His Holiness Sri Sri Ravi Shankar, founder of the Art of Living Foundation, travels & teaches internationally, reminding us that the great spiritual traditions have common goals and values. His simple message of love, practical wisdom, and compassion continues to inspire people from all walks of life, and He encourages everyone to follow their chosen religious or spiritual path while honouring the path of others.

His talks and programs have helped people around the world in reducing stress, experiencing physical and emotional healing and developing a sense of belongingness.

Sri Sri Ravi Shankar completed a traditional education in Vedic literature and modern science when he was only seventeen. At the tender age of four, he could recite the entire Bhagavad Gita. In 1982, he began to teach the Sudarshan Kriya, a powerful breathing technique that cuts down stress and helps individuals focus on the present moment. Today this program is taught around the world as part of the Art of Living course. Sri Sri Ravi Shankar founded the Art of Living Foundation, a UN affiliated non-governmental agency, and is the inspiration behind many charitable organizations devoted to the service of others.

Here's a final quotation on the spiritual practice under discussion in the book: "Service without attitude/ Love without reason/Knowledge without intellect/Life beyond time and events/is what you are."

So simple yet so profound ! A must read for everyone seeking fulfillment in life !

Lavanya Rastogi
CEO, Value One LLC, USA.

Feedback Form

Would your take a moment to evaluate the articles you've read in this issue of the *"DELHI BUSINESS REVIEW"?* Your valuable comments will help us to shape future issues. Thank you.

– Editor-in-Chief

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Key Dates

- Submission of Abstract	-	August 01, 2007
- Acceptance of Abstract to be communicated by	-	September 01, 2007
- Paper to be Received by	-	October 01, 2007
- Paper Acceptance by	-	November 01, 2007
- Fee Submission by	-	December 01, 2007

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Inspirations Worth Mentioning

I had the pleasure of attending ICIB-2000. It was a very well organised conference. I was very impressed with the quality of presentation and the organizational skills of Prof A.K. Singh and his team. I wish everybody all the best and hope that DSPSR becomes one of the leading educational institutes of India.

Dr. Amit Bhatnagar, Asst. Professor, University of Wisconsin - Milwaukee, U.S.A.

Nice Job! Keep it up. Lofty vision, great facilities, excellent faculty-all in all a wonderful start to a great institution.

Dr. Ashwani Srivastava, Director-Risk Management, Bombardier Inc.,Vermount, U.S.A.

I was very pleased to spend an hour with the bright students of DSPSR discussing culture's influence on business ethics. The professional courtesy extended by the faculty and director of DSPSR reflected the age old cultural warmth of India and I felt much at home during my visit. A Great Conference too!

Dr. D.P.S. Bhawuk, Associate Professor, University of Hawaii at Manoa, Hawaii, Honolulu, USA.

The wonderful hospitality of the staff – familiar though they are – the enthusiasm, the conviction concerning projects and academic undertakings, this is indeed the school of well-researched behavior and professionalism. It will be a delight to observe the consequences of such devoted efforts. It is an honor to be associated with this outstanding organization. Congratulations to Dr. Singh, whose gracious smile never leaves me, and to all involved in this great school.

Professor Gregory Berglund, Centre d'Etudes Franco-American de Management, Lyon, France.

Wonderfully organized Conference. Best Wishes !

Maharaja Jyotiraditya M. Scindia, Member of Parliament (Lok Sabha), India.

The best testimony to an Institute is its products. I think the products of the Institute give a very fair idea of the excellent inputs that are being imparted to them here.

Professor Madhulika Kaushik, School of Management Studies, IGNOU, New Delhi.

It gives me an immense pleasure to put on record my very sincere appreciation for the excellent work that is being carried out by this school. What impresses me most is the professionalism that is evident in all activities of this school. As this school is endeavouring for 'International Linkages', I would be pleased to assist the leadership of the school to establish a meaningful and mutually beneficial linkage with Minot State University, which is one of the 'Best Schools' according to US News.

Professor Mohammad Saeed, Professor & Deputy Director, Minot State University, Minot North Dakota, USA.

In course of my interaction with the students and faculty in my guest lecture, I found them quite up-to-date, well versed and all motivating. I am sure the institute is well-poised to come up as a pioneering institution in the field-management education.

Dr. L.P. Singh, Professor & Coordinator, Management Programme, LNMU, Darbanga.

As part of my visit to the Institute for attending its Governing Body meeting, I also had the opportunity to see ins and outs of this Institute in terms of its infrastructure, interaction with the faculty, Computer Laboratory coupled with its professional way of real life working. To be brief, I must applaud the efforts of its corporate management in giving it the right direction, alone! Wishing all the best.

Professor O.P. Goyal, Dean Academics & SOMS, GGS Indraprastha University, Delhi.

I thought the Conference and Workshops were well organized and excellent presentors. The Conference was Excellent!

Professor David Ross, CEO, INDELTA Pty. Ltd., Australia.

Congratulations to Dr. Ajay Kr. Singh and his team for organizing wonderful world-class conference. Efforts put in by the students were very apparent. The conference provides an excellent forum for exchange of ideas among intellectuals from world over. ISO 9000 workshop is a great leap forward for the educational system in the country. I hope and believe that the workshop will stimulate development of world-class student oriented systems in the country.

Dr. Suneel Maheshwari, Associate Professor, Marshall University, W. Virginia, USA. (Currently Professor)

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The Editorial Board invites original, unpublished contributions in the form of articles, case studies, and research papers.

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Editorial

In India, undoubtedly, the potential for growth and development is immense. It is confirmed from the scene of the first half of the financial year i.e., April - September, 2006. FDI inflows have become doubled and reached to $4.38 billion. Data depicts that while comparing the private external flows to Asian Countries, India has been given the first preference in comparison to China, South Korea, Taiwan and Hong Kong. The investments received in the first half are the first mile investments and naturally, the future will also follow the same trend of investments. The average inflows for India through bonds, equities and loans during 2003-05 has risen by 158.4% as against 40.3% for other emerging markets. It is expected that the year will be closed with $9-10 billion. Services sector has topped the sectoral growth in FDI inflows in the first six months and a significant growth has also been noted in fuel and telecom sectors also. A report, during 2006-2030, stated, global economy is projected to rise faster than the last 25-year period. While projecting a moderation in growth rates in India and China during 2007 and 2008, the World Bank has said that the next 25 years belonged to the developing world, which would drive global growth resulting in higher income-levels. The World Bank's Global Economic Prospects said the pace of economic expansion was slowing and developing countries are projected to grow 7% in 2007-which is twice as fast as high income countries. For 2007 and 2008, the forecast for developing countries is 6%.

India has been felt on radar and the FDI inflows fill the people and government of the country with a new confidence. Ministry of Commerce and Industry has approved seven of the eleven applications of the large retailers of the world with an advise to invest in the back-end and into the logistics rather than look at the retail end.

But there is bureaucratic spanner in India's efforts to emerge the most preferred investment destination in the eastern world. According to industry body ASSOCHAM, nearly 62,000 proposals – involving a cumulative investment flow of around Rs. 1,550,000 crore – are pending approvals from various states and central government for the past nearly 18 years.

According to the ASSOCHAM data on investment proposals, if these 62,000 proposals are fructified, they can generate over 18.5 million employment opportunities. "It is observed than even at 40% fructification of these investment proposals, investment of Rs. 644,000 crore can come through, generating employment for about 7.4 million people."

The Chamber called for steps to improve the investment climate in India as it takes 89 days to start a business, 425 days to enforce a contract and seven days to clear customs. Almost 15% of management time is wasted to deal with officials, while losses due to electricity outages amount to about 12% of sales.

It has been felt by the ASSOCHAM President, Anil Agrawal that Infrastructure needs substantial improvement and the government should recognise the role of industry to achieve and put India on a faster growth trajectory. Hence, it can be concluded that everything is not green about investment climate in India.

The Eighth International Conference scheduled to be held from January 3 – 5, 2007 will dwell upon the above mentioned issues in greater detail in which luminaries from different parts of the world are participating. The paper presentations and discussions will be held in various Technical Sessions like Economic Opportunities and Challenges : Global Perspectives; Single Window Clearance : Dream Vs. Reality; FDI : India vis-à-vis China; Infrastructure Development in India; Research Paper presentations on contemporary issues. There is a focused Eighth International Seminar on Real Estate Development : Urban Vs. Rural on January 03, 2007.

Professor David Ross from University of Southern Queensland, Australia will conduct a Pre-conference Workshop-cum-Training session on Best Practices in Business Processes on January 02, 2007.

I sincerely hope that all the participants would be enriched and enlightened with the deliberations of the Conference and the conclusions and recommendations would be beneficial for one and all.

This issue will be released in the inaugural session of the Eighth International Conference and contains some selected research based blind peer reviewed papers followed by abstracts of paper presenters, case study, book review, etc.

- Dr. Ajay Kr. Singh

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   Table 1.1 about here

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