



सत्यमेव जयते
Government of India

Ministry of
Agriculture
Government of India



Indian Institute of Foreign Trade



Capacity Building Program on
International Trade towards
Enhancement of
Competitiveness of
Indian Agriculture

Tea Industry

Introduction

The Indian tea industry is nearly 200 years old. Robert Bruce, a British national discovered tea plants growing in the upper Brahmaputra valley in Assam and adjoining areas. In 1838, Indian tea that was grown in Assam was sent to the UK for the first time, for public sale.

Tea in India is grown primarily in Assam, West Bengal, Tamil Nadu and Kerala. Apart from this, it is also grown in small quantities in Karnataka, HP, Tripura, Uttaranchal, Arunachal Pradesh, Manipur, Sikkim and Meghalaya. India has a dual tea base, unlike most other tea exporting countries. Both CTC and Orthodox tea is produced in India. The tea industry is agro-based and labour intensive. It provides direct employment to over 1 million persons. Through its forward and backward linkages another 10 million persons derive their livelihood from tea. In Northeast India alone, the tea industry employs around 900,000 persons on permanent rolls. It is one of the largest employers of women amongst organized industries in India. Women constitute nearly 51% of the total workforce. The tea estates in the North Eastern India are located in industrially backward areas. Tea being the only organised industry in the private sector in this region, people outside the tea estates have high expectations from the industry.

The three most distinct known varieties of tea in India are:

- a) *Assam tea* (grown in Assam and other parts of NE India)
- b) *Darjeeling tea* (grown in Darjeeling and other parts of West Bengal)
- c) *Nilgiri tea* (grown in the Nilgiri hills of Tamil Nadu)

Objective

Through this dissertation project, I intend to study, with respect to the CIS nations and the United Kingdom that serve as the foremost export markets, the Indian tea industry in detail, the trends observed in the past, the highs and lows of export volumes to these countries and the reasons behind them, as well as future prospects on where Indian would stand in the global arena.

Scope of the project

The scope of this project would be limited to the export of Indian CTC and Orthodox tea, to the following markets:

1) CIS countries

a) Russia b) Armenia c) Azerbaijan d) Belarus e) Kazakhstan f) Kyrgyzstan g) Moldova h) Tajikistan i) Uzbekistan

2) United Kingdom

Methodology

As regards the methodology adopted and data collection methods followed, I had personally contacted and conversed with a few tea businessmen and retailers that I know. (Details of the persons I have contacted has been listed in the References column). For secondary data, I visited a number of websites, all of which have again been mentioned in the References column. The Union Planters Association of Southern India (UPASI): The UPASI is the apex body of planters of tea and other commercial crops grown in the Southern States of Tamil Nadu, Kerala and Karnataka. The headquarters of UPASI is located at Glenview, Coonoor -643 101, Nilgiris, Tamilnadu. As I hail from Coonoor, I have known a few contact persons in UPASI, whom I contacted and obtained information from for this project. I had initially intended to obtain appointments with the relevant people in UPASI and conduct interviews for my dissertation, during my winter holidays. However, as we did not get the holidays, I could not go home and hence had to speak to the UPASI people via phone.

Executive Summary

Tea is globally one of the most popular and lowest cost beverages, next only to water. Tea is consumed by a wide range of age groups in all levels of society. More than three billion cups of tea are consumed daily worldwide. Tea is considered to be

a part of the huge beverage market, not to be seen in isolation just as a 'commodity'.

Africa, South America, the Near East and especially the Asian regions produce a varied range of teas. This, along with a reputation in the international markets for high quality, has resulted in Asia enjoying a share of every importing market in the world. Huge populations in Asia, Middle East, Africa, UK, EU, and countries of the CIS consume tea regularly and throughout the day. Tea is indigenous to India and is an area where the country can take a lot of pride. This is mainly because of its pre-eminence as a foreign exchange earner and its contributions to the country's GNP. In all aspects of tea production, consumption and export, India has emerged to be the world leader, mainly because it accounts for 31% of global production. It is perhaps the only industry where India has retained its leadership over the last 150 years. The range of tea offered by India -from the original Orthodox to CTC and Green Tea, from the aroma and flavour of Darjeeling Tea to the strong Assam and Nilgiri Tea-remains unparalleled in the world.

Here are some statistical facts about the Indian tea industry:

- The total turnover of the tea industry is around `10,000 crore © Since independence tea production has grown over 250%, while land area
 - has just grown by 40%. © Total net foreign exchange earned per annum is around ` 1847 crore © The labour intensive tea industry directly employs over 1.1 million workers
 - and generates income for another 10 million people approximately. Women constitute 50% of the workforce
- Tea trading in the domestic market is done in two ways-*Auction and Private Selling*. Market Reports are received from the six major auction centres in India.
- They are Calcutta, Guwahati, Siliguri, Cochin, Coonoor and Coimbatore. Bulk trading is done through the auctions held in these centres.

The Indian tea industry

Indian tea has virtually lost all global markets because it continues to be traded as a commodity. The much talked about value addition is limited and rather late. Only the markets that have consumers with shallow pockets buy tea as a commodity and that share is fast depleting. The industry needs to be competitive in production, marketing, logistics and product forms. India, despite being a large producer of tea, lacks properly organized production systems in which small tea producers find a respectable place. The industry must have access to capital at globally competitive rates. The subsidies in any form are undesirable. The Indian tea industry must face the market realities, redefine its business strategies and reposition its products. The first step in that direction is a complete restructuring of the tea industry, redefining the roles of various agencies like the Tea Board and Producers' organizations, and developing a healthy partnership with the labour. There are the problems of market access and discriminatory treatments through non-tariff trade barriers such as maximum residual limits (MRL). Maximum residual limits (MRL) are a hot topic among the producers. MRL operates on every single agricultural product and not specifically for tea. The Indian tea industry is by and large quite sensitive to these limits.

SWOT Analysis – Indian tea industry

Strengths

- 1) The diverse agro-climatic conditions prevailing in the tea growing areas of India lend themselves to the production of a wide range of teas – black, (CTC, orthodox), green teas and organic teas.
- 2) A one-stop-shop for high quality specialty teas e.g. Darjeeling, Assam, orthodox, high range Nilgiris, etc.
- 3) Strong production base with 75 per cent of the production being accounted for by organised sector covering 1,600 gardens owned by nearly 1,100 entities.
- 4) Competent managerial manpower.
- 5) Strong research backing from well established research institutions.
- 6) Availability of modernised and upgraded manufacturing facilities.
- 7) Labour welfare laws protecting workmen.
- 8) Emerging small grower sector with young plantation profiles.
- 9) Availability of training facilities for plantation managers, supervisory staff and workers for continuous upgradation of their skills.

Weaknesses

- 1) Old age of the tea bushes – nearly 38 per cent have crossed the economic threshold age limit of 50 years and another 10 per cent on the verge of crossing this limit shortly.
- 2) High cost of production mainly due to low productivity, high energy cost and high social cost burden.
- 3) Diminishing availability of workforce particularly in South India.
- 4) Remote location of the plantations and transportation of teas over long distances from tea gardens to sale points.
- 5) Poor infrastructure – approach roads to gardens, inadequate warehousing at ports, constrained availability of containers, placements of vessels and high ocean freight charges (due to feeder–mother vessel transfers).
- 6) Difficulties in introduction of mechanization of field operations due to topographical and quality limitations.
- 7) Unorganized nature of small growers with fragmented small and scattered holdings leading to production of poor quality teas mainly due to non-availability of technical know-how at the doorstep – weak extension service.
- 8) Lack of quality monitoring mechanism for teas particularly sold through private sales.

Opportunities

- 1) Good awareness level world over as to the health attributes of tea leading to growing demand for good quality teas and specialty teas such as organic teas, green teas.
- 2) Narrowing down of the gap between supply and demand due to increased growth rate of consumption in the major producing countries.
- 3) Producing countries reaching an agreement for forming an exclusive forum for resolving their differences over common issues.
- 4) Positive response by the tea industry responding to the Government towards renovation of fields and processing factories. (Special purpose tea fund and quality upgradation initiative).

Threats

- 1) Round-the-year production in countries such as Sri Lanka, Vietnam.
- 2) Low cost of production of teas from Kenya, Vietnam and Indonesia etc.
- 3) Younger age of bushes (better quality of tea) of other producing countries.
- 4) Consistency in quality commitment and high service quality perception of

a. exporters of other countries.

5) Better developed packaging and bagging capacity of Sri Lanka.

Analysis of CIS countries & the UK as India's export markets

Tea consumption in Russia

Tea in Russia is a socially significant beverage. It is part of most Russians' way of life and is one of the primary product necessities. In some regions, people like strong black tea; in others, green tea is preferred to satisfy thirst; and there are also places where tea is served like soup with butter and milk. Tea is drunk in Russia in winter and in summer, by young and old, in any company, before and after dinner, and sometimes even instead of it. The history of the Russian tea market over the last two centuries was generally determined by imports from China and India, in spite of the fact that the first attempts to grow tea in the Russian Empire date back to the middle of the 19th century. At that time, tea plantations in Georgia and Krasnodar regions were established and satisfied a large proportion of the country's bulk tea requirements. The quality of the tea, however, was not very high -the subtropical nature of the mostly northern tea-growing area affecting both yield and taste characteristics of the leaves. It was therefore necessary to blend locally produced tea with better quality imported tea.

Imports and Exports

The highest production of domestic tea (up to 75,000 tons) was achieved in the USSR in the 1970s -due mainly to an increased gathering of rough leaves. Since 1986, a sharp reduction in domestic production was evident in Georgia and the Russian Federation, and at present, plantations in Krasnodar are able to produce not more than 0.5% of Russia's requirements. As a result, the Russian tea market today is almost completely supplied by foreign imports. In 1995, Russia appeared to lie in first place in the world in terms of volume of imported packed and bulk tea, having outstripped Great Britain. In 1996, tea imports decreased to 118,500 tons, but Russia still remained one of the biggest importers of tea along with Great Britain and Pakistan. In 1997, the total volume of tea imported to Russia increased again to 158,000 tons. Those tea imports serve first of all to meet the country's internal requirements -on average, 120140 gm. of leaf tea per head per month. The highest proportion of imports came from India -more than 90,000 tons. In second place was Sri Lanka (35,000 tons), with China and Indonesia in joint third place (6,000 tons each). European countries also play a leading part in supplying Russia -in particular, the U.K., Germany, the Netherlands, and Poland who jointly supplied 10% of the total tea imports in 1997.

Russian tea exports to other CIS nations

The export of tea from Russia is not a priority division, and is generally oriented to CIS countries. In 2009, exports totaled 9,800 tons, of which 9,500 tons went to the CIS countries. About 80% of Russian exports to nearby foreign countries went to Kazakhstan. Exports to Ukraine, Kirgizia, and Uzbekistan were also rather substantial, their share making up approximately 15%. Exports of tea from Russia to distant foreign countries went only to Mongolia. There are currently between 500 and 800 companies who play a predominant part in the Russian tea trade. The leader is May Co., which controls 20% of total sales throughout the country. Maytea was founded in 1991 and is now the largest trans-international corporation, with divisions and branches in India, Sri Lanka, China, the Ukraine, and Kazakhstan. The company produces more than 50 brands of black, green, packed, granulated, and flavored tea, and has won 18 gold medals at both Russian and foreign exhibitions. Other large tea companies include Dilmah (up to 11% of sales), the trading house Nikitin (up to 8%), OrimiTrade (up to 5-6%), and Grand (3-4%). Some large Indian and Sri Lankan companies also play a part and these include Agio, Mlesna, and Impra. European companies which supply Russia include Lipton, Twinings, and Pickwick, but their joint share does not exceed 10-12%. More than 70% of the Russian tea market belongs to medium brands packed in cardboard boxes, and to more expensive brands packed in metal caddies. There has recently been a noticeable increase in consumption of packed and instant tea supplied by both May Co. and European companies. On the whole, the potential Russian tea market totals between 180,000 and 200,000 tons a year, but this is obviously strongly affected by demand and financial flexibility.

Domestic Production in Russia

Before 2000, the share of tea packed in Russia was 95% of total domestic consumption; in 2008, 80% of packed teas were imported. This is because, at present, *tea packing manufacture in Russia is in a state of decline and is not competitive in comparison with the quality and cost of imported packed teas.*

Firstly, the geographical remoteness of the processing plants from the growing locations causes an inevitable loss of quality due to the transportation of bulk teas and the relatively long storage period (sometimes up to two or three months) in damp conditions. *The second reason is the poor quality of the technical equipment in the Russian tea packing factories which are not able to provide modern and progressive methods of tea production* -for example, the packing of whole leaf teas and manufacture of packed and instant teas and iced teas in large volumes.

The domestic operation is not competitive and the cost of production has to be taken into account. The high cost of paying off debts, the extra large component of the basic costs (higher than in India, Sri Lanka, and China), and the direct labor expenses have all led to a decrease in profitability and have prevented the opportunity of adapting quickly to fluctuations in requirements and consumers' taste preferences. It is evident that maintenance of the competitive viability of Russian tea packing production requires either the complete modernization of current production facilities or the building of new plants with a higher quality of technical equipment in order to improve the essential quality and the design of packing materials.

The Tea Association of Russia

The Tea Association of Russia (TAR), founded in 1996, is playing an essential part in developing and stabilizing the Russian tea market. It is currently made up of all the country's leading tea companies and has more than 60 representatives working in most regions. One of the major goals of the Association is to consolidate the Russian tea industry and to coordinate a joint effort to solve the problems of developing the tea market in Russia. The creation of the TAR, acting on behalf of the consolidated business body of the tea industry, is the natural result of the current state of the Russian economy. The development of private initiative and free enterprise requires the simultaneous consolidation of individual companies into a national organization, thus providing representation and the protection of the tea industry's interests, and offering assistance in the possible growth and increased competitiveness of the tea business. An important function of the TAR is to encourage its members to participate in domestic and foreign exhibitions and fairs, to set up scientific research in the tea industry, and to establish new methods in the field of tea tasting and the certification of tea market participants. The TAR provides its members a variety of services, including consultation, information, marketing, a customs/cargo processing service, independent examination, testing, and certification of tea products.

[Tea Association of Russia, P.O.Box 77, Moscow E-20 11020 Russia]

Indian tea exports to Russia and other CIS countries

In the early 1990s, India was by far the largest exporter of tea to the CIS countries. In the late 1990s, however, the industry faced a crisis due to complicated reasons which numbered more than one. Officials associated with the industry say that the beginning of the downturn was in the mid-1998 when the rupee-rouble trading arrangement, which governed Indian trade with the countries of the erstwhile Soviet Union, came under stress after the collapse of the rouble. Tea exports, an important component of this arrangement, was an immediate casualty. Although India's tea exports to the Commonwealth of Independent States (CIS) countries fell by only 3.72 million kg between January and April 2000 compared to the same period of 1999, the decline in value terms had a severe impact. Although the volume of exports shrank only marginally, the value of Indian tea exports to CIS countries fell by Rs .89 crores in January-April compared to the corresponding period in 1999. This meant that the exports were being made to the CIS

markets at highly lowered price levels. According to an exporter who deals with the market in Ukraine, the CIS countries are beating down the price and have also established alternative sources of supply, Kenya, for instance.

List of importing markets for the product exported by India in 2009								
Product : 0902 Tea								
Importers	Trade Indicators						Tariff (estimated) faced by India	
	Exported value 2009, USD thousand							Exported 2009
Russia	93099	37818	14	1	9.8	'7.4		
UAE	64679	22764	7	3	7.1	'0		
UK	61517	22540	8	2	7.2	'0		
USA	38480	11999	14	4	6.4	'0		
Iran	36026	11154	23	6	4.3	'33.9		
'Iraq	26929	10733	-6	20	1.3			
'Australia	25318	7028	8	18	1.7	'0		
'Kazakhstan	24873	7732	8	17	1.8	'2.4		
'Germany	22096	4978	1	10	2.9	'0		
'Saudi Arabia	19541	6650	24	9	3	'0		
'Sri Lanka	15748	5674	34	40	0.5	'28		
'Pakistan	15598	8045	13	5	4.4	'10		

The above table tells us that India exports tea to all the major tea importing countries of the world like Russia, UAE, UK and the USA (as seen in the ranking shown in column five). Russia and the UK, two of our focus markets, feature amongst the top in the table. However, barring Kazakhstan, none of the other CIS nations import significant quantities of tea from India.

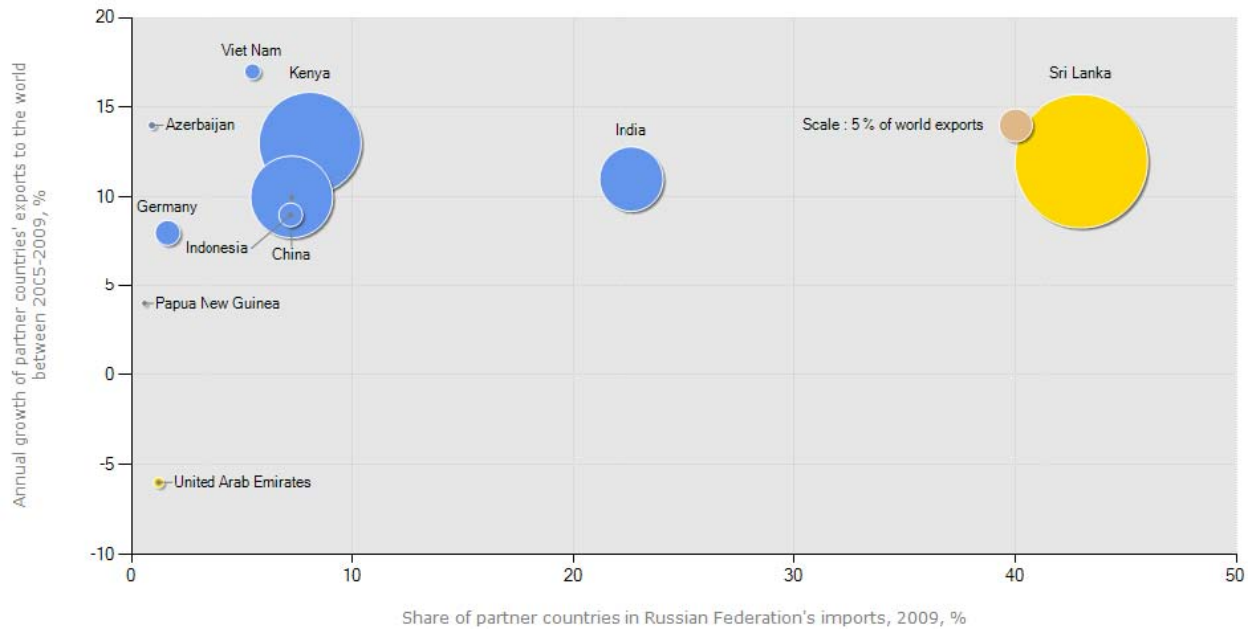
The Russian Federation

Russia is by far the world's largest importer of tea, with import volumes for 2009 touching 182,150 tonnes. Data from www.trademap.org reveals that India (22%) is the 2nd largest supplier of tea to Russia, preceded by Sri Lanka (43%). The primary reasons why Sri Lanka was able to capture the No. 1 spot from India was the change in Russian consumer preferences from CTC tea (which India produces in large quantities) to orthodox tea (which Sri Lanka produces in large quantities) and the rouble currency issues that occurred during and after the breakdown of the Soviet Union.

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'Germany	22096	4978	1	10	2.9	
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'Sri Lanka	15748	5674	34	40	0.5	

The chart above shows us that while Sri Lanka is the largest supplier to Russia, its growth in the Russian

Prospects for diversification of suppliers for a product imported by Russian Federation in 2009
Product : 0902 Tea



market has been lesser than its tea exports to the global market. On the contrary, in the case of India, the sign is positive (blue coloured bubble signifying greater growth) indicating that India's growth of tea exports to Russia is greater than its growth in tea exports to the world. However, we cannot fail to observe the fact that our competitors Kenya and China too are growing in the Russian market.

The traits of the erstwhile Soviet era

The decade of Nineties has been quite depressing for the tea industry in India. First, *it was the disintegration of the erstwhile USSR which was solidly a loyal market for the Indian teas*. The USSR lifted huge volumes. In the mid 90s, when the market revived, the Russians were looking for cheaper teas. There was a scramble in the tea industry, particularly in the South, to meet the Russian demand at their prices. The South Indian teas deeply destroyed their image while matching the prices offered by the Russians and in the process totally disregarding the quality. The former Soviet Union imported Indian tea regularly, and particularly preferred the "strong" tea from the Nilgiris' gardens. *Prior to 1998 the strong rouble enabled Russian importers to "pay a good price for Indian tea"*. *When the Russian market collapsed, Indian tea could not gain access to "emerging markets" such as the West Asian and North African (WANA) markets*. Indian tea lost the opportunity to other competitors such as Kenya, Sri Lanka, China and Indonesia. Indian tea exporters were used to supplying to the

"price-sensitive, but not quality-sensitive, markets in the Soviet Union". As a result of this emphasis on quantity, quality was given the go-by in the tea industry. Instead of plucking two leaves and a bud, which would give finer tea, growers, often reaped the entire tea plant in order to earn more. Factories in turn accepted just about any leaf. Thus, lack of quality consciousness reached an obnoxious level in the form of tea adulteration. In order to rectify the situation, the Tea Board had undertaken a drive to emphasize quality in the tea growing and manufacturing process of Nilgiri tea.

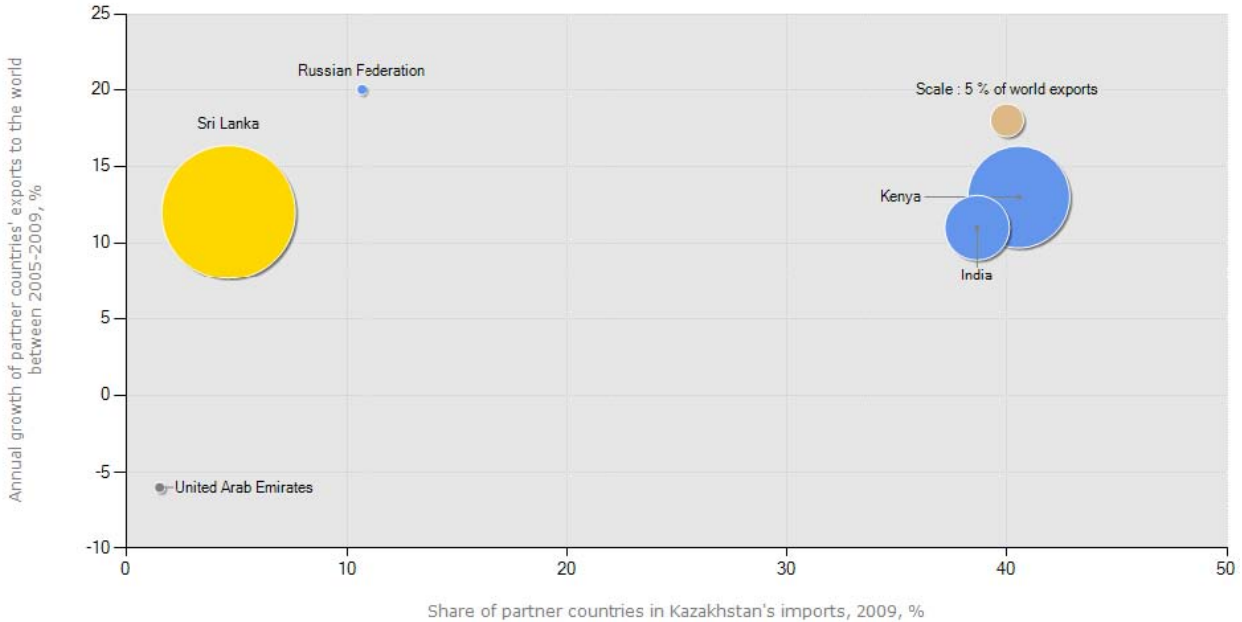
Kazakhstan

Kazakhstan is ranked 17th in the world, in the list of tea importing nations. Since no other CIS nation figures in the top 25 list of importing nations, I am restricting myself only to Russia and Kazakhstan.

List of supplying markets for the product imported by Kazakhstan in 2009					
Product : 0902 Tea					
Exporters	Trade Indicators				
	Imported value 2009, USD thousand	Share in Kazakhstan's imports, %	Imported quantity 2009 (tonnes)	Imported growth in value between 2005-2009, %, p.a.	Ranking of partner countries in world exports
'World	90418	100	25821	21	
'Kenya	36651	40.5	10192	30	2
'India	34946	38.6	10440	14	4
Russia	9653	10.7	1609	56	13
'Sri Lanka	4192	4.6	1535	7	1

The above table shows us that India trails behind Kenya in tea exports to Kazakhstan. An interesting phenomenon to note here is that Russia is also a large exporter of tea to Kazakhstan. This is due to an attempt made by the Tea Association of Russia some years back, where, in order to reduce the dependency of Russia on tea imports, the TAR planned to start cultivation of tea domestically, in the region near Georgia and Abkhazia. This tea (though not very large in volumes) is today being exported to nearby CIS nations.

Prospects for diversification of suppliers for a product imported by Kazakhstan in 2009
Product : 0902 Tea



The chart shows that it is only Sri Lanka that is witnessing increased growth rates in tea exports to Kazakhstan, while all others are showing a declining trend.

Other CIS markets

Since the other CIS countries do not figure in the top 30 list of tea importing nations, and also because the amount of tea trade between these countries and India is not significant enough for our consideration in this project, I am skipping them.

Other reasons for India losing out on the No.1 position in CIS countries

A careful analysis of the performance of Indian tea industry in Russia and the other CIS countries reveals some interesting insights. *First, India had leadership position in countries where it had bilateral trade agreements. As these agreements expired, India's leadership also weakened.* Such is the case with the markets like Russian Federation and Poland. India probably has a weak case in markets that are free and have high purchasing

power. India lost considerable share in CIS markets due to more reasons than one. The Indian exporters were content supplying poor quality teas in response to low prices offered by the CIS countries under the special Rupee-Rubles rate trade. In the process a basic lesson in consumer behavior was blatantly ignored. When an economy expands, more money comes to people; they seek more choices, and the market shifts in favour of better quality and convenience. A careful watch over developments in CIS markets would have prevented this downslide. With the Russian market and other CIS markets having turned around both Sri Lanka and Kenya are making strong efforts for selling their tea.

Next, India continues to export tea in commodity form whereas the demand is shifting in favour of tea bags. Indian teas although quite gutty, are light weight and do not infuse easily in tea bags. Trade knows it well that Indian teas are not suitable for tea bags. Since the world markets are steadily and increasingly moving towards tea bags, India is in a disadvantageous position for not having the right kind of teas. India can continue to export tea in markets which consume it in commodity form but that pattern of consumption is fast changing. The CIS countries, led by Russia and Kazakhstan, consume more tea in the form of tea bags than otherwise, which is a great deterrent for Indian tea as we have seen.

Till the 1970, the United Kingdom was the foremost customer of Indian tea. In the 80's the USSR overtook the UK as the largest buyer of Indian tea due to the birth of a trade agreement between India and the erstwhile USSR, and the Central Buying Mechanism, and accounting for more than 50% of the total Indian export till 1991.

However, with the disintegration of USSR and abolition of CBM, Indian tea exports suffered a setback.

However, tea exports to Russia and the other CIS nations recovered in 1993 under the **Rupee Debt Repayment Route** facilities and also because of a long term agreement that India entered into with Russia.

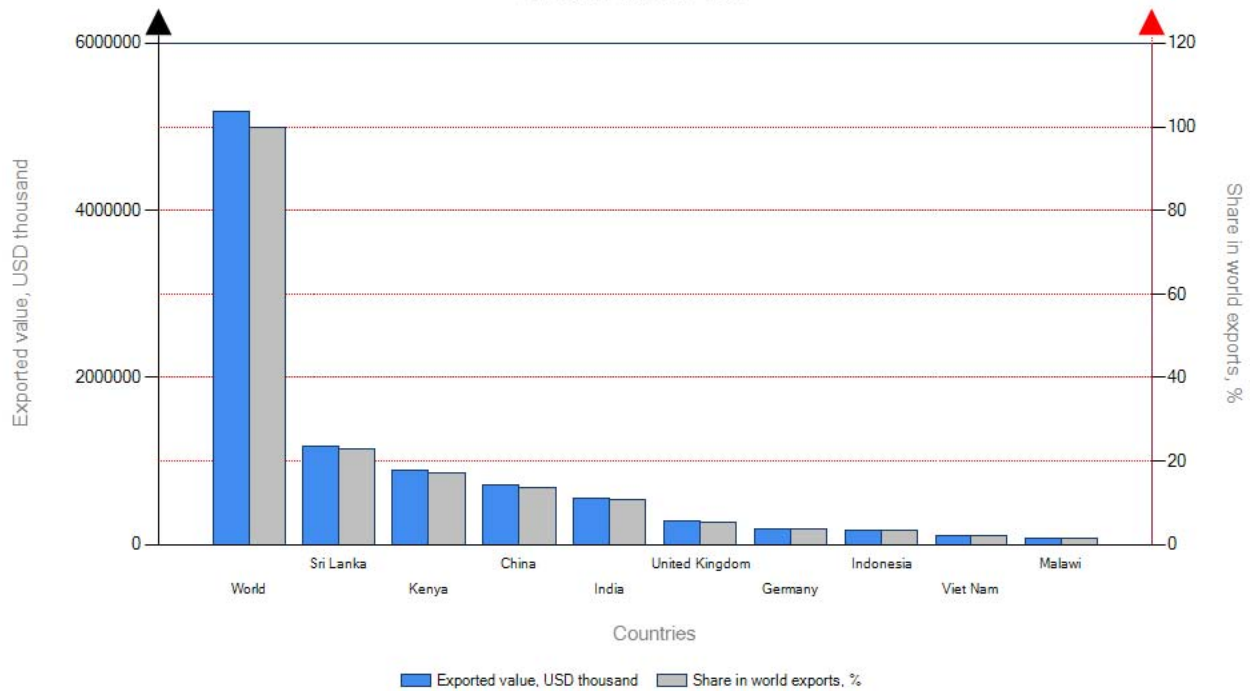
The Competitors

India is a producer, consumer and exporter of tea. The Indian exports declined by 13% during 2008 but increased by 4% in 2009 over the previous year volumes.

During this period the Indian rupee had appreciated by 7% thereby making Indian exports more uncompetitive. Even otherwise, India is a high cost producer of tea because of high cost of labour and capital.

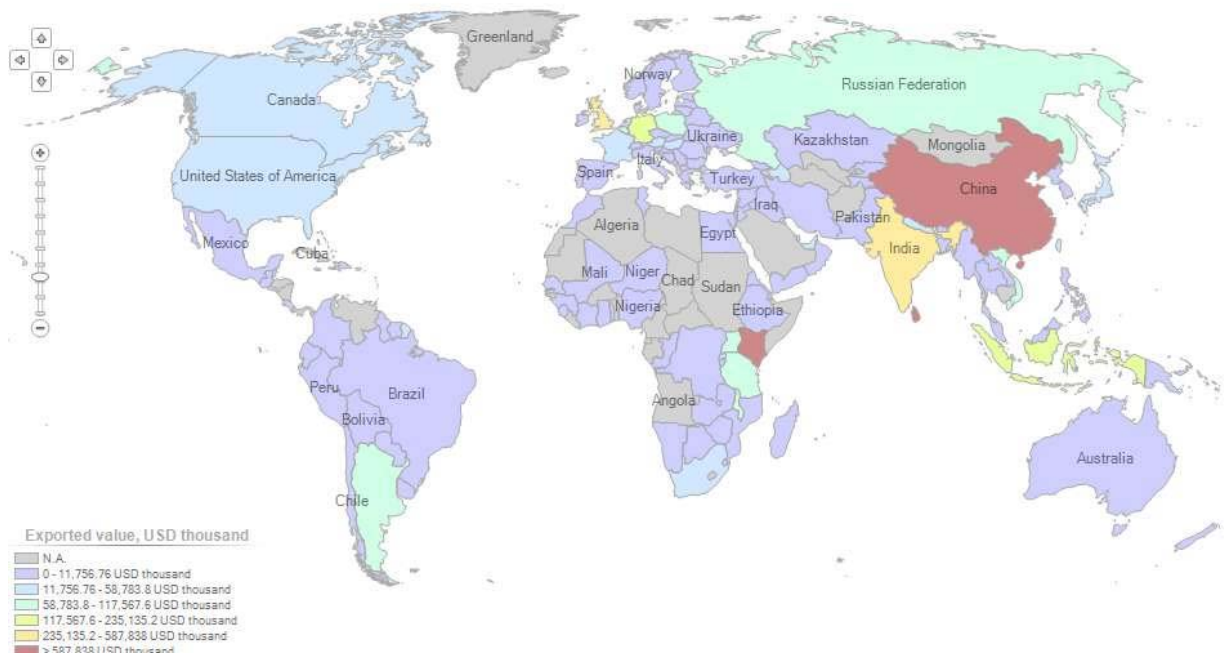
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List of supplying markets for the product imported by Russian Federation in 2009						
Product : 0902 Tea						

List of exporters for the selected product in 2009
Product : 0902 Tea



It is to be noted that India, being the world's largest producer of tea, ranks only fourth in exports. This is due to the fact that over 90% of the tea produced in India is consumed domestically, leaving a small fraction available for exports.

List of exporters for the selected product in 2009
Product : 0902 Tea



Kenya

India is in CTC teas and in that the competition is with Kenya. Kenyan teas coming from relatively younger bushes have quality that is better suited for tea bags. Their labour costs are comparatively lower. Therefore, the tea industry in Kenya is more competitive than the Indian tea industry as is reflected by India's diminishing leadership in key markets. Kenya has taken over India's leadership position in almost all the key markets. As a matter of fact India is no more a key competitor in the global tea markets. The Indian tea industry is becoming less and less competitive and Indian firms are surviving mainly in the niche markets that are characterized by imports in commodity form. Kenya produced 324,000 MT tea and reported to have exported 333,000 MT tea. The production in Kenya continues to increase although the exports are not so buoyant. In direct competition with India's CTC tea, Kenya has done exceedingly well. *Kenya had offset rising labour cost by depreciation of their currency.* The currency devaluation is a short term measure and often has other effects particularly when a country like Kenya runs a large import bill. Besides, the currencies that are devalued could soon appreciate. Such is the dilemma of the Kenyan exporters. Continuing appreciation of Kenyan Shilling, from KSH 71 to 66 for a USD in few weeks, has robbed the significant currency advantage. With the Government of Kenya refusing to intervene, the exporters are left to fend for themselves. A much talked about option is to hedge but that too can help only in a limited way.

Sri Lanka

Sri Lanka produces 450,000 MT of tea annually. Sri Lanka encourages producers to pack good quality tea thereby effectively checking over supplies. Sri Lanka exports around 400,000 MT teas. By exporting only the quality teas, Sri Lanka has bounced back in the global markets for their orthodox teas. Their product portfolio consists of three types of teas grown at different elevation and that insulates Sri Lankan tea industry from fluctuations in global prices. *Sri Lanka has a very strong presence in the tea bags segment.* It has very successfully established two global brands that are well entrenched in the markets for tea. *During the last decade, large investments were made in producing quality teas and machinery for tea bags.* A great deal of this machinery came from India.

China

Although presently China has a small share (around 8%) in black tea, it could make much more black tea. Besides, the market for green tea is expanding and that could affect to some extent the market for black tea.

Strategies suggested by UPASI to re-capture the CIS markets

- Focused efforts at developing and promoting an “Indian Tea” Logo and assistance in brand-building approaches of major players.
- Geographical diversification of markets and consolidation of existing primary markets.
- A comprehensive exporter rating and reliability management programme.
- Targeting value-addition and niche segment opportunities in specific markets.
- Re-alignment of the product-mix in line with demand in key high-value markets.
- Comprehensive product quality up gradation programme.
- Robust industry-wide information technology backbone for greater transparency and dissemination of price and other market related information.
- India's export strategy should aim at increasing the ratio of value-added to bulk tea exports, increasing the unit price of both bulk and value-added tea and broad-basing the export markets instead of over-depending on a few countries.
- Other initiatives should include creation of infrastructure like tea parks, residue tasting laboratories, improving quality of tea, more incentives for larger production of orthodox tea including organic tea, individual schemes for exporters such as DEPB (duty entitlement pass book scheme), brand building and promotion.

Analysis of the United Kingdom as India's export market

The British tea market

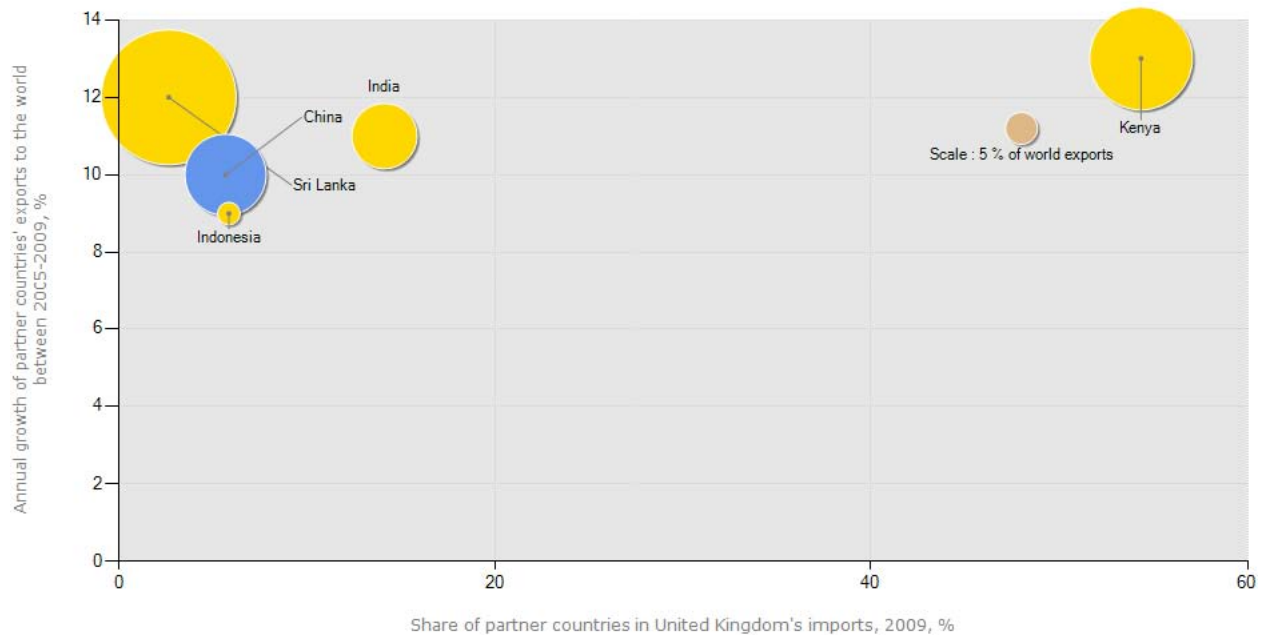
The British are the second largest per capita tea consumers in the world, with each person consuming on average 2.1 kg per year. The popularity of tea dates back to the 19th century when India was part of the British Empire, and British interests controlled tea production in the subcontinent. It was, however, first introduced in Britain by the Portuguese Catherine of Braganza, queen consort of Charles II of England in the 1660s and 1670s. As tea spread throughout the United Kingdom people started to have tea gardens and tea dances. These would include watching fireworks or a dinner party and dance, concluding with a nice

evening tea. The tea gardens lost value after World War II but tea dances are still held today in the United Kingdom. It is said that five cups of tea is the average amount consumed by people in the UK each day, with some people drinking up to 15 or 20. Due to the popularity of this hot drink, employers often allow their employees a number of tea breaks throughout the day. The UK has considerable interest in Kenyan tea cultivation. Most of the sterling companies, due to the implementation of Foreign Exchange Regulation Act passed by the Indian government in 1973, started tea cultivation in Kenya. Hence, the UK, by buying tea from Kenya, furthers its own business interests as well. Due to this reason, Kenya has surpassed India by far, in terms of tea exports to the UK in volume and value.

List of supplying markets for the product imported by the United Kingdom in 2009					
Product : 0902 Tea					
Exporters	Trade Indicators Imported value 2009, USD thousand	Share in United Kingdom's imports, %	Imported quantity 2009 (tonnes)	Imported growth in value between 2005- 2009, %, p.a.	Ranking of partner countries in world exports
'World	367642	100	147777	7	
'Kenya	199807	54.3	81935	13	2
'India	51833	14.1	19165	1	4
'Indonesia	21451	5.8	10512	2	7
'China	20804	5.7	6879	12	3
'Sri Lanka	9703	2.6	2113	-2	1

The above table validates the claim made earlier that Kenya is by far the largest supplier of tea to the UK. This, as mentioned before, is due to the sterling companies having interests in the Kenyan tea industry.

Prospects for diversification of suppliers for a product imported by United Kingdom in 2009
Product : 0902 Tea



The above bubble graph shows us that Kenya, India and Sri Lanka are all registering declining growth in tea exports to the UK. It is only China (the blue bubble) that is witnessing increased growth rates. This may be interpreted as the UK tea drinker's migration from the traditional black tea to green tea (where China is the world's leading exporter).

Declining trend

In the past two years (2007 and 2008), sales of traditional teabags in the U.K. have fallen by 16% and loose tea by 9%. The tea market, worth 800 million pound sterling in 2007, fell to 783 million [pounds sterling] in 2008. Tea's decline is blamed on competition from new products such as fruit teas and the growing range of cold drinks from mineral water and fruit juices to sodas, which means that young people are increasingly not getting into the tea-drinking habit. Health concerns have also hit sales. In contrast, sales of caffeine-free herbal and fruit teas rose by up to 50%. Despite tea's popularity, a survey by the consumer research group Mintel shows that almost 80% of Britons still drink tea. In the over-65 age group that figure is 85%. Of those aged 15 to 24, just 72% drink tea. There is a need by manufacturers to make traditional tea more of a fashionable beverage. The tea market has become more segmented, trying to be many things to more people.

Per capita consumption of tea

The average global per capita consumption of tea in 2007 was 0.3 kg and was driven by the growth in sales of black specialty tea bags, green tea and other types. The global tea market is expected to grow by almost 10% in value and over 13% in volume between 2005 and 2010 and current estimates indicate that the onset of the global recession is favourable for tea exporting nations due to increased global demand and per capita consumption. According to a survey done by Org-Marg for the Tea Board of India, the per capita consumption of tea is put at 0.8 kg for India, below Pakistan (0.95 kg) Bangladesh and Sri Lanka (1.2 kg). Turkey is considered to be the highest tea consumer (2.7 kg) followed by Ireland (2.7 kg) and UK (2.1 kg). UK had the highest per capita consumption of 2.3 kg till end of 2006 but changed dramatically thereafter with their focus shifting to other substitutes. The Russian market also has one of the highest per capita consumption rates of about 1.3 kg compared to the average global per capita consumption. Despite the heavy domestic demand in China and India, they lag behind most countries in per capita consumption (0.8 kg each) due to their higher population.

Recommendations

A fact that I have observed very clearly during the course of my dissertation is that the problems faced by Indian tea in CIS countries and the UK and the resultant losing out on export competitiveness of Indian tea to these markets are common to all other tea consuming markets where Indian tea is exported. This has brought me to the conclusion that the Indian Tea Association and the UPASI, along with the assistance of the Government of India, would have to take steps in order to boost the competitiveness and quality of Indian tea worldwide as a whole, instead of formulating specific strategies for the above mentioned markets. By upgrading the quality and competitiveness of Indian tea and bringing it at par with that of our competitors such as Kenya and Sri Lanka, we would find it relatively easier to recapture the CIS markets and the UK.

- 1) There is a great deal of dissension among corporate leaders in the Indian tea industry. All kinds of prescriptions are being advanced and most of them depend on the Government action and support. On the other hand, this is the time for the Government to play only a supporting role and withdraw from all other activities as they affect the tea industry except in as much as they relate to small farmers.
- 2) Investments in plantations and manufacturing machines must come from the industry without any subsidy from the Government. Since the industry has to compete globally, it is necessary that they have access to capital at globally competitive interest rates. The subsidies have always been a stumbling block in developing competitive industries.
- 3) The reforms in lending policies of the banks are as urgent as reforms elsewhere in the economy. The tea plantation sector needs huge infusion of capital. The banks can not shy away from their responsibility to bear the risk involved. The cost of capital has to be globally compatible.

- 4) The Government will have to hold the hands of the small scale tea producers until they can be organized on efficient lines. A beginning is yet to be made in that direction. On the whole, the small scale tea producer has been benignly neglected thus far.
- 5) The global competitiveness is rooted in quality at an affordable cost. This is an issue which involves and directly affects the industry. The industry will have to tackle this at their level as well as at the level of the individual firms. It is easier to say make good quality but there have to be buyers to pay for that. These are commercial decisions which only the individual firms can make. The government has no role in that.
- 6) Every firm will have to build and control its supply chain that is cost effective and manageable.
- 7) The market for value added teas is already crowded and it is a bit late for India to hope to make big impact on that. Nevertheless, efforts should be made in that direction in the hope that some dent can be made.
- 8) The bilateral agreements are mostly ending, the markets for tea in commodity forms are shrinking, countries are exercising their option to purchase tea from wherever it suits them best in terms of quality and pricing, and the other global producers are keenly eyeing the Indian market.
- 9) As and when the Indian market opens for unrestricted tea imports, the Indian producers would further suffer. Perhaps traders would shift from export business to import business leaving producers in lurch and the Government fire fighting routinely.

Conclusion

The dissertation report has come to an end. From the above analysis, I conclude that though initially India had a lot of advantages to its credit as regards global tea exports, it could not retain its No. 1 position in two of the most important tea consuming markets of the world, i.e. CIS nations and the United Kingdom due to various factors such as expiry of trade pacts and agreements between India and important tea consuming nations such as Russia (erstwhile Soviet Union), fast track development of industry competitiveness and export promotion activities of competitor nations such as Sri Lanka and Kenya, and failure of the Indian tea industry to maintain quality competitiveness in its products.

However, there is still time and space for India to re-emerge on the global footprint. As we have seen in the individual country analysis of Russia, Kazakhstan and the UK, India is not very far behind its competitors. Proactive measures taken by our government and industry bodies to upgrade the methods and practices followed in the industry, export promotion schemes for tea, including the commodity of tea in trade agreements with importing nations and innovations in the whole process can still bring India back to the top spot.

References

- © Mid Term Plan Strategies of Increasing Exports, Kolkata (*The study was done by Accenture*)
- © Trademap website (<http://www.trademap.org/>) © Indian Tea Association (<http://www.indiatea.org/>) © Tea Board of India (<http://www.teaboard.gov.in/>) © UPASI website (<http://www.upasi.org/>) © UPASI Research Foundation (<http://www.upasitearesearch.org/>) © The United Kingdom tea council (<http://www.tea.co.uk/>) © BBC World (<http://www.bbc.co.uk/>) © Kommerstant -*Russia's leading business daily newspaper* (<http://www.kommersant.ru/>)