

THE ECONOMICS OF TEA PLANTATIONS IN SOUTH INDIA

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PLANTATIONS IN SOUTH INDIA is the record of bonafide research
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thesis is worth submitting for the degree of Doctor of
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DECLARATION

I declare that this report is the record of bonafide research carried out by me under the supervision of Dr. Jose T. Payappilly, Reader, School of Management Studies, University of Cochin. I further declare that this was not previously formed the basis of the award of any degree, diploma, associateship, fellowship or other similar title of recognition.

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(K. Tharian George)

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I N T R O D U C T I O N

Statement of the Problem:

The tea industry in India is going through a period of crisis. The crisis is brought about mainly by cost escalation and declining or stagnant prices. The impact of the present crisis is felt most by the owners of the^{tea} plantations in Kerala.

The present study assumes significance due to the fact that the crisis which already affected Kerala's tea industry is now threatening to extend to other tea-growing areas in South India. Today, ensuring a favourable price to the producers vis-a-vis possibilities of reducing the cost of production through increase in productivity of land and labour are the main considerations. The main purpose of the study is to analyse the factors behind the crisis as well as exploring immediate and long-term measures for the sustained growth of the industry.

Scope of the Study:

Since the stagnancy of tea prices coupled with increasing cost of production are the main problems affecting the industry, the study is essentially focussed into the factors behind the crisis with a historical analysis of the development of tea plantations in South India from its inception to late 1970s.

The first chapter tries to explain the main features of the plantation system of agriculture, the factors behind the introduction of tea cultivation in India by the British and the subsequent development of it in South India. Then it analyses the socio-economic conditions that prevailed in the native states of Travancore and Cochin and in the areas under British rule which have given the stimuli for the development of tea plantations in the Southern states. Since sufficient quantity of land and labour are the pre-conditions for the successful growth of the tea plantations, special emphasis is given to the availability of these two factors of production in this chapter.

The structural changes leading to the capitalist development of tea plantations in South India and its consequences are analysed in chapter II. In other words, the

structural changes from small proprietary concerns and small companies to large company plantation enterprises by the British are traced with special reference to the political and economic factors that paved the way for such a type of development. This section also includes the role played by the merchant capital (coast firms in South India) and the managing agencies for accelerating the capitalist development of tea plantations. In the concluding part of this chapter a critical evaluation of the impact of the capitalist development of the industry is done *vis-à-vis* with the various measures laid down by the Government of India as well as State Governments to control the British companies and their consequences.

Chapter III is concerned with the pattern of tea production in South India, its differences with tea production in other areas, size-productivity relations, relationship with size of a tea estate and the age group of bushes, trends in area under tea, production and productivity in the three states, factors contributing to increase in the cost of production, trends in cost of production and productivity per unit of land and the relation of cost of production with the auction prices etc.

Chapter IV of the study contains an analysis of the evolution of the present day system of tea marketing

with a clinical scrutiny of the factors behind the stability of tea prices compared to the trends in the prices of other plantation crops. This part of the study also brings into light the relationship between auction prices and retail prices in the internal market and in the export markets vis-a-vis with the share of the important retailers in the main tea-importing countries. The trends and patterns of tea exports from India and the promotional measures adopted by the Government of India are critically examined.

The evolution of small tea growers in South India, peculiarities of their production organisation and marketing and their main problems are dealt with in chapter V. It also contains a section on the role of co-operative tea factories in Tamil Nadu in making the small tea gardens under them viable compared to the plight of small tea growers in Kerala.

Chapter VI of the study is concerned with the labour in South Indian tea plantations. It analyses the peculiarities of plantation labour vis-a-vis with recent trends in employment, wages and the changes in their living conditions since independence.

Chapter VII analyses the developmental and financial problems of the Indian tea industry in general and

the South Indian tea industry in particular. It analyses the factors behind the present crisis and tries to offer short-term and long-term measures for the sustained growth of the industry.

Chapter VIII summarises the main conclusions and the recommendations of the study.

Methodology:

The study is focussed on an analysis of the political economy of the development of tea plantations in South India with special reference to the present day system of tea production and marketing. A stratified random sample survey covering large estates (148) and small growers (94) in the states of Kerala, Tamil Nadu and Karnataka was conducted. This is supplemented with secondary data and personal enquiries and discussions with the officials of the United Planters Association of Southern India, Tea Board, Broking Firms and Tea Traders Associations.

Limitations of the Study:

One of the main shortcomings of the study is that of the limited coverage of tea gardens. Only about 2 per cent of the total number of gardens are covered and the

response from the gardens covered was not complete. Again it was not possible to get sufficient details from the small tea growers of Kerala since they are unorganised compared to their counterparts in Tamil Nadu. Therefore, the chapter on small growers (Chapter-V) is focussed mainly on the small growers of Tamil Nadu.

Many of the large estates (which are controlled by the British Companies) declined to give details regarding their mode of marketing. From the side of broking firms they were not prepared to supply the data regarding the amount of tea handled by them. The amount they financed to the estates and their connections with large estates as shareholders. The Central Tea Board Office at Calcutta refused to impart with the details regarding the retail prices of Indian tea abroad. Therefore, the relationship between auction prices and the retail prices of tea abroad are shown only for the year 1973.

CHAPTER I

1. THE PLANTATION SYSTEM AND THE INTRODUCTION OF TEA PLANTATIONS IN SOUTH INDIA

1.1 THE PLANTATION SYSTEM

It is now becoming increasingly clear that the fortunes of the people of developed nations are closely related to the misfortunes of the Third World people. The trade expansion has not provided the required stimuli to the economic development in the Third World. A rather disquieting feature is that the colonial powers have come to own or control a considerable share of the resources of the Third World. In many of these Third World countries, plantations and mines are important sources of income generation and potential engines of growth. In surveying the Third World situation today, we can identify certain types of agricultural systems which reflect different economic, social and political conditions. Here we find the plantation system, the peasant system, the tribal system, the feudal system and the state controlled system; all represent different institutional environments.¹

¹ Beekford L. George, Persistent Poverty: Underdevelopment in Plantation Economies of the Third World, (Oxford University Press, New York, 1972), p.238.

Plantation agriculture has been generally ignored in the rapidly expanding literature on underdeveloped agriculture (The overwhelming concern has been with 'peasant' or 'traditional' or 'subsistence' agriculture). To a large extent this reflects a view that plantation agriculture is efficient and modern; that it is particularly suited to bring previously isolated areas into the modern world economy; and that the large scale plantation units make possible economies of operation by the use of labour-saving machinery.² In fact, plantation agriculture has been one of the chief means by which numerous countries of the world have been brought into the 'tributaries' of modern world economy³ - tributaries because although many of these countries have been participating in modern world commerce for some 400 years, they still cannot be said to be part of the main stream of the world economy. It is also true that plantation was an instrument of modernisation in the sense that it served to open up previously undeveloped and underdeveloped regions and created social overhead capital and transformed primitive economies into money economies. But the fact still remains that the plantation economies

² Wickiser, V.D., "The Plantation System in the Development of Tropical Economies", Journal of Farm Economics, (New York, February, 1958), p.27.

³ Op. Cit., Beekford L. George, p.240.

of the world have been left outside of the current of development and change that has swept away many other countries since the industrial revolution. Thus it seems that although plantations were effective in transforming a state of undevelopment, they are less effective in combating a state of underdevelopment.

The term plantation system refers to the totality of institutional arrangements surrounding the production and marketing of plantation crops. As a system plantation has two dimensions: (i) The internal dimension -- as a social system in the territory in which it is located and (ii) the external dimension - as an economic system both in the territory of its location and in the wider world community. The external dimension derives from two characteristics of plantation production -- its export-orientation and foreign ownership. Regardless of the type of ownership, the external relations are always of consequence and need to be recognised. In considering the economic aspects of plantation as an agricultural producing unit, it can be defined as follows: "A plantation is an economic unit producing agricultural commodities for sale and employing a relatively large number of unskilled labourers whose activities are closely supervised. Plantations usually employ year-round labour crew of some size and they usually specialise in the production of

only one or two marketable products. They differ from other kinds of farms in the way in which the factors of production, primarily management and labour are combined".⁴ It bears the emphasis that the special factor combination that distinguishes plantations from other kinds of farming is the bringing together of as many unskilled labourers as is economically profitable with each of the few highly skilled supervisor - managers who direct production.

In most less developed countries (LDCs) the plantation production is characterised by monoculture which is undertaken for sale in overseas market so that export production is the objective. But in some cases production is partly for the home market and partly for export. Two other aspects of plantation production which deserve mention are (1) foreign ownership, usually by a corporate enterprise; and (2) a relatively high degree of vertical integration, even of self-sufficiency i.e. the plantation enterprise supplies inputs for its agricultural operations and processing and marketing facilities for its agricultural output.

To understand the systematic dimensions of the plantation system it is necessary to review briefly its

⁴ Jones, W.O., "Plantations" in David L. Sills (ed.) - International Encyclopedia of the Social Sciences, Vol.12, (UNESCO, 1968), p.154.

historical development. Plantation agriculture is the outgrowth of the political colonisation of tropical areas by the metropolitan countries of Europe. The colonisation activities of the metropolitan countries took two general forms - (a) colonies of settlement and (b) colonies of exploitation. Temperate areas which had been colonised by Europe - the United States, Australia, Canada and New Zealand etc. - involved the movement of people. On the other hand, in the colonies of exploitation the metropolitan interest was primarily in production and trade (eg. Carribbean Islands and South East Asia). In these tropical colonies capital and enterprises involved in the movement from the metropole to produce 'colonies of exploitation'. Thus the areas developed as 'colonies of settlement' and the pattern of agriculture that emerged was significantly different from the tropical colonies. And the plantation was the best institution suited to metropolitan needs in colonies of exploitation.⁵

A striking case among the 'colonies of exploitation' is the Asian Tea Industry which was developed during

⁵ Best Lloyd, 'Outlines of a model of pure plantation economy', in: Social and Economic Studies, (Kingston, September, 1968), p.37.

the early part of the 19th century. The abolition of slavery by the British legislature during this period resulted in the planters turning to the tropical regions of Asia where the system of indentured labour had an advantage over the old slave system that here the labour is merely contracted for wage and had to live only on his wage, whereas the old slave had to be housed and looked after. Capital's inexorable hunger for raw materials and markets made this development necessary, not the adventurer's desire to unravel the mysteries of the East, as some would have it.⁶

The opening up of tea plantations in the tropical regions of Asia during the middle of the 19th century brought about the integration of these areas into the periphery of the British economic system. The British colonisers changed the existing system of internal production and they linked these areas with the external situation, thus making it possible for external factors to become operative through internal factors. This colonial transition was a direct result of the development of the forces of capital accumulation in Britain and Europe. As pointed

⁶ Dawood Nawas, "Tea and Poverty, Plantations and the Political economy of Sri Lanka, Urban-Rural Migration - Christian Conference of Asia, (Hongkong, 1980), p.17.

out by Greaves, "Historically and economically the plantation system is international in character. Because of this character the plantation has been associated with most political and international developments of modern times; mercantilism and free trade, slavery and independence; capitalism and imperialism....."⁷

1.2 INTRODUCTION OF TEA PLANTATIONS IN INDIA

The rise of modern plantation system can be divided into three phases:

- (i) The development of new world plantations during the turn of the 19th century (in Carribbean Islands and in America)
- (ii) The growth and establishment of plantations in tropical Asia and Islands of Indian ocean and pacific from the middle of the 19th century through the first two decades of the 20th century (in Africa also).
- (iii) The recent one was characterized by imperial political legislation and military might providing a cover for the flow of private capital to previous colonies of Spain and to constitutionally independent republics of Central America and Liberia.

⁷ Greaves.I., 'Plantations in World Economy', in Plantation Systems of the New World, (Washington, 1959), p.14.

The colonised areas were regarded as components of the resource base of the colonising countries and they became frontiers of their further economic development. The competition for frontiers and colonies led to the political control of new areas. The control took different forms and varied from place to place according to the circumstances. The pattern of colonisation depended essentially on three general sets of conditions; the basis for the transfer of wealth, the resources of the new territory and the resources and state of development of the colonising power.⁸ In the case of plantations, in addition to military and administrative organisation, an institutional framework had to be provided for bringing together of land, labour, capital and management.

Historically, plantations were a product of colonialism. The British colonial expansion in Asia during the early part of the 19th century took the form of investments in the colonies where raw materials and labour were cheap. At the same time the rate of profit for reinvestments in Britain was declining. It was this quest to maximise profits which brought coffee, tea and rubber plantations to

⁸ Op. cit., Beckford L. George, p.27.

countries like India and Ceylon. Even today it has been estimated that the rate of return for foreign investments in Asia is around 33 per cent, whereas in Europe the rate of return is somewhere less than 8 per cent.⁹

The products of the plantations were mainly for export. In some cases such as rubber and cinchona they were established to provide raw materials for the western industry - especially for the colonising country. In others such as, tea, coffee and sugar, their markets lay in the developed colonising country. The origin and the development of Indian tea industry was primarily in response to the growing consumer demand in Britain and the typical unit of the industry took the shape of a sterling company in Britain owning tea plantations in India.

Tea plantation was once the virtual monopoly of China. East India Company which had a monopoly of British overseas trade with China and India carried a profitable trade in Chinese tea. Upto the early part of the 19th century China was the only effective source of tea to the west. Although East India Company felt the necessity of developing tea plantations in India under British ownership and control, it ^udiscounted₁₈ the idea all the time possibly in apprehension of losing its monopoly in tea trading with China.

⁹ Mark Blang, "Economic Imperialism Revisited", The Yale Review, 1961, p.343.

The immediate causes for the introduction and the rapid expansion of tea plantations in India were the following:

1.2.1 Strained trade relations between China and Britain

China is believed to be the immemorial home of tea. It was the only supplier of tea to the European market through the East India Company upto the 18th century. The weakening of trade relations between China and Britain during 1780 led to the initiative of the company to raise this valuable commodity in India. After the loss by the East India Company in 1833 of their monopoly of the Chinese tea trade, the British turned their attention in earnest to the cultivation of tea in India on a commercial scale.¹⁰

1.2.2 Increased demand for tea by the British consumers

The East India Company imported high quality green tea from China; but even in the middle of the 18th century the quantity brought in legally for home consumption never exceeded 14 million pounds per annum.¹¹ By this time the

¹⁰ Government of India, The Plantation Inquiry Commission Report, Part-I, (New Delhi, 1956), p.19.

¹¹ Sir Griffiths Percival, The History of Indian Tea Industry, (London, 1967), p.659.

tea habit was catching on in England and the fact that demand always exceeded supply led to the adulteration as well as to smuggling. Tea became such a popular drink in England that the Government viewed it as a useful source of revenue. An exorbitant duty was imposed and as a result tea was smuggled to England in large quantities. Finally the Government bowed to public opinion and in 1784 drastically reduced the duty.¹²

The East India Company's case was based on the increasing national importance of tea in English life and so some better guarantee should be provided for the continued supply of this article. After the loss in its monopoly tea trade with China, the company's directors took steps to investigate the possibility of establishing a growing tea industry in Assam. In 1838 India sent her first consignment of Assam tea to London to be sold there. In 1898 by exporting 72.3 million kilograms of black tea India ousted Chinese green tea from the British market and became the largest exporter of tea.¹³

¹² Lovett Heather, A Short History of the Peenada/Vandik-
KERIYAR District, (London, 1974), p.3.

¹³ Tea Board, This little plant tea, (Calcutta, 1976), p.9.

1.2.3 Discovery of indigenous tea plants in Assam

As we have seen, the British East India Company at first was lukewarm to the idea of starting any tea plantation in India; but its officials in the country were eager and the discovery of the indigenously grown tea in Assam acted as a catalyst in the great movement to develop the industry in the country. The early difficulties came largely from the application of Chinese tea and labour since the general belief persisted that only such imported methods of tea manufacture were safe ones to follow. But the experience with Assam tea and the response to the indigenous tea in London overcame existing influences and the foundation of a truly Indian tea industry was laid.

Apart from the above-mentioned factors, the low price of land and labour in India played a pivotal role in the growth of Indian tea industry. Originally tea estates were acquired in areas which were unsuitable for the cultivation of other crops and where land was cheap. In fact, there was no question of tea competing for land with other crops in the jungle-infested areas in North East India and the hill slopes in South India. Land for this plantation crop was available at cheap price and so extensive cultivation was resorted instead of intensive

cultivation.¹⁴ Land grants were made by Governments to those who wanted them at a price which was hardly more than nominal. For example under the 1st Special Grant Rules of Assam of 1838 "No grant was to be made of a lesser extent than 100 acres or of a greater extent than 10,000 acres, one-fourth of the entire area was to be in cultivation by the expiration of the 50 years from the date of grant, on failure of which the whole grant was liable to resumption. One-fourth of the grant was to be held in perpetuity revenue-free. On the remaining three-fourths no revenue was to be assessed for the first five years if the land was under grass, ten years if under reeds and high grass and twenty years if under forest."¹⁵

One of the main reasons for the success of the British tea industry in India was the indentured system of labour. As the tea plantation areas in India were in the initial stages sparsely populated, the workers in the industry had to be recruited from considerable distances. In North India a majority came from Bihar and Orissa and in South India from the plain districts.¹⁶ These

¹⁴ Chaudhari. M.R., The Tea Industry in India, (Calcutta, 1978), p.29.

¹⁵ Op. cit., The Plantation Inquiry Commission Report, Part-I, 1956, p.967. ssion

¹⁶ Ibid., p.19.

labourers were recruited on a contractual basis through a chain of contractors. The early legislative measures with regard to the plantation labour protected the planters' interests (For example, The Workmen's Breach of Contract Act 1859); under the act a labourer under contract who deserted from an estate or absented himself from work, and a contractor who failed to account for advances received were alike liable to punishment.¹⁷

The authorities of the East India Company felt that for the prosperity of the Company it must promote industrial development in India. In 1778, Sir Joseph Banks was asked to prepare a series of notes on the cultivation of new crops. He recommended the cultivation of tea in India. Banks laid down the principle of a colonial economy; "A colony like India blessed with advantages of soil, climate and population so eminently above its mother country seems by nature intended for the purpose of supplying her fabrics with raw materials and it must be allowed that a colony yielding that kind of tribute binds itself to the mother country by the strongest and most indissoluble human ties that of common interest and mutual advantage".¹⁸ He gave priority to tea as

¹⁷ Op. cit., Sir Griffiths Percival, p.396.

¹⁸ Ibid., p.35.

an article of greatest national importance to Britain. Again the low price of labour in India would facilitate this enterprise and at the same time the company would thus be able to provide occupation for the many thousands of Indian weavers who had been ruined by the import of cotton and muslin from Manchester.

Once it had been shown that tea could be cultivated on plantation lines, enterprising capitalists, both in London and Calcutta, approached the East India Company suggesting the transfer of the Government plantations to private enterprise.¹⁹ Thus in the year 1839, the formation of Assam Tea Company (a joint stock company) marks the beginning of organised tea plantations in India. The company had a short-lived prosperity which ended by 1846-47 when there was practically no buyers of tea shares.²⁰ The immediate causes of the collapse were (i) the bad management and inexperience on the part of those who were in charge of company's affairs and (ii) the rush to produce tea from immature plants resulted in

¹⁹ Harrisons & Crossfield, One Hundred years as East India Merchants (1844-1943), (London, 1944) p.10.

²⁰ Halayya. M., An Economic Analysis of Indian Tea Industry and Public Policy, (Dharwar, 1972), p.17.

estates becoming ^uunproductive which brought about a practical collapse in the activities of the company. It was only after 1860 the industry was put on a sound footing and passed on into the hands of genuine companies capable of developing the estates from the long term point of view.

1.3 Tea in South India

The tea districts of South India are located in the hills and slopes of the western ghats. The Nilgiris hills lie north of the Palghat gap at an average height of 6,000 feet which is an important tea area. The Nilgiri-Wynaad and Malabar-Wynaad tea districts are situated on the strip between Nilgiris and the Malabar coast at an average elevation of about 3,000 feet. On the slopes of Anamalai hills lies the Anamalai tea district. The Kannan Devan Hills are situated in Travancore-Cochin at an elevation averaging about 5,000 feet. In the South Travancore tea areas the elevation is lower while in the Peermade Plateau in central Travancore the tea areas are at altitudes averaging about 3,000 feet. Nearly a half of the tea in South India was planted in the early part of the century using Assam tea seeds.

The first phase of the development of the tea industry in South India was confined to the Nilgiris. It appears that in 1834 the Tea Committee distributed Chinese tea seeds to various districts in South India; six boxes of seeds to the Nilgiris, six to Coorg, six to Mysore, and two to the Agricultural and Horticultural Society of Madras.²¹ But the planting with Chinese seed on a commercial scale appears to have begun in the early fifties of the 19th century.

In the early phase of the South Indian tea industry it differed in two important respects from the North Indian tea industry.

- (i) In North India the bulk of tea is grown in the plains, whereas in South India it is entirely located in the hills.
- (ii) In Assam and Bengal tea was from the beginning almost the only plantation crop. But in South India, in the early days it was very much of a subsidiary crop which counted for little as compared to coffee. And in some of the most important areas it only began to be cultivated when the coffee industry declined.

The primary factors that led to the rapid expansion of the tea plantations in South India were two:

²¹ Op. cit., Sir Griffiths Percival, p.43.

1.3.1 The decline of the coffee industry

The first plantation crop which was developed and exported from South India was coffee. It appears that coffee had been exported from South India as early as 1659 when the Dutch East India Company ordered a consignment on trial.²² The areas in which coffee was first developed in South India were Mysore and Coorg in Karnataka, Nilgiris and Shevaroy in Tamil Nadu, Wynad, and Peermade in Kerala. Many of the English companies which developed tea plantations in South India were first entered in coffee trading and cultivation. The records of Barry & Co. show that as far back as 1823 they were trading in Mysore coffee. This led to their involvement in the development of planting of coffee in the Kalpetta district and by 1850 they were well established in the Wynad Coffee Plantations. Their subsequent turnover to tea and finally the sale of their tea properties to Harrisons & Croasfield is a more recent history.²³ Other British Companies like Peirce Leslie & Company, Aspinwall & Company, Stanes & Company and Mathanson & Company were actively engaged in coffee planting and had coffee curing factories in Mangalore, Calicut, Tellichery and Quilon.

²² Op. cit., Lovatt Heather, p.2.

²³ Langley, H.K.M., The Coast firms in Speer S.G. (ed.) (UPASI, Coonoor, 1953), p.1954.

The widespread coffee leaf disease of 1870s simultaneously affected South Indian and Ceylonese Coffee industry. The effect was such that many planters turned to tea cultivation. Coupled with this calamity, the strong competition from Brazilian coffee resulted in the abandonment of coffee cultivation. Table I-1 shows the growth of tea planting as well as the decline of coffee in Kerala and Tamil Nadu:

TABLE-I-1
Planted Area (in Hectares)

Year	Kerala		Tamil Nadu	
	Tea	Coffee	Tea	Coffee
1885	479	5,113	382	10,121
1890	1,521	4,311	977	8,127
1895	4,732	3,212	3,967	5,827
1900	8,250	2,996	4,420	2,211
1905	9,254	1,567	4,423	2,113

SOURCE: Planting Directory of Southern India, various issues, UPASI, Coonoor.

But coffee remained as the important plantation group in Karnataka. Even today, only 1837 hectares are cultivated under tea.²⁴ Likewise, the Wynad area in

²⁴ Tea Board, Tea Statistics (1978-1979), (Calcutta, 1979), p.7.

Kerala and the Shevaroye in Tamil Nadu are important coffee-growing areas.

1.3.2 Socio-economic and political factors

The development of South Indian tea industry was the result of several socio-economic and political factors that prevailed in the modern states of Kerala and Tamil Nadu. In 1864, tea had been planted as an experimental measure in the Government gardens in Peermade. But due to the lack of experienced hands, Government had abandoned the experiment. The British planters had continued the experiments and rapidly opened up land in all directions, planting almost exclusively tea. In Wynad where coffee-growing was prevalent, the planters gradually turned to tea due to coffee leaf disease and competition from Brazil. In 1896, 100 acres were planted with tea in Wynad.

The early European planters faced great difficulties in clearing large areas of jungle-infested lands in the hilly regions of South India. But the British capital and initiative was attracted to this field because of the favourable socio-economic and political climate that prevailed in Kerala and Tamil Nadu. During the opening up period of plantations, the modern state

of Kerala was divided into three parts: the native states of Travancore and Cochin and the Malabar region under Madras presidency (British rule). The modern state of Tamil Nadu was also under the Madras presidency.

Now, it is important to examine that (a) land policy followed in the native states of Travancore and Cochin and in the Madras presidency and (b) the availability of labour for the tea plantations which are the essential prerequisites for the development of tea industry.

1.3.2.1 Land policy in the native States

Among these regions, the Travancore state was very powerful and it abolished the feudal pattern of ownership of land by the middle of the 18th century. By the end of the 18th century, the Travancore state had begun annexing land and by the 1850s about 80 per cent of the cultivated lands had become Singar (Government)land.²⁵ After assuming the ownership of these lands, the state began a remarkably enlightened and progressive agrarian policy. As early as 1818, the Government issued regulations encouraging the cultivation of waste land guaranteeing the

²⁵ Varghese, T.C., Agrarian change and Economic consequences, Land tenures in Kerala (1850-1960), (Bombay, 1970), p.43.

enjoyment of such lands tax-free for the first ten years and imposing only light taxation thereafter recognising claims for cost of improvements on newly reclaimed land.²⁶ The issue of pattan proclamation of 1865 has been rightly considered as the Magna carta of Travancore peasants. It conferred full ownership on the tenant cultivators on Sirag lands, subject to the due payment of land revenue and allowed unrestricted transfer of their properties.

By the end of the 19th century, the opportunities for other economic activities were further enlarged by the phenomenal rise in agricultural prices and by the extension of transport services. It was also during this period that British capital began entering on a significant scale first on plantations and later spread to other manufacturing industries, mainly coir. With British economic penetration and the advent of railways and increasing sea trade at the beginning of the 20th century, the region got intimately connected with the world market. The new areas where the cash crop cultivation got considerable momentum were the high land tracts which, by and large, remained uncultivated till the end of the 19th century.

²⁶ Royal Proclamation of 993 M.E. (A.D.1818), cited in Travancore Land Revenue Manual, Vol.4, (Trivandrum, 1915), p.229.

As early as 1864 European planters had begun plantation cultivation in the hilly areas which covered one-third of the state territory. With the help of the incentives given by the State, the opening up of forests for plantations also increased much more than in Malabar and Cochin in the same period. Table-I-2 signifies the points:

TABLE - I-2
Total cropped area and the percentage of area under cash crops and food crops in three states

(in 000' acres)

Year	Travancore			Malabar			Cochin		
	Total cropped area	% of cash crops	% of food crops	Total cropped area	% of cash crops	% of food crops	Total cropped area	% of cash crops	% of food crops
1910-11	1527	39	61	1337	32	68	478	18	82
1920-21	1952	46	54	1678	34	66	522	20	80
1930-31	2108	45	55	1758	34	66	557	26	74
1940-41	2374	42	58	1816	37	63	559	28	72
1945-46	2346	46	54	1817	40	60	601	28	72

Source: Indian Agricultural Statistics, Government of India for respective years.

The growth and predominance of cash crops in Travancore has been speeded up by the rapid commercialisation and consequent monetisation of the economy. There arose indigenous credit institutions (chitties and muries) which paved the way for the development of commercial banking. Rise in prices, expansion of transport services and particularly increase in credit facilities gave additional impetus to the opening up of plantations. During the later part of the 19th century the influx of British capital was greatly enhanced and the two largest British companies viz. the Kannan Devan Hills Produce Company and the Anglo American Direct Tea Trading Company were registered in 1878 and 1897 respectively. Even after the amendment (in 1944) of an earlier agreement, the state demand on the plantations of the Kannan Devan Hills Produce Company was only little over Rs.30,000 on the total occupied area of a little over 100,000 acres (of which estate proper covered 39,000 acres) or about 5 annas* per acre; the remaining unoccupied area out of 215 square miles leased out to the Company was not assessed at all.²⁶

Table - I-3 shows the growth of tea plantation companies in Travancore:

²⁷ Parasaswaran Pillai. P., Report on the Scheme for the introduction of basic land-tax and the revision of agricultural income-tax, (Government of Travancore, 1946), para 65.

* Thirtyone paise.

TABLE - I-3

Tea Plantation Companies in Travancore

Year	Number of tea plantation companies incorporated and registered in Travancore	Number of tea plantation companies incorporated and registered outside, but working in Travancore
1905	3	Not known
1915	10	Not known
1925	35	16
1935	37	22
1945	87	19

Source: The Statistics of Travancore, issued yearly by the Government of Travancore, Trivandrum.

In Cochin also there was an attempt on the part of the state to lease out its most important forest front called Nelliampathy forests, to the British planters. There the land was granted on favourable terms, for tea or coffee cultivation the rate of tax fixed was rupee one per acre and for rubber and cardamom the rates were rupees two and rupees three respectively.²⁸ In 1949-50, Cochin had only about 6,800 acres under rubber, 1,700 acres under tea and 2,000 acres under coffee.²⁹

²⁸ Government of Travancore-Cochin State, The Statistics of Travancore and Cochin (1949-50), (1951), p.27.

²⁹ Ibid., p.29.

1.3.2.2 Land Policy in Madras Presidency

The whole tea-growing regions in the modern state of Tamil Nadu and Malabar region in Kerala was under Madras presidency (British rule). In fact, Malabar mirrors the land policy followed by the British in the whole Madras presidency.

In Malabar, the law courts and the land revenue settlement department established by the British during the 19th century enforced new land tenure and land revenue policies to the detriment of practically all sections of the agricultural population except a few jannings (landlords). In 1869, all the jannings together accounted for less than 2 per cent of the total agricultural population in contrast to the agricultural labourers in Travancore which was estimated to have been only about 10 per cent of the total agricultural population in Travancore. That is, even towards the middle of the 19th century tenants formed the bulk of the agricultural population in Travancore. Though Malabar was part of the British Indian territory and Travancore was a native state, it is significant to note that British capital was largely attracted towards Travancore in starting plantations. It was mainly because of two reasons: (i) in Travancore, the planters were able to lease in lands on favourable terms directly from the state, whereas in

Malabar they would have had to take land from janning which was relatively insecure and costlier than direct state leases, and (ii) transport and communications were better developed in Travancore than in any other part of Malabar and Cochin.

In Nilgiris also Britons opened up tea plantations. The first European settlers on the hills had often bought the land from the Idag (traditional tribes in Nilgiris) who later became a rich source of labour supply to the plantations.³⁰ The Madras Government followed a policy which created a favourable climate for the growth of plantations in Nilgiris and in other parts of Tamil Nadu. In 1863, the Madras presidency passed a bill for the sale of the unaccessed waste lands. This resulted in several Europeans in the Nilgiris bidding for waste lands in various areas of the Nilgiris and opening up tea. The lands sold by the Government were free from all demand on the part of the state on account of land revenue.³¹

Another important tea growing area in Tamil Nadu is the Anamalais. Formerly most of the areas in Anamalais were classified as reserve-forest. In 1864, certain part

³⁰ Government of Tamil Nadu, History of Land Revenue Settlement and Abolition of Intermediary Tenures in Tamil Nadu, (Madras, 1977), p.356.

³¹ Tanna. J. Kaku, Plantations in the Nilgiris - A synoptic History, Coonoor, (Morgan Tea Estates Company, 1969), p.18.
Glen

of it was sold to the Carnatic Coffee Company by the Madras government. Later the government directed that all settlers should enjoy and rent free for the first five years; rupee one being levied annually for the remaining period of the lease.³² During the dawn of the 20th century with the increasing output of tea and an increasing labour force, transport to and from the district became a major problem. The solution was found when the first cart road was constructed by the Public Works Department of the Madras government.

In Mysore and Coorg coffee-growing was very important from early times onwards. When Coorg came under the control of the East India Company, they started some 430 acres of area with tea in the 1860s.³³ Compared to Kerala and Tamil Nadu tea-growing is less important in the modern state of Karnataka.

1.3.3 Availability of Labour

Supply of a large number of unskilled labourers is a precondition for the growth and expansion of tea plantations. Compared to other plantation industries such

³² Clark M., The Annals, in Speer S.G. (ed.), (UPASI, Coonor, 1953), p.252.

³³ Parsons W.C.L., Coorg, in Speer S.G. (ed.), (UPASI, Coonor, 1953), p.279.

as rubber and coffee, tea requires a much larger amount of labourers throughout the year (details of the same is discussed in the chapter on labour).

The recruitment of labour has always been one of the major problems faced by the planters in the history of plantations in South India. Organised planting on a commercial scale naturally began in out of the way places where suitable land could be obtained. This land was generally in the hills where alone tea could be successfully grown. There were no roads to these hills which were mostly uninhabited. The pioneers had to import artisans as well as unskilled labourers to bring all kinds of supplies from the nearest towns or villages.

During the early times the South Indian plantations depended on an annual immigration of 4/7 of their labour force.³⁴ Even as early as 1865, 4/5 of the coolies (unskilled labourers) on estates in Nilgiris came from Mysore and in 1877 about 30,000 coolies were employed in Malabar-Wyneed. In the tea plantations of Travancore and Cochin most of the labour came from Tamil districts of Salem, Madurai and Tiruchirappally. But the planters' problems were made difficult by the competition from Ceylon

³⁴ Op. cit., Sir Griffiths Percival, p.396.

and Malaya for the South Indian labour to work on estates there. It is pointed out that in 1891 about 253,000 south Indian labourers were working in Sri Lanka's plantations.³⁵ So the pioneers had to go personally to the villages and collect gangs which they took back to the estate with them. Gradually people got accustomed to joining estates nearer home than Ceylon. Later a class of professional recruiters came into being. These groups were anxious merely to put labour on the estate and draw their commission regardless of whether the labour was suitable or not. Of all inducements to a plainsman to go upto the hills for work the most potent was a cash advance.

Most of the early labour for the tea plantations in south come from the Tamil districts of Salem, Madurai and Tiruchirappally which was under the British rule.

Table-I-4 illustrates the point.

TABLE-I-4

Labour recruiting position during 1896 in South India (in percentages)

Area	Local	Imported from British India	Imported from Mysore
Wynnad	20	54	26
Nilgiris	17.5	44.5	38
Madurai	96	14	—
Tirunelveli	80	20	—
Coorg	20	53	27
Mysore	37.5	62.5	—
Travancore	20	60	20
Cochin	4	96	—

Source: South Indian Planter's Enquiry Committee Report, London, 1896, p.22.

³⁵ Centre for Society and Religion, Liberation of Tea, (Colombo, 1975), p.10.

Of all the Indians, perhaps, Tamils have made their homes abroad more than any other race in India.³⁶ The immediate causes for the large migration of Tamil labourers to the planting districts of South India and to Ceylon were primarily two: (i) The extreme poverty and insecurity of work combined with the experience of two terrible famines in the 1850s in Madras and (ii) the destruction of Tamil weaving trade by the British free trade. In the native states of Travancore and Cochin the agricultural labourers formed a minority among the agricultural population. In Travancore, the labour had a reserve price arising from the state of agricultural development in that state. So the British planters had to cast their net wide in the famine-hit Tamil villages.

The introduction of tea plantations in the early thirties of the last century marks a distinct departure from the peasant agriculture of south India. Plantation enterprise in the 19th century represented a historically significant step forward from subsistence agriculture to surplus production for the international market. It was

³⁶ Unwin Robert, The Labour, in Speer S.G. (ed.), (UNASI, Coonoor, 1953), p.159.

also a step in the direction of a monetised economy signifying the earliest introduction of some features of systematic management to a sector of agricultural production. But its significance lay in the fact that large-scale monoculture of selected crops for the export markets introduced certain new features of structure and organisation.

CHAPTER - II

2. THE CAPITALIST DEVELOPMENT OF TEA PLANTATIONS IN SOUTH INDIA

2.1 The Early Pattern of Ownership

Although tea has a very long history, the commercial tea industry of South India is little over a century old. The tea industry, because of its colonial past, was started in the initial phase with the exclusive British capital and enterprise. During the initial periods, the principal form of ownership was proprietary in the South Indian tea plantations. Britons were pioneers in opening up tea plantations in the hilly tracts of Kerala and Nilgiris in Tamil Nadu. The British civil servants and retired army officers were the majority among the pioneers. As mentioned earlier, even the native states of Travancore and Cochin followed a policy which benefited the Britons in this process. Successive dewan (administrators) were doing what they could do to raise more revenue from taxable agricultural produce and every encouragement was given to people who wished to acquire land for tea and coffee cultivation. Since the natives showed little inclination to move to the hills, the opening up of forest was left

to the foreigners for many years. Again, the local chieftans also leased the hilly tracts for the opening up of plantations. In 1877, Munro J.D., a British civil servant obtained the first ponaite concession from Poonjar Rajah for the sum of Rs.5,000/- and for a perpetual annual payment of Rs.3,000/-. He got the second ponaite concession in 1879 which comprised a tract extending to some 227 square miles. Munro together with Turner brothers founded the North Travancore Land Planting and Agricultural Society and the ponaite concessions were conveyed to the society. Later this was ratified by the government of Travancore and the tax to be paid was 1/2 British rupee on every acre of land other than grass land which has already been or shall hereafter from time to time to be opened for the purpose of cultivation.¹

In Nilgiris, apart from the foreigners, the Gowdas of Mysore also started opening tea plantations. Today, they form the majority among the proprietary planters in Nilgiris.

The price of land deemed suitable for tea and coffee was fixed from time to time and some of it was

¹ Tata-Finlay Limited, Facets of Hundred Years of Planting, Anita Baig and William Henderson (eds.), 1978, p.7.

acquired for little more than the cost of registration. From the very early stages planters preferred duty rather than land taxes. In 1910 the tax on all land under tea or coffee was increased to one British rupee on an acre while the tax on grass land rose to five annas an acre in Travancore.

2.2 Change in the pattern of ownership

As we have noted earlier, the earliest form of ownership in the tea plantations of South India was that of the proprietary ownership. But the ownership by the individual proprietary planters lasted only for one generation. The early disappearance of individual proprietary concerns and the appearance of corporate capital in the tea plantations of South India were due to several factors. During the latter part of the 19th century onwards large amount of working capital was necessary to pay wages and commodity advances by financial intermediaries became necessary. The competition from new areas induced technological changes to keep costs down. This involved substitution of capital for labour which was short in supply. Further, the individual planters were not able to withstand the recurrent fluctuations in the price of tea in the world market. All these factors led to the early demise of individual proprietary planter and

contributed to the growth and concentration of corporate capital in the tea plantations of South India.

In fact the tea plantation industry in India was stimulated by the trade boom in Britain in the 1860s. The opening up of Suez Canal in 1869 greatly improved trading relations between East and West. During this period, the accumulated wealth of Britain was poured into capitalist enterprises overseas. At the same time the structure of capitalism itself was changing. Concentration of capital and the establishment of larger undertakings were encouraged by the Companies Act of 1862, after which old family firms were tended to be replaced by limited liability companies run by salaried managers.² These developments were reflected in the changing conditions of the tea plantation industry in South India where proprietary planters remained in majority.

Thus from the eighties of the last century, the ownership structure began to change and partnership firms and public corporations became more common. This process accelerated the shift towards better financial resources and more stable and eventually professional management of

² Op. cit., Mrs. Lovatt Heather, p.17.

plantation enterprise. Many of those who planted with their own resources with unlimited liability have failed and disappeared in the course of early years. Many small companies in course of time became large, more viable and stronger companies which could withstand economic adversity and bear the cost of innovation or expansion more easily.

2.3 The Role of Merchant Capital

The effect of merchant capital in all ages has been to dissolve the pre-existing system of social relations based on the production of use values. Purchasing for little or nothing from societies that had not acquired a commercial sense and selling them in Europe was the colonial form of operation for merchant capital. It bought cheap and sold dear taking advantage of market disparities.³

Merchant capital entered in South Indian tea plantations at a time when the individual planters were not able to cope with the organisational and financial requirements of a changing world economic order. The companies that filled the breach were established by firms

³ Op. cit., Dawood Nawas, p.30.

which were already involved in some aspects of economic activity related to tea plantations. The merchants, retailers, transporters and the processors in the British market had already created an infrastructure for the distribution of tea and the additional output from their subsidiaries could be fitted in at virtually zero marginal cost.

The history of coast firms in South India which were trading in coffee, copra and pepper is closely related to the tea planting industry of South India. They have always accompanied any pioneer effort like the opening up of virgin country; especially when communications were of a primitive nature as they were in most countries when the planting industry was at its infancy. Many of the British proprietary planters preferred to develop their estates on borrowed money and it was not unknown that for a man to estimate his worth by the amount of credit he commanded. The pioneers had to depend on most of the necessities for their undertakings; especially a dependable agent who could act as a banker, shipper and supplier of general stores etc. For instance, James Darrah, a west coast copra merchant started buying tea plantations in Peermade and Vandiperiyar by helping ailing individual tea planters. Later Darrah Smail & Company became very prominent in the tea industry of Kerala.

But apart from financing others, some firms were among the earliest to develop coffee and later tea, on their own. These developments had the effect of waking up the old established firms on the coast to the change in conditions and the necessity of taking a more direct interest in the planting side of the business. Soon many rupee companies were formed with Peirce Leslie & Company Limited; Aspinwall & Company Ltd., Matheson & Company Ltd. and Darraugh Smill & Company Ltd. leading the movement. This tendency greatly increased with the First World War when many planting properties changed hands and large amalgamations were the order of the day. Now a days, the planting and business sides are so intermingled that it would be difficult to say who is the planter and who the businessman.

2.4 Growth, expansion and concentration of the industry

A characteristic feature of the British colonial system of production was the concentration of economic activity in the colonies to agricultural or extractive industries. Generally, these products were shipped to Britain, often in the form of raw materials to be processed before marketing. In the case of tea, the raw-tea leaf being non-transportable over long distances owing to its characteristics of weight losing and perishability,

manufacture had to take place in the producing country. So the tea cultivating and processing units are therefore vertically integrated within the same estate. Thus, from the point of view of South India, tea conferred a greater advance than the other plantation product, rubber, which was exported in-near-raw form.

The factors responsible for the development and further expansion of the South Indian tea industry were wide and varied. The tea industry was primarily an export industry when it was first introduced in South India. The excessive concentration of control of production, trade and the tremendous support for the market for tea by Britain was a unique feature of this period. Thus the country from which the capital originated for tea constituted the biggest market. This is an important factor which stimulated the capitalist development of South Indian tea industry. It was for Britain's devoted drive that tea habit had developed in her colonial possessions. The British companies were able to control the production because the industry requires huge amount of capital and a large number of unskilled and cheap labour which are the very foundation of the capitalist auspices of management and of the organisation of the industry.

Again, unlike other plantation crops, only a relatively small year to year variation in tea production

is visible. As pointed out by Wickiser, "excess capacity is likely to arise only after a prolonged period of high tea prices because a disproportionately large period of time and amount of skill and capital are involved in developing a profitable tea garden."⁴

It is possible to provide a simple framework for the conditions and circumstances that gave rise to the capitalist development of the tea plantations in South India. The pre-conditions for such a development included (i) sufficient British capital which allowed the South Indian tea plantation organisation to secure needed factors of production, (ii) the availability of land for tea cultivation in sufficient quantity and quality for present and future production, (iii) supply of cheap labour in sufficient quantity, (iv) British technology of a high level for modern tea cultivation and processing, (v) sanctions of a political - legal sort which the British companies got to maintain a disciplined labour force and to regulate the distribution of the surplus, (vi) sizeable market for the crop in Britain and in her colonies, and (vii) a system of class stratification which helped to differentiate

⁴ Wickiser V.D., Tea under International Regulation, (London, 1956), p.7.

those with the capital from those with only labour services to sell.

2.4.1 Role of the Managing Agencies

The institution called the managing agency system became active in the coffee era to provide various services for the plantation owners, viz. the processing and storage of coffee, sales arrangements, shipping, insurance and the procurement of estate supplies etc. when tea was introduced in South India after the coffee disaster they turned their attention to the tea plantations. Towards the end of the 19th century when the British companies became prominent the managing agencies expanded their activities which included budgetary control, cultivation and manufacturing advice, taxation advice, exchange control handling and staff recruitment at the higher levels. Many of the early tea plantations in South India proved to be small to occupy economically a full time European manager and an assistant and the gardens began to be consolidated. The Managing Agencies, in company form, fulfilled in tea production about the same functions which it has fulfilled in cotton and jute manufacturing and in other branches of economic activity in India.⁵

⁵ Buchanan D.H., The Development of Capitalist Enterprises in India, (London, 1966), p.58.

It was also during this period that the London Stock Exchange developed a lively interest in plantation shares; especially for companies in India, Ceylon and Malaya which represents part of the large scale agricultural enterprise which expanded in tropics between 1880 and 1913.⁶ Many tea plantations in South India were started on a small scale, and thereafter developed through the Managing Agencies who had access in the developed capital market of London.

In the beginning the typical unit of the tea industry in South India took the shape of a sterling company in Britain owning tea plantations in South India. The agency houses have also sponsored plantation companies registered in India with rupee capital either to take over some of the sterling (British owned) estates or to start new ventures of their own. Thus came a number of rupee companies managed by agency houses which looked after the interests of sterling companies.

In the course of time, the early individual planters became associated with agency houses that managed several tea plantations incorporated into the firm structure of managing agency system. The marriage of agency

⁶ Lewis W.A. (ed.), Tropical Development (1880-1913), North Western University Press, (Evanston, 1970), p.1.

house capital with the managerial experience of the proprietary planters provided the main foundation for the growth of corporate capital in the tea plantations in South India. The managing agencies were the real thing and the companies were in fact their branches. They fixed the price to companies for their own manufactures supplied to the companies. Supply and sales commissions paid by sterling companies were in no way affected by the Indian Companies Act.⁷ The agency houses were able to raise or increase the profits of tea companies as they had other companies under them. Some of the British managing agency houses who became prominent in the tea industry of South India are Messrs. Harrisons & Crosfield; The James Finlay group, The English-Scottish Joint Cooperative Wholesale Society, Brook-Bond Ltd., Peirce Leslie & Company, The Bombay-Burma Trading Corporation etc.

2.4.2 Effect of World Wars and International Tea Agreements on the Growth of the Industry

The net effect of the world wars and the international tea agreements were different and varied. While the world wars have resulted in the expansion of acreage

⁷ Sivaswamy K.G., The Minute of Dissent in the Report of the Plantation Inquiry Commission, Part-I, (New Delhi, 1956), p.324.

and increase in tea production, the international tea agreements which were based on restrictionism resulted in high prices for the tea and increased profits to the South Indian tea industry.

During the first world war the British Ministry of Food and Agriculture entered into contracts with the producers in India and Ceylon for buying 40 per cent and 27 per cent of Indian and Ceylon teas respectively. The prices were fixed by the British Ministry based on the prices of 1914, 1915 and 1916. Subsequently the respective figures were raised to 66 per cent and 50 per cent of 1918 crop. The stability of the price and the subsequent rise in the quota of the contract resulted in the expansion of acreage and a rise in production. During the period of 1915 to 1920 there was a 30.02 per cent increase in the area under tea and a 12.8 per cent increase in production in South India.⁸ But the situation took a worse turn when the British government released the supplies to the market which it held after the decontrol of tea in the spring of 1919. Soon the stocks began to accumulate at the producing points and there was 38.3% fall in the Indian tea prices⁹ during the

⁸ Source: Calculated from Planting Directory of Southern India, UPASI, Coonoor, various issues.

⁹ Source: Calculated from Tea Statistics, J. Thomas & Company Ltd., Calcutta, 1978-79, p.1.

period between 1915 and 1920. But in the latter part of 1925, prices rose sharply and throughout 1926 prices were high. The rapid rise in prices induced tea planting in new areas which began to bear in the period of great depression of 1928-1929.

The situation became so acute that in 1933, India, Ceylon and Indonesia entered into an agreement to remedy the situation by restricting their exports and by world-wide propaganda to stimulate consumption. The export quota was based on the maximum production achieved in 1929, 1930 and 1931. Each contracting country was entrusted with the task of administering its own exports within the permissible limit. The international tea agreement envisaged an ideal external balance at a desired level to be attained by the interaction of regulated supply and free demand. There were also cuts in the wages of labour and staff.¹⁰

The agreement had its desired effect of raising the prices. Table II-1 illustrates the points:

¹⁰ Government of India, Ministry of Commerce & Industry, Report of the Official Team on the Tea Industry, (New Delhi, 1956) p.3

TABLE - II-1

Annual Average Prices at London Auction
(Price per Kg. in pence)

<u>Year</u>	<u>Price of all tea</u>	<u>Price of Indian tea</u>
1925	39.60	38.94
1930	33.44	32.34
1933	25.74	25.74
1935	28.38	28.16
1940	30.36	29.48
1951	96.58	96.58
1955	133.98	139.92

It is in 1951 that the London auctions have been resumed after the second World War and in 1955 the international tea agreement came to an end.

SOURCE: Calculated from International Tea Statistics, International Tea Committee, London, for respective years.

The restrictions imposed by the four agreements in their implementation do not appear to have hampered normal expansion of the tea industry in South India since even the extensions of acreage of tea permitted under the agreement have not been fully utilised by the industry. The permits for extension of cultivation granted when the first two agreements were in force from 1933 to 1938 and 1938 to 1943 respectively, but all permits issued since

1943 were revalidated from time to time till 1955 when the last agreement expired.

TABLE - II-2

The acreage for which permits were issued for extension for tea cultivation and the area planted (in acres)

Region	Permits issued during the regulation period			Permits utilised upto the 31st March, 1953		
	1943-48	1948-50	1950-55	1943-48	1948-50	1950-55
South India	1883	9884	10164	1540	4984	2903
North India	6403	21423	27677	4873	10642	6348
All India	8286	30807	37841	6413	15626	9251

Source: The Plantation Inquiry Commission Report, Government of India, New Delhi, 1956, p.251.

The international tea agreement provided the flexibility of supply through coarse or finer plucking. In the event of surplus production the producers had to carry the surplus forward or dispose it in the internal market. It implies that the international tea agreement had no active and direct interest in the expansion of the market of a contracting country and in maintaining its internal balance. In the matter of external balance as

well the international tea agreement assumed no direct responsibility. But the international tea restriction schemes and the producer combines in India have achieved their object in maintaining a high cost-profit structure at a high price for tea. In 1954 and in 1955 tea plantations heeded in the matter of dividend paid as a percentage of paid-up capital.

TABLE - II-2

Dividend as a percentage of paid-up capital
(for ordinary shares)

	1954	1955
Tea -	34.1	16.0
Sugar -	10.2	10.9
Cotton textiles-	8.2	11.4
Jute -	7.6	6.8
Iron & Steel -	12.6	12.6
Cement -	9.2	9.6

Source: Tea Statistics, Tea Board, Calcutta, for respective years.

During the Second World War the Government of Britain adopted the system of bulk purchases of tea in all the producing centres. The London auctions had been

suspended soon after the outbreak of war and the prices were fixed on the basis of the prices offered at sales during 1936, 1937 and 1938. This bulk purchase scheme which ensured stable prices sowed the seeds of crisis for the industry. The guaranteed market for an agreed quantity irrespective of quality much inspired the producers to increase their production of inferior teas. When the bulk purchase system was virtually withdrawn in 1951 with the resumption of normal trade channels, the British buyers began to evince a keen preference for quality teas. Indian teas which were mainly of medium and cheap varieties and already overstocked under the stimulus of bulk purchase system had to face a situation of severe over supply. But the world wars and the restriction schemes helped the South Indian tea industry to develop on the capitalist lines and stimulated the concentration of the industry by a few British companies.

TABLE - II-4
Expansion of area under tea and production in
South India - 1900 to 1950

Year	Area (in Hectares)	Production (in million Kgs.)
1900	12,670	2.32
1905	13,677	5.40
1910	19,614	9.06
1915	27,516	14.34
1920	35,775	16.17
1925	40,468	22.37
1930	58,039	24.90
1935	65,693	29.15
1940	65,950	35.73
1945	66,055	41.92
1950	67,618	44.23

SOURCE: Planting Directory of Southern India (20th edition), UPASI, Coonoor, 1979.

In fact, the tea contracts during the world wars was a direct subsidy by the Indian economy to Britain. It was an arrangement between Britain and its colonies. Neither the prosperity of 1953 and 1954 nor

the crisis of 1955 was brought about by the international regulation of production and exports. The prosperity and the depression were the results of maladjustments of demand and supply initiated by the bulk purchase system; confused by the withdrawal of the system and aggravated by the psychosis of uncertainty and speculation.¹¹ Although these schemes had succeeded in lifting up the prices, it failed to stabilise prices after their recovery from the recession of 1952 as its avowed objective. Further it guided the industry in such a way that it had to fall in another price trough.

2.5 Vertical Integration and Concentration of the Industry

As we have noted earlier, there has been a dramatic shift in the relative importance of private and individual plantations which have been systematically transformed into limited liability companies and today they are dominant in the South Indian tea industry. Later, they were amalgamated to larger companies by powerful British companies which have world-wide tea interests into a vertically integrated system. In fact, it reflects the second stage

¹¹ Roy Himansu, Tea Price Stabilisation - The Indian Case, (Calcutta, 1965), p.31.

in the growth of western capitalism which is characterised by the concentration of capital and production in the hands of an increasingly few cartels and combines. This phase also resulted in the enhanced export of capital to the colonies and also the division of the world by the western powers in the battle for world hegemony.¹²

The British firms engaged in the processing or marketing of tea got involved in the South Indian tea plantations either because they want to gain control over raw material supplies or because market restrictions on further expansion of processed output limit investment opportunities at the processing level. In either event, the enterprise is induced to engage by the prospect of making greater profits in the long run and less variability of profits in the short run. Later, the inter-industry linkages came into play and stimulated further expansion into related fields in order to make other activities more profitable and to secure inter-industry economies (eg shipping, insurance and the manufacturing of plantation machinery). The history of the growth of the tea interests of Harrisons & Crosfield (H & C) in Kerala and Tamil Nadu

¹² Lenin V.I., Imperialism, the highest stage of capitalism, (Peking, 1970), pp.74-75.

signifies this point. H & C was started in 1844 in Liverpool with a capital of £8,000 to trade in coffee and tea.¹³ In 1854, the company's headquarters was opened in London. In 1899, the firm made its first purchase of an estate in Ceylon and later in South India. The opening of the company's Quilon branch in 1911 increased its estate agency interests. H & C bought the tea interests of Parry & Co., and Peirce Leslie & Co. The purchase of Cameron & Co. enabled the company to manufacture tea chests. In 1912, the company opened engineering works in Quilon. This department was able to supply machinery in the manufacture of tea and rubber. The firm was the sole agents for the following in South India: 'Sirocco' tea machinery and ventilating fans, Brown's patent triple action tea roller etc. Agencies are held for the British-India Steam Navigation Company Limited, the Asiatic Steam Navigation Company Limited, Atlas Insurance Company Limited and the London Lancashire Fire Insurance Company Limited.

The H & C entered in the field of heavy industry involving engineering skills and further expansion was necessitated to maximise returns from these skills which it

¹³ Ganapathy K.M., Malayalam Plantations. An Era of Planting in South India, (Madras, 1978), p.19.

now possesses. Since the engineering skills are not product specific, the firm is now in a position to expand further into non-plantation fields and so it is able to secure economies of diversification. This is technologically induced economies of scale. It accounts for the vertical integration of the company at the expense of smaller - less integrated firms. The H & C group currently comprises of 108 subsidiaries and 26 associated companies with a large diversified variety of activities ranging from engineering and chemicals, through agriculture to textiles, insurance and shipping in many parts of the world.¹⁴

The structure of the South Indian tea industry during the dawn of the 20th century had the following characteristics: British companies owned and managed most of the estates; including almost all the largest ones; provision of finance by British banks and agency houses, large scale factory style operation of the estates using massive forces of labour, control of the import-export trade by the British and virtually complete reliance on import supplies of capital equipment. Finally, there was virtually a complete reliance on British markets for the product.¹⁵

¹⁴ Ibid., Ganapathy, K.M., p.17.

¹⁵ Snodgrass D.R., An Export Economy in Transition, Economic Growth Centre, (Yale University, 1966), p.18.

The roles of producer, banker, insurer, shipper, broker, blender and distributor are interrelated through the device of interlocking directorships. For instance, John Muir is the Chairman of James Finlay Group (which controls Kannan Deven Hill Produce Company and Anglo American Direct Trading Company in South India) director of Liverpool and London Insurance Company, director of National and Grindlays Bank and Lloyds and Shipping Agencies. This joint stock system is fertile in resources for accruing a more or less complete identity of the ownership and control which, normally in the eyes of law, are separate companies. Management by a community is one method for securing a community of interest and the companies remain completely separate but a small group by the practice of interlocking directorates retains effective control of all of them and works them in harmony.¹⁶

On a closer examination, it can be found out that production concentration is the source of all concentrations. So long as area under tea and production of tea are concentrated in the hands of a few British companies they could not be prevented from having their own brokers, their own warehouses, their own direct consignments and private sales, their buying departments to purchase tea, their supply of stores, transport, sale agencies, insurance, banking and shipping. Table-II-5 shows the degree concentration of area under the non-Indian controlled companies:

¹⁶ Robertson D.H., The Control of Industry, (Cambridge University Press, London, 1949), pp.62-65.

The Table-II-5 shows the area under different types of ownership in the three tea growing states of South India. Even in 1978 the non-Indian controlled companies manage more area compared to other types of ownership in the main tea growing states of Kerala and Tamil Nadu. But after 1940 the area under the control of non-Indian controlled companies started declining. In both the states, the Indian companies and Indian proprietary concerns have registered a continuous increase in their area from 1925 to 1978. The area under the control of non-Indian proprietary concerns became virtually non-existent since 1970 in Kerala and since 1978 in Tamil Nadu.

It is important to note that to a large extent the increase in the area of Indian companies and Indian proprietary concerns was due to the selling of British controlled estates to the natives. But the most interesting phenomenon in Kerala and Tamil Nadu is the concentration of area by a few big companies since the dawn of the century till today. It is illustrated with the help of the Table-III-6.

TABLE II-6

The Concentration of Area Under Tea in Kerala and Tamil Nadu during 1925 to 1978

Sl. No.	K E R A L A						T A M I L N A D U					
	Area under tea (2) as a % of total area	Number of Indian companies	Area under tea (3) as a % of total area	Number of Indian companies	Area under tea (4) as a % of total area	Number of Indian companies	Area under tea (5) as a % of total area	Number of Indian companies	Area under tea (6) as a % of total area	Number of Indian companies	Area under tea (7) as a % of total area	Number of Indian companies
1	77.23	6	526.31	2.17	6	9427.12	59.33	1	2101.20	13.22	1	2101.20
5	73.69	3	2125.51	5.53	6	15470.50	59.73	2	2016.20	7.7	2	2016.20
8	70.14	3	3097.23	7.87	6	14021.10	53.05	3	3734.80	14.13	3	3734.80
5	63.29	3	3121.20	7.80	6	13245.83	41.20	3	3953.5	12.30	3	3953.5
5	62.20	3	5031.92	13.12	6	14778.46	41.17	3	4180.20	11.64	3	4180.20
3	46.90	5	7001.76	19.77	5	10187.21	27.77	5	6562.8	17.8	5	6562.8

Calculated from Planting Directory of Southern India, UPASI, Coonoor (various issues).

It is clear from Table-II-6 that through the years, the concentration of area has lessened and in the place of non-Indian controlled companies, Indian companies are becoming stronger both in Kerala and Tamil Nadu. In Kerala, the degree of concentration is much higher (even in 1978, 8 companies account for 66.67 per cent of the total area) compared to Tamil Nadu where 10 companies account for 45.58 per cent of the total area. Resulting from this area concentration is the production concentration by the same companies. Table-II-7 shows the concentration of production by non-Indian controlled companies and Indian companies during 1960, 1970 and 1976.

TABLE - II-7

The concentration of production by non-Indian controlled Companies and Indian Companies

Year	No. of non-Indian controlled companies	Production controlled as a % of total production	No. of Indian companies	Production controlled by them as a % of total production
<u>KERALA</u>				
1960	5	54.67	3	13.14
1970	5	61.23	3	14.12
1976	5	59.96	3	11.17
<u>TAMIL NADU</u>				
1960	6	34.59	3	7.72
1970	6	32.01	3	8.91
1976	5	23.86	5	17.04

Source: Calculated from Tea Directory for respective years, Tea Board, Calcutta.

In Kerala, the degree of concentration of production by the non-Indian controlled companies is much higher than that of the Tamil Nadu. First of all, the productivity of tea estates under the non-Indian control is much higher than that of the Indian companies and Indian proprietary concerns in Kerala. Secondly, many of the Indian companies and proprietary concerns are converting their tea estates into rubber estates which is more profitable and which has a comparatively stable price than that of tea.

The picture of Tamil Nadu is somewhat different. Over the years, a process of decentralisation of concentration of production is taking place there. In this context, the growth of the Indian small tea growers is significant in Tamil Nadu. To a large extent, the interplantation of rubber and tea is not possible there due to the different climatic conditions in Tamil Nadu. Again the small tea growers in Tamil Nadu are better organised than that of their counterparts in Kerala.

The intensifying process of concentration of production resulted in monopolies coming into existence and big monopoly associations were formed with a series of activities connected with tea production under their

control, attaining a substantial concentration of production as well as marketing, export finance, banking, insurance and broking concentrations. The marketing infrastructure economies were created by establishing marketing outlets covering wide areas in the world. A company's share in the market can be decisive in determining the level of profit in the long run. The control of production which gives the control of market is of greater importance today. This has resulted largely from changes in the technology of distribution involving an increasing degree of product differentiation. So it can be seen that the dynamics of expansion of the plantation enterprises derive from two main considerations:

1. Maintaining market share in an increasingly differentiated product market, and
2. Inherent cumulative economies.

The British banks played the leading role among foreign exchange banks. Their branches were not numerous. They were mainly established in large ports and inland trade centres of India. They have been operating in India since the middle of the last century, being an organic part of the whole system of colonial enslavement of the country.¹⁷ According to the estimate of the Plantation

¹⁷ Helman Sofia, Foreign Monopoly Capital in Indian Economy, (New Delhi, 1963), p.30.

Inquiry Commission (1956) about 99 per cent of the value of the total tea exports of non-Indian producers and 88.6 per cent of the total value of tea exports of Indian producers were financed by British-owned foreign exchange banks in 1952. As regards the internal finance also the British-owned banks had a clear-cut concentration during 1950s. This concentration again in financing tea was but natural so long as three-fourths of the produce belonged to non-Indian companies.¹⁸

The British managing agency houses were equally interested in forwarding their tea in British ships and paying for marine insurance in concerns in which they were interested. The freight charge amounted to, according to a Reserve Bank Survey of 1949, 5.2 per cent of the value of exports and the marine insurance charge 2.5% of the value of exports.

A notable feature among the large producers is the producer-seller combine selling their own tea by mutual accommodation among themselves. This producer cum seller arrangements (which is discussed in detail in the chapter on The Marketing of Tea) through non-Indian broking

¹⁸ Op. Cit., Sivaswamy K.G., p.348.

concentration has resulted in smaller number of re-tailers which means lesser competition. In 1953, Messrs. Brook Bond (which has tea interests in South India) and Liptons accounted for 94.6 per cent of the packeted tea consumption in India.¹⁹ Even today these two companies and the Tata-Finlay account for about 91 per cent of total packet tea production in India.²⁰

Tea is usually sold through auctions which is done by broking firms. According to the Plantation Inquiry Commission Report (1956) four non-Indian Brokers handled almost 96.5 per cent of the total tea auctioned in Calcutta in 1954-55. The first auction centre in South India was opened in 1947 at Cochin. As shown in the plantation Inquiry Commission Report (1956) during 1954-55 almost all tea auctioned in Cochin was handled by two non-Indian broking firms. Even today 4 broking firms account for more than 90 per cent of the tea auctioned in Coonoor and Cochin in South India. These brokers have control over production and in some cases they are directors of producing concerns and could fix

¹⁹ Op. cit., Plantation Inquiry Commission Report, p.347.

²⁰ National Council of Applied Economic Research, Domestic Marketing of Tea, (New Delhi, 1979,) p.6.

any price they wanted for their own produce. They were not employees of sellers or buyers but were in the executive which decided the rules of auction. This concentration of control of production, trade and market in the hands of a few belonging to the same nationality is somewhat unique.²¹

The phenomenon of board-room connections is the device of interlocking directorates. A more or less identity of ownership and control of what nominally looks like separate companies is maintained by the system whereby the same person serves on many boards of directors or by the majority of the stocks, or both. The resultant alignment of interests is obvious and more obvious is the fact that it will not be used in the interests of the country of origin of tea. As a result, money remains within the system. And this vast vertically integrated superstructure might keep the tea industry beyond the control of the producing countries.²² Thus if both prices and the product can be determined by a few large firms then the market ceases

²¹ Op. cit., Roy Himansu, p.2.

²² Jayapalan Nalin and Jayawardena A.S., Some Aspects of the Tea Industry, (Colombo, 1975), p.28.

to perform its conventional function of influencing the behaviour of buyers or sellers; instead the behaviour of a few firms directs the market and these firms now decide what to produce at what prices and for whom.

2.6 Governmental Measures and the Consequent Changes in the South Indian Tea Industry

Deep are the roots of the traditional grooves in which the Indian tea industry lives and moves and has its being. Tea has flowed more or less in ways of its own, like the rivers which wind their way to the ocean, carving its traditional channels to the world markets, particularly to the United Kingdom where the highest per capita consumption in the world for long represented the largest sea of demand. But the changing technology of tea planting, the changing pattern of world consumption and above all, the dramatic rise in Indian domestic consumption have undermined some elements of the traditional framework of operation and certainly of India's foreign exchange earnings from tea.

The independence of India had disturbed the unique harmony which the industry had been enjoying under the

common domination and performance of British interests. The independence has even introduced an element of uncertainty and a dose of inertia in the pre-dominating non-Indian sector. The Indian sector of the industry had virtually no separate entity before independence. Independence has brought this sector prominence so suddenly and so greatly that it can ill afford this prestige of prominence.

After independence Government of India has introduced policy measures such as rigorous taxation, restraints on export of capital, efforts to build up the importance of Indian auctions and measures to secure employment of Indian management and staff. When the income tax was first introduced in 1860 there was no distinction made between income derived from business or agriculture. The early taxes on income were abolished and it was in 1927 that the question of taxing the income derived from manufacture and sale of tea was raised. The central Government introduced a measure to treat 40 per cent of the profit of a tea plantation as assessable to Central Income-Tax. Under the Government of India Act, 1935, sources of revenue were divided between the centre and state and the taxation on agricultural income was reserved to the states.

Owing to the growing concentration of economic power in this organised industry and the malpractices indulged in by managing agents, the Government of India passed the Indian Companies Act (1956) and the Amendment Acts (1960 and 1963). The Indian Companies Act 1956, limited to a certain degree the range of companies that enjoyed the right of appointing the managing agencies. According to this Act nobody can be the Managing agency in more than ten companies.²³ In fact, the 1956 Act heralded the institution of secretaries and treasurers in the place of managing agents. However, the managing agency system was abolished with effect from April 3, 1970. Thus the conditions for the activities of the British managing agencies became less favourable at present than in the colonial India. They are no longer officially supported by the Government apparatus and the competition on the part of Indian capital gathered further momentum. Adapting themselves to the new conditions, a considerable number of managing agencies reorganised into joint stock companies registered in India with capital in rupees.

An important development of recent years has been the adoption under political pressures of decolonisation of recruiting Indian nationals into the management of companies and admitting representatives of Indian capitalists into the boards of directors of joint stock companies with rupee

²³ Government of India, The Indian Companies Act (1956) (New Delhi, 1956), pp.170-190.

capital owned by non-Indians. In addition to this process of regionalisation, there has been an intermingling of British and Indian interests in the organised industrial sector.²⁴ This process became more visible in the south Indian tea industry after the introduction of the Foreign Exchange Regulation Act, 1973 (FERA, 1973). Among other conditions, FERA, 1973, required foreign companies to Indianise their share holdings by 60 per cent and in the case of tea plantation companies by 26 per cent. The James Finlay Group in south India entered into an agreement with Tatas of India and decided to dilute the sterling share capital to the tune of 60 per cent. The Tata-Finlay was born in 1976 which is the single largest producer of tea in south India and largest producer of instant tea for export to the west. Similarly, the Malaysian Plantations owned by Harrisons & Crofield diluted their sterling share capital to the tune of 26 per cent and became the Indianised company in 1978. It represents the second largest British tea interest in South India.

The implementation of FERA, 1973 and the consequent process of Indianisation can hardly be called Indianisation since the erstwhile foreign companies still retain full

²⁴ Sampson Antony, Anatomy of Britain, (London, 1962), p.432.

control over the successor Indian companies. There has always been an element of mystery in the government's decision to allow non-resident shareholders to have 74 per cent of the equity capital in Indianised tea companies, whereas in most other industries the ceiling is 40 per cent. An important anomaly in the implementation of FERA so far as the tea industry is concerned is that there has been in the process a very substantial increase in the share capital of the successor Indian companies over the original paid-up capital. This is because (i) a very large part of the valuation of the assets of the erstwhile foreign companies has been capitalised; and (ii) the amount thus capitalised has been treated as constituting 74 per cent of the paid-up capital of the would be Indian company and the remaining 26 per cent has been made up by fresh issue of shares in India. As a result, most of the FERA companies now have a much larger capital base than before, enabling them to make higher remittances on account of dividends than before which is quite contrary to the objectives of FERA.

The decisions regarding the proportion of the valuation to be allowed to be capitalised, the manner of issuing the remaining 26 per cent of the total share capital, etc. are all taken by the government of India while the issues are actually handled by the companies themselves or

their sharebrokers. There is no doubt that because of the unimaginative manner in which FERA has been implemented, the erstwhile foreign tea companies have been able to strike their roots deeper in the soil of Indian economy with prospects of ever-increasing remittance of dividends in the coming years - apart from remittance of the substantial amount not capitalised, but converted into loan to the Indian company repayable within a few years.²⁵

2.7 Tax Benefits

The following are the main tax benefits which a company will be enjoying as a result of Indianisation:

- (i) The rate of income tax applicable to the company will be the rate prescribed for a domestic company.
- (ii) A deduction under Section 32 A of the Income Tax Act, 1961, by way of investment allowance, 25 per cent of the actual cost of new plant and machinery installed after 31st March, 1976 in the new projects and the existing units manufacturing articles.
- (iii) A deduction under Section 35(1) IV of the Income Tax Act, 1961, in respect of capital expenditure incurred

²⁵ Gupta San P.R., 'Turkey Goings - on in Tea', Economic and Political Weekly, July 12, 1980, p.1197.

on scientific research related to the business of the company.

- (iv) A weighted deduction under Section 35 B of the Income Tax Act, 1961, of one and one-third times the amount of certain specified revenue expenditure incurred by the company for promotion of exports of various products (vide Finance Act, 1979).
- (v) A deduction under Section 33 A of the Income Tax Act, 1961, by way of development allowance, of an amount equal to 50 per cent of the actual cost of planting tea bushes on any land not planted at any time with tea bushes or any land which had been previously abandoned.

2.8 Measures taken by the state governments

The state governments of Kerala and Tamil Nadu had taken many measures and passed many laws with regard to the tea plantations. The Travancore-Cochin Agricultural Income Tax was introduced in 1951 which remained in force till 1957 when it was drastically amended to introduce a new element into corporate taxation in the country. The State Government provided for a graduated tax on the agricultural income of a planting company. The result was that one company with a

larger amount of gross profit had to bear a heavier weight of tax than a company with a smaller profit. In this category of larger companies fell most of the sterling companies. With the introduction of the Kerala budget for the year 1970-71, the foreign-owned plantation companies are called upon to pay a considerably higher rate of tax on their agricultural income. In the case of such companies, a flat rate of agricultural income tax of 75 per cent was being levied, while the rest of the corporate sector in the state continues to be taxed under the slab system.

Besides, the state had passed land ceiling and forest protection laws with regard to tea plantations. The land ceiling legislation of Kerala State restricts the reserves that can be held to 20 per cent of the existing area under crop. For instance, in 1971 the government of Kerala passed the Kannan Devan Hills (Resumption of Lands) Act to provide for resumption of lands other than plantations in the Kannan Devan Hills Village and for the distribution of such lands for cultivation and purpose ancillary thereto. By this Act, all right and title to the possession of land other than areas actually under plantation crops, buildings and land comprising play grounds and burial grounds were extinguished and the lands vested from the date of Act with the government. In 1974, after protracted hearings, negotiations and discussions, the government restored 16,898 acres of land plus

all areas interspersed within the states, leaving the Kannan Devan Company as a compact block of estates comprising a holding of 57,192 acres of all categories of land.

In the state of Tamil Nadu, at least three separate enactments are in force affecting plantations and their reserves. Under the Madras Private Forests (Resumption of Management) Act, any reserve now held by a tea estate can be taken over. Under the Madras Preservation of Private Forests Act, no estate could clear its reserve for extending tea cultivation and no new estate could be established. Under the Madras Hill Stations (Preservation of Trees) Act, shade regulation becomes a matter for elaborate procedure for seeking and giving sanction each year in each individual case.

2.9 The Impact

It is worthwhile to weigh the development impact and the underdevelopment bias of the capitalist development of tea plantations and the policy measures taken by the central and the state governments on the economy of tea-growing states of South India.

2.9.1 Development Impact

The opening-up effect in the previously uncultivated areas resulted in the creation of substantial social

overhead capital. The growth of roads, electricity, schools and hospitals in the Highranges and Nilgiris and the rapid development of Cochin Port to a large extent was influenced by the corporate growth of the plantations in South India. In fact, the improved roads and communications brought the tea brokers to Cochin in 1947 and this marked the opening of first tea auction centre in South India.²⁶ As early as 1870, the Public Works Department of the government of Travancore had completed the ambitious programme of connecting the South Indian tea districts of Kottayam and Oudalur by constructing a road.

The process of monetisation of the economies of Kerala and Tamil Nadu was speeded up by the growth of plantations. Expansion of tea production, income and foreign exchange permitted importation of capital goods and new consumer goods. The expansion had contributions to technology through the scientific research developed by United Planter's Association of Southern India (UPASI) at Coonoor on new techniques of production, processing and distribution which increased product yields and increasing consumer demand for final product.

²⁶ Langley W.K.M. (ed.) A Century in Malabar - The History of Poirra Leslie & Company Limited (1862-1962), (Madras 1963), p.110.

2.9.2 Underdevelopment Bias

2.9.2.1 Land use: Since the establishment of tea plantations in South India has been associated with the opening-up of new territories, low cost land had been usually available and this has led to the alienation of vast areas even beyond the expected requirements at the time of establishment. The tea production involves a farm-factory combination and a large scale holding is justified for the fullest utilisation of the factory capacity. According to the Plantation Inquiry Commission Report (1956) an estate of at least 300 acres would be required to feed a tea factory of the smallest size throughout the year.²⁷ As pointed out by Arthur Lewis, except in sugar and tea where immediate processing is required after harvesting, large scale production is political rather than economic in origin.²⁸ But it is found that there is a fairly large amount of (about 32 per cent) non-utilisation of land in the South Indian tea Plantations.²⁹ This is mainly due to:

- (i) speculation of marginal land in future,
- (ii) keeping out competitors,

²⁷ Op. cit., Sivaswamy K.G., p.365.

²⁸ Op. cit., Lewis W.A., p.17.

²⁹ Calculated from Tea Directory (1976), Tea Board, Calcutta, 1976.

- (iii) land increases accounting flexibility since its valuation can be used to raise the value of the stock of capital and thereby adjusting the profit rate, and
- (iv) as a hedge against political risks of nationalisation if going market prices is part of compensation arrangements. The land area actually in use at any particular point of time is a function of the price of output, the cost of production and the technical requirements of plant scale.

2.9.2.2 The capital specificity problem: One of the outstanding characteristics of tea plantation enterprises is that the capital stock of these firms is highly specific to the production and processing of tea. In addition to the specific capital investment on the agricultural side, complementary investments at other levels tend to be specific to this plantation crop. This high degree of capital specificity produces further inflexibility in the pattern of resource use. Once ancillary investment commitments have been made, the firm is constrained to a short-run production possibilities curve with a limited scope for switching resources to alternative products. More the resources the firm has tied up in activities linked to tea, the greater the degree of inflexibility. In short, the greater the degree of vertical integration the lesser will be the flexibility

of adjusting resource use to changing production opportunities across the range of agricultural commodities which can be produced with available resources.

2.9.2.3 Leakages: Today, there is an intense debate with respect to how much the metropolitan countries have gained from the colonies. But there is more agreement on the point that the colonies have lost more than the colonisers have gained. The political independence and decolonisation have not brought with them greater economic independence or accelerated economic development in Asia, Africa and Latin America. In fact, the post-war years have been a period of even greater incorporation of the underdeveloped into the world-wide capitalist-imperialist system penetrating them more deeply, tying them more deeply and aggravating the structure of and amount of underdevelopment still further.³⁰

The colonial economy of India produced three types of profit for British investors:

- (i) By providing market for the sale of manufactured goods,
- (ii) by investments in plantations and the exploitation of cheap labour, and

³⁰ Frank Gunder Andre, On Capitalist Underdevelopment, (London, 1975), p.67.

(iii) through the purchase of cheap raw-materials.

Non-equivalence of exchange was the characteristic of British-India trade - a trade between a metropolis and a colony. It is a common knowledge that the economic essence of a non-equivalent exchange means that colonial and semi-colonial countries, by virtue of their economic backwardness and dependence are forced to sell the produce below its value and purchase the imported goods at a price above their value. One of the earliest estimates of the repatriation profit from India to Britain is shown in table II-8.

TABLE-II-8

Tribute from India to Britain for 1921-22

	(Rs. in million)	

Political deduction or home charges	..	500.00
Interest on foreign capital registered in India	..	600.00
Freight and passenger carriage paid to foreign companies	..	416.3
Payment on account of Banking Commissions	..	150.00
Profits etc. of British Business and professional men in India	..	<u>532.5</u>
Total	..	2,198.8

Source: K. Shah and K. Khambata, Wealth and Taxable Capacity of India, Bombay, 1924, p.234.

In the case of South Indian tea plantations, besides the stock-share dividends and the interest on credit granted, British managing agencies got various commissions and a special remuneration for management. This remuneration was agreed upon depending on either the amount of the produce or on the price of tea realised or a definite percentage of profit. According to the report of the Plantation Inquiry Commission (1956) the Managing Agencies took a remuneration in addition to office allowance, commission to staff and interest charges. Table II-9 shows the rise in the commission paid to the managing agencies.

TABLE-II-9

Commission paid to British Managing Agencies During
1946-1952 (As a percentage of Gross Profits)

Year	Commission as a percentage of gross profits
1946 ..	9.09
1948 ..	11.74
1950 ..	15.90
1952 ..	13.87

Source: The Plantation Inquiry Commission Report, Part-I, Government of India, New Delhi, 1956, p.324.

The high percentage of managing agency remuneration in British-owned companies under British managing agencies

will be evident if compared to dividend distributed and retained profits.

TABLE-IX-10

Proportion of Managing Agency Commission to Profits

	1950	1953	1954
Managing agency commission	.. 19.4%	14.5%	11.5%
Dividends	.. 38.8%	26.05%	34.5%
Retained profits	.. 41.8%	59.45%	54.0%

Source: The Plantation Inquiry Commission Report, Part-I, Government of India, New Delhi, 1956, p.324.

Generally the managing agency commission formed half of dividends and they both amounted to 3/5 of these profits leaving 2/5 as retained profits.

2.9.2.4 Repatriation of Profits

During 1946-1957 tea topped all the 17 industries excluding matches in the matter of net profits after tax in relation to net worth.³¹ The profit on direct investment was 20.1 per cent and on the equity capital it was 12.67

³¹ The Government of India, Taxation Inquiry Commission Report, (New Delhi, 1954), p.123.

per cent which means that a profit equal to investment was made in every five years and it was repatriated.³² But it is interesting to note that British-controlled tea companies made less profits than the Indian Rupee companies because of the high costs of production. Even though the British companies realised a better price they had lower profits owing to the high cost structure. For instance in 1953 the cost of production of 100 lbs. of tea for the British companies was 142 rupees, whereas for the Indian rupee companies it was 114 rupees.

Profits were lower in the non-Indian companies under non-Indian managing agency houses but they distributed more as dividends. Therefore, retained profits became less than in Indian companies.

TABLE-II-11

Distributed Profit as Percentage of Profit After

	<u>Tax</u>		
	1950	1953	1954
Non-Indian under non-Indian managing agencies	67.1	29.0	46.1
Indian under Indian managing agencies	28.1	7.7	9.1
Indian Public Ltd. Companies	32.8	18.7	13.9

Source: The Plantation Inquiry Commission Report, Part-I, Government of India, New Delhi, 1956, p.326.

³² Reserve Bank of India, "Investment Income", Reserve Bank Bulletin, (Bombay, January 1956), p.37.

Another reason for low reserves was the payment of dividend in years of loss out of reserves. The consequence was that the reserves of non-Indian companies has not increased in proportion to their profits. Tea is a wasting asset. Any payment made in terms of profits and dividends without making provision for continued conservation is tantamount to taking capital out of the country. From the national point of view, strict control is necessary that a land with tea bushes is not left vacant without replanting.

There are instances of collusive deals in the marketing of tea as a result of the production and buying concentrations by a few British managing agencies. In 1954, 53 per cent of the total exported tea was sent by direct consignments and forward contracts. In the same year 44 per cent of the total tea auctioned at Cochin was sent to Britain by way of private sales and forward contracts.³³ It is quite unusual to have forward-trade in tea as the quality of tea is subject to climatic changes, and so the final product can never be predicted in advance. Therefore, under normal circumstances tea is not ideal for forward sales. Sivaswamy K.G. in his minute of dissent in the Plantation Inquiry Commission Report pointed out that such a method is adopted to get opportunities

³³ Ibid., p.338.

for collusive deals with the foreign buyers for repatriating funds by under-invoicing shipments. It is cited in the report that instances of teas having been sold on forward contract at prices lower than teas of the same garden sold at the Indian auctions.

TABLE-II-12

Forward Contracts

Volume of contract (in million lbs.)	Date of contract	Sale rate in			Indian auction price in			Date of auction
		Rs.	As.	Ps.	Rs.	As.	Ps.	
23	1-4-53	2	0	6	2	3	8	31-3-53
26	15-12-53	2	3	0	2	2	8	13-12-53
12	1-10-53	2	3	0	1	14	8	29-9-53
0.4	2-10-53	2	3	0	1	14	8	29-9-53

Source: The Plantation Inquiry Commission Report, Part-I Government of India, New Delhi, 1956, p.339.

But it is clear that the differences between London and Indian prices did not cover the cost of export and in some instances the London prices were below Indian prices. This raises reasonable doubts whether under invoicing is indulged or not.

The tea plantation has been developed as a colonial economy. The high cost structure of a costly managerial staff,

high profits, high dividends, high commission to managing agents and low reserves are inseparable from it. This structure can be maintained only with the state aid in several ways as was done by the former administration such as grant of enormous surplus land for supplementing income from tea lands, collection of an insignificant tax and low wages. But since independence, non-tea lands are being acquired by the state governments or their use is being controlled. Taxes have been increasing and wages have been raised by statutes and they have become unalterable costs. Further the high cost structure and repatriation of profits has naturally aroused labour and staff to demand a share of profits. Bonus for labour is a consequence of the costly structure.

It is important to note that the restrictions imposed by the government could be nullified by the vast organisation of interlocking directorates. For instance, the loss of annual share of income of the British firms as a result of a moratorium on dividend payments could be met by an increase in insurance premia, warehouse rent or freight charges. As a result of various measures taken by the central and state governments the former British firms made a pilgrimage to East Africa where costs are lower and opportunities for profit are inviting.³⁴

³⁴ Wickiser, Coffee, Tea and Cocoa: An Economic and Political Analysis, (Stanford University Press, Stanford, 1951), p.169.

Today the Kenyan tea industry is predominantly owned by three British companies; James Finlay Africa Limited, Brook Bond Equatoria Limited and George Williamson Africa Limited. The first two are having tea interests in South India. But they are slowly withdrawing their capital from India. For instance while Brook Bond Limited is increasing its investment in Kenya, it is slowly depleting its resources in India. Stanmore (Anamallais) Ltd. is one of the subsidiaries of Brook Bond in India. This company paid a dividend of 87½ per cent in 1951, 161 2/3 per cent in 1952 and 72½ per cent in 1953.³⁵ The dividend paid them bore no relation to the profits earned by them which means that they are not interested in increasing their resources in India. Since 1954 a number of British companies are selling their tea estates in India.

A portion of the country's best resources have been used up. The fruits of these resources have been invested not to create alternative facilities in the country; they have been shipped abroad for consumption in Britain or for investment to further develop Britain or for investment in another underdeveloped country. The future investment - that is the development potential for the now more underdeveloped country has been reduced.

³⁵ Op. cit., Sivassamy K.G., p.306.

2.9.3 Social organisation and structure in Plantations

The plantation society is exhibiting both cultural pluralism and social integration. The predominant social characteristic of all plantation areas of the world is the existence of a class-caste system based on differences in the social origins of plantation workers on the one hand and owners on the other. Race became a moral justification for the pattern of distribution of economic and social power. The establishment of tea plantations has destroyed the antecedent cultural norms of the area concerned. As Eric Wolf states that "the plantation is also an instrument of force wielded to create and to maintain a class-structure of workers and owners, connected hierarchically by a staff line or overseers and managers".³⁶

Coercion, low wages and immigrant labour were initially the three important components of the South Indian tea plantation system. These ensured the planters their high profits. The use of immigrant labour in the tea plantations was also strategically helpful to the British since the chances of sustained opposition from those who had only a temporary interest in the land was much less. The tea plantation being a labour intensive industry, employment of indentured labour ensured for the planters that the workers were bound to work on the plantations

³⁶ Wolf Eric, "Specific Aspects of the Plantation System in the New World" in Plantation Systems of the New World, (Washington, 1959), p.36.

on whatever wage was given to them. Since independence, political pressures are increasingly mounted on the government to pass laws protecting the plantation worker and giving him a high degree of security in his work. Conditions for the growth of workers' organisations develop, which, in turn, encourage the plantation workers to fight for better conditions of work. The use of coercion is related to a certain extent and the isolation of plantation is broken down.

2.9.4 Major Development Obstacles

The major development obstacles created as a result of the capitalist development of South Indian tea plantations through the British ownership can be summarised as follows:

- (i) A fracturing of resource supply and demand,
- (ii) inequality in the income distribution and income,
- (iii) British ownership of production drained the supply of investible funds from the income stream,
- (iv) export orientation of tea plantation production resulted in a cumulation of backwash effects from terms of trade adjustments, and
- (v) the canalisation of linkages and associated development potential by British plantation enterprise.

The net returns to the social economy of South India is its gross private return from tea plantations less

repatriated profit less payment for imported materials and equipment less the net diseconomies (social and economic costs) less the effective subsidy given by the government. There are external diseconomies arising from the pricing of foreign exchange, problems associated with the opportunity costs of investible funds, unused land and underutilised labour.

The greatest contradiction from which the South Indian tea industry suffers and which is mainly responsible for its perpetual transition is that while certain basic factors have changed or under way changes, the foundation of the industry has remained almost unchanged. The foundation of the industry is built up through engagement of a very large amount of British capital and enterprise over more than hundred years. The India-nisation process of tea plantations based on U.K-India joint ventures became widely prevalent today as a means of business contact and cooperation with Indian capital. The British firms seem to have welcomed this arrangement since it provides a built-in-insurance against political risks. Thus the history of tea plantations in India seems to be entering a new phase in spite of the weakening of Britain's position in India's tea economy.

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CHAPTER - III

3. THE PATTERN OF TEA PRODUCTION IN SOUTH INDIA

3.1 The Agronomy of Tea

3.1.1 Climate and Soil

The tea plant is an evergreen of the Camellia genus and is known as Camellia Sinensis which flourishes in warm-tropical and sub-tropical rainy regions. It is a hardy plant, yet its demands upon the soil or climate are not modest. It can, however, be grown in almost any climate but will suffer severely from drought; and while tea requires considerable rain, it will not grow in swampy areas. The highest yield will be obtained from tea which is grown in tropical climate. Paradoxically, the finest quality teas are produced from leaves grown in the cooler altitudes of 1,000 to 2,000 metres.

Except in very general terms it is difficult to specify the ideal climate that tea requires, especially in respect of rainfall. Various attempts have been made to estimate the water lost in transpiration by various crops; both short term and perennial as a guide to water requirements. The type of rainfall distribution is an important factor in assessing rainfall requirements. Normally, the growth of the

tea plant is not maintained at a continuous rate. There are periods of rapid growth which alternate with periods of dormancy; the periodic appearance of new leaves being called a 'flush'. In some places like South India there are two monsoons and the bushes flush all the year round. So in South India plucking is carried on throughout the year. But in North India where hot and cold weather seasons are more clearly marked there is no plucking in the cold season, that is, from November to March or April. Temperature change over the year is the primary cause which stops the bush flushing.¹ The rate at which flush develops depends on the temperature. The other main factor influencing the rate of cropping is rainfall. Too much rain waterlogs the soil and slows down the growth of tea. Such conditions are experienced every year in Ceylon and South India.

Prevailing temperature is an additional conditioning factor and hence elevation is an important characteristic in modifying transpiration losses. On the average various studies show that if monthly averages of rainfall fall below 50mm over a period of several months, tea crop production suffer severely. It may be reasonably inferred that tea is suitable as a crop

¹ Harler C.R., The Culture and Marketing of Tea, (London, 1956), p.19.

in regions having moderate to high rainfalls in excess of evaporation which maintain equable temperature with high humidity throughout the greater part of the season.² These are predominantly the equatorial regions at high or low altitudes and the semi-tropical areas with summer rain to modify excessive temperature.

The tea areas of the world are planted on soils of widely different geographical origin. Such a variety of soil shows widely different textural and structural characteristics. It is found that there is no consistent relationship between mechanical composition and field practices. Of the chemical characteristics of tea soils the one of dominant importance is that of soil reaction. Tea requires deep, permeable, well-drained acid soils of which the tropical red earths form the most extensively cultivated group in tea producing countries. Stagnant water on the soils is injurious to the tea plant and hence mountain slopes are favoured for the cultivation of tea. Most of the tea plantations in South India and other parts of the world have been developed on the mountain slopes. But terracing is essential on steep slopes to avoid rapid loss of surface soil. Soil conservation has always been a problem in tea areas especially where tea is grown in slopes and rainfall is heavy. In the early days the

² Eden T., Tea, (London, 1976), p.11.

cultivation and weeding practices which involved considerable loosening of the top soil, resulted in serious deterioration of the land caused by loss of the top soil. The modern practice is therefore, to do surface weeding and thereby avoid excessive disturbance of the top soil. Tea is grown in many and varied regions of India. North-East India has the highest concentration of tea in the world. In the South, tea is mainly cultivated in Nilgiris, Anamalais and the slopes of the mountains stretching down to the plains of Kerala. The climate and soil of these widely separated regions show great variations, the effects of which are naturally reflected in wide difference in productivity as well as in cultural practices.

3.1.2 The Cultivation and Manufacturing of Tea

There are two ways of planting tea: one with the help of seeds and the other by growing tiny leaf cuttings from a selected mother bush. The latter method is called vegetative propagation or clonal planting. But the traditional source of planting material is seed. The basic difference between clone and seed population is one of adaptability. A seed population composed of a large number of genetically distinct units is elastic and can be fitted into a wide range of environmental and cultural conditions without much change

in its overall performance.³ But thousands of bushes of a clone separated widely in space and time behave in most ways as a single bush. Lack of elasticity makes a clone more selective to environment and cultural treatments.

There are mainly two different types of plant under cultivation -- the comparatively delicate Assam and the hardy China. The Assam types of tea do not vegetatively propagate as easily as the China and hybrid types. In the early days China seeds were mainly used in South India and today it is gradually replaced by the hybrid type. The China and hybrid plants constitute about half of the tea population in world today including the high grown teas of South India and Ceylon.

A tea bush like any other living plant has only a limited span of life. The variety of the plant, the climate and soil of the place where it grows and the care and attention which it receives are all factors which affect the length of its economic life. In Nilgiris, plants which were stated to be over 80 years old and probably nearing 100 yield upto 2,000 Kgs. per hectare. But the opinion of a large section of planters appears to be that the economic life of a tea bush

³ Awasthi R.C., Economics of Tea Industry in India, (Gauhati, 1980), p.45.

receiving reasonable care may be about 60 years. There can, however, be no doubt that unless care is taken to ensure that old and worn out plants are replaced from time to time, the whole garden will in course of time cease to be productive. In all well-managed gardens, this process of replacement of old plants goes on by uprooting and replanting of old areas or by new planting on virgin soil.

3.1.2.1 Preparation of Land and Planting

Most of the estates have been opened on what were originally jungle land. The pattern of planting and the spacing of plants will depend on the layout of the land. Since tea is a crop of high locational specificity, the three important aspects in the preparation of land for tea planting are:

- (i) adequate protection from soil erosion,
- (ii) good preliminary cultivation to assist root development and weed suppression, and
- (iii) shade to protect soil and young developing plant.

In most tea-growing countries seedlings are developed in nurseries and then after a year transplanted to the field at a climate suited to the local conditions. A good coverage is considered important to keep the soil in good condition without excessive desiccation. The spacing between the bushes

varies according to the nature of terrain. The problem of soil erosion is a major one with regard to the planting on sloped areas. The height of tea bushes is rarely allowed to exceed 100cm. and their number per hectare ranges between 4,000 to 15,000.⁴ The Toeklai experimental station has recommended 12,345 bushes per hectare as the optimum.⁵ There is a ceiling beyond which closer planting does not increase yield. The law of diminishing returns works as inexorably in respect of spacing as of fertiliser applications.

3.1.2.2 Pruning and Plucking

On a broad view, pruning is the most important cultural operation in commercial tea production. When the young plant has grown to some height it is cut back to stimulate lateral growth so that it may develop into a bush. Tea plant is pruned periodically to prevent vertical growth and to provide a good spread of lateral branches and to stimulate continued production of fresh young leaves. The main objects of pruning are three:

⁴ Calcutta Tea Traders Association, Tea Digest, (Calcutta, 1975), p.21.

⁵ Toeklai Experimental Station, Tea Encyclopedia, Serial No. 175, Group B.5, (Jorhat, 1969).

- (i) to maintain the plant permanently in the vegetative phase,
- (ii) to stimulate the young shoots that constitute the cropped portion of the bush, and
- (iii) to keep the height of the bush within the bounds of easy and efficient plucking.

The pruning cycle differs from region to region. In the plain districts of North-East India light pruning takes place every year. In the hill districts of South India the pruning cycles vary from about 3 years to 8 years. This cycle is longer in the hills than in the plains.

The harvesting of tea leaves from the bushes in the plantation goes by the name of plucking. It is an important operation because the quality of manufactured tea will depend upon the care and attention with which plucking is done. In India plucking is done by hand and women are largely employed in the operation. The more tender the plucked leaf, the better the quality and the ideal plucking is "two leaves and a bud", anything less than this being considered 'fine' plucking and the inclusion of more leaves being considered 'coarse' plucking. Coarse plucking increases the size of the crop and also provides increased remuneration to the plucker since plucking wage partly depends on weight of the leaves plucked. Usually coarser plucking is resorted to when the tea prices are high.

The plucking cycle differs in different regions. In the plains during the season bushes are usually plucked once every seven or eight days. In the higher regions where the rate of growth is lower, the plucking rounds cover a longer period and the interval may go upto twelve or fourteen days.

3.1.2.3 Manufacturing of Tea

Commercially, tea may be divided into three basic classes:

- (i) Black or fermented,
- (ii) Green or unfermented, and
- (iii) Oolong or semi-fermented.

Black tea is the most important one commercially and the production of major world suppliers, viz., India, Ceylon, Indonesia and recently East Africa - mostly is of this type. There are four principal operations in the preparation of black tea viz., withering, rolling, fermenting and drying.

The main purpose of withering is the removal of excessive moisture in the leaves which have to stand the strain of rolling, without breaking up. About 75 per cent of the weight of a fresh leaf consists of water and nearly half of this has to be removed. In the plain districts of North India

withering is usually done by natural circulation of the atmospheric air. But in the hill districts of South India where prevailing low temperature and humidity conditions do not permit natural withering. Therefore, withering lofts are often built over the factories so that heated air from the driers of the factory can be conducted into the lofts and circulated over the withering racks to promote withering.

After the desired degree of wither is obtained the leaves are subjected to a process called rolling. The object of this is to break down the leaf cells and release the juices and enzymes contained in them. Rolling action twists the leaves and breaks the leaf cells as a consequence of which the leaf juices ooze out and become subject to the action of atmosphere. A process of oxidation (fermentation) starts and the leaf begins to change colour and release its characteristic aroma. As a general rule, the shorter the fermentation, the more pungent the liquor and the longer the fermentation the softer the liquor and deeper the colour.

After changing the colour of the leaf, comes the final operation; namely, drying. The essential function of this process is to arrest further oxidation of the leaf and to remove all moisture except a small amount of roughly three to five per cent.

The manufactured tea which comes out of the drier is then sorted and graded with the help of sorting machines, and the different sizes of tea are removed carefully so that the final packages are of uniform sized leaves or particles. After sorting the tea is graded and given various names such as orange pekoe, fannings and dust; but these are only indicative of size and not of quality.

There are three types of black tea manufacture - Orthodox, CTC (crush, tear, curl) and Legg-cut. The above-mentioned process of making tea is generally known as the orthodox method. The CTC process of manufacturing is similar to orthodox tea-making except in the sphere of rolling. The leaf after withering is lightly rolled without any pressure. Then the fine leaf is separated and the coarse leaf is fed into the machine two or three times. The result is that the tea liquor is much thicker and yields many more cups of drinking tea per kilogram. Legg-cut tea manufacture is in vogue in certain parts of North-East India and it produces a type of tea which is quick brewing and gives an instant liquor of good strength and colour.

Green tea is mainly manufactured in China and Japan. The essential difference between green and black varieties of tea is in the fermentation - green tea being completely

unfermented. The Oolong tea can be described as a cross between black and green. The Oolong which have long enjoyed a special market in America, is now almost manufactured in Formosa.

Today in North India as well as in South India there is a gradual shift from Orthodox to CTC variety of manufacture. Table III-1 illustrates the point.

3.1.2.4 The Blending Process

Tea sold at retail is a blended product. The main purpose of tea blending is to meet consumer demand for a uniform product at a stable price. In tea blending, the components are selected for their contribution to the various desirable qualities such as colour, strength, flavour and pungency. In a branded blend, price stability is ensured and at the same time it must contain good average characteristics to satisfy the consumer. As prices of quality tea that provide the flavour in the brew rise and fall, the proportion of common tea is altered. However the blender cannot reduce too much of the proportion of quality tea. The blending process is such a delicate act that a series of substitution of tea are disguised.

TABLE III-1

Production of Tea in India by Different Methods of Manufacture

(Quantity in million Kgs.)

Year	NORTH INDIA				SOUTH INDIA				Green Tea % total Production	Green Tea % total Production					
	Orthodox % total Production	Orthodox Quantity	Legg-cut % total Production	Green Tea % total Production	Orthodox % total Production	Orthodox Quantity	CTC % total Production	CTC Quantity							
17.6	43.2	125.2	46.0	24.6	9.1	4.7	1.7	3.3	4.1	76.2	93.9	1.6	2.0	-	-
86.3	63.6	84.0	28.7	17.8	6.1	4.7	1.6	15.7	17.2	73.0	80.2	2.4	2.6	-	-
10.2	63.4	103.5	31.2	11.3	3.4	6.4	2.0	28.9	28.0	71.4	69.3	2.1	2.0	0.7	0.7
11.3	63.6	131.0	34.5	0.6	0.2	6.3	1.7	38.9	36.5	66.5	62.3	1.0	1.0	0.2	0.2
5.0	71.6	119.0	27.0	-	-	6.0	1.4	51.0	39.2	78.0	60.4	-	-	0.5	0.4

1. Tea Statistics, Tea Board, Calcutta, 1979, p.13.

2. Tea Statistics, J. Thomas & Company Pvt. Ltd., Calcutta, 1979, p.12.

3.2 Scientific Research and Increase in Productivity

It is hardly necessary to emphasise the need for scientific research and the practical application of scientific knowledge for the progress of any industry, be it agricultural or manufacturing. Tea happens to combine the characteristics of both. The importance of scientific research was realised by the tea industry at an early stage and the scientific department of the Indian Tea Association was inaugurated in 1900. The United Planters' Association of Southern India's Tea research department has been in existence since 1928. From small beginnings both these organisations have grown into large organisations, well equipped and staffed to deal with the scientific problems in tea-growing and manufacture. Very valuable work has been done and is being done on subjects such as improvement of planting material by proper selection, methods of planting and providing shade trees, soil management, use of fertilisers, plant disease control and tea manufacture. The work done in the last 80 years has conferred greater benefits on the industry by improving cultivation practices and by increasing yields by greater and better informed use of fertilisers, and methods of pest control; in other words by the application of the results of research and investigation to practical work in the field.

In fact, scientific research into the different aspects of tea cultivation and manufacturing has been going on India over the last hundred years. But manuring on a regular basis started only from early 1950s and proper control measures against blister blight attack was also evolved by that time. The impact can be seen in the steadily increasing productivity in South India.⁶

Table III-2 shows the increase in the productivity of tea plantations in South India compared to North India.

Tea being a tree crop with a long gestation period (usually 4 to 6 years), current output divided by the existing total (rather than the productive) acreage would not give the real current figure. While output, area under tea and yield per unit area have gone up in the post-war era, production expansion has been achieved mainly through higher yields rather than through expanded acreage.⁷ In short, the dominant factors in current production are past changes in acreage and the conditions

⁶ Government of India, The Ministry of Foreign Trade, The Marketing Research Corporation of India, Vol. IV Survey of India's Export Potential of Tea, Vol. IV (New Delhi, 1972) p.257.

⁷ Sarkar K. Goutam, "Rapporteur's Report on Economic Problems of Plantations", Indian Journal of Agricultural Economics, Conference number, (October-December), (New Delhi, 1969) p.203

TABLE III-2

**Productivity of Tea Plantations in South India and
North India per Hectare (in Kg.)**

Year	South India	North India
1900	182.72	439.21
1910	461.81	631.02
1920	452.08	565.12
1930	429.02	570.83
1940	541.77	637.79
1950	654.13	943.38
1960	1051.04	947.66
1970	1357.02	1132.86
1975	1443.89	1314.59
1978	1758.74	1519.75

Source: Calculated from Planting Directory, Southern India, UPASI (20th Edition) 1979, Coonoor, Tamil Nadu.

affecting productivity of matured bushes. That is, the rise in tea production per hectare might have been due to one or a combination of the following factors:

- (i) more intensive cultivation of the existing estates through larger application of manures and fertilisers, weeding, spraying and even through coarser plucking;
- (ii) the coming into bearing of new planted areas
- (iii) replantings of previous years and
- (iv) introduction of higher yielding varieties of plants.

The future course of tea production will depend, barring natural factors, predominantly on

- (i) the existing number of tea bushes,
- (ii) their age-composition and
- (iii) technological progress.

While it is extremely difficult to estimate in advance the impact of the third factor, lack of adequate statistical data regarding the first two renders the task of production forecast more complicated. And particularly difficult is the task of predicting future expansion of production by small growers, for their output is often unrecorded or incorrectly reported.

3.3 Elasticity of Tea Production

Since the gestation period is very long in the case of tea the reaction of output to a price increase is slow and difficult, requiring a long period of time. In the short run sudden price spurts lead to an upward adjustment in the current output by larger application of manures and of weeding, pruning and of spraying measures. In other words, the rate of capacity in the productive unit can be increased by way of more intensive cultivation of existing productive units or through coarser plucking. During the second world war period a perceptible increase in output was obtained in India and Sri Lanka mainly through coarser plucking.⁸ However, the main effect of a rise in price is not felt until a substantially large portion of newly planted tea bushes come into bearing. So it can be pointed out that tea production tends to be price inelastic in the short period, although through intensive cultivation of old estates, there is some intra-year elasticity of response in the upward direction. In the longer period, when the newly-planted trees come into

⁸ Sarkar, K. Goutam, The World Tea Economy, (Oxford University Press, 1972), p.66

bearing, the increase in supply is much greater than that immediately called forth by the initial price stimulus.

The supply response of tea is highly price-inelastic in the downward direction too. The cultivation of tea requires a large amount of skilled, permanent labour and a very large investment in land and other assets which are sunk costs. Many of the machines are highly specialised and the supply of labour on the estates is not easily reduced. So in the case of a tea enterprise, the possibility of a diversion of resources to alternative enterprises is extremely limited. In fact there may be a greater stickiness of production in response to price slumps than to price increases and the irreversibility between the price-supply relationship in the upward and downward directions is applicable to a large extent in the case of tea production. In short, there may be a divergence of the supply schedule applicable to contraction and that applicable to expansion, the former lying much below the latter.

3.4 Classification of Units

Generally, plantation crops are always associated with perennial crops which are cultivated on estates on

large areas of land. However, some of the crops termed plantation crops are also grown by small holders. The so called estate system involves intensive use of capital and scientific management for the purpose of exploiting and developing the crop. In fact, the tea plantation system represents the development of agricultural resources of tropical countries in accordance with the methods of western industrialism; it is a large scale enterprise in agriculture. Work in tea plantations is essentially agricultural in character although the tea plantation system has many features in common with organized industry. The estates may be regarded industrialised agriculture -- the agriculture equivalent of the great factory.⁹

Those who look upon Indian tea industry as of great national economic importance, might easily overlook the fact that 150 years ago it was a wild plant in the jungles of upper Assam. Hundred years ago it was a widely scattered enterprise of small proprietary holdings. It was only in the sixty years from 1870 to 1930 that tea

⁹Binns.O.Bernad, "Plantations and Other Centrally Operated Estates", in Agricultural Studies, No.28, (Rome,1955) p.22

became established as an organized industry with distinctly marked features. In the development of modern tea industry India is the pioneer followed by Indonesia and Sri Lanka.

Tea lends admirably to plantation system. The tea production throughout the world is primarily a company plantation business. Through a process of amalgamation, groups of estates have come under the control of single entities. The requirements of large capital, technical equipment and an organized market service explain why, by and large, the units of production in the tea industry have taken the shape of comparatively large estates or plantations instead of small holdings. The tea estates are primarily monocultures although among the small tea growers interplantation of crops like rubber is prevalent (especially in the state of Kerala). Generally, the estates are much less diversified compared to the small holdings.

Tea, unlike other commodities, is both grown and processed at the same place in a continuous cycle. Of late there has been much movement in who grows tea and who processes tea and who owns it. The structural changes in the South Indian tea industry have been more pronounced since 1939. If the rise of the large corporate

unit was a feature of the years 1880 to 1940, there is a relative stagnancy of this form of development afterwards. A shift from British to Indian ownership and management became markedly evident since 1939 throughout the country. Another feature of structural changes has been the rise of small proprietary holdings since 1950. On the one hand the area under corporate ownership became relatively stagnant and on the other, there appeared a very rapid proliferation of small holdings.

In this context it is pertinent and fruitful to study the classification of units of tea production in South India. A study of classification of units is quite important not only because of the fact that it has caused much confused thinking in the past, but also because it provides a basis for many policy decisions of the government. According to conventional classification, the units of production are divided into small and big. This classification pre-supposes that if an estate is of a particular size then it becomes viable and strong and failing that it becomes non-viable and weak.

In order to evolve an effective strategy for the development of South Indian tea industry, units of production should be classified as follows:

- i) Tea leaf growers
 - ii) Medium and Marginal Estates
 - iii) Big and prosperous Estates

3.4.1 Tea Leaf Growers:- In fact, it is very difficult to define the tea-leaf growers or the small growers. Normally, gardens for which a separate factory is not economically viable should be regarded as small. Very often most of the gardens having more than 50 hectares in South India may have factories of their own and buy tea-leaf from other small gardens. So for definitional and practical purposes it is justifiable to consider all gardens having less than 50 hectares as small.

An important characteristic of tea cultivation in South India is that a large number of small holdings exist along with the large estates. Compared to North India the number of small holdings are much higher in South India. According to Indian Tea Board's estimates in 1978 there were 10,475 small growers accounting for 97.7% of the total number of tea gardens in South India.¹⁰ But this estimate is not correct since in Tea Board's estimates they take

¹⁰ Tea Board, Tea Statistics 1978-79, (Calcutta, 1979) pp.20-21.

into account only gardens having more than 8.09 hectares and registered with the Tea Board. It is estimated that there are about 20,000 small growers in Nilgiris district alone owning between 1/2 and 20 acres.¹¹

In South India small growers are mainly concentrated in Nilgiris district in Tamil Nadu, Kottayam and Idukki districts of Kerala. These small growers do not have their own factories and they sell their leaves to bought-leaf factories (factories which only processes tea but which do not have a garden of its own).

3.4.2 Medium and Marginal Estates:- Estates having less than 200 hectares and the main characteristics of which are poor cultivation techniques and low yields because of limited resources come under this group. Compared to big and prosperous estates their yields are much lower and they obtain low prices in the auctions. But with regard to the welfare obligations to the workers, they are treated at par with big company estates. It is the most neglected sector though they are riddled with more problems. In recent years, their profitability is greatly reduced. (It is discussed in detail in chapter VII

¹¹ Op. cit., Tana J. Kaku, p.102.

on The Financial and Developmental Problems of South Indian Tea Plantations.

3.4.3 Big and Prosperous Estates

Estates having an area above 200 hectares are classified in this group. They are not only big but by and large they have interlocking interest as producer, exporter and retailer in India and abroad. In South India this group accounts for 64.58% of the total area under tea cultivation.¹² They have the credibility to obtain financial assistance from the Tea Board and other commercial banks. For instance, in 1973, ten sterling (British-owned) companies obtained loans for about 10 million rupees from the Tea Board under the Tea Plantation Finance Scheme and Hire Purchase Scheme.¹³

3.5 Economic size of a Tea Estate

The size of an economic holding is determined by various agro-economic factors such as climate, elevation and soil, availability and cost of labour, transport facilities, capital, management and equipment. It is argued that costs and yields vary very much according to geographical location

¹² Op. cit., Tea Statistics, 1978-79, p.21.

¹³ Manoharan, S., Indian Tea - A Strategy for Development, (New Delhi, 1974), p.34.

so that an economic unit on the basis of acreage in one area may not be economic in another. Further, management is a varying factor. Thirdly, the price factor may make an economic unit into an uneconomic unit and vice versa. So if an economic unit is fixed on the basis of yields instead of acreage, the costs and price vary and thus affect the determination of economic units.

The long-term objectives of a tea plantation company is to maximise profits, subject to the constraints resulting largely from government policy and from trade union activity. Once this objective becomes operative, the rest of the production decisions follow logically. In order to increase factory efficiency modernisation is necessary and this involves an expansion of productive capacity. Since factory efficiency requires fullest possible utilisation of capacity, it is necessary to expand plantation acreage. The Plantation Inquiry Commission (1956) on tea pointed out that an estate of at least 300 acres would be required to feed a factory of the smallest size throughout the year. Large estates facilitate the adoption of improved cultural techniques and thereby lead to increased productivity. And substantial economies of management and marketing result from the vertical combination of ownership of tea estates and factories. A small estate cannot raise adequate green leaf to economically

justify the construction and operation of a factory of the smallest size and has to depend on bought-leaf factories. A statistical analysis of the size-productivity or more properly, the size-cost relationship becomes more imperative in this connection. The survey conducted by Tea Board in this connection covering 135 single-estate tea companies in India over the years 1958-1962 revealed that estates between 300 and 400 hectares had the highest productivity per unit area, as also the lowest unit costs of production.¹⁴ Neither the area nor the yield per unit represent a valid yardstick to determine whether an estate of a given size is able to achieve an economic return although in the absence of a better criterion, they are generally used. For the purpose of licensing new plantations, the Tea Board considers estates below 150 acres if owned by an individual and estates below 300 acres if owned by a company as uneconomic.

From the Table III-3 the growth of tea cultivation and increase in the productivity under different size-groups (except in the group upto five hectares) in the three tea-growing states of South India can be analysed. In Karnataka the area under tea cultivation is insignificant compared to other two states.

¹⁴ Tea Board, Report on Financial and Cost Survey of Tea Plantation and Industry, (Calcutta, 1966), p.21.

One of the most striking features in Tamil Nadu and Kerala is the growth of the number of small growers owning tea gardens upto five hectares. In Tamil Nadu both the number of such gardens and the area under them have grown steadily from 1960 to 1978 showing an increase of 64.51% in the number of gardens and a 28.16% increase in the area under them. As pointed out earlier the figures relating to the number and area under this group is not correct owing to incomplete coverage by the Tea Board and UPASI. Majority of the small growers in this group have not registered with the Tea Board. In Kerala, although their number has increased the area under tea cultivation has shown a decrease (the reasons are discussed in detail in the Chapter V on the Small Tea Growers of South India).

It is almost impossible to get a complete picture of the data regarding production and cost of production of the small growers owning upto five hectares unless their case is seriously taken by the Tea Board.

In the size group 5 - 50 hectares, both the number of gardens and the area under them have declined in the three states. But the productivity per hectare has shown an increase in all the states where Tamil Nadu has the highest increase followed by Karnataka. In the 50 - 100 size group

the number of gardens and area has declined in Kerala and Tamil Nadu. But the productivity has increased except in Kerala.

In the 100 - 200 size group the number of gardens and the area under them has increased in Kerala and Tamil Nadu but in Karnataka the area has shown a marginal decline. Productivity in this group has increased in all the states and the highest increase is in Tamil Nadu (61.03%) followed by Karnataka (53.79%). The 200 - 400 size group has the highest productivity per hectare in the three states where Tamil Nadu has the highest productivity followed by Karnataka. Further, about 39.12% of the total cultivated area under tea in South India is under this group. Over the years the area under this size-group has increased in all the states except in Kerala.

The last group, i.e., estates having an area of more than 400 hectares exist now only in Kerala and Tamil Nadu. Both the number of such estates and area under them have increased over the years. But the productivity per hectare in this group is less than that of the 200 - 400 group but it is above the 100 - 200 size group.

As pointed out earlier, the number of the gardens having an area upto five hectares has increased both in

Tamil Nadu and Kerala. In Nilgiris majority of the small growers came into existence around the year 1920. Both in Kerala and Tamil Nadu the growth and development of the small tea growers were very much accelerated by the introduction of export quota system in 1933. The buoyant market value of export tea not only induced agriculturists to take to tea cultivation, but also encouraged them to register the gardens with the Tea Board since only gardens registered with the Tea Board are entitled to export quota.¹⁵ The registration has slackened after the quota system was suspended in 1961.

But even after that the small growers in Tamil Nadu had the incentive to cultivate by way of better organisation under the industrial cooperative factories which give them a fair price for the produce. It also forced the bought-leaf factories to pay a better price for the small growers in Tamil Nadu if they have to exist at all. In Kerala, the picture is entirely different. Here the number of small growers have increased due to two different reasons, viz.,

- (i) subdivision and
- (ii) the gardens in the higher size (mainly 5 - 50 group) have started interplantation to maximise the returns from

¹⁵ Tea Board, Techno-Economic Survey of Nilgiris Tea Industry, (Calcutta, 1960), p.82.

land for compensating the loss from tea cultivation. The net result is that more and more area under tea has been replaced by other crops such as rubber, coconut, tapioca etc., and coming into the smallest size-groups by reducing the area under tea.

In Kerala there is only one cooperative factory at Teekoy in Kottayam district. It seems that this factory is not able to cater to the needs of the small growers concentrated in Idukki and Kottayam. Again the bought-leaf factories in Kerala are not paying a better price to the small growers since they are under no pressure or force to compete with cooperative factories (the details of the same are discussed in the chapter-V on Small Tea Growers of South India).

In the higher size-groups area has been increasing (except in 200 - 400 size group in Kerala). This may be due to two different reasons:

- (a) consolidation process by which small gardens are amalgamated with large ones and,
- (b) bringing in new area under tea.

In Kerala the total area under tea cultivation has been declining over the years, while it is increasing in Tamil Nadu. So it is reasonable to conclude that in Kerala the consolidation

process is important, whereas in Tamil Nadu both bringing in new area under tea and the consolidation process exist which have contributed to the growth of area under the higher size-groups.

A positive correlation of yields with size of the holdings is generally noticeable throughout the black tea economy of the world.¹⁶ It can be observed from the table III-3 that there is a positive correlation between the size of the estates and the yield per hectare for the estates upto 400 hectares in the three states; the productivity increased with the increase in the size of the estates. But in the case of estates above 400 hectares this relationship is reversed or the yield has shown a "levelling off" tendency; and increase in area coincides with a decline in yield per hectare.

It is found that this tendency is primarily because of the existence of large area of uneconomic bushes in tea estates above 400 hectares as compared to estates below this group. The behaviour of bush population in relation to size-group is that tea estates of size above 200 hectares have started their plantation long time back and they were not adopting a systematic programme for uprooting the bushes of fifty years old and replacing them with the new ones.

¹⁶ Op. cit., Sarker K. Goutam, p.19.

TABLE III-4

Size-wise Age Group of Bushes in Kerala and Tamil Nadu 1978

Percentage of total Area under each group in 1978.

Size of Groups	Upto 5 years		6 to 20 years		11 to 30 years		31 to 50 years		Above 50	
	K	T.N.	K	T.N.	K	T.N.	K	T.N.	K	T.N.
Upto 50 hectares	2.64	0.52	14.30	3.28	75.55	41.00	7.51	55.20	Nil	Nil
50-100	1.60	4.40	6.20	7.20	18.53	12.50	50.67	52.60	23.00	23.30
100-200	3.80	3.20	5.50	7.20	16.50	25.60	26.70	31.20	47.50	32.80
200-400	1.20	2.10	2.80	4.40	6.80	9.60	40.00	43.80	49.20	40.10
Above 400	0.20	1.60	5.70	7.80	6.80	9.10	35.20	37.30	52.10	44.20

SOURCE: Sample survey of 240 tea gardens in Tamil Nadu and Kerala.

From the table III-4 it is evident that bushes in the higher size-groups are more in the uneconomic age and this is especially important in the case of Kerala. Another important factor which is very often pointed out for the decrease in yield with sizes is the overburdening of crucial managerial factor in the large estates.¹⁷

But due to special climatic conditions favourable to tea cultivation, the productivity, production and area under tea in South India have increased over the years. As mentioned earlier, in South India plucking is taking place throughout the year which is an important factor compared to the circumstances of tea cultivation in North India where it is not taking place throughout the year. Table III-5 illustrates the trends in area, production and productivity in the three tea-growing states of South India.

From the table III-5 it is clear that trends in area, production and productivity in the three states show different tendencies. Since 1960 the area under tea in Kerala has been decreasing even though the production and productivity have been increasing in the state. Conversely, in Tamil Nadu area has been increasing (except in 1970) and the

¹⁷ Ibide, p.18.

TABLE III-5

Trends in Area, Production and Productivity in Kerala, Small Hold and Karnataka

During 1950 - 1978

Year	Kerala		Small Hold		Karnataka	
	Area (in hectare)	Production (in '000 Kgs.)	Area (in hectare)	Production ('000 Kgs.)	Area (in hectare)	Production (in '000 Kgs.)
		Productivity (Kgs./hectare)		Productivity (Kgs./hectare)		Productivity (Kgs./hectare)
1950	33203	21470	33375	20275	1660	795
1960	39784	38360	32723	37728	1794	1779
1965	39615	42767	34800	46143	1811	2118
1970	37348	42729	34646	55557	1870	2848
1975	36327	43215	36079	60453	1764	2882
*1978	36150	51287	36593	75800	1937	3359

*Data for 1978 is provisional

Sources: 1. Calculated from Tea Statistics, J. Thomas & Company Pvt. Ltd., Calcutta (for respective years).

2. Tea Statistics, Tea Board, Calcutta (for respective years).

production and productivity have shown a rapid rate of increase compared to the increase in area. In Karnataka also area (except in 1978), production and productivity have shown a steady increase.

There are certain important reasons behind the different trends in the pattern of growth of the plantations in Kerala and Tamil Nadu. First of all, in both the states major portion of the area and production belongs to the estates above 200 hectares. In Kerala majority of these estates are under the uneconomic age group (as shown in table III-4 on size-wise age group) compared to Tamil Nadu. It is also found from the survey that the vacancy ratio is higher in Kerala after taking into consideration all types of gardens compared to Tamil Nadu. Thirdly, the utilisation of grant* area is lesser in Kerala compared to Tamil Nadu. It appears that there was a progressive decline in the utilisation of grant area for tea cultivation over the increase in the size of tea estates both in Kerala and Tamil Nadu. In Kerala the utilisation of grant area is maximum at 58 - 69 per cent,

*Note:- Grant area here refers to the total area which the covered estates got from the initial lease.

whereas in Tamil Nadu it is 72 - 85 per cent.¹⁸ This has partly resulted in the decrease in area under tea cultivation in Kerala. Another important reason for the decrease in area under tea cultivation in Kerala is the shifting of more and more area under tea to rubber cultivation which is more profitable by the small growers as well as for the big plantation companies.

As mentioned in the Table III-3, in Tamil Nadu a trend of disintegration is visible (less concentration) both in the case of area as well as in production through the Indianisation process and through the growth of small growers. In contrast to this tendency, in Kerala a major portion of the area and production is still controlled by the British-controlled companies. This has important implications. The British companies who are repatriating profit and capital are more interested in investing their funds in comparatively more profitable tea plantations of East African countries. This has resulted in less development programmes in the estates above 200 hectares which are mainly owned by British multinational plantation companies in Kerala. Moreover, the advanced cultural practices are available and used only by

¹⁸ Sample Survey of 240 Tea Gardens in Kerala and Tamil Nadu

the large estates in Kerala. In this respect, the small growers of Tamil Nadu who are comparatively better organised than their counterparts in Kerala under the industrial cooperative factories are on a better plane. The increasing Indianisation process and the growth of small growers under the industrial cooperative factories have definitely increased the development activities. Finally, the high-grown Nilgiris tea of Tamil Nadu are fetching a better price in the auctions compared to Kerala's teas (except the teas produced by the big companies).

From the foregoing analysis it is evident that the productivity per hectare in the three states is the highest in the 200 - 400 size-group. But on the basis of this criterion one cannot conclude that the 200 - 400 size-group consists of the most economically viable gardens. But other important factors like cost of production, labour per hectare of tea, profit per hectare etc. should also be taken into consideration. Unfortunately data regarding all these aspects are available mainly for large estates owned by big companies. Regarding small growers, data is available mainly for small gardens organised under cooperative factories and small gardens who sell their green leaf to the bought-leaf factories (which is given in the Chapter V on Small Growers of South India). It may, however, be possible to compare the average

resource productivity for three states in South India.

From the table III-6 the average resource productivity measured in terms of production per unit of land and labour is indeterminate since the per hectare production of tea is highest in Tamil Nadu and the productivity per labour is highest in Karnataka. In the case of Kerala both the productivity per unit of land and labour are lower than the other two states.

But it is important to note that the size-wise relations are different in the three states. In Tamil Nadu, the small growers are occupying an important place in terms of number area under them and the production compared to their counterparts in Kerala and Karnataka. For instance, according to the estimate of a study team of Tea Board they have contributed 25.1%¹⁹ of the total production in Tamil Nadu, whereas it is about 2.3%²⁰ of the total production in Kerala during 1976. Although the labour per hectare of tea is highest in Tamil Nadu, the productivity per labour is higher than in Kerala. The most important reason for this

¹⁹ Op. cit., "Techno-Economic Survey of Nilgiris", Tea Industry, p.2.

²⁰ Tea Board, Report on the Techno-Economic Survey of Small Tea Gardens in Kottayam and Lonkai, (Calcutta, 1979), p.4.

TABLE III-6

The Average Resource Efficiency in the Tea Plantations of Kerala, Tamil Nadu and Karnataka During the

Period 1988-1977

	KERALA			TAMIL NADU			KARNATAKA		
	Labour/ hectare	Production in Kgs./ hectare	Production in Kgs./ labour	Labour/ hectare	Production in Kgs./ hectare	Production in Kgs./ labour	Labour/ hectare	Production in Kgs./ hectare	Production in Kgs./ labour
1.92	1,080	545.7	2.30	1,574	670.6	1.88	1,234	657.9	
1.99	1,101	551.2	2.25	1,586	672.1	1.74	1,370	789.4	
1.90	1,144	600.9	2.07	1,609	773.9	1.83	1,523	831.29	
1.93	1,148	587.4	2.18	1,658	759.8	1.77	1,536	870.2	
2.01	1,208	599.6	2.12	1,572	742.9	2.04	1,773	868.2	
2.05	1,216	594.5	2.07	1,563	762.2	1.98	1,533	774.2	
2.06	1,157	564.6	2.07	1,535	738.3	2.01	1,592	790.7	
2.16	1,189	549.8	2.00	1,675	836.7	1.78	1,639	921.6	
2.15	1,323	667.7	1.99	1,646	825.9	2.03	1,675	925.5	
1.94	1,427	734.0	2.22	2,016	910.0	2.10	1,940	923.0	
2.01	1,196	599.5	2.14	1,644	769.2	1.93	1,601	835.2	

Computed from Tea Statistics, Tea Board for respective years, Calcutta.

Committed from Tea Statistics, J. Thomas & Company Private Ltd. for respective years, Calcutta.

phenomenon is that total production and productivity per unit of land is higher in Tamil Nadu than in Kerala even though the area under tea in both the states are about the same. As already mentioned, in Tamil Nadu a process of disintegration took place where the number of gardens above 400 hectares are less than that of Kerala and most of the gardens in Kerala are found to be in the uneconomic age-group where no considerable developmental programmes has taken place during the last two decades.

Karnataka has the highest productivity per labour than that of Kerala and Tamil Nadu. This is mainly due to the lowest labour per hectare of tea in Karnataka as compared to Kerala and Tamil Nadu. Its productivity per unit of land is higher than that of Kerala but below to that of Tamil Nadu.

It is found from the survey that the employment of labour in tea plantations depends on the particular agro-climatic conditions in each state. For instance, it is possible to find inter-district variations in the employment of labour per hectare in each state. It is also evident that the large estates are increasingly using the labour-replacing technology both in the field as well as factory operations. (The point is dealt in detail in the Chapter VI on the Labour in South Indian Tea Plantations.)

3.6 Cost of Production

The term cost of production refers to the relationship between different levels of a firm's output of a particular product or service and the cost of producing and distributing that product or service. Cost of production regulates as well as indicates the growth of an industry. It furnishes the real base for making a policy decision. Cost of production forms the most important part of the retail price of tea. And the price of the product helps to determine the level of output.²¹ The cost of production of tea forms the main component of its retail price and the other parts being a return on capital invested, taxes other than taxes on income.

Here the cost of production includes all expenses on cultivation, crop gathering, manufacturing and marketing of tea crop in India; it includes general charges relating to office expenses at the estate and at the head office and other expenses on medical aid and other labour welfare measures. It also includes expenditure on commission to managing agents and others (unless otherwise stated), interest charges, taxation etc.

²¹ Douglas Needham, Economic Analysis and Industrial Structure, (New York, 1969), p.31.

The main sources of cost data are:

- (i) personal sample survey of tea estates in the three states,
- (ii) Tea Board's Financial and Cost survey,
- (iii) Marketing Research Corporation of India's survey, and
- (iv) the United Planters' Association of Southern India.

The cost data given in this section is related only to estates having more than 100 hectares of area. (The cost analysis of the small growers are dealt in detail in the Chapter V on The Small Tea Growers of South India.)

The most important and the earliest attempt for a systematic analysis of the cost of production of tea in India had been given by the Plantation Inquiry Commission (1956) appointed by the Government of India. The Commission furnished a region-wise, item-wise, management-wise and size-wise analysis of cost of production of tea during the early 1950s. Table III-7 shows the cost of production of tea in South and North India from 1950-1953.

It appears from Table III-7 that there is a fairly regular tendency towards increase in cost of production both in North India as well as in South India. Taking 1950 as the base it is possible to find that there had been a rise

TABLE III-7

Average Cost of Production of Tea (Rs./Kg.) from
1950-51

Year	South India (W)	North India (W)	All India (W)
1950	2.61	2.76	2.69
1951	2.52	3.04	2.78
1952	2.73	3.26	3.00
1953	2.84	3.09	2.97

W - refers to weighted average, weighting has been done on the basis of production of Tea.

Source: The Plantation Inquiry Commission Report, Part-I (1956), Government of India, New Delhi, p.78.

of about 12 per cent in the cost of production in North India and 10 per cent in South India. Further we find from the table that the cost of production of tea in South India is lower than that in North India. The most important reason for this is the fact that while in South India production is possible for almost all the year round, production in the North is possible for about eight months only.

Table III-8 shows item-wise cost of production of tea in South India during 1950.

TABLE III-8

Average Cost of Production by Items in South India

During 1950 (Rs./Kg.)

Items	Cost (Rs./Kg.)
Cultivation expenses	0.65
Crop gathering expenses	0.48
Manufacturing expenses	0.29
General charges	1.06
Packing expenses	0.21
Selling expenses	0.10
TOTAL	2.79

Source: Computed from Plantation Inquiry Commission Report (1956) Part-I, Government of India, New Delhi, p.502 to 521, Volume-1.

From the table III-8 it is evident that the general charges constitute the major component of total expenses. But the management-wise analysis of cost data reveals certain interesting features of the tea plantation system. For instance, the total cost of production per kilogram of tea by the British companies during 1950 in India was 42.29 per cent higher than that of the Indian-managed tea companies.²² Again, when considering the various heads of costs, we find

²² Op. cit., Plantation Inquiry Commission Report (1956), Part-I, p.91.

that in most cases, the non-Indian companies had the highest costs and the costs of non-Indian companies were particularly high under general charges and selling expenses. For instance, in 1950 the commission paid to managing agents formed 8.35 per cent of the total costs under the non-Indian tea companies.²³ The cost analysis for 1953 by the committee shows that the highest rise in cost of production was under the non-Indian companies. As mentioned earlier, high cost - high price structure is one of the important characteristics of the British controlled tea plantation system in India.

3.6.1. Rise in the Cost of Production

Over the years, the cost of production of tea has been rising year after year on account of two important factors; the rising labour costs and the taxation policy of central as well as state governments. The advancement of labour welfare measures, particularly since independence, and the imposition of new taxes and the enhancement of rates, licence fees, cesses and duties on the land and buildings, transport or sales added the cost of production.

Unlike other plantation ventures, the tea plantations heavily depend on the presence of a large supply of unskilled labourers. Usually, in the low income agricultural countries, with the intensive use of labour, the low

²³ Ibid., p.91.

real earnings in the subsistence sector set a floor to wages in the capitalist plantation sector. But here due to the interference of the governments and the existence of powerful trade unions the wages have been rising. Besides the money wages, the tea companies generally provide for other amenities like housing, medical and educational facilities to estate labourers. According to the estimate of the Plantation Inquiry Commission Report in 1953, the total cost of labour (including welfare benefits) formed about 45 per cent of the total cost of production of tea in South India.²⁴ A survey conducted by the Reserve Bank of India shows that cost incurred on labour alone formed as much as 30 per cent of the total income realised during 1965-66.²⁵ And during the period 1960-66 the labour costs including expenditure incurred on labour welfare measures has shown a rise of nearly 18 per cent.

The Plantation Inquiry Commission pointed out that after a certain point there is no decrease in cost of production as a result of an increase in the size of estates. This might appear to be contrary to the general belief that an increase in size reduces the costs of production. But

²⁴ Ibid., p.99.

²⁵ Reserve Bank of India, Reserve Bank of India Bulletin, (Bombay, November 1968), p.1396.

in tea estates, as most of the operations relating to cultivation and gathering of crop are done by hand, the possibilities of any significant reduction in cost by increasing the size of the estate are limited. It is found that generally about 2/3 of the total number of labour days in tea estates are utilised in plucking. Therefore, plucking expenses account for a major part of the labour-cost involved in the tea production. So the Plantation Inquiry Commission recommended that in order to bring about economy in costs of production the size of the estate should better be related to managerial efficiency and the crop required to maintain a tea factory.

TABLE III-9

Size-wise Cost of Production in Indian Tea Estates

	(Rs./Kg.)				
Size/year	1958	1959	1960	1961	1962
1-100 hectares	6.47	5.83	6.22	5.44	5.59
101-200 "	4.54	4.69	4.82	4.67	4.83
201-300 "	4.95	4.83	5.03	4.74	4.85
301-400 "	4.28	4.34	4.44	4.29	4.44
401-500 "	5.34	5.36	5.27	4.80	5.14
501-600 "	5.55	5.90	6.04	5.80	4.70
601-700 "	7.67	5.66	6.02	5.80	4.68

Source: Tea Board, Calcutta, Report on Financial and Cost Survey of Tea Plantation and Industry 1966.

From table III-9 it is evident that the estates in the 300-400 hectares group have the lowest average cost of production. But there are region-wise differences in the cost of production of tea. But lack of adequate data, especially with regard to the small growers prevents an extensive exploration of the size-efficiency relationship and the technically optimum size of tea estates. A recent survey conducted by the Tea Board of India in Tamil Nadu shows that the cost of production has been rising with the increase in size of estates after a particular stage.

TABLE III-10

Average Cost of Production in Nilgiris per Kilogram of Tea by Various Size Groups During 1976 (Rs./Kg.)

<u>Size Groups</u>	<u>Cost of Production (Rs./Kg.)</u>
8.09 to 50 hectares	.. N.A.
50 to 100 "	.. 10.29
100 to 200 "	.. 9.66
200 to 400 "	.. 8.38
Above 400 "	.. 8.70

Source: Techno Economic Survey of Nilgiris Tea Industry, Tea Board, Calcutta, 1980, p.50.

Table III-10 shows that the 200-400 hectares size-group has the lowest average cost of production in Nilgiris. The point is particularly significant for South India where the highest production per unit of land is in the same size-group. But in North India the highest productivity per unit of land is in the group which is having an area above 400 hectares. It is also clear from the table that since the unit cost of production is primarily related to the productivity, the cost of production increases for the estates having an area above 400 hectares in South India.

As mentioned above, there has been a rise in the labour costs due to post-war legislations and the pressures of trade unions. The prices of machinery have gone up as part of the rise in the general price level. Added to this increase, the introduction of new taxes and duties and the enhancement of rates have contributed to the rise in the cost of production. A survey conducted by the United Planters' Association of Southern India for the 10 selected tea companies shows that the index number of taxation increased by 182.8 per cent during the period 1950 to 1966.²⁶ Considering the taxes on tea it is evident that some of the taxes

²⁶ United Planters' Association of Southern India, The Case for Tea, (Nilgiris, 1968), p.21.

fall on production and some on the income derived from enterprise. The land tax, excise duty, cess and the export duty fall on production and add to the cost. The tax on agricultural income and business income has the virtue that it falls on the visible income left over after the expenditure needed to earn the income has been covered. In fact, the increasing burden of levies during a period of increasing world tea production and stagnant prices has adversely affected the profitability of the industry. In short, the increasing labour costs, rise in the price of machinery and the increasing burden of taxes and duties have contributed to the rising cost of production of tea. Table III-11 shows the trend in the cost of production of tea in South India.

TABLE III-11

The Average Cost of Production of Tea in South India

During 1950 - 1978 (Rs./Kg.)

Year	Cost of production (Rs./Kg.)
1950	2.79
1955	3.51
1960	3.86
1965	4.16
1970	4.71
1975	7.91
1977	9.33
1978	10.34

- Sources: (1) Tea Statistics, The United Planters' Association of Southern India, Coonoor, Nilgiris, 1971.
 (2) Marketing Research Corporation of India's Sample Survey, 1972.
 (3) Personal Sample Survey of Tea Estates in the three States.

From table III-11 it is evident that the average cost of production of tea in South has gone up registering a rise of 271.94 per cent during the period between 1950-78. But it is important to note that the increase in the different components of cost are varied during this period. For instance, the largest increase is in selling expenses (1230%) followed by crop gathering expenses (325%) and the lowest increase is registered in packing expenses (157.1%). The steep rise in selling expenses is contributed by the increase in the cost of stock and transit insurance, transport charges, commission to the brokers etc. But the increase in crop gathering expenses is accounted mainly by the rise in the wages of the labourers.

But there are differences in the different components of cost in the three tea-growing states of South India. Table III-12 illustrates the point.

Table III-12 shows the increase in the cost of production in the three states as well as the cost differences in the states. The highest cost of production is in Kerala and the lowest is in Karnataka. The cost of labour-intensive operations like cultivation expenses and the crop gathering charges are higher in Kerala compared to the other two states. But the selling expenses are the lowest in Kerala

TABLE III-12
Average Cost of Production of Tea

Cost Items	Kerala		Tamil Nadu		Karnataka	
	1977	1978	1977	1978	1977	1978
1. Cultivation expenses	1.77	2.18	2.11	1.84	1.25	1.21
2. Crop gathering expenses	2.03	2.32	2.22	1.80	1.32	1.62
3. Manufacturing charges	0.64	0.79	0.72	0.91	0.85	1.08
4. Pecking charges	0.52	0.55	0.59	0.52	0.48	0.54
5. Selling expenses	0.95	0.99	1.01	1.72	1.94	2.06
6. General charges	3.52	3.77	3.58	2.56	2.71	3.30
7. Depreciation	0.19	0.20	0.20	0.21	0.32	0.34
8. Total cost of production	9.62	10.80	10.43	9.06	8.47	9.79

Source: Sample Survey of 209 Tea Estates in the three States of South India.

mainly because of the lower transportation costs to the main auction centre in South India (Cochin). Again, the general charges are higher in Kerala due to a variety of reasons. First of all the labour welfare measures are better implemented here compared to Tamil Nadu and Karnataka due to the pressure of powerful trade unions. Secondly, owing to the presence and concentration of British-controlled companies, head office expenses and remuneration to the agents are more here compared to Tamil Nadu and Karnataka. Generally speaking, the cost of production of tea has gone up except in Karnataka during the period between 1977-79. The most important factor which has to neutralise the rise in the cost of production is that of the increase in the productivity per unit of land. Table III-13 examines the increase in the cost of production as well as the increase in productivity in South India during the period between 1950-1978.

From the table III-13 it is evident that after 1970 there has been a sudden leap in the cost of production of tea as compared to the productivity in South India. Upto 1970 every increase in the cost of production was more than compensated by the increases in the productivity. As explained earlier, the cost of production of tea has been going up due to a variety of reasons. But the increase in productivity

TABLE III-13

**A Comparison of Cost of Production and Productivity in
South India During 1950 - 1978**

Year	Cost of pro- duction (Rs./Kg.)	Index (1950= Base)	Productivity/ hectare (in Kgs.)	Index (1950= Base)
1950	2.79	100	654.13	100
1955	3.51	125.81	870.12	133.02
1960	3.86	138.35	1051.04	160.68
1965	4.16	149.10	1242.72	189.98
1970	4.71	168.81	1367.02	208.98
1975	9.33	334.41	1443.89	220.73
1978	10.34	370.61	1758.74	268.87

- SOURCES:**
1. Computed from Planting Directory of Southern India (20th edition), UPASI, Coonoor, 1979.
 2. Tea Statistics, UPANI, Coonoor, 1971.
 3. Marketing Research Corporation of India's Sample Survey, 1972.
 4. Personal Sample Survey of Tea Estates in the three States.

per hectare is not showing a commensurate increase in recent years. This is mainly due to the fact that more and more bushes are coming into the uneconomic age group. Complementary to this tendency, it is observed that the developmental activities required for increasing the productivity are limited. There are two reasons for the lack of necessary developmental activities like replanting, replacement of old bushes and in

filling of vacancies. First of all, the profitability of tea cultivation has been reduced considerably. Secondly the policies pursued by the management like a high dividend policy effectively reduces the available amount of internal funds required for the developmental activities. (The point is discussed in detail in the Chapter VII on The Problems of South Indian Tea Industry.) Table III-14 examines the trends in the cost of production and prices during the period between 1950-1978 in South India.

TABLE III-14

Trends in Cost and Prices of South Indian Tea (1950-78)

Year	Cost (Rs./Kg.)	Average selling price of South Indian Tea at Cochin Auctions (Rs./Kg.)	Difference
1950	2.79	4.40	1.61
1955	3.51	4.84	1.33
1960	3.86	4.59	0.73
1965	4.16	4.74	0.58
1970	4.71	6.02	1.31
1975	9.33	9.71	0.38
1978	10.34	12.32	1.98
1979	10.24	10.58	0.34

SOURCE: Same as Table III-13.

It is evident from the table III-14 that the average selling price of South Indian tea at Cochin auction has not shown much improvement in relation to the rise in the cost of production. But there are occasional spurts in tea prices like that happened in 1977 when the average selling price of tea at Cochin auctions was Rs.16.30 per kilogram and the cost average cost of production of South Indian tea in that year was Rs.9.33 per kilogram. But this is only an exception. The net effect of the trend in tea prices is that the profitability of tea cultivation has been coming down. This has primarily resulted in a deduction of internal funds which are necessary for the development programmes and the increasing external dependency for the same. In many places in South India, especially in Kerala, the small growers are either adapting interplantation of other profitable crops to compensate the losses from tea or abandoning the tea cultivation almost completely.

It is very often claimed that such a tendency in tea prices is mainly due to the intense competition between the producing countries and the increasing world supply of tea. It is true that the supply of tea is increasing but the claim of perfect competition between the producers in the world market is to be studied and analysed properly. Further,

it should not be inferred from the table III-14 that the prices which different gardens get at auctions are almost the same. There is a wide ranging disparity among the prices which gardens under different types of ownership get.

CHAPTER - IV

4. THE MARKETING OF TEA

4.1 The Background of Modern Tea Marketing

Trade in tea in the modern sense began in the days of East India Company. As mentioned earlier, the early history of the marketing of tea is concerned with Chinese rather than Indian tea. The East India Company which imported high quality green tea from China had a monopoly of Chinese tea trade and was the only effective source of tea to the West till the close of the 19th century. But the quantity brought in legally for home consumption was always below the aggregate demand and the fact that demand always exceeded supply led to the adulteration as well as to smuggling. The trade in spurious tea was exceedingly profitable and was not easy to be suppressed by legislation and it did not decrease significantly in volume until the end of the East India Company's monopoly which led to a substantial increase in tea imports. Meanwhile the tea habit was catching up in England and the taste was beginning to turn from green to black tea. The most important reason behind this shift from green to black tea was the strained trading relations between Britain and China

which forced East India Company to develop tea cultivation in her colonies like India and Sri Lanka and later in East Africa. In the colonies, black tea was produced instead of green tea and it was exported to Britain and to other tea consuming countries. During the last three decades of the 19th century, Indian black tea gradually ousted China's green tea from the British market. In 1888 imports of Indian tea into Britain for the first time exceeded those of Chinese tea.

British interest which was confined to trading now became interested in developing tea plantations in its colonies to which the British market and its colonies provided the necessary strength. The manufactured tea which was a heterogeneous product was blended and packeted for retail in Britain for domestic and for export markets. Being the world's leading tea exporter for nearly a century, Britain thus came to possess a complex of blending, packeting and retail firms which have come to dominate the world's trade in tea. With this growing concentration of control of production, trade and market in the hands of a few companies of a single country, the international tea market has got a pyramidal structure, a relic of colonial era. The production base is spread over several countries, and on this has been built the London-based firms

and agencies controlling production, trade, transport and marketing of tea. The British interests controlling India's tea industry thus have substantial interests in the tea industries of other former colonies as well. At the same time these same interests are engaged in a wide spectrum of commercial and industrial activities serving the tea trade.

The close co-operation of the producer, financier, transport agent, broker, blender and distributor has been made possible by the device of interlocking directorates. Gradually, there appears to have developed an agility to control the tea trade formed by British agency houses and holding companies. The stronghold they have acquired over the tea industry is probably an inevitable outcome of their historical role in the economic transformation of the colonies. British companies or individuals bought land, cultivated and manufactured tea in India or elsewhere, arranged for the internal transport and local auctions (whose buyers were mainly representatives of London buyers). They also supplied the requirements of these plantations such as machinery and fertiliser. British ships transported the tea to London or to the London auctions. The insurance was done by British insurance firms; blending, packing and distribution are again a British monopoly and a large re-export of made tea has also developed in London.

4.1.1 The Early Pattern of Tea Trade

By the marketing system of tea we refer to the complex system of institutions and operations which intervenes between the producers of tea on the one hand and the ultimate consumer who drinks his cup of tea on the other. The conventional use of tea crop depends upon the supply to ensure uniform tastes in cups out of varying qualities supplied by the same garden or gardens in the same year at different times and to relieve the producers from the hazards of marketing; a system of tea trade peculiar in itself has evolved in which auction occupies the central place. It explains how best the sellers and the buyers may meet together to sell and buy with least uncertainty in respect of quality and price.

Till 1834, East India Company sold its tea in India House (London) privately; but afterwards it lost its monopoly of the Indian trade and all the tea was sold in the commercial sale rooms in Mincing Lane. For the first five years after 1834, the tea sold in Mincing Lane was exclusively from China.¹ On January, 1838, the first commercial consignment of Indian tea was sold in the commercial sale rooms by

¹ Op. cit., Griffiths Percival, p.66.

the East India Company. This was an event of such importance in the history of Indian tea as to justify a fairly extensive quotation from the report of the sale in the *Asiatic Journal and Monthly Register* (February 1839).² It was given to the highest bidder.

On arrival in London, tea is unloaded in bonded warehouses owned by private companies in many of which tea companies are important shareholders. The main channel of retail distribution of tea in Britain during the early times was the small grocers. But gradually packeted tea backed by big advertisement by the major British tea companies found support from the consumers. Today the packeted tea, manufactured and blended by these companies dominate the world tea market.

From 1839 to 1861 Indian tea was mainly disposed through London auctions. In 1861, the first auction of tea was held in Calcutta which marked the beginning of regular tea auctions in India. In 1947 auctions were established at Cochin to meet the needs of South India. Today there are five tea auction centres in India including Coonoor, Gauhati and Siliguri (recently auctions were started in Coimbatore also).

² *Ibid.*, p.67.

In recent times, London auctions are losing its importance with the beginning of internal auctions in the producing countries. The importance of internal auctions has been accentuated by rising home consumption and partly by the growth of Indian ownership of tea estates and by compulsion on out markets other than Britain, to buy their teas directly from the producing countries particularly during the second World War. Table IV-1 illustrates the point:

TABLE IV-1

Disposal of Indian Tea Through Indian and London

Auctions from 1951 to 1978

Year	Quantity sold through Indian Auctions (in million Kgs.)	Index (1951=100)	Quantity sold through London Auctions (in million Kgs.)	Index (1951=100)
1951	141.15	100	76.33	100
1955	166.34	117.85	82.00	107.43
1960	173.79	123.12	82.77	108.44
1965	213.21	151.05	82.23	107.73
1970	238.30	168.83	54.31	71.15
1975	286.89	203.25	38.54	50.49
1978	315.88	223.79	30.50	39.96

Source: Tea Statistics (1978-79), J. Thomas & Company Private Limited, Calcutta.

From table IV-1 it is clear that Indian auctions are growing steadily while London as a centre of disposal of Indian tea has lost its old prominence. With the growth of internal auctions the general pattern - at least as far as important producers are concerned - is that at the beginning of the season the board of directors decides what proportion of tea manufactured by its particular garden should be offered for auction in India and how much should be exported to London for the purpose of auction. This decision is based upon an assessment and balancing of various factors such as the likely trend of market prices in the two countries, the grade and quality of the tea produced by the garden, and whether the producer is himself also a blender and packer and his own requirements etc.³ But even today London continues to be the biggest international centre for auction outside the exporting countries. But the total quantity of teas from all countries handled by London auctions has been gradually declining.

4.1.2 Primary Marketing of Tea

There are two well-defined stages in the marketing of tea - primary and retail. The primary stage relates to

³ Ministry of Commerce & Industry, Report of the Committee on Tea Auctions, (New Delhi, 1955), p.3.

the sale of tea on a wholesale basis by the producers to the buyers using any one of the following channels or a combination of them. Today, tea is disposed mainly through three ways; direct exports or forward contracts, on-garden sales and auction sales. But some may not use the above mentioned channels by packing and retailing the produce directly. Traditionally tea has been marketed through weekly auctions and continues to be marketed mainly through this medium. The two main auction centres in India are Calcutta and Cochin. Usually, producers choose their method of disposal mainly on economic considerations. They choose the method which is most convenient to them and which they think will give them the best return in the circumstances in which they have to operate. Further, the type of tea best suited for the requirements of a particular market is an important consideration. For instance, the sale of dust tea is largely confined to the Indian market because the demand for it is largest here. Similarly, certain specialised types having a good market in the middle eastern countries are offered at the Calcutta auctions where there are buyers for these types.

4.1.2.1 Direct Exports or Forward Contracts

Direct exports are made through forward contracts. In other words, sale of tea by direct contact with the buyer; the price, quantity, grade and delivery being matters to be

settled by mutual agreement. It is quite unusual to have forward trade in tea since the quality of tea is subject to climatic changes the final product can never be predicted in advance. Therefore, under normal circumstances tea is not ideal for forward sales. The Plantation Inquiry Commission (1956) which went into this aspect doubted whether such a method is adopted to get opportunities for collusive deals with the foreign buyers for repatriating funds by under-invoicing shipments. Sivaswamy K.G. in his minute of dissent to the report cited instances of teas having been sold on forward contract at prices lower than teas of the same garden sold at the Calcutta auction.⁴ It is found that the differences between London and Indian prices did not cover the cost of export and in some instances the London prices were below Indian prices. This raises reasonable doubts whether under-invoicing is indulged or not. This type of disposal is mainly resorted to by companies which are owned and controlled principally by British directors and shareholders. The advantages claimed for this type of direct sale are cost reduction via brokers charge, warehousing charge and a quick return compared to auctions. But these companies earn large amounts as buying and selling agents either directly or through their

⁴ Op. Cit., Sivaswamy K.G., p.339.

associate companies. For instance, company^{'x'} sells the produce of their gardens under their control to their opposite numbers in the U.K. company^{'y'} which in their turn sell some of this tea to the U.S.A. on contract with the parties there. The profits earned on these transactions are credited to company 'y', although their functioning as an intermediary may not be necessitated by marketing conditions but may be only a matter of arrangement with company 'x' made possibly by virtue of the control of company 'x' over the tea gardens under their control.⁵

4.1.2.2 Ex-Garden Sales

Generally ex-garden sales can be conceived as distress sales in the sense for want of funds the planters may be compelled to sell immediately after production. This form of sales is prevalent mainly among the medium type tea gardens. Selling of tea at auctions might involve some waiting. Ex-garden sales give a quick return to the planters as well as selling costs are less compared to auctions. Table IV-2 shows the selling costs incurred at auctions compared to Ex-garden sales:

⁵ Ibid., p.138.

TABLE IV-2

Selling Costs of Tea at Auctions Compared to Ex-Garden Sales

Selling Expenses	Auctions (paise per Kg.)	Ex-garden sales (paise per Kg.)
Tax	- 14	-
Warehousing	- 8	-
Printing charges	- 2	-
Sampling loss	- 13	-
Freight	- 35	-
Additional interest over one month	- 16	-
Brokerage	- 14	-
Packing	- 62	50
Total	- 164	50

Source: Report of the Committee on Tea Marketing, 1978, Tea Board, Calcutta, p.25.

Ex-garden sale is saved from transport, warehousing and auction brokerage charges etc. Small and weak proprietary gardens may resort to distress sales ex-garden because they cannot afford the working capital involved in sending their product to distant auction centres.

4.1.2.3 Auctions

The major portion of tea is sold through auctions. Since tea is a product that must be seen, sampled and tasted, (if it is to be bought intelligently) the auction method of sale assumed overwhelming importance. It is claimed that tea being a commodity with extreme qualitative variations and having markedly different types of consumers, it is best sold through auctions. Although the mechanism of price formation does not rigorously conform to the equilibrium model of economic theory, the auction prices are assumed to reflect very closely the prevailing world supply and demand. Even for tea sold by private treaty, the auctions are supposed to be a constant and essential guide without which it would be difficult to determine prices acceptable to both producers and the buyers.

Tea auctions are usually regulated by special local legislation and are supposed to provide conditions of a perfect market. For instance, the rules regulating Cochin auction sales are framed by Cochin Tea Traders Association consisting of the representatives of sellers, brokers and buyers.

4.1.2.3.1 The Procedure of Auctions

The manufactured tea will be sent to auction centres where teas are housed in godowns. Not all teas that arrive

can immediately be catalogued by the brokers for auction. They have to restrict the total offerings each week depending on the demand and the ability of the trade to handle them. The teas are catalogued in order of their arrival - first-come-first-served. The brokers inspect the catalogued teas, sample them and endeavour to deliver the catalogued sample to the buyers. Correct and timely sampling to the buyers is essential because samples are not only the basis of purchase but also the sellers sole medium of sales promotion. The brokers value the teas lot-wise and send their valuation to the buyers a week before the auctions. This procedure gives the buyers adequate time to taste and evaluate as well as to post samples to their principals whether overseas or upcountry. Having made their selection, the buyers go to the auctions. Each lot is put up for auction and the highest bidder shall be the buyer.

It is claimed that since each lot of tea is an individual entity for which there are many potential buyers spread over a number of countries auction is the best method of disposal providing conditions of a perfect market. The advantages claimed to the auction system are mainly three:

- (a) distribution of huge quantities of the product in the shortest possible time,

- (b) increased competition among buyers and sellers, and
- (c) improved grading and packing.

Since 1839, when the London auction was started, upto the end of Second World War, it was the leading auction market of tea and the prices registered on the London auctions could be looked upon as the world price. In the post-war period, however it is difficult to speak of a world price of tea because of the development of auction centres in the producing countries. In recent times, the importance of Indian auctions has been growing at the expense of London auctions which have been losing ground in Indian teas. Ex-garden sales have also acquired greater prominence in the north, but not so much in the south. The main reason for the declining trend in ex-garden sales in South India is that South India produces more orthodox tea while the internal demand is more for C T C variety of tea.⁶ Table IV-3 shows the pattern of disposal of Indian tea:

From table IV-3 it is evident that about 55 per cent of the teas produced in India are sold at different auction centres in India, about 8 per cent at London auctions, about 7 per cent by private contracts and forward sales and about 31 per cent to the domestic buyers by means of ex-garden sales.

⁶ Report of the Committee on Tea Marketing, (Tea Board, Calcutta, 1978), p.91.

TABLE IV-3

The Pattern of Disposal of Indian Tea

(In percentages to Production)

Year	NORTH INDIA			SOUTH INDIA			ALL INDIA					
	TOTAL	Quantities sold through auctions in		TOTAL	Quantities sold through auctions in		TOTAL	Quantities sold through auctions in				
		INDIA	LONDON		INDIA	LONDON		INDIA	LONDON			
70	3.60	8.10	40.70	20.30	12.40	26.60	100.00	53.80	28.20	5.60	12.30	100.00
70	3.70	15.10	46.80	18.80	2.60	31.80	100.00	54.10	23.20	3.50	19.20	100.00
00	4.00	15.50	50.80	17.80	3.70	27.70	100.00	55.00	22.60	3.90	18.50	100.00
90	2.80	14.00	55.90	12.60	2.80	28.70	100.00	57.00	23.00	2.80	17.20	100.00
12	3.08	18.69	66.73	7.21	2.72	23.24	100.00	59.41	17.74	2.98	19.87	100.00
76	3.03	18.19	72.18	7.39	2.58	17.85	100.00	59.92	19.05	2.92	18.11	100.00
13	4.08	29.16	74.80	1.99	2.04	21.17	100.00	56.94	12.25	3.58	27.23	100.00
11	6.44	25.69	72.79	0.91	1.93	24.37	100.00	59.23	9.96	5.42	25.39	100.00
12	6.98	32.31	75.96	1.03	2.71	20.30	100.00	55.60	8.43	6.11	29.86	100.00
14	4.96	31.52	77.90	1.17	1.01	19.92	100.00	58.74	8.18	4.10	28.98	100.00
15	8.73	32.95	73.97	0.85	1.50	23.68	100.00	54.35	7.55	7.16	30.94	100.00

Tables issued by Tea Board, Calcutta.

4.1.2.3.2 Regularity of Tea Auctions

Although the tea producers at present are using three selling methods, viz., forward sales, private sales, and public auctions, the auction system has been said to be the most rewarding. In India about 62 per cent of the produced tea was sold through auctions in 1978.⁷ The importance of tea auctions arises from the fact that it is the price setter, i.e., the auction is in a way the guide for determining price of tea in other primary channels of disposal. It is argued that while the mechanism of price formation in the tea auctions does not rigorously conform to the equilibrium model of economic theory, the auction prices very closely reflect the prevailing supply and demand conditions of the commodity.⁸ Theoretically, tea price essentially is a reflection of the current position of world supply and demand. In the past (pre-war period), the price fluctuations in the London auctions have played a dominant role in fixing global prices. Now it is not possible to see such a role in any one market. In the post-war period, the London auctions have ceased to be of such exclusive importance as in the past, and the auctions in the producing countries have become equally important. Even though London has ceased to be the

⁷ Tea Board, Tea Statistics, (Calcutta, 1979), p.63.

⁸ Op. cit., Goutam K. Sarkar, Rapporteur's Report, p.205.

largest consuming country in the world, the London price is still deemed to be more significant than any other for fixing world tea prices.

4.1.2.3.3 Tea Auctions and the determination of price

As mentioned earlier, auction price play an important role in determining the price of tea. The most striking feature of sales through auction is the relative stability of prices. In auctions, there are mainly two parties, viz., the selling brokers on behalf of the sellers or producers and the buying brokers on behalf of the buyers. A selling broker sells teas for the seller in the best interest and the buying broker buys teas in the best interest of the buyer. Tea is sold to the highest bidder. Thus price determination of tea in auctions seems to be highly competitive.

Sales of a product, when it is chastened by the market forces its price is subject to pulls and counter pulls of supply and demand. In this process the stability of the price level is generally disturbed. However, the relative stability of tea price achieved through auctions is an exception to this. In order to study the relative stability in tea prices, stability index is constructed. The index here used is commonly referred to as the U.N.

index of stability. Here differences in prices are calculated for each pair of consecutive years and then expressed as percentages of the higher of each pair of figures. Then a simple average of all percentages got in this way is taken irrespective of the sign as the degree of price fluctuations over the period under consideration.

TABLE IV-4

Annual Price Fluctuations in Tea, Coffee and Cocoa
(1955-69) U.N. Index

Tea (London)	6.4
Tea (Calcutta)	11.6
Coffee (Brazilian spot price, Newyork)	12.0
Cocoa (Ghana spot price, New York)	19.1

Source: Mancharan S., Indian Tea - A Strategy for Development, S. Chand & Co., New Delhi, 1974, p.90.

All the three crops are plantation crops. Though the price of coffee is stabilised through an international commodity agreement yet its stability is lower than tea. Nevertheless if tea alone achieves a fairly higher stability of prices without a formal international commodity agreement aimed at this purpose, then the reason for this should be

sought in the buying side. Further, an analysis of auction price becomes inevitable in a situation when the cost of production of tea has increased considerably compared to its price (see Table III-14).

Turning to the question of cyclical price fluctuations in tea, one should note that it is impossible to find in tea such typical periodic movements and reactions as visualised in the Cobweb model of economic theory. As a matter of fact, tree crops with too long gestation periods as compared with annual crops are completely immune from cobweb situations. But the comparative stability of tea prices becomes important when compared to coffee where there exists an international commodity agreement. For the pre-control period, a statistical study on tea and coffee conducted by E.W. Gilboy proved much less of value in tracing regular cyclical fluctuations in tea than in coffee.⁹ He found that the short-term cycles (in the case of tea) vary from six to ten years; possibly some relation can be found between the first harvesting of new trees and the first set of cycles and the maturing of these trees and the second set of cycles. But the relation is in no way as clearly marked as in the case of coffee.

⁹ Gilboy E.W., "Time Series and Derivation of Demand and Supply Curves, Study of Coffee and Tea, 1850-1930," Quarterly Journal of Economics, Vol.XLVIII, No.7 (London, 1934), pp.684-85.

The important point here is the factors behind the comparative stability of tea prices. Since about 1956 there has been a decline in tea prices in London and other world markets.¹⁰ Traditionally this trend in tea price is explained in terms of the following two reasons:

- (i) the highly organised character of the tea trade and
- (ii) the industry bent upon distributing the product evenly throughout the year.¹¹

The report of the official team appointed by the Government of India pointed out that two causes were responsible for the decline in prices; one temporary and the other long term. The temporary cause was the glut of medium quality teas and the long-term cause was the steady increase in production in all tea-growing countries of the world and the consequent imbalance between supply and demand.¹²

Thus it is almost taken for granted that the cause for the decline in the auction price is the fact that the supply of tea invariably exceeds demand and the consequent surplus of production over consumption tends to depress the

¹⁰ Op. cit., Jayapalan Nalini and Jayawardena A.S., p.50.

¹¹ Op. cit., Sarkar K. Goutam, p.86.

¹² Op. cit., Report of the Official Team on the Tea Industry, pp.4-5.

price. This 'Fear Complex Theory' is more than a century old and still repeated with a refreshing vigour by the international agencies like the F.A.O., UNCTAD and I.T.C.¹³ According to the theory, in the past many occasions supply has surpassed demand so much that it pulled the price level. And it is told that it would be repeated in the future also. The theory assumes that the tea prices are solely dependant on world supply and demand. This theory needs a clinical scrutiny on two aspects, viz., (i) whether this century-old fear complex theory is historically proved correct and (ii) whether the price level is a function of supply and demand.

The fear of supply surpassing demand is not of recent origin. As early as 1866 when there was a major fall in price it was alleged that the crisis was caused by a surplus of production. In 1931, the Imperial Economic Committee arrived at the conclusion that there would be a severe crisis at the end of that year due to excess production.¹⁴ But no such misfortune befell the industry. The F.A.O. in its 'Tea Trends and Prospects 1960' warned about an imminent catastrophe in 1965. But the events of 1965 belied their expectations. There was no surplus production as warned by them.

¹³ Op. cit., Manoharan S., p.12.

¹⁴ The Imperial Economic Committee, Tea (18th Report), H.M.S.O., (London, 1931), p.14.

The pessimism is based on two tenets: one is the scepticism about the demand to absorb the production and another is an inclination to disbelieve that supply of tea is limited in the short-run.

Though the rise in demand in the importing countries is not significant, it is more than compensated by the increase in demand in the producing countries. For instance, India consumed about 53 per cent of its production during 1977-78.¹⁵ Secondly, it is quite frequently conceived that supply can be increased to a very great extent in the short-run. But in the short-run the productive capacity of an estate cannot be changed and the output can be increased only by changing the level of the use of variable factors in combination with the existing productive capacity. The productive capacity of a tea estate is the total number of mature bushes. In the short-run an estate can change the rate of output with its existing productive capacity by changing the style of plucking, i.e. from fine plucking to coarse plucking and by using stimulants like fertilisers. In the long run one estate can increase or decrease its output by changing total mature acreage by new planting or refraining from planting.

¹⁵ Tea Board, Tea Statistics, (Calcutta, 1979), p.97.

Even the supply of common tea (low quality tea) is not unlimited as usually held and it can be increased only within certain limits. At this point, it would be useful to compare the output variability of tea with that of some other primary commodities of major importance in the world economy. For the sake of collation, the relevant coefficients of variation are taken instead of the standard deviations. This is done in table IV-5.

TABLE IV-5

Variations in the Yield of Selected Crops.

1922 - 1951

<u>Crops</u>	<u>Coefficient of variation</u>
Coffee	17.6
Sugarcane	17.0
Cocoa	14.5
Maize	11.5
Cotton	11.5
Wheat	10.8
Jute	8.6
Tea	5.7
Rice	5.5
Tobacco	4.8

Source: Goutam K. Sarker, World Tea Economy, Oxford University Press, Delhi, 1972, p.71.

Table IV-5 indicates that the annual variations in the output of tea is one of the lowest among other agricultural commodities including the plantation products, viz. coffee, cocoa and sugar. Although the magnitude of output variations from year to year as just computed, cannot be assumed to yield a fully accurate index of the inter-year variability in the supply function of the commodity, it is reasonable to assume, as borne out by all indirect evidence too, that supply shifters though numerous are less pronounced in their impact on the supply of the commodity from year to year.¹⁶

Posing the same problem differently, if the price goes down because of the pressure of excess supply, it should go up if there is a shortage in the supply.

From table IV-6 it is clear that even the occasional shortages of supply have not brought a hike in the price. This would mean that the forces of supply and demand are influencing the price behaviour only to a very limited extent. Again the tracing of declining price level to excess production is not only unconvincing, but also placing the cause at the wrong door.

¹⁶ Op. Cit., Sarkar K. Goutam, p.72.

TABLE IV-6

World Supply and Absorption of Tea (1960-76)

(in '000 metric tonnes)

Year	Absorption	Consumption by Exporting countries	Excess supply over absorption	Annual average price of all teas realized at London auctions (price per Kg.)
1960	712	166	-11	50.7
1961	734	178	+13	48.6
1962	742	193	+ 3	49.0
1963	753	197	- 3	46.5
1964	796	211	- 4	47.2
1965	804	230	+10	46.0
1966	831	254	-14	45.7
1967	840	254	-14	45.7
1968	854	256	+20	43.5
1969	894	263	-22	40.5
1970	909	297	+ 2	45.7
1971	932	310	+11	43.3
1972	976	303	+22	42.2
1973	972	323	+51	43.4
1974	1045	326	+ 3	59.4
1975	1057	341	-17	62.4
1976	1111	355	-27	84.1

SOURCE: Computed from International Tea Committee Statistics, International Tea Committee, London for respective years.

Even though market forces are assumed to play their role in auctions, the price fluctuations are insignificant. In the tea auctions, there exists a high degree of concentration of buying power in the hands of a few powerful combinations--principally blenders and distributors of proprietary blends. So the price behaviour is very often isolated from market forces in a market where there are only limited buyers and it nestles around an artificial level, exposing itself to the forceful oligopenistic buying manoeuvres. Thus tea price is not only stable but also artificial; rather it is stable because it is artificial.

In tea auctions a large number of producers are so linked up with a small number of buyers through the mechanism of broking that it seems that auction prices cannot move considerably from certain norms. For instance, in South India, according to the Tea Board Statistics there are about 10,179 producers,¹⁷ and at Cochin auctions the number of buyers registered with the Tea Traders Association is below hundred and at Coonoor it is below seventy.¹⁸ Among these buyers a small group determines the major portion of the disposal of the produce. Table IV-7 illustrates the point.

¹⁷ Op. cit., Tea Statistics (1978-79), p.4.

¹⁸ Returns from Tea Traders Associations (Cochin and Coonoor respectively).

TABLE IV-7

The Buyers Concentration at Cochin and Coonoor Auctions

(1973-1979)

Year	COCHIN			COONOOR		
	No. of buyers	Share in total tea auctioned (in %)	Share of J foreign companies who are also producers in South India (in%)	No. of buyers	Share in total tea auctioned (in %)	Share of J foreign company who is also a producer in South India (in %)
1973	6	53.46	31.64	N.A.	N.A.	N.A.
1974	6	54.97	28.32	N.A.	N.A.	N.A.
1975	6	57.87	26.35	N.A.	N.A.	N.A.
1976	6	65.85	37.93	N.A.	N.A.	N.A.
1977	6	60.88	31.94	5	64.38	32.56
1978	6	47.10	22.54	5	68.88	34.47
1979	6	48.76	22.69	5	56.76	24.36

Source: Returns from the Cochin and Coonoor Tea Traders Associations for the respective years.

From table IV-7 the concentration of buying power at the Cochin as well as Coonoor auctions is very clear. In Cochin six buyers control about fifty per cent of the total tea auctioned who have also producing interests in South India. Among these six, three British-controlled tea producing companies in South India controls as much as thirty per cent. In Coonoor the concentration is more as shown in table IV-7. There, one British-controlled tea producing company (Brooke Bond) controls about thirty per cent of the disposal. In fact, there is a producer-buyer combine selling their own tea by mutual accommodation among themselves in the tea auctions. With the concentration of buying power in a few powerful buyers, the extent of competition at the auctions today is less than perhaps desirable and these buyers tend to exert a dominant influence on the course of prices with the result that there is a tendency towards conditions of oligopsony. Since tea is perishable and cannot be withdrawn indefinitely from the market, the position of buyers is intrinsically stronger in all auction centres. This is largely because of the multitude of producers with a multitude of teas of varying quality, with alternatives in choice not only in terms of these qualities but in terms of prices for lower qualities which are not easily distinguished by the consumer.

Today it is becoming increasingly clear in all the auctions that a few buyers contend against a very large

number of tea producers with a much smaller number of competing buyers. The essential condition of buying and selling pressures is the existence of countervailing power; either through equal competition amongst buyers or equal imperfect competition among sellers and buyers. The price mechanism based on supply and demand can operate freely only when the market is truly competitive. But how free is a market where there is a blatant form of collusion among the sellers and the buyers? The concentration of selling and buying power in the hands of a few companies will permit those who wield this power to influence the course of market prices. Indeed, the control of prices is a characteristic feature of monopoly or an oligopoly. In the case of tea, the quality of the retail product can be determined by a few large blender-distributor buyers. Thus, if both prices and the product can be determined by a few large firms then the market ceases to perform its conventional function of influencing the behaviour of buyers and sellers; instead the behaviour of a few firms directs the market and these firms now decide what to produce, at what prices and for whom.

The view that the auction price is less favourable to producers than private sale is currently gaining ground rapidly in these circumstances; particularly over the last three years there has been a steady increase from 4.7 per

cent to 13.1 per cent in the volume of private sales as against auctions in London.¹⁹

Although tea auctions are designed to encourage unrestricted competitive bidding, there are strong reasons to believe that they are not as competitive as they are made out to be. But it is very often claimed by the Tea Traders' Association that the broker's valuations help to stabilise the market in the interest of all. But the missing point in the optimism is that the broker's valuations have a reference to quality and to demand trends but a little or no reference to costs of production. The burden of price adjustments therefore largely falls on the producers. The device of valuation is therefore an instrument of communicating the attitude of auction buyers to the producers and not the attitude of the producers to the auction buyers. Theoretically also the device of broker's valuation is objectionable. The price system operates more effectively when the producers and the buyers response to price changes on the basis of separate rather than mutually contagious expectations. The history of tea trade does not support any claim of auction's special merit of determining prices advantageous to producers.

R.D. Morrison, who was the secretary of International Tea

¹⁹ Op. cit., Marketing Research Corporation of India, Vol.III, pp.67-68.

Committee, himself says that the auction cannot claim itself to be a place of 'open market, however, preferable it may be to private sales'.²⁰

Tea auction is an outlet of disposing teas. Lots of tea, mainly high and medium type, are very often divided among those who collide to maintain the system after one buyer has bid and bought up the lots. Small bidders are shut out by offering only large lots for sale by auction. It was complained to the Plantation Inquiry Commission (1956) that due to high buying concentration at the time of bidding in the auctions, there was collusion amongst the buyers and only one buyer could bid and he would give signal to others that he was buying the whole lot and others would refrain from bidding. Thus, in reality auction prices are loosely administered prices which are socially undesirable. Loosely administered prices miss the best of both ends -- prices by competition and prices by control. In tea trade the methods of auction price determination have been developed out of historical necessity.

Thus it appears that there is substance in the criticism of tea auctions; for the bids are not unrestrictedly open. An allegation made to the official Tea on the Tea

²⁰ Morrison R.D., Memorandum Relating to the Tea Industry and Tea Trade of the World, (International Tea Committee, London, 1943), p.68.

Industry (1952) was that the slump in tea trade is manipulated as the British producing interests in India are also blenders and retailers in Britain; what they lost by way of selling at a low price in India as producers, they made up it by profits realised by them in retailing in Britain and other tea-importing countries.²¹ This one-way nature of relationship between tea multinationals and the producing country is best seen by a comparison of auction price and the retail price obtained by tea in foreign markets.

TABLE IV-3

Disparity Between Wholesale and Retail Prices for the
Year 1972

Country	Unit value of tea exported from India (Rs./Kg.)	Retail selling price in consumer packets (Rs./Kg.)
Britain ..	7.46	14.71
Australia ..	6.87	21.22
Cairo ..	6.45	55.32
Western Europe..	7.60	74.08
Japan ..	8.54	116.10

SOURCE: Manoharan S., Indian Tea - A Strategy for Development, S. Chand & Co., New Delhi, 1974, p.150.

²¹ Op. cit., Report of the Official Team on the Tea Industry, p.6.

In fact, profit maximisation and repatriation are not primary concerns of British tea companies in India, but rather the highest possible net gain to the parent organisation. For instance, a study by the Government of Sri Lanka that the British tea companies in Sri Lanka appeared to show shows the greatest disinclination to make profits in Sri Lanka while the profits at the metropolitan end were pushed up.²² The concentration of buying and retail marketing in London is higher than the concentration of the same in the producing countries. It is reported that Brooke Bonds, Lyons, Typhoo and English and Scottish Joint Cooperative Wholesale Society determine the disposal of 85 per cent of the retail market in Britain. Table IV-9 shows the share of major blenders, packers and distributors in the important tea-importing countries.

It is clear from table IV-9 that there is a high degree of concentration of retail market in the major tea-importing countries. But the most striking characteristic of these companies is that most of them have wide ranging interests in the tea-producing countries starting from production to the final stage of retail marketing. In recent years a lot of changes are taking place in the tea-producing

²² Government of Sri Lanka, Report of the Commission of Inquiry on Agency Houses and Broking Firms, (Colombo, 1975), p.482.

TABLE IV-2

Black Tea, Domestic Market Shares of Major Blenders, Packers and Distributors During 1973

Names of the Leading distributors and their share in the market (in percentages)	Importing Countries and size of the market			
	Britain	U.S.A.	Australia	Japan
	519 million lbs.	136.7 million lbs.	55.5 million lbs.	34.3 million lbs.
Brooke Bond	42	5	32.7	14.8
Lyons Tetley	17	8	3	-
Typhoo	15	-	-	-
English & Scottish Joint Cooperative Wholesale Society	14	-	-	-
Liptons	3	44	6	33

Source: Report of the Commission of Inquiry on Agency Houses and Broking firms, Government of Sri Lanka, Colombo, 1975, p.493.

countries. For instance, the merger of branches of British tea companies is quite significant in India, particularly since the enactment of the Foreign Exchange Regulation Act (1973). A number of tea gardens in India which were formerly being run as British Company branches have got themselves merged and some of them have acquired new identities under the Indian Corporate Statute. The inspired mergers are mainly responsible for the decline in the number of foreign branches.

But the declining number of branches does not suggest any reduction in the importance of British tea interests in India. Owing to a stable political and non-discriminatory economic climate in India, these companies have responded to Foreign Exchange Regulation Act (1973) by increasing their capitalisation and instead of dividend remittances, profits are remitted through transfer pricing on intra-firm material imports and know-how and royalty payments.²³

4.1.2.3.4 Recent Trends in Auction Prices

As mentioned earlier, there has been a decline in tea prices in London and other world markets. This downward trend is most noticeable in the case of Indian and Sri Lanka's teas. On the other hand East Africa remains unaffected. Moreover, Kenyan price levels have improved. There are no evidences to show that the quality of teas from the two majors has declined while Kenya has surpassed the quality of India and Sri Lanka. The Food and Agriculture Organisation tried to explain the situation in another way. It pointed out that the increasing quantity of low quality tea and the post-war expansion of East-African production was the cause of low prices.²⁴ On the

²³ Goyal S.K., Indian Social Institute, "Some Aspects of the Operations of Multinational Corporations in India", in Social Action, October-December, (New Delhi, 1980), p.367.

²⁴ Food and Agriculture Organisation, Commodity Review, (Rome, 1960).

other hand, because of the wide geographical spread of interests, it is possible that while the British companies relinquish their hold over tea production in Ceylon and India they might strengthen their interests elsewhere. So one can reasonably expect the danger to the Indian and Sri Lanka's tea industries from the large scale disinvestment of British capital in these countries and its use to expand the industry in East Africa. Having more interest in East African tea industry, there will be every inducement for those controlling world's tea trade to promote and foster the African tea industry. The point becomes more clear from table IV-10.

An often-subscribed cause for the British preference for the Kenyan teas is their availability in all seasons. The supply of North Indian tea is seasonal. But the supply of tea from South India is not seasonal. Yet its price is the worst hit. So the real cause for the British preference for the Kenyan and East African teas is to be sought somewhere else. First of all, the Kenyan and East African tea industries are predominantly owned by British companies like Brooke Bond Equatoria Limited, James Finlay Africa Limited and George Williamson Africa Limited. The major portion of tea imported into Britain belongs to these three companies. They are expanding their production in Kenya and in other East African countries at a very fast rate. Paying more for Kenyan teas than their inherent quality is an additional

TABLE IV-10

**Annual Average Price Index of North Indian, South Indian,
Sri Lanka and Kenyan Tea at London Auctions (with
1961 North Indian Tea Prices as the Base
for All**

Year	North India	South India	Sri Lanka	Kenya
1961	100	82.8	99.0	89.4
1962	108.3	78.7	99.8	96.1
1963	99.4	77.4	93.3	86.9
1964	97.4	81.9	96.1	90.8
1965	93.3	79.9	91.4	87.9
1966	93.1	73.3	90.8	90.0
1967	95.9	75.8	93.3	92.9
1968	86.9	75.4	87.9	86.9
1969	80.7	61.4	86.5	85.9
1970	90.8	78.5	91.2	94.5
1971	81.9	77.6	88.1	92.0
1972	83.5	73.7	88.5	85.2
1973	88.9	73.9	88.7	89.7
1974	117.70	107.6	117.3	125.9
1975	123.7	112.8	122.8	128.0
1976	165.2	156.0	171.4	173.7
1977	317.7	271.6	306.2	330.2
1978	242.0	188.3	222.2	242.2

SOURCE: Calculated from International Tea Committee Statistics, International Tea Committee, London for respective years.

incentive for the growth of the Kenyan tea industry. Now it is questionable that while British capital is equally involved in Indian tea plantations what do they gain by depressing the prices of Indian teas. It may be possible that the British companies by paying more for their teas from India means that they are increasing their financial stake in the Indian tea plantations which obviously they are not interested. In fact, they are withdrawing their capital from India and therefore, they stand to gain more by buying Indian teas at a lesser price than the market would warrant. Since 1954 a number of sterling companies were either selling or Indianising their tea estates in India. Thus the decline in the price of Indian teas is not due to the free play of market forces, but because the British companies evince a clear preference for the East African teas, irrespective of their quality. The foregoing analysis suggests that the present system of auctions should not be the only major means of disposal, for experience suggests that when the number of producers is large and big buyers few, the structure of prices accords much more with buying than with selling power.

4.2 Role of the Brokers

The most dominant element in the auctions is the presence of the brokers. Apart from selling the crop for the producers and buying the crop for buyers, the brokers perform

a variety of services in India. The most important difference between the London and the Indian auctions is that in London there is a recognised category of buying brokers who receive orders from the actual buyers, but buy teas at auctions in their own name. In India there is no distinction between selling brokers and buying brokers and they charge commission both from the seller and from the buyer.²⁵ The number of ~~buying~~ selling and buying brokers are limited in London auctions and one of the buyers as a firm combines in itself the function of a producer, distributor and selling broker.²⁶

In India, the brokers perform a number of functions. The producers usually hand over their tea to the brokers for auctioning; the brokers take charge of the consignment, store it, auction it and pay the proceeds to the producers. For all this, the brokers collect a small commission (usually one per cent of the sale proceeds). In the majority of cases they act as brokers both for the sellers as well as for the buyers. This duality of function leads to considerable power and influence in the industry. For instance, representatives of the broking companies sit on the boards of many tea companies and in some companies they are also shareholders.

²⁵ Op. Cit., Report of the Committee on Tea Auctions, p.5.

²⁶ Government of India, Monopolies and Restrictive Practices Commission, Report on the Supply of Tea, (London, 1956), p.15.

The valuation of teas is an important function performed by the broking companies. The function of valuations as such increases not only the dependence of trade on the brokers but also plays an important role in determining auction prices. There is every reason to think that the valuation of the broker, which, in his dual capacity, he communicates both to the seller and to the prospective buyer, plays an important part in deciding the relative prices of the produce of the different estates at the auctions.²⁷ But the most striking feature in Indian auctions is that here brokers are representing both buyers and sellers. Few buyers means they are the major clients of the brokers. This makes the brokers vulnerable to pressure from buyers. To safeguard the relationship the brokers has to collude with the buyer to depress the auction prices.

There is a critical poverty of scientific market intelligence as far as producers are concerned. In theory the brokers are supposed to provide the producers with this intelligence. But even the brokers have no access to the type of intelligence required. This inadequacy becomes more clear when compared to the important buyers who have a

²⁷ Op. Cit., Report of the Plantation Inquiry Commission (1956), Part I, p.174.

world-wide network; the brokers are very much backward in terms of worthwhile market intelligence.²⁸

4.2.1. Brokers as Financiers

Inquiry

According to the Report of the Plantation/Commission (1956) in 1953-54 the loans advanced by the non-Indian broking houses amounted to Rs.2.55 crores. The brokers' money lending has become a means of enlarging brokerage business. The broker provides production finance to producers against hypothecation of their crops. Thus the brokers bind the producers in financial obligations as a means of enlarging brokerage business with the result that the financially-obligated producer has to sell his output through his creditor. Lending money as quid pro-quo for giving business does nothing for improving the health of the trade. But the money lending makes it difficult to set up as brokers unless they have extra financial resources to meet producer demand. This has resulted in excessive concentration of the broking business. For instance, it is found from the survey* that during 1979 three brokers handled as much as 96 per cent of the tea auctioned at Cochin auctions. In this system, the producer is denied of his rightful returns. They also

²⁸ The Consultative Committee on Plantation Associations, Marketing of Tea, Report on a Study undertaken by a team of Experts Sponsored by the Tea Industry, (Calcutta, 1975), p.26.

* personal enquiry.

accommodate the buyers by granting them credit for two weeks beyond the prompt date.

From the foregoing analysis the basic features of Indian tea auctions can be summed up as follows:

- (i) limited number of brokers,
- (ii) duality of function of brokers,
- (iii) limited number of auction buyers who are also having producing interests,
- (iv) broker's valuations and
- (v) almost indissoluble financial and other ties between the producers and brokers on the one hand and the brokers and auction buyers on the other.

4.3 The Retail Marketing of Tea

From the stage of its production by a planter, tea passes on through a number of agencies before it is sold for final consumption. Tea sold at retail is mainly a blended product. The main purpose of tea blending is to meet consumer demand for a uniform product at a stable price. The blending is such a delicate task that a series of substitution of teas are disguised. As prices of quality teas that provide the flavour in the brew rise and fall, the proportion of common teas is altered. The effect of a general depression is often the encouragement of demand in favour of quality teas and thereby develop a widening gap between

the prices of quality and common teas described in trade circles as the 'concertina effect'. Similarly when prices rise, the concertina narrows down. But in general, every important buyer is committed to certain variety of teas. Buying, blending and final marketing of tea is a matter of selection from highly heterogeneous primary supplies available, a least-cost combination finally producing (in mix/blend) a uniform combination of qualities desired by the consumer.

In India, the blenders and packers get their supplies from private contracts, ex-garden sales and auctions. Tea is vended to the consumer either loose or in packets bearing in most cases brand names of different packers and blenders. A large group of producers in South India distributes its loose teas through wholesale dealers on a commission basis. Today, the Kannan Devan Hills Produce Company managed by Tata-Pinlay and the Malayalam Plantations managed by Harrisons & Crossfields are increasingly promoting the sales of loose teas. In fact, the option of selling a brand-blend of loose tea chests to the domestic loose tea market represents a more feasible operation. Loose tea trade is usually carried through a two-tier distribution system of wholesalers and retailer or grocers. The loose teas are cheaper and therefore they have a price advantage over packaged teas. They are however vulnerable to adulteration and therefore unhygienic.

The packeted tea trade is entirely in the corporate sector. In the case of packaged tea, the report of the Plantation Inquiry Commission shows that during 1954-55 two non-Indian packers and blenders packed between them 83.5 per cent of the total packed tea who are also the largest buyers in the auctions for internal consumption.²⁹ Even today this position has not changed much. The concentration of producers-cum-auction buyer-cum-retailers has resulted in lesser competition in retail trade. The recent trends in internal consumption shows that although the internal consumption has been growing on an average rate of 5 per cent per annum, the consumption of packaged tea has been decreasing while that of loose tea is on the increase. Table IV-11 illustrates the point.

TABLE IV-11

Domestic Consumption of Tea (in million Kilograms)

Year	Loose Tea	Packeted Tea	Total
1969-70	116.7	86.6	203.3
1970-71	120.1	92.9	213.0
1971-72	135.9	88.8	224.7
1972-73	150.8	86.1	236.9
1973-74	157.8	90.2	248.0
1974-75	167.4	92.6	260.0
1975-76	188.2	83.8	272.0
1976-77	197.2	88.8	286.0
1977-78	216.0	84.0	300.0

Source: Domestic Marketing of Tea, National Council of Applied Economic Research, New Delhi, 1979, p.14

²⁹ Op. cit., Report of the Plantation Inquiry Commission, Part-I p.167.

There is nothing to be said in favour of distribution of tea in the loose form except the price advantage. Table IV-11 shows the tendency for the proportion of loose tea distribution to increase. From a society's point of view, consumption of packaged tea must be encouraged vis-a-vis with the entry of public enterprises in this field which will ensure a quality, freedom from adulteration, longer shelf life, standard weight and price etc.

4.3.1. Retail Price of Tea

There is a wide disparity between the wholesale auction prices received by the producer and the retail price paid by consumers. In India, when auction prices fall, retail prices seem to be stable or rather fall very slowly. As rightly pointed by a study team of National Council of Applied Economic Research it may be seen that the advantages accruing to the trade on account of the fluctuations in the auction prices are not wholly passed on to the consumer.³⁰ The point is illustrated by constructing a chain base index of auction and retail prices of tea in India.

³⁰ National Council of Applied Economic Research, The Domestic Marketing of Tea, (New Delhi, 1979), p.5.

TABLE IV-12

Chain Base Index of Average Auction Prices at Indian Auctions and Average Retail Prices of Packaged Tea in India (1970-1977)

Year	Index of Auction prices	Index of Retail prices
1970	100	100
1971	103.66	104.18
1972	99.84	106.19
1973	104.57	117.33
1974	153.27	154.94
1975	163.96	165.69
1976	188.39	189.20
1977	155.86	187.31

Sources: 1. Calculated from Tea Statistics, Tea Board, Calcutta for respective years.

2. Returns from the Retail channels of Tea Trade.

Although public sector enterprises like Tea Trading Corporation of India has entered into retail market of packaged teas, the trends of packaged tea prices depend mainly upon the price policy of two firms, namely Brooke Bond and Lipton. The Tea Trading Corporation of India is entered largely into the foreign markets of packaged teas. So it pays these two firms to lengthen the time lag between falling auction prices and constant retail prices. The time lag can be prolonged with

no extra effort because of the remarkable degree in which buying in the auctions is now concentrated in the hands of a few powerful combinations and of the practice of resale price maintenance. Resale price maintenance eliminates price competition and is a restrictive practice; i.e., even if supply improves and blenders and packers buy cheaper in auctions, it is not allowed to roll down in turn to final consumer through price decrease. But the rise in auction prices is quick to reflect in retail prices as clear from table IV-12.

In fact, there is every possibility to think that there exists a formal understanding between these giant distributors on price notification as a reasonable administrative measure. Even when retail prices fall, it is generally much less in proportion to the fall in auction prices. This is because the fall is not competitive, rather administered by the price leaders. A rise in auction prices initiates an increase in profits of blenders and packers through an increase in retail prices of tea. Then a high level of resale price is maintained through a remarkable degree of concentration. As pointed by the Monopolies and Restrictive Practices Commission 'the fact that the blenders enjoy a very high rate of profit in spite of violent auction price fluctuations, even as large as 25 per cent on capital employed during 1950-55',³¹

³¹ Op. Cit., The Monopolies and Restrictive Practices Commission, p.16.

The foregoing analysis convinces us that the cooperative behaviour is possible among packers when their numbers are few - even though formal collusion does not exist. Presumably under such conditions, the buying price would be lower and the selling price higher than under pure competition.

The loose teas are of different qualities. The price of each quality is determined by the auction prices of teas used for blendings, actual procurement prices, price trends of packaged teas and the price conventions. The buyers of loose teas are very much price sensitive. Therefore, the retailers are generally reluctant to raise prices with each and every rise in procurement prices. But most of the buyers are not quality conscious and they lower the quality instead of raising the prices. So it is possible that consumers get very little benefits of corresponding fall in auction prices. Loose tea trade is carried generally through a two-tier distribution system of wholesalers and retailers or grocers. The purchase price of loose tea by a wholesaler ranged from 77 to 82 per cent of the consumer price in 1977, i.e., the price spread of loose tea between the wholesaler and the consumer reckoned in terms of consumer price was 18 to 23 per cent.³² Expenses incurred in connection with the payment of local taxes and transport charges accounted for 5 to 6 per

³² Op. Cit., National Council of Applied Economic Research, p.1.

cent of consumer price of loose tea irrespective of the channel of distribution.

TABLE IV-13
Price Spread of Loose Tea Sold Through Different
Channels (1977)

Channels	Selling price to consumer (Rs./Kg.)
Directly by wholesaler ..	17.65
Wholesaler selling through a retailer ..	18.30
Wholesaler selling through a grocer ..	18.77

Source: Domestic Marketing of Tea, National Council of Applied Economic Research, New Delhi, 1979, p.15.

From table IV-13 it is clear that price of loose tea is lowest when purchased through a wholesaler-cum-retailer. But the price of loose tea is less when purchased from public agencies like National Cooperative Consumer Federation (N.C.C.F.). For instance, the profit margin of N.C.C.F. in loose tea is slightly more than 4 per cent compared to over 10 per cent profit of private trade.³³

³³ Ibid., p.2.

Government of India, anxious to protect its consumers brought tea under Essential Commodities Act in 1977 and brought the Cooperative institutions like National Cooperative Consumers Federation and National Agricultural Cooperative Marketing Federation in addition to Tea Trading Corporation in the domestic marketing of tea. But the share of these agencies in the retail trade of tea is insignificant compared to private trade. As an alternative, the blenders Cooperatives should be organised and promoted in every way. For this, they should receive assistance from state governments and Tea Board with regard to funds, technical assistance and other cognate matters.

4.4 Trends in Tea Exports

Tea is an export-oriented industry and the export market is assumed to be highly competitive. Though more than twentyfive countries are growing tea today, only a few are exporters of consequence. International trade in tea has always been important because of the value of the product. India is the leading exporter of tea in the world closely followed by Sri Lanka and newly emerged tea producing countries of East Africa. India exports tea to about 40 countries of the world. Some of her markets are traditional, while others are newly emerging markets for Indian teas. In 1977-78

tea contributed nearly Rs.900 crores to Gross National Product including a foreign exchange earnings of Rs.560 crores, besides substantial central and state levies.³⁴

One of the important characteristics of India's export trade in tea is its high concentration of exports to Britain. This characteristic is applicable to other major tea exporters like Sri Lanka and East Africa. The important reasons for the high degree of concentration are mainly two-fold:

- (i) The close dependence of main tea-exporting countries on the British market due to historical reasons, and
- (ii) Britain's importance as a re-exporter of the commodity.

Concentration of exports reveals the dependence on export markets for tea. Hirschman Index is used here for finding out export concentration of Indian tea exports. Higher the index, greater is the dependence on a few markets and vice-versa. The formula for constructing the index is as follows:

$$\text{The Index } I = p_1^2 + p_2^2 + p_3^2 + \dots + p_n^2 \text{ or}$$
$$I = \sum_{i=1}^n p_i^2$$

³⁴ Op. cit., Report of the Committee on Tea Marketing, p.1.

where P_i represents the percentage share of the i^{th} country in the total world tea exports and 'n' exporting countries account for all tea trade of the world. The index equals the square root of the sum of the squares of the percentage share of all exporters and may vary between the limits zero and hundred.

TABLE IV-14

Hirschman Index of Tea Exports of India and Sri Lanka
(1950-1976)

Year	Index	
	India	Sri Lanka
1950	72.9	43.5
1960	67.3	45.8
1970	53.8	40.0
1976	45.45	34.18

Source: Computed from various issues of International Tea Committee Bulletin, International Tea Committee, London.

From table IV-14 it follows that the concentration of Indian exports is gradually declining. Sri Lanka shows a fluctuating trend. Nevertheless Sri Lanka's tea exports are more diversified than India. As mentioned earlier, one of the important reasons for the concentration of Indian tea exports to Britain is Britain's importance as a re-exporter of tea.

More specifically, the re-export is still popular because a large number of former sterling (British) firms send their teas directly from gardens to their head offices at London for sale. Table IV-15 shows that on the one hand the tea import into Britain has not shown a consistent tendency to improve and on the other there is an increasing tendency for re-exporting.

TABLE IV-15

Imports and Re-exports of Tea by Britain (1976-77)

Index of Import	Year	Index of Re-exports
100	1967	100
109.5	1968	118.79
88.81	1969	129.89
102.22	1970	112.19
91.53	1971	134.18
85.67	1972	115.50
85.39	1973	150.67
94.66	1974	152.51
88.32	1975	146.46
90.73	1976	147.12
98.35	1977	204.29

Source: Calculated from Tea Statistics (1977-78),
J. Thomas & Company Private Ltd., Calcutta, p.82.

It implies that the tea consumption in Britain has been gradually declining and the re-exports from Britain is on the increase. The role of Britain as the most important re-exporter of tea is still unshaken because of the fact that in almost all the major tea-producing countries British firms are having a control ranging from production to marketing level operations. By way of re-exports from Britain, India and other tea-producing countries lose middlemen's profit, loss of an understanding of taste and habit of the ultimate consuming countries and the loss of greater scope of developing internal auctions.

In recent times the pattern of India's export trade in tea is changing; particularly South India's export trade. The most important reason for this change is the change in the direction of exports. Secondly, the dramatic rise in Indian domestic consumption of tea has undermined some elements of the traditional framework of operation and certainly of India's foreign exchange earnings from tea. Table IV-16 illustrates the change in the direction of tea exports from South India.

TABLE IV-16

Direction of Tea Exports from South India (1940-78)

	(in '000 Kgs.)				
Countries/year	1940	1950	1960	1970	1978
Britain	23,115	15,652	21,547	8,754	815
Australia	3	3,054	2,038	2,218	567
Newzealand	-	153	538	108	3
Canada	-	3,454	2,654	2,173	590
U.S.A.	1,684	4,007	2,246	3,289	1,642
South America-	-	5	-	-	-
Irish Republic	-	-	212	177	170
Netherlands	-	-	783	643	-
West Germany	-	-	211	417	72
U.S.S.R.	-	-	2,844	12,500	14,314
Iran	-	-	94	34	90
Egypt	-	-	1,000	3,484	5,378
Sudan	-	-	673	8,720	7,850
Others	1,385	935	663	3,236	7,845
Total	26,187	27,260	35,503	45,763	39,333

SOURCE Tea Market Annual Report (various issues), J. Thomas & Company Private Limited, Calcutta.

The share of markets with which India has bilateral trade agreements and rupee payment arrangements has increased (especially U.S.S.R., East Europe and countries like Egypt, Sudan and Afghanistan). In other words there has been a substitution of new markets for old. A study of primary markets for Indian tea reveals that hard currency markets are by and large losing while they are replaced by soft currency markets. Now, next to Britain, U.S.S.R. is the biggest market for Indian tea. In 1971, India had a share of 91.3 per cent in the U.S.S.R.'s market.³⁵ It is argued that with entry of U.S.S.R. into the Indian tea market, the Indian auctions are becoming more competitive. The main reason for the increasing dominance of Indian tea in the bilateral area is the fact that selling to bilateral partners is more attractive in terms of price. So there has been an increasing tea exports to bilateral trade countries at the expense of exports to convertible currency areas. Table IV-17 shows exports to convertible currency area, bilateral trade area and domestic consumption as a percentage of total Indian production.

It is found that while the exports to bilateral trade countries and domestic consumption are increasing, the exports to hard currency area is falling. But the most striking increase has occurred in domestic consumption (of course,

³⁵ Op. Cit., Mancharan S., p.122.

TABLE IV-17

**Domestic Consumption and Exports Expressed as Percentages
of Indian Production (1960-76)**

Year	Exports to Hard Currency Area	Exports to Bilateral trade Area	Domestic consumption
1960	49.5	10.6	39.9
1962	47.81	13.28	38.91
1964	36.35	13.59	50.06
1966	32.57	15.09	52.34
1968	36.35	15.44	48.21
1970	30.90	16.48	52.62
1972	25.27	20.75	53.98
1974	23.88	17.96	58.16
1976	25.88	20.26	53.86

Source: Calculated from Tea Statistics (various issues),
Tea Board, Calcutta.

the latest statistics published by Tea Board shows that India consumes about 60 per cent of its tea production). The amount of tea available for export depends upon the extent of its production, domestic consumption and availability of foreign market. Therefore, for adopting an effective policy on tea exports, it is necessary to have reliable empirical knowledge about the economic determinants of the consumption of the commodity.

4.5 Domestic Consumption of Tea

Tea is perhaps the most common beverage in India. Its present consumption is more in the urban than in the rural areas. On this basis it should be expected that the volume of consumption of tea will increase in the future in view of the trend towards industrialisation and urbanisation. In recent years, the domestic consumption of tea in India has registered a phenomenal increase. During the forties the country was hardly consuming 25 per cent of its production, but today it absorbs nearly 60 per cent of the production. Factors like an increase in population, increase in urban population, inexpensive character of this beverage have been mainly responsible for such a steady increase in the consumption of tea in India. The country is today the leading tea consumer in the world. But its per capita consumption is one of the lowest in the world compared to the consumption in major tea importing and exporting countries.

Although the consumption of tea per head is very low in India the total consumption of tea in India is highest in the world in 1978; India's domestic consumption is about 69.19 per cent of its production compared to Sri Lanka's 3.3 per cent of its production and Kenya's 9 per cent of its production.³⁶ For tea the main demand shifters are:

³⁶ Tea Board, Tea Statistics (1978-79), (Calcutta, 1979), pp.140-144.

- (i) current income of consumers,
- (ii) established food habits and customs,
- (iii) size, age and ethnic composition of population,
- (iv) climatic factors and mode of occupation - manual or sedentary etc., and
- (v) institutional factors.

Today one of the main problems facing the Indian tea economy is that while tea production has been rising at an annual growth rate of around 3.5 per cent, its domestic consumption has been rising at an even faster rate of about 5 per cent.

The positive side of this tendency is that the Indian tea industry has among the major tea-producing countries the unique advantage of a huge domestic market to fall back upon whenever the international market behaves indifferently. In other words, the domestic market can act as a cushioning factor from international price fluctuations. On the other hand, because of the increasing domestic consumption and large exports of tea into the foreign markets from the common tea producing countries, the profitability of exporting common tea is almost reduced to nought. The lower price difference between export and domestic sales of common tea shows that India is fast reaching a stage when it may not export common teas at all. But since tea is not a luxury item any

attempt to bridle domestic consumption should be avoided. A positive approach is to increase the production so much that it can take care of both internal and external markets.

Recent trends show that consumption of low income countries including the producing countries is continued to expand and it was this high rate of increase which was the principal factor in the absorption of the large supplies reaching the market. Due to the lack of sufficient statistics regarding tea consumption, retail prices and inventories in low income countries reliable elasticity estimates are not available. According to a study conducted by Sharma J.S., Singh I.J. and Mishra J.P. about the future trend of consumption of tea in India, consumption responds significantly to changes in per capita real income. While the demand for tea is highly responsive to income changes, the effect of price changes seems to be insignificant. The estimate of the income elasticity of demand for tea is about 1.0208 which indicates that one per cent increase in per capita income would bring about 1.0208 per cent increase in per capita consumption of tea measured in terms of quantity while the estimate of price elasticity showed that one per cent increase in price would decrease its consumption only by 0.095 per cent.³⁷

³⁷ Sharma J.S., Singh I.J. and Mishra J.P., "Domestic Demand function for tea in India", Indian Journal of Agricultural Economics, October-December, 1969, pp.220-221.

An elaborate family budget enquiry covering both urban and rural areas of India conducted under the National Sample Survey revealed much higher Engel-elasticity coefficients for the commodity indicating that the demand for tea in the country is income elastic.³⁸

The conclusions derived from various surveys and studies show that tea does not seem particularly responsive to price changes in India. The price variable explains very little of the variations in demand. The income elasticity of demand for the commodity appears to be fairly high. The low price elasticity can be explained in terms of the low substitution elasticity and the relative unimportance of tea in the average Indian consumer's budget.

4.6 Trends in Tea Consumption in Exporting Countries

Global external demand for tea and hence exports are based on rates of growth of consumption in individual countries. The British tea market which in the world for long represented the largest sea of demand has shown a slightly declining trend in its per capita consumption in the last few years. But there are indications of a steady growth in the consumption of tea in West Germany, Denmark (3 per cent per

³⁸ Bhattacharyya N., A Survey of Work Done on Demand Projections at the Indian Statistical Institute, Studies Relating to Planning for National Development, Planning Division, Indian Statistical Institute, (Calcutta, 1964), p.18.

annum) and in Sweden (5 to 7 per cent per annum).³⁹ Although the per capita consumption of tea in U.S.S.R. shows an increasing trend, the production of tea in U.S.S.R. is increasing at a faster rate. In future there is every possibility that it will emerge as another important exporter of tea to the world. The U.S.A. which is traditionally a coffee drinking nation is increasing its tea imports at a significant speed.

One of the important characteristic features of the import-demand for tea is the low price and income elasticities. A survey conducted by the Food and Agriculture Organisation revealed that in Western Europe the effect on tea consumption would be insignificant amounting to less than one per cent if import and internal taxes were completely abolished.⁴⁰ Another study by Brown J.A.C. using monthly time series data for the period 1953-56 showed a price elasticity estimate as low as 0.14 for the commodity in the British market.⁴¹ The main explanation for the generally low responsiveness of demand to relative prices of tea lies in the fact that tea is

³⁹ Op. cit., Marketing Research Corporation of India, Vol.1, p.15.

⁴⁰ Food and Agriculture Organisation, "Tropical Fruits and Beverages: Duties and Taxes in West Europe", Monthly Bulletin of Agricultural Economics & Statistics, Vol.II, No.12, (Rome, 1962), p.10.

⁴¹ Brown J.A.C., "Tea-Trends and Prospects", Commodity Bulletin Series No.30, (F.A.O., Rome, 1960), p.34.

a habit-forming enjoyment good with a very low cup-cost. Its nearest substitute is coffee, but the choice between these products is mainly governed by food habits than by relative prices. The substitution effect is highly limited also among the three different types of tea - black, green and colong. A habitual tea drinker has not only strong preferences, but also these preferences vary little with the level of incomes and prices.

Further, very low correlations have been found between consumption per head and national income per capita in high income countries. This relationship depends on whether relevant parameters are studied through cross-section analysis or through time series analysis. Table IV-18 summarizes F.A.O.'s findings obtained on the basis of a cross section analysis regarding the income-demand relation of the commodity available in various countries.

TABLE IV-18

Income Elasticities of Demand for Tea

Country	Period	Elasticity Coefficient
Britain	1937-39	0.05
Britain	1953-54	0.04
U.S.A.	1954-55	-0.03
Netherlands	1951	0.21
West Germany	1950-51	0.59

SOURCE: F.A.O., Tea-Trends and Prospects, Commodity Bulletin Series, No.30, Rome, 1960, p.32.

The study further reveals that the income elasticity is always lower for tea than coffee and that the elasticity of expenditure on tea is always greater than the elasticity of quantity consumed, the difference between two elasticity coefficients reflecting 'the quality elasticity'. That is, high income groups consume better quality tea than low income groups.

4.7 Recent Trends in World Tea Exports

India and Sri Lanka are the major tea exporters of the world. An important feature of the world tea trade since the post-war period has been the increasing competition from East African countries (especially Kenya). The newly emergent East African exporters have recorded the greatest and the most sustained increase in exports. For instance, during the period 1951-78 India's tea exports declined by 14.53 per cent while Sri Lanka's exports rose by 39.10 per cent and East Africa's by 895.63 per cent.⁴² As the rate of growth of Indian tea export has shown a negative trend her share in world tea exports is also declining.

⁴² Op. Cit., Tea Statistics (1973-79), p.144.

TABLE IV-19

Share in World Tea Exports (in Percentages)

Country	1951	1961	1971	1977
India ..	45.0	37.9	32.0	29.07
Sri Lanka ..	30.2	35.5	31.2	23.49
East Africa ..	3.0	5.9	11.8	15.94

Source: Calculated from Tea Statistics (1978-79), Tea Board, Calcutta, 1979, p.144.

Between 1951 and 1961 the volume of world tea exports rose by 22.5 per cent. While the volume of exports from Sri Lanka increased by 39.5 per cent and East Africa by 145.6 per cent, the Indian tea exports remained more or less the same. She lost her share in the world market by 8 per cent where Sri Lanka claimed 5 per cent and the rest was claimed by East Africa. But later India and Sri Lanka were losing to East Africa as shown in table IV-19.

Just as India is losing her share in world tea exports, her share in world tea production is also declining. Table IV-20 illustrates the point.

TABLE IV-20

Share in World Tea Production (in Percentage)

Country/year	1951	1961	1971	1977
India ..	48.5	41.2	38.9	33.8
Sri Lanka ..	25.2	24.0	19.6	12.6
East Africa ..	2.8	4.3	4.3	9.1

Source: Calculated from Tea Statistics (1978-79), Tea Board, Calcutta, 1979, p.138.

As is clear from the table IV-20 increase or decrease in the share of world tea production has affected the share in the world tea exports in different ways for different countries. For instance, between 1951 and 1977 India lost 14.7 per cent of her share in the total world tea production and 15.93 per cent in the world tea exports. During the same period East Africa increased only 6.3 per cent of her share in the world tea production, but it increased 12.94 per cent in the world tea exports. The main reason behind these trends is that domestic consumption in India has been increasing at a faster rate than in any principal tea-producing country. As a result in 1977 about 58.89 per cent of the country's production is consumed at home. In the case of East Africa the production has been increasing far above its internal consumption.

The effects of a falling price level on the tea exports from these countries are different. Many of the tea exporting countries have balance of payments difficulties and less diversified exports. So even when prices are falling, the volume of exports would not be curtailed; rather in order to compensate the loss due to the fall in price, export is increased to that extent so that the loss in export earnings of tea can be minimised.

TABLE IV-21

Price-Quantity Relationship of Exports (1962-69)

	Price at London Auctions (in pence per Kg.)			Volume of Exports (in million Kgs.)		
	1962	Base	1969 (Index)	1962	Base	1969 Index
India	115.43	100	76	211.8	100	80
Sri Lanka	123.30	100	86	204.9	100	98
East Africa	102.35	100	86	37.2	100	201
World	118.61	100	92	565.6	100	102

SOURCE: Manoharan S., Indian Tea - A Strategy for Development, S. Chand & Co., New Delhi, 1974, p.18.

The different reactions of these countries show different stages of economic development. For instance, Indian tea price suffered the worst setback and so it comparatively curtailed its volume. This is because, it has a sizeable domestic,

market, increasing trade under bilateral trade agreements and a comparatively more diversified exports. In order to optimise their foreign exchange earnings East Africa and Sri Lanka display an insensitivity to price changes. Thus changes in prices and volume tended not to move together but offset each other. This compensatory price-quantity relationship is quite unique for tea.

The most recent trends in world tea exports show that East African teas are fastly replacing Indian and Sri Lankan teas from major tea-importing countries. East African teas are mainly the medium type quality. But the chief advantage claimed for East African teas over Indian teas is that quality-wise there is little seasonal change. Another advantage claimed for the East African teas is that the cost of production is less there and so East African teas are cheaper than Indian or Sri Lankan teas. But it does not mean that there the efficiency is more. In fact it means that Indian labour gets more fringe benefits than that of their counterparts in East Africa. Thus the severe discrimination or competition of Indian common teas in London market can be dealt only through adequate promotional measures and government to government arrangements.

4.8 Export Promotion Measures

Today the most important problem facing the Indian tea exports is the loss of its traditional markets to its rivals. The range of Indian teas is wider than provided by any other country and it may be anticipated that significant volumes can face competition without strategies. For instance the high quality teas from Darjeeling and the high grown Nilgiris are required for blends for which East African and other foreign teas do not generally qualify. It is the medium-type teas from India that are mainly facing discrimination in foreign markets. So new marketing plans are necessary to the tea industry for more than one reason; the rapid growth of production in East Africa and the improvements of tea gardens in Indonesia and South America means throwing additional medium and low quality teas into world market which are replacing even the high quality teas in certain areas. Other important reasons are the continuing competition from Sri Lanka and the aggressive selling methods adopted by our competitors which include price cutting and intense uni-national campaigns. Unfortunately, in foreign markets, the Indian publicity and promotion have been consistently directed towards superior teas at the expense of medium quality teas.

As mentioned earlier, the import-demand in the high income importing countries is inelastic. But in the less

developed importing countries of the Middle East and North Africa the elasticities of import-demand are expected to be higher and so the prospects of exports to these countries seem brighter. But the orthodox analysis based on elasticities of demand and substitution does not adequately explain the behaviour of tea consumer which is also a function of persuasion through modern advertising. In a product like tea, differentiation is mainly derived from the image endowed to it by its brand, presentation or advertising. The continual search for differentiation tends to generate artificial or at least subjective distinctions. A glance over various markets shows how easily teas of one country are substituted by teas of another country. In the beginning of this century, because of the vigorous promotional efforts by India and Sri Lanka, the British market gradually shifted from green teas of China to black teas of British empire. Now the U.S.A. market is fast changing towards instant teas for the same reason. This indicates that market for teas are always under flux and they are everchanging. By successful sales campaign a market can be won or re-patterned.

There are two types of promotional measures: generic and uninational promotion. Generic promotion aims at the expansion of the existing market and stimulation of tea consumption in general. Uninational promotion aims at

maximising the share of a particular country in the total market and not necessarily to expand the aggregate demand for the commodity. How best the generic and uninational promotion can be harmonised is the basic issue concerning tea promotion. Teas are sold after blending as a proprietary article under the brand name of tea multinationals. Therefore the first impact of generic promotion is felt in the sales of the blended teas which are proprietary articles of these companies. The benefits of increased sales spill over to the producing countries in an indirect way only in the sense that the tea companies who own the brands would buy more from the producing countries. Which country they will choose is a different question. Thus these companies are the main factor that determines a country's share by influencing the buying operations. In fact our rival producers are enjoying the patronage of these companies. So it is fallacious to argue that India stands to gain by generic promotion--the generic promotion should be left to these international blenders.

It is found that India spends about 53 per cent of its total expenditure on generic promotion and 47 per cent on uninational promotion, while Sri Lanka spends 76 per cent on uninational and only 24 per cent on generic promotion.⁴³

⁴³ Government of India, Ministry of Commerce, Estimates Committee - 28th Report (1972-73), (New Delhi, 1973), p.28.

But Indian exports are declining to the very countries where most of the money was spent (for example, Britain, U.S.A. and Australia). Therefore, if India desires to finance generic promotion it should do only in those markets where its share is increasing consistently over a period of time. Our first competitor in the world tea market is not rival beverages which are better promoted, but rival producers which enjoy the patronage of international proprietary blenders.

Uninational tea promotion is more suitable at the present circumstances for India. It implies from the part of the consumer a shift from brand loyalty to country loyalty. In other words, uninational promotion stimulates the interest of the consumers to prefer Indian teas rather than teas from other countries. It is important to note that despite over a century of exports, Indian teas are not known by their name or origin except occasionally and that for the fine Darjeeling (while Chinese and Sri Lankan teas are well known as such). So to create among consumers a purchasing preference the first step would be getting Indian teas known as such. The next stage would be to create a recognition of regional varieties. Thus the consumers are made to commit more on the country from where teas originate than on the international proprietary blenders. This would force the international proprietary blenders to increase their purchase from India.

If generic promotion gives opportunity for the blenders to assert their sovereignty, unimotional promotion widens the scope for consumers to establish their sovereignty. Probably because of this reason, the tea multinationals encourage the producing countries to go for generic promotion. The recent experiences of introduction of pure Indian blend in Canada and the introduction of 100 per cent Indian tea packets and tea bags with the initiative of Tea Board were highly successful.

Another important point which needs due consideration is the developments that took place towards the direction of convenience - Instant teas and Tea bags. It is to be noted that consumers abroad do not purchase loose tea for consumption. They prefer blended tea in packets, the price of which is usually double the price of loose tea. At present only 8 per cent of total world tea exports are in the form of packet teas in which India has the major share.⁴⁴ Table IV-22 shows price realised by different types of tea.

The rise of instant tea and the withdrawal from loose to tea bags have eroded demand from quality teas and are progressively pushing towards cheaper teas even below medium quality in U.S.A. India is exporting instant tea

⁴⁴ Op. Cit., Report of the Committee on Tea Marketing, p.43.

TABLE IV-23

The Price Realized by Packet Teas and Tea Bags Compared to Bulk Tea (Rs. per Kilogram)

Item/year	1966-67	1971-72	1976-77
Packet Tea	9.88	9.48	15.36
Tea Bags	-	20.39	37.02
Bulk Tea	8.18	7.47	12.01

Source: Report of the Committee on Tea Marketing, Tea Board, Calcutta, 1978, p.133.

(mainly from South India) mainly to U.S.A. where the market is dominated by the built-in convenience of making brew from instant teas and tea bags. Trends in other tea importing countries show that in the near future it will be an age of instant teas and tea bags. Table IV-23 shows the Indian exports of instant tea, tea bags and the export earnings from them.

As is clear from table IV-23 the exports of instant tea and tea bags are increasing as well the export earnings. The most important feature of the export of these two types of tea is that they are mainly exported to the convertible currency area where India is losing its share to its competitors.

TABLE IV-23

Exports of Instant Tea and Tea Bags from India

	<u>Quantity (in Kg.)</u>			<u>Export Earnings (in Rs.)</u>			<u>Unit Value (Rs./Kg.)</u>		
	1976-77	1977-78	1978-79	1976-77	1977-78	1978-79	1976-77	1977-78	
Instant Tea	583661	597541	686333	25865996	31532968	35500225	42.95	52.77	51.72
Tea Bags	285264	390472	238167	10599689	18522056	10569708	37.02	47.44	44.38

SOURCE: Tea Statistics (1978-79), Tea Board, Calcutta, 1979, pp.89-91.

Apart from the total export earnings from these two types of tea, the unit value realised is very high compared to the bulk tea. Any export strategy or promotional measure designed to maximise our export earnings from tea in the future should give due consideration to the development of projects which aims at the enhancement of the production of the value-added type of tea (like instant tea and tea bags). The point becomes more important when one considers the problems of declining profitability of tea cultivation, declining Indian tea exports and the severe competition or discrimination of Indian teas in the world market.

CHAPTER - V

5. THE SMALL TEA GROWERS OF SOUTH INDIA

Though the development of the production of cash crops may be accepted as a necessary element in economic development there is some controversy over the relative merits of the two main methods of achieving such development by the plantation or by small-holding system. Historically it is true that the production of cash crops for exports on a large scale has been most closely associated with the plantation system; especially for tea, sugar and bananas. But in West Africa the cocoa industry has been built up almost entirely by native small holders; and in Malaya and Kerala small holders are responsible for about two-third of the rubber production. The plantations usually refers to a large-scale combined agricultural and industrial enterprise, i.e., both labour intensive and capital intensive.¹ It also raises and processes industrially agricultural commodities for the world

¹ Hodder B.W., Economic Development in the Tropics, (London, 1973), p.107.

market.² Size of the holding and processing equipment is often an important criterion. But the definition varies from country to country and from crop to crop.

There is also little agreement about the long-term prospects of plantations and small holdings in plans for economic development. Wickiser thinks that plantations can assume risks better, are better informed and they are certainly much more likely to apply the results of modern research than the small holders and are better able to judge future requirements.² The small holdings are more diversified. Again, the small holders' interest focusses around maximum production per unit area, whereas in plantations maximum yield per tree and per worker are normally more important considerations.

An important characteristic of the South Indian tea cultivation is that a large number of small holdings exist along with the large estates. Most of these small growers are concentrated in the Nilgiris district of Tamil Nadu and Kottayam and Idukki districts of Kerala. Though their contribution to the total South Indian tea production is very small according to Indian Tea Board's estimate in 1978, the small growers were accounting for 97.7 per cent of the total number of tea gardens in South India. The conditions and problems

² Wickiser V.D., The Small holder in Tropical Export Crop Production, Food Research Institute Studies, (Stanford University Press, Stanford, 1960), p.49.

of the small growers are entirely different from those of large estates. Unlike the large estates which have their own factories to manufacture the teas, the small growers cannot afford to think of any factory of their own and they sell their green leaves to what are usually called 'The Bought Leaf Factories' and the Cooperative Tea Factories (which were recently organised with the assistance of Tea Board).

5.1 Large Estates and the Small Growers

As mentioned earlier, it is very difficult to define the tea-leaf growers or the small growers. Normally, gardens for which a separate factory is not economically viable should be regarded as small. Very often most of the gardens having more than 50 hectares in South India may have factories of their own and buy tea-leaf from other small gardens. So for definitional and practical purposes it is justifiable to consider all gardens having less than 50 hectares as small. This classification becomes particularly important when the economic problems of tea gardens are discussed. A tea garden, like any other unit of production, whether agricultural or industrial, can be considered to be economic if it can normally pay its way when working under sound management. The size of such a unit will depend upon such variable factors as the cost

of production, the quality of tea produced, the yield per acre and the price obtainable for the produce. Cost of production, quality and yield again depend to a large extent on the geographical situation of the garden. Ability of management is also an important factor; for normally an economic unit may produce disappointing results under inefficient or improvident management. A person growing tea on one or two acres and selling the green leaf at a few annas per pound may still make a profit.³ A big garden with its own factory may find its production unprofitable if the price of tea falls below its cost of production. So it is difficult to define what would be an economic tea garden with reference to its area. But if a garden is to sustain its own factory a certain minimum acreage will, however, be necessary.

The reasons for the predominance of the plantation system of cultivation of tea in South India are its various advantages which are partly due to the economies of scale generally enjoyed by the large corporate organisations and partly due to the peculiar character of tea production. Firstly, the limited liability and highly creditworthy tea companies are assured of an elastic supply of funds from the money and capital markets for meeting the initial overheads,

³ Op. cit., The Plantation Inquiry Commission's Report, Part-I, p.231.

current development needs including the mechanisation for processing and replantation and the all important need for scientific research. Very often it is claimed that the plantation system of tea cultivation has some advantages which can be summed up as follows:

First of all, the control over a large area will enable to put results of research into practice. Secondly, uniform methods of treatment over large areas can be maintained (for instance, in the application of herbicides and fertilisers). This uniform treatment will help in the achievement of a uniform crop which makes processing easier and which will result in the production of a standardised product. Thirdly, unlike rubber and coffee, tea requires immediate and considerable processing. Only large estates can afford to have their own processing establishments attached to their estates. In other words, a substantial reduction of costs is possible only by the vertical integration of production units under the plantation system of tea cultivation implying the ownership of land and factories in a single hand. It is to be noted that since most of the operations relating to the cultivation and gathering of the tea crop being performed by hand possibilities of any significant reduction in cost by increasing the size of the estate are limited. But the small growers sell leaves to factories that have little control over the quality

and quantity of leaves they buy. Further, tea is an export-crop which is mainly sold in auction centres away from the estates. So for keeping down the marketing costs, special marketing and transport arrangements are required which can be economically provided only by large estates.

Finally, tea production is a specialised enterprise demanding highly skilled management and highly sophisticated production and marketing techniques which requires considerable capital investment. It is argued that only through a large scale plantation system of cultivation this crop can be most economically exploited. Thus, the requirements of large capital, technical equipment and scientific marketing service for tea production explain why, by and large, the units of production in the tea industry have taken the shape of comparatively large estates instead of small holdings.

5.2 Important Characteristic Features of the South Indian Small Tea Growers

The most important feature of the South Indian small tea grower is that the gardens are invariably family-owned and in most cases family labour is utilised. Hired labour is periodical and casual.

Secondly, the small tea gardens are economically weak due to the combined effect of several factors; viz.,

inadequacy of finance and lack of technical knowledge on improved methods of tea growing. They may be considered as counterparts of small farmers in general agriculture. The resource positions of the small and big gardens are known to be unequal. Large estates use their own resources to a greater extent. Comparatively, small growers depend on borrowed funds to finance the use of modern inputs, though the labour hire charges constitute only a small proportion of total variable expenditure in their case. The new technology is resource-using which involve larger use of current inputs and requires an expanded base of durable capital. Again, the resource position of small growers regarding long-term investment is extremely weak. The consequence of both limited own resources and increased use of borrowed finance is severe capital rationing and increased economic distance between small farmers and big farmers.⁴

This situation invariably affects the productive efficiency of small holdings due to a number of reasons. For instance, very often, the planting material used is sub-standard. Many of the small growers are not even aware of the vast progress made in this direction by Tecklai Experimental Station in Assam and the UPASI Scientific Department

⁴ Shah C.H., "Small Farmers: Policy and Problems", Economic and Political Weekly, (Bombay, October 21, 1978), p.1771.

in Tamil Nadu. When the seeds used are of an inferior quality, needless to say that the yield of the unit suffers.

Further the standard cultural practices are rarely followed by the small growers. Most of the small units do not get adequate quantities of chemical fertilisers, chiefly because of lack of finance. Hard-pressed for funds, the small growers have to depend on the owners of 'bought-leaf factories' for finance to buy their annual requirements. Finance may not be forthcoming in adequate amounts or at the right time. Needy as the small growers are, they pluck the leaves even before they are ready for plucking.

The dependency on bought-leaf factories ultimately leads to the selling of green leaf to these factories where the processing of leaves is very inferior to that in modern factories. Being small in size, they do not have adequate space for withering as they cannot afford to buy expensive modern machinery. The improperly packed final product is generally sent to nearby markets for consumption within the country. Very often the bought-leaf factories may resort to distress ex-garden sales because they cannot afford the working capital involved in sending their product to distant auction centres.

Another important characteristic of the South Indian small tea growers is the interplantation of other crops within the tea garden. The small growers are not basically oriented towards mono-crop specialisation and generally grow all such crops as his holdings would permit from the agro-climatical point of view. It is very common for small holdings in the midland of Kerala to grow rubber, pepper, ginger, jackfruits etc., with a view to maximising the returns from land.

Finally, there is the absence of registration by the small growers with the Tea Board. The main reason for the comparatively low registration is unawareness. But registration is essential for identification of units, for compiling the relevant data and for planning of any programme for the benefit of the small growers. The statistics given by Tea Board with regard to the number of small holdings and the area under them are not reliable since its coverage is very low.

5.2.1. Regional Differences

Although the above mentioned characteristic features are generally applicable to the South Indian small tea holdings, there are regional differences among them. For instance, there is only 28 per cent registration of small

holdings with the Tea Board in Nilgiris.⁵ The main reason for the non-registration is reported to be the prevalence of joint patta (joint ownership) system. On the other hand, about 50 per cent of the total small gardens in Kottayam are registered with Tea Board, whereas almost 100 per cent of the small gardens in Idukki are found not to have been registered with the Tea Board.⁶

Inter-plantation of other crops with tea in the small tea gardens of Nilgiris is negligible when compared to their counterparts in Kerala. Inter-plantation is widely prevalent among the small growers of Kottayam (about 80 per cent of the gardens in Kottayam) and it is only 10 per cent in Idukki.⁷ The crops largely used for inter-planting are rubber, coconut and arecanut in Kottayam, whereas in Idukki tapioca, and jackfruit are mainly grown. The low level of inter-plantation in Idukki compared to Kottayam is due to its peculiar agro-climatic conditions which are more congenial for tea. The trouble with inter-plantation is that inter-planting reduces the area available for planting tea

⁵ Op. cit., Techno-Economic Survey of Nilgiris Tea Industry, p.85.

⁶ Op. cit., Report on the Techno-Economic Survey of Small Tea Gardens in Kottayam and Idukki, p.1.

⁷ Ibid., p.14.

and therefore the number of tea bushes per hectare will be lower in the inter-planted gardens as also production and productivity. Moreover, the presence of other crops in the same field complicates the assessment of vacancies for infilling tea. In Idukki where only 10 per cent of the gardens were inter-planted did not pose many problems, but some special exercise had to be done in respect of Kottayam.

The small tea growers of Nilgiris are better organised compared to their counterparts in Kerala. Nilgiris is known to have the largest concentration of small growers numbering around 20,000 and owning between half and twenty acres. Unlike the small growers in other tea producing regions of the country, the small growers of Nilgiris are serviced both by the private-owned 'bought-leaf' factories and government-owned cooperative tea factories. In fact, the introduction of cooperative tea factories in Nilgiris has forced the bought-leaf factories to pay a better price for green leaf of the small growers. Thus the introduction of cooperative factories in Nilgiris (at present numbering around 12) resulted in getting a fair price for the green leaf of the small growers. In 1979, on an average, the Nilgiris small grower got Rs.1.62 for per kilogram of green leaf.⁸ But the situation in Kerala is entirely different.

⁸ Statement from the Joint Director of Tea Industries, Coonoor, Nilgiris, 1979.

The only one cooperative tea factory is the Teekoy cooperative factory which is at present not working. But there are about 20 bought-leaf factories in Kottayam and Idukki. The mode of sale is determined by the nearness of cooperative or bought-leaf factories. In Idukki 100 per cent of the green leaf is sold to the private factories, whereas in Kottayam it has been distributed between the cooperative and private factories. The predominance of a large number of private bought-leaf factories has resulted in underpayment of the produce of the small growers. This is evident from the average price realised by the small tea growers per kilogram of their green leaf in Kottayam and Idukki. In 1979, it was 48 paise per kilogram in Kottayam and 56 paise in Idukki. Quality-wise the Idukki teas are better.

This situation has some important implications on the small growers of different regions of South India. If the small tea growers of Nilgiris are getting better price for their produce it means that they can undertake more development programmes and follow improved cultural practices than their counterparts in Kerala which will result in increased production and productivity. For instance, the production of small growers of Nilgiris accounts for 83 per cent of the total small growers' production in the country and the average yield rate of Nilgiris's small growers worked

out to be 790 kilogrammes of made tea per hectare.⁹ The small growers of Kerala contribute about 8 per cent of the total small growers' production in the country and the yield rate in Kottayam is lower at 580 kilogrammes of made tea and in Idukki 609 kilogrammes respectively.¹⁰

Further, the average size of the small holding in Nilgiris was found to be 1.33 hectares and the area planted with tea is 1.19 hectares. In Kottayam it was found to be 1.32 hectares and 1.07 hectares in Idukki. In terms of area planted with tea, the average size in Kottayam is 1.13 hectares and 0.63 hectares in Idukki.

With regard to the vacancy ratio also there are differences among these three regions. It is 47 per cent in Kottayam and 21 per cent in Idukki and it is around 25 per cent in Nilgiris. The difficulties of small growers in undertaking infilling programmes are mainly due to two important reasons:

- (i) Lack of sufficient finance,
- (ii) Inadequate availability of good planting material.

⁹ Op. cit., Techno-Economic Survey of Nilgiris Tea Industry, p.3.

¹⁰ Op. cit., Report on the Techno-Economic Survey of Small Tea Gardens in Kottayam and Idukki, p.1.

In Nilgiris the problem can be dealt partly through more clonal multiplication centres in the cooperative factories since the cooperative factories have covered about 68 per cent of the small growers in the district.¹¹ Regarding the small growers of Kerala, the scientific department of UPASI through its research station at Peermade and the sub-stations at Vandiperiyar and Meppadi can provide necessary scientific advice in this context irrespective of their membership. The Tea Board also can endeavour to tailor its developmental schemes to suit the needs of the small growers. For instance, an atmosphere should be created to enable the small growers to take advantage of Tea Board's schemes like Replantation Subsidy Scheme and the Tea Area Rejuvenation Scheme and Consolidation Subsidy Scheme.

5.3 The Factors behind the Growth of Small Tea Growers in South India

As mentioned earlier, when tea cultivation was introduced in South India, the principal form of ownership was that of proprietary ownership. But, in course of time,

¹¹ Sundaraman V., "Industrial Cooperative Tea Factories in Nilgiris" in Kissan World Plantation Supplement, (Madras, August 1978), p.40.

the importance of proprietary holdings declined mainly because of two reasons:

- (i) They were not able to adapt technological changes both in the field of cultivation as well as in other operations related to tea and
- (ii) they could not withstand the price fluctuations of tea in the world market.

Gradually, in the place of proprietary concerns large, more viable and stronger companies which could withstand economic adversity and bear the cost of innovation or expansion came to dominate the tea cultivation.

The structural changes in the South Indian tea industry can be divided into two parts. If the rise of the large corporate units was a feature of the years 1880 to 1940, there was a relative stagnancy of this form of development after that period. Since then there took place a marked shift from British to Indian Ownership and management on the one hand and on the other hand there appeared a very rapid proliferation of small holdings in Tamil Nadu and Kerala since 1950. Both the number of small holdings and area under them increased consistently. Table V-1 signifies the point:

TABLE V-1

**Number and Area under Small Holdings in Kerala and
in Tamil Nadu (1950-1978)**

Year	Kerala		Tamil Nadu	
	Number	Area (in hectares)	Number	Area (in hectares)
1950	750	1,652.83	2,143	2,774.28
1960	2,011	4,659.95	5,114	10,839.81
1970	2,595	4,813.73	6,732	11,687.81
1978	3,796	3,909.38	9,024	12,045.42

Source: Computed from Planting Directory of Southern India, UPASI (for respective years).

Specifically, there are three important reasons for the growth of small tea holdings in these two states. As mentioned earlier, majority of small tea gardens came into existence since 1950. At that time, tea prices enjoyed buoyancy and the export-quota system was in operation. This situation has not only prompted agriculturists to take to tea cultivation, but also encouraged them to register with the Tea Board since only gardens registered with the Tea Board are entitled to export quota. But the registration has slackened after the quota system was suspended in 1961.

Secondly, the growth of the small grower was stimulated partly by ceiling legislations and partly by availability of unopened lands in the hilly tracts of these southern states.

Finally, the introduction of cooperatives have given a fillip to the emergence of small growers. Before the introduction of cooperative factories the small growers sold their green leaf to the private bought-leaf factories where a fair price was never obtained. With the coming of cooperative factories, the private bought-leaf factories were forced to pay a more or less equal price for the green leaf. Thus the cooperative factories enabled the small growers to realise a higher price for their green leaves.

In fact, this particular development has helped mainly the small growers of Nilgiris. In Kerala small growers are mainly serviced by the private bought-leaf factories except one cooperative factory which is not working at present. It is seen from the survey that selling to bought-leaf factories leads to underpayment for the green-leaf on account of a discount by these factories in the gross weight of the crop on the plea of excess moisture content. It has resulted in a low price fetched by the small growers for their green leaf and many small gardens in Kottayam switched over to rubber

and other crops. Another important reason attributed by the growers for the switchover was the assistance given by the Rubber Board through their development programmes to the small growers' sector which constitutes 70 per cent of the total area under rubber in the country. In short, inter-plantation of other crops became a necessity for maximising the returns from land. The position in Idukki is somewhat different. The small tea gardens in Idukki are relatively of recent origin and a majority of these came into existence by 1960. Small growers in Idukki could not switch over to rubber since rubber could not flourish at those high altitudes.

5.4 The bought-leaf factories and the small growers

There is a direct relation with the growth of the bought-leaf factories and the growth of small tea growers. The existence of bought-leaf factories is a special feature of the tea-growing southern states of Kerala and Tamil Nadu where the largest number of small tea growers in the country exist. One important characteristic of these factories is that they only purchase green leaf from the small growers and most of them do not have their own gardens.

Nilgiris has the highest number of bought-leaf factories numbering around 75 followed by Idukki and Kottayam districts of Kerala. In Nilgiris, the bought-leaf factories

manufacture about 11 million kilogrammes of tea which is about 9 per cent of total South Indian tea production.¹²

As mentioned earlier, the small growers have only limited resources due to low productivity. Most of the small growers are depending on the bought-leaf factories for finance for purchase of manures and other short-term requirements. Against the advances, the small growers are required to sell their crop to these factories at prices arbitrarily fixed by them. The prices paid by the bought-leaf factories are invariably lower than the market prices at Cochin and Coonoor auctions. Table V-2 shows price paid to the green leaf of small growers in different regions of South India by the bought-leaf factories.

TABLE V-2

Average Price Paid to the Green Leaf in Nilgiris, Kottayam &

Idukki by bought-leaf Factories (Rs. per Kilogram of green leaf)

Year	Price paid in Nilgiris	Price paid in Kottayam	Price paid in Idukki
1975	1.39	49	54
1976	1.61	51	57
1977	1.91	53	60
1978	1.21	48	58
1979	1.24	47	59

Source: Sample Survey of 17 bought-leaf factories in Tamil Nadu and Kerala.

¹² Op. cit., Techno-Economic Survey of Nilgiris Tea Industry, p.54.

In fact, the bought-leaf factories themselves depend for their finance on money lenders who charge high rates of interest and are also often under an obligation to sell their teas to parties specified by them. Almost all bought-leaf factories have old or worn-out machines and so they are not able to control the quality of leaf brought to them which will result in low prices for made tea. As a consequence of these factors, the small grower also does not get a fair price for his leaf from the factories.

As is clear from table V-2, it is the small growers in Kerala who are the worst-hit section compared to their counterparts in Tamil Nadu. The main reason for the difference in the price realised in these two states is that when about 12 cooperative factories were introduced in Tamil Nadu, the weak bought-leaf factories were forced to close down and the large ones were forced to pay a better price for the green leaf. In Kerala the presence of a large number of bought-leaf factories without cooperative factories very often leads to underpayment for the produce. In Kerala they charge a discount of 10 to 20 per cent in the gross weight of green leaf purchased by them. The deduction in the weight of green leaf made by them fetch undue margin of profits. This unfair practice followed by the bought-leaf factories is due to the fact they operate in areas where either a cooperative factory or

other bought-leaf factories do not have any access to the small growers. In this context, it is important to suggest that the Tea Board as well as the Government of Kerala should take steps to start at least two cooperative factories in Idukki and to make the closed Teskoy cooperative factory working at the earliest so as to enable the growers of this region to fetch reasonable price for their produce.

The bought-leaf factories, with their limited resources, out-moded machines and unscientific manufacturing methods, are also not able to manufacture quality tea fit for export market. Again, because of the poor quality of teas they manufacture the price realised at Cochin and Coonoor auctions are less than that of the average auction price for the South Indian teas. This is illustrated in table V-3.

The immediate reasons for the substantial amount of private sale by the bought-leaf factories are:

- (i) higher amount of sales tax at auction (especially in Kerala),
- (ii) the drawal of large sample amounting to 2 kilogrammes per lot (at auction) with a consequential reduction in sales outturn,

TABLE V-3

Primary Marketing of Bought-Leaf Factories and the Average Price Realization at Cochin and Coonor Auctions Compared to Average Auction Price for South Indian Tea

	Sales at Auctions (As a % total sales)	Price Realised (Rs. per Kg.)	Average South Indian price at Cochin auctions	Private Sales (as a % of total sales)	Price realised (Rs. per Kg.)
1975					
Kerala	37.25	7.01	9.71	62.75	6.81
Tamil Nadu	55.26	9.04		44.74	6.89
1976					
Kerala	40.86	8.97	11.17	59.14	8.39
Tamil Nadu	61.78	9.86		38.22	9.57
1977					
Kerala	47.20	14.87	16.30	52.80	12.89
Tamil Nadu	77.10	15.97		22.90	14.12
1978					
Kerala	40.73	9.78	12.32	59.27	9.45
Tamil Nadu	73.80	10.80		26.20	10.21

- Sources: 1. Sample Survey of 17 bought-leaf factories in Kerala and Tamil Nadu.
 2. Tea Statistics, J. Thomas & Company, Calcutta, 1978-79.

- (iii) considerable lag involved in auction sale for realisation of sale proceeds,
- (iv) the higher cost of packaging in auction sale than in private, and
- (v) the prices at auctions are manipulated by oligopolists who are producers-cum-buyers and in this situation teas from such factories cannot normally expect a fair price.

Thus, on the one hand the bought-leaf factories are facing a serious situation where they find it difficult to catch up with the technological advancement made in the tea processing because of poor finance and low prices realised etc., and on the other hand they are exploiting the poor green leaf suppliers if they want to remain in the business at all. Considering this situation the Plantation Inquiry Commission on Tea (1956) recommended facilities for small growers for manufacturing their green leaf, so that external dependence can be minimised. The Government of India accepted this recommendation and directed the Tea Board to take necessary action to encourage the formation of cooperative tea factories and render financial assistance and other advisory services for their successful working. As a first step, the Tea Board, in consultation with the Government of Tamil Nadu, established eight cooperative tea factories in Nilgiris.

5.5 The Industrial Cooperative Tea Factories in South India

In the Indian tea industry cooperative tea factories are of recent origin. As mentioned earlier, the suggestion for setting up cooperative first came from the Plantation Inquiry Commission on Tea (1956) because of the special measures needed for the welfare of the small growers of tea who had very limited resources. So the cooperative factories were mainly started in places of concentration of small tea growers to purchase their leaves for better price and improvement of their gardens. The first industrial cooperative tea factory in India was, thus, started in the year 1958 at Yeadakadu village in the Nilgiris district. A few other cooperative factories were also organised in the beginning of the sixties. The growth of these factories has been steady, but is concentrated in the Nilgiris. Table V-4 shows the number of cooperative factories in the different tea-growing states.

The working of cooperative factories in Tamil Nadu is satisfactory whereas the one cooperative factory in Kerala has been recently closed down mainly due to the lack of sufficient finance. So it is possible to evaluate the working of the cooperative factories in Tamil Nadu.

TABLE V-4

Number of Cooperative Tea Factories in Different States

(As on 1979)

<u>State</u>	<u>Number of factories</u>
Tamil Nadu ..	11
Kerala ..	1
Himachal Pradesh ..	2
Assam ..	1

Source: United Planters' Association of Southern India, Coonoor.

The introduction of heavily subsidised state-sponsored factories have led to the following results. There is to some extent competitive bidding for green leaves which enabled the small growers to realise higher prices for their green leaf. This is borne out by the fact that they have been able to secure a price varying from 80 paise to Rs.2.20 per kilogramme of green leaf as against 30 to 40 paise per kilogramme which many of the small growers were able to get before the setting up of these cooperative factories. Table V-5 illustrates the point.

TABLE V-5

**Price paid to the green leaf Purchased by Cooperative
Factories in Tamil Nadu**

Year	Green leaf purchased (in million Kgs.)	Price (Rs. per Kg.)	Production of made tea (in million Kgs.)
1973-74	9.34	0.79	2.47
1974-75	12.07	1.33	3.15
1975-76	14.36	1.36	3.79
1976-77	16.72	2.07	4.20
1977-78	23.09	2.28	5.93
1978-79	25.53	1.52	6.45
1979-80	17.78	1.62	4.46

SOURCE: Statement from the Joint Director of Tea Industries, Coonoor, Nilgiris, 1979.

The green leaves are brought by the member garden planters and handed over to the factories at the collection centres. About 83 per cent of the green leaf is collected by the vehicles of the cooperative factories. The quantities of leaf deposited by the members are entered every day in a register. The member is advanced money by the cooperative factories in the beginning of every month and adjustment in the total amount due to them are paid after taking

into consideration the sales realisations at auctions and deducting from them the cost of production, trade expenses and overheads. From the average price per kilogramme of green leaf, 10 paise per kilogramme is deducted and added on to the share capital of each member.

Another important result of the establishment of cooperative factories is that competitive bidding for green leaves has led to the acceptance of coarse leaves, thereby bringing down the quality and value of manufactured tea. The economy of brought-leaf factories has, thus, been made worse than what it was before the inauguration of the cooperative tea factories. As a matter of fact, many of the bought-leaf factories in the Nilgiris district have been closed down.

5.5.1 Membership and coverage of Cooperative Tea Factories

The membership and coverage of area by the eleven industrial cooperative tea factories in Tamil Nadu as on 31-12-1979 is shown in table V-6.

In fact, the cooperative factories have covered only 64 per cent of the number of small-growers and about 42 per cent of the area owned by the small growers in Tamil Nadu. This estimate is based on the statistics provided by UPASI and the Tea Board. But there are a number of small

TABLE V-6

Details of Membership and Coverage by eleven Industrial
Cooperative Tea Factories in Tamil Nadu as on 31-12-1979

Total mem- bership	Area covered (in hectares)	Average area co- vered by a co- operative factory (in hectares)	Average Member- ship of a co- operative Factory
5051	4,995.14	454.10	532

Source: Statement from the Joint Director of Tea Industries, Coonoor, Nilgiris, 1979.

growers who are not covered by both of these bodies. Even for covering the small growers identified by these bodies, at least another six cooperative factories are necessary.

The only cooperative tea factory in Kerala at Teekoy (in Kottayam district) which registered in 1963 and went into production in 1965 had a membership of 260 gardens covering a total area of 345.56 hectares. As mentioned earlier, it has been closed down recently due to the lack of sufficient finance. It is important that necessary steps should be taken by the Government of Kerala and the Tea Board to reopen the factory and for establishing another factory in Kottayam district. Another two cooperative factories must be established at Idukki where there is a large concentration of small growers.

5.5.2 Loan Assistance to the Cooperative Factories in Tamil Nadu

The financial and technical assistance for the cooperative factories from the Government of Tamil Nadu and Tea Board has been substantial. The contribution is mainly in the form of share capital of these factories. The financial assistance was mainly for construction of the factories and purchase of the machinery. The funds required for working capital is met by Tamil Nadu State Industrial Cooperative Bank Limited as cash credit loan which is renewed every year. Table V-7 shows the contribution of Tamil Nadu Government and the Tea Board to the cooperative factories.

TABLE V-7

Contribution of the Government of Tamil Nadu and the Tea Board to the Cooperative Factories upto 31-12-1979

Total share capital (Rs. in lakhs)	State Participation (Rs. in lakhs)	Tea Board Loans sanctioned (Rs. in lakhs)	Tea Board Loan outstanding (Rs. in lakhs)	Govt. Loan outstanding (Rs. in lakhs)	Bank loan outstanding (Rs. in lakhs)
198.66	25.00	78.21	32.61	1.20	69.60

Source: Statement from the Joint Director of Tea Industries, Coonoor, Nilgiris, 1979.

The Nilgiris Small Tea Growers' Service Industrial Cooperative Society Limited which has become known as the INCOSEERVE, is the apex institution of industrial cooperative tea factories. This central service society renders service facilities and coordinate the activities of cooperative factories. For instance, it has been making bulk purchase of tea manure over the years and has been distributing it to the small growers through the cooperative factories. During the first three years the society was supplying manure on a subsidised basis (about 50 per cent) which was borne by the Tea Board. It has also constructed two warehouses, one at Coonoor and another at Cochin. It arranges to call for competitive tenders on behalf of the industrial cooperative tea factories for purchase of machinery required by its member factories.

5.5.3 Role of Cooperative Factories in Raising Productivity

The success of the first cooperative tea factory in Nilgiris encouraged small growers in other areas to approach the Government for the formation of more industrial cooperative tea factories. The working of the eleven cooperative factories in Tamil Nadu is encouraging. They are working not merely as manufacturing concerns, but also play a role in increasing productivity and improving the quality of the tea grown in small gardens. These factories supply fertilisers

and pesticides to member gardens at a very reasonable price. During the first few years the Tea Board gave the members of the factories a subsidy of 50 per cent on the price of fertilisers supplied both in Kottayam and Nilgiris. This helped the small growers to make use of fertilisers. Over the last ten years there has been an average increase of 20 per cent in the yield rate of member gardens. During 1979-80 the average yield rate per hectare of a member garden was about 892 Kgs. of made tea which was higher than the average yield rate of small growers' in Nilgiris (790 Kgs.).

The increased use of fertilisers, periodical spraying of pesticides and to a certain extent infillings also helped the increase in yields. But a large number of small gardens are yet to be benefited from the cooperative tea factories. This shows the possibilities of future increase in the production of small gardens.

An important problem facing the member gardens even today is that the quality of leaf produced is inferior. This can be made up in the long run by propagating vegetative clones of similar type in the nurseries and distributing them to the member gardens for replantings and newplantings. At present three cooperative factories in Nilgiris are having nurseries for propagating vegetative clones. Vegetative clones of 12 to 18 months old are distributed among members

for infillings, extension of area and also for replanting. It is highly necessary that each cooperative factory should have its own nursery for supplying improved planting materials to its members.

5.5.4 Employment potential

Employment opportunities created with the development of the cooperative tea factories is confined largely to the factory employment. Table V-8 shows the average number of persons employed in the cooperative factories.

TABLE V-8

Average Number of Staff and Labourers Employed in the Cooperative Factories (as on 31-12-1979)

Total number of persons employed in the eleven cooperative factories	Average number of staff employed	Average number of labourers employed
936	15.5	47

Source: Sample Survey of Five Cooperative Factories in Nilgiris.

But with the increasing productivity and developmental programmes in the small gardens more persons will get employment. The higher productivity in the gardens may provide fuller employment to small garden-owners. To a

limited extent additional employment can be created mainly for plucking the additional leaf that will be available from infilling and higher productivity. With a more coverage of small gardens by the cooperative factories additional employment opportunities can be created. Recently the INCOSERVE is planning to start their own plantations in Gudalur covering an area of 5,000 acres and is proposing to construct five factories mainly to accommodate the repatriates from Sri Lanka.

5.5.5 Cost of Production

Since the small growers are not keeping proper accounts regarding the cost of production and total production of green leaf it is not possible to get a clear picture about their actual cost of production. So a sample survey was conducted among the small growers organised under the cooperative factories in Nilgiris. With regard to Kerala, it is not possible to get figures regarding the cost of production due to two reasons, viz.,

- (i) the bought-leaf factories do not have proper accounts regarding cost of production under various heads and
- (ii) due to wide-spread inter-plantation of other crops with tea the small growers in Kerala are not in a position to supply the necessary data. Table V-9 shows the average cost of production of tea among the small growers covered by the cooperative tea factories in Nilgiris.

TABLE V-2

Average Cost of Production of Tea Among Small Growers
Under the Cooperative Tea Factories in Nilgiris

(Rs. per Kg. made tea)

Items	Year	1970	1975	1979
Leaf cost (includes rate paid to green leaf)		3.83	6.12	7.29
Manufacturing expenses		0.40	0.61	1.19
Selling expenses		1.56	1.62	1.69
Overheads		0.19	0.24	1.12
	TOTAL	5.98	8.59	11.29

Source 1. Survey of India's Export Potential of Tea, Vol.II
The Marketing Research Corporation of India, New
Delhi, 1972.

2. Sample Survey of Five Cooperative Tea Factories
in Nilgiris.

The cost of production of tea per Kg. during 1979 was Rs.11.29 which was higher than the average cost of production of South Indian tea during the same period (Rs.10.24). One of the important problems in the cost analysis of the small tea growers is that a majority of them use family labour instead of hired labour which is not properly accounted. Even the hired labour is casual. In the case of organised small growers under the cooperative factories the transportation cost is borne by the factories and with regard to the

unorganised group it is borne by the middlemen. But data on this is not available. The cost of inputs is fairly insignificant among the unorganised small growers. The estimates of various study groups of the Tea Board show that the cost of production of green leaf amounted to 49 paise per Kg. in Kottayam, 46 paise in Idukki and 47 paise in Nilgiris during 1978-79. The slightly lower cost of production in Idukki and Nilgiris is due to higher yield per hectare in these regions.

It is therefore clear that the small growers in Kottayam incurred a marginal loss of one paise per Kg. of green leaf (average price obtained is 48 paise per Kg.) while those in Idukki made a profit of 10 paise per Kg. of green leaf (price obtained is 56 paise) and in Nilgiris the small growers under cooperative factories made a profit of Rs.1.15 (price obtained is Rs.1.62). Taking into account the yield based on effective area under tea in Kottayam the loss incurred per hectare on account of tea cultivation works out to Rs.26.00.¹³ Obviously the main sources of income of the small growers in this district are other crops interplanted with tea and the income from these crops might be sufficient to compensate the loss incurred on account of tea.

¹³ Op. Cit., Report on the Techno-Economic Survey of Small gardens in Kottayam and Idukki, p.29.

Considering the small growers in the cooperative fold in Nilgiris there are possibilities in reducing the cost of production, especially in the manufacturing side. For instance, during the survey it is reported that the cooperative factories are facing problems like scarcity of coal and firewood which will result in an increase in the cost of production since it is bought at three times higher price. The net result is that the amount paid to the small grower becomes less who is the ultimate sufferer.

Again, about 60 per cent of the made tea from the cooperative factories are meant for export. But shortage of aluminium linings will affect export. So stocks meant for export accumulated which affected the financial position of factories and they were forced to borrow at a higher rate of interest. Recently the INCOSERVE proposed to construct a plywood factory for assuring a regular supply of tea chest material to the cooperative factories.

Finally, there are possibilities of reducing cost via reduction in duties and taxes. At present the cooperative factories have to pay an excise duty of 72 paise per Kg. of made tea in Nilgiris which nearly covers 60 per cent of the total cost expended by these factories under the head of duties and taxes. Government can reduce such fiscal imposts for the healthy growth of cooperative factories and small growers.

S.5.6 The Marketing of Tea by Cooperative Factories in Nilgiris

There is a great difference between the primary marketing of manufactured tea by the bought-leaf factories and industrial cooperative tea factories in Nilgiris. First of all, the grades of tea which are considered suitable mainly for the domestic market (dust grades) are sold through Coonoor auctions and tea meant for export is sold through Cochin auctions. Secondly, a lion's share of cooperative factories' tea is sold through auctions instead of private sales. And the price realised at auctions by the tea of cooperative factories is higher than that of the bought-leaf factories. This is illustrated in Table V-10.

TABLE V-10

Primary Marketing of Tea by Cooperative Factories in Nilgiris (in percentages)

Year	Tea sold at Cochin Auctions (as a % of total sales)	Average price realised (Rs./Kg.)	Tea sold at Coonoor Auctions (as a % of total sales)	Average price realised (Rs./Kg.)	Private sales (as a % of total sales)	Average price realised (Rs./Kg.)
1975	31.41	9.08	68.51	7.92	0.08	8.37
1976	30.10	9.32	69.20	8.10	0.70	7.82
1977	36.73	15.27	63.10	10.47	0.17	10.12
1978	32.26	11.70	64.76	8.80	2.98	7.98
1979	30.14	10.64	67.00	8.19	2.86	7.79

Source: Sample Survey of Five Cooperative Tea Factories in Nilgiris.

Due to seasonal price fluctuations and the prolonged slump in the world tea market the cooperative factories had not been able to get remunerative prices in the auctions. The slump is to a greater extent manipulated since in the present system of tea auctions, a combination of big buyers is controlling the disposal of tea where major producers are major buyers selling tea by mutual accommodation. In turn, the cooperative factories had not been able to pay a remunerative price for the green leaf purchased from small growers.

Recently, the cooperative factories under the INCOSEWVE have started pocketing their teas on a small scale and is selling them through the government super stores under the brand name called INDCO. The officials pointed out that the brand had been well received in the market and the demand is increasing. The introduction of such a type of marketing system for the small grower with minimum recourse to intermediaries will ensure a reasonable price to the producers and a reduction in price to the consumer of tea.

In this connection, it is important that the Tea Board should help the cooperative factories in setting up blending factories and for marketing tea directly to the consumer. From the part of the government it should create a 'captive market' for the teas produced by the cooperative factories.

For instance, the government could issue orders directing the purchase of teas for the defence services and other public sector canteens directly from the cooperative factories and similar organisations at a reasonably negotiated price.

With regard to the export marketing of tea from the cooperative factories an export marketing organisation is necessary. In this context, the steps taken by the Kenyan Tea Development Authority (KTDA) is noteworthy which has organised about 56,000 small growers in Kenya.¹³ The KTDA took over the pooled tea distribution and started marketing from early 1978 which was hitherto entrusted with Brooke Bonds. For this purpose, a new company known as Kenya Tea packers Limited (KTP) was formed which will receive from all tea producers a percentage of their production for pool. The KTP will export teas packaged under a new trade mark.

5.6 Developmental Problems of South Indian Small Tea

Growers

If the small growers' problem is viewed as a resource problem it is one of scales. When viewed as one of systems, it is highly complex and no one characteristic like

¹³ Stern N.H., Development Centre of the Organisation for Economic Cooperation and Development, An Appraisal of Tea Production on Small Holdings in Kenya, (Paris, 1972), p.11.

knowledge extension, credit etc. taken singly can provide the remedy. Any single remedy applied in isolation will do perhaps irreparable harm. The Plantation Inquiry Commission on Tea (1956) pointed out that the problems of small tea growers are akin to the small agriculturists. So the remedies suggested by the Report of the All India Rural Credit Survey of small farmers can be equally applied to the tea leaf growers as well.¹⁴ But till now, there does not seem to be any conceptual unity in the approach of the government to the problem of the small units. The various measures of assistance extended by the government tend to make the small growers' economy tolerable instead of providing them with conditions for real advancement. If the aim is clearly to increase the productive efficiency of small units and to bring the quality of their leaf a level comparable with that of the larger estates the essential task is an integration of development assistance from the planting of tea to the final marketing level operations.

Generally speaking, the problems of the small growers can be explained in terms of the 'circular causation' method. The resources of small growers are limited and as a consequence their productivity is low. So they find it difficult to get credit on reasonable terms and are unable to

¹⁴ Op. Cit., Report of the Plantation Inquiry Commission on Tea, (1956), Part-I, p.220.

spend adequate amounts in manuring and plant disease control. They do not have any factories and have to depend on bought-leaf factories. The quality of the manufactured tea will be inferior which will result in lower price realisation which means the small grower is the ultimate sufferer.

Although the measures like the introduction of co-operative tea factories for the small growers have relieved the difficulties to some extent, the problems of declining tea prices and increasing cost of production still remain as the travail of the Indian tea industry. The main problem of the slump in the world tea market arises from the fact that the price of tea is determined by a handful of international companies who controls the world tea plantation system from its production to retail marketing level operations. These companies are showing greatest disinclination to make profits in the producing countries, but at the retail marketing level it is pushed up where also they have a considerable degree of concentration. This will result in comparatively lower prices at tea auctions to the producers and an inproportionately higher retail prices for the ultimate consumer of tea. Here the small growers are the worst-hit section.

In this connection, certain steps taken by the government of Kenya to relieve the small growers from their immediate, short-term problems through the KTDA is noteworthy. The main functions performed by the KTDA are the following:

- (i) supplying planting material and fertilizers to the small growers on credit terms,
- (ii) supervising cultivation in the field and providing marketing facilities,
- (iii) arranging for the inspection, collection and the transport of green leaf and
- (iv) providing proper arrangements for processing and marketing.

Accordingly the KTDA has four main divisions of activity. A cess is collected from the small growers to finance its operations.

Each of the KTDA's factory operates as a separate financial undertaking under its own board of directors. Any surplus after meeting the expenses is passed to the growers as a second payment for their leaf. This lumpsum at the end of the year has proved an attraction to the small growers. It is through this mechanism that changes in the price obtained from KTDA reach the growers.¹⁵ It is hoped that as the factory pays off its loan capital, the growers themselves will take up shares in the factory. At present this is happening with the old factories.

¹⁵ Op. cit., Stern N.H., p.16.

Another important feature of KTDA is that it has centrally organised those parts of the activities that have economies of scale such as processing, transport, education, accounting etc. . . . It has also helped the growers to carry out those parts of the activity that can be rewardingly decentralised.

5.7 Short-term Measures for the Small Growers in South India

In order to step up the productive efficiency of small growers the Government of India has taken certain measures and are implementing them through the Tea Board. For fulfilling the long-term measures such as the extension of tea area, replacement planting and replanting of old areas the Tea Board makes available loans under the Plantation Finance Scheme and subsidy under Replantation Subsidy Scheme which now covers the replacement planting also. However, the production of tea can be augmented by the adoption of various measures such as extended pruning cycle combined with proper plucking, adoption of improved cultural practices such as drainage, irrigation, application of fertilisers and manures and measures for the control of weeds, pests diseases etc. Moreover, non-availability of suitable land has proved to be a limiting factor, especially in the hilly areas. Replanting involves loss of crop and the rehabilitation of the land, from which tea has been uprooted

requires a long period of time during which it is essential to keep the land protected from erosions, especially in the hilly areas. Consequently replanting of old and uneconomic tea area has not made much headway in the hilly areas especially in the case of the small growers.

But the sample survey conducted during the study showed that the bushes which are more than 50 years old are nil among the small growers in Tamil Nadu and Kerala. For instance, in Kerala about 75.55 per cent of bushes belong to the age group of 11 - 30 years, whereas in Tamil Nadu about 55.20 per cent belong to the age group of 31 - 50 years.¹⁶ However, the age group of bushes under the largest estates shows a different feature. For instance, in Kerala estates having more than 400 hectares are having about 53.10 per cent of the total area in the age group of above 50 years and in Tamil Nadu it is 44.20 per cent. The most important reason for this behaviour of the bush population is that the tea estates of large size have started their plantation long time back and they are not adopting a systematic programme of replacing the bushes of 50 years old. So it can reasonably be inferred that the replanting needs of the small growers are comparatively less.

¹⁶ Personal Sample Survey of 242 tea gardens in Kerala and Tamil Nadu.

Since a majority of bushes under the small growers are in the economic age group, the programmes of rejuvenation or replantation are not necessitated in the immediate future. Instead small growers may initiate programmes for infilling the vacancies so as to increase the number of bushes per unit which will result in increased production per unit and lower unit cost of production. As mentioned earlier, the vacancy ratio among the small growers in Nilgiris is estimated to be around 25 per cent, 47 per cent in Kottayam and 21 per cent in Idukki. Since sufficient funds are not available with the small growers for investment, Tea Board may evolve a suitable scheme so as to provide the necessary help to the small growers in undertaking infilling and interplanting of bushes in between the rows. An important difficulty of small growers in Kerala is non-availability of suitable planting materials in adequate quantity and at reasonable price. Again, the practice of application of chemical fertilizers was found to be practically absent among the small growers of both Kottayam and Idukki. Advisory Services to the small growers have to be strengthened. It is therefore necessary that the small growers should be organised under the cooperative factories as suggested earlier.

Another important problem is that area under possession of the small growers are found to be fallow. In Idukki the area found fallow which is suitable for tea cultivation

is around 41.5 per cent, whereas it is 6.8 per cent in Kottayam. In Nilgiris, it is estimated to be 12.04 per cent.¹⁷ In Idukki and Nilgiris where interplantation is negligible and agro-climatic condition is more suitable for tea cultivation compared to Kottayam, the extension of area under tea cultivation has much scope.

Though there are various measures of Tea Board to improve the conditions of the small growers there are technical difficulties in utilising them. For example, the small growers could not avail of the Replanting/Replacement Subsidy Scheme of the Tea Board since they could not abide by the rules and regulations of the scheme. So it is important that certain amendments to the scheme are necessary, so that the small growers can utilise this scheme to improve their tea gardens and thus play a vital role in increasing the production of the tea in India.

As suggested earlier the conditions of small tea growers in Kerala can be improved by organising them under the cooperative tea factories. In Nilgiris one of the main problems facing the cooperative factories is the problem of maximisation of capacity utilisation. For maximising the capacity

¹⁷ Op. Cit., Techno-Economic Survey of Nilgiris Tea Industry, p.20.

utilization increased supply of green leaf is essential which necessitates the adoption of developmental measures such as infilling of vacancies and extension of area and the use of improved planting materials. Further, the existing factories can cover more small growers so as to enhance the supply of green leaf.

CHAPTER - VI

6. LABOUR IN SOUTH INDIAN TEA PLANTATIONS

6.1 Importance of Labour in the Tea Plantations

From the national point of view, the importance of tea in the Indian economy arises from the following facts viz.,

- (a) it is the largest employer of the organised labour,
- (b) it makes great contribution to the foreign exchange earnings and
- (c) it is an important source of income to the national exchequer.

Supply of a large number of labourers is a pre-condition for the development and growth of tea plantations. Compared to other plantation industries such as rubber and coffee, tea requires a much larger amount of permanent labourers due to its peculiar characteristics. For instance, tea has to pass through more stages before taking its final shape compared to other plantation products. In South India, the number of labourers required for production of tea is more than in North India since plucking of tea is done throughout the year in South India.

The tea industry is a labour-intensive industry which has its specific importance in India where unemployment is one of the serious economic problems. A large number of ancilliary industries have been started to fulfill the requirements of the tea industry where thousands of people are employed in different jobs. According to one estimate, if we take into account permanent labourers, casual labourers, staff members and workers engaged in transportation, warehousing, broking, blending and distribution etc., the total number will be more than 10 million.¹ Those who are directly employed is estimated to be about one million.

The tea plantations, as pointed out at the outset, relies heavily on the presence of a large supply of labourers. Thus, for tea production the labour costs constitute a significantly large part of the total expenses -- more than for most other plantation crops -- although there are inter-farm cost differences. According to the report of the Plantation Inquiry Commission on tea in 1953 labour cost formed about 45 per cent of the total cost of production in South India.² During 1978-79 it has increased to 48 per cent of the total cost of production.³

¹ Borooah P., "Crisis Hit Tea Industry Needs Urgent Relief", in Planner's Journal and Agriculturist, (Calcutta, 1969), p.603.

² Op. cit., Report of the Plantation Inquiry Commission, p.99.

³ Personal Sample Survey.

Here the term labour refers to the unskilled labour employed in the tea plantations. It very often happens that the managerial staff employed in the tea plantations are clubbed with the ordinary labour. The managerial staff forms a class which is distinct not only from ordinary labour, but also from shareholders and a conflict of interest does arise between wage-earners in the lower ranges and salary-earners in the higher ranges as much as it does between wage-earners and profit-earners. The crux of the matter is that the earnings of upper-grade employees in an organisation is not a pure category at all. They contain, besides remuneration for labour, elements which are analogous to rent and quasi-rent, not infrequently monopoly surpluses also.⁴ To place these various surpluses on the same footing as the wages of common labour is misleading. So these surpluses have to be recognised as a distinct category, whether it is ascribed to special talent, to past investments on education or to monopoly restrictions. In the tea plantations, the estate owners, managers and the businessmen form the upper class section. But they together constitute only a negligible few compared to the large number of wage labour employed in the plantations.

⁴ Das Gupta A.K., A THEORY of Wage Policy, (New Delhi, 1977), p.3.

6.2 Important Characteristics of Labour in the Tea Plantations

6.2.1 Immigrant Labour

Adequate supply of labour has always been one of the major problems faced by the planters in the history of plantations in South India. Tea was initially grown in jungle-infested, inaccessible areas in the hills. They were mostly uninhabited and there were no roads. So the pioneers had either resorted to a system of forcible recruitment or imported artisans and unskilled labourers from the nearest towns and villages. The pioneers had to go personally to the villages and collect gangs which they took back to the estate with them.

At first the recruitment of adequate local labour for the distant areas proved difficult. But a lustily-expanding tea industry required increasing help of workers. Regional supply being inadequate, special recruitment proved necessary to keep pace with the expansion of the industry. But the pioneer planter's problems were made difficult by the competition from Sri Lanka and Malaya for South Indian labour to work on estates there. As mentioned earlier in 1891 about 253,000 South Indian labourers were working in Sri Lanka's plantations. The people of Indian origin were recruited to Sri Lanka as indentured labour from India under an agreement between governments of India and Sri Lanka in 1839.

As pointed out earlier, initially the South Indian plantations depended on an annual immigration of 4/7 of their labour force. In course of time, people got accustomed to joining estates nearer home than Sri Lanka. Later, a class of professional recruiters came into being (they are very often referred as Kanganies or Maisteries). These groups were anxious merely to put labour on the estate and draw their commission regardless of whether the labour was suitable or not. Of all the inducements to a plainsman to go upto the hills for work the most potent was a cash advance.

As shown in table I-4, most of the early labour for the tea plantations in South India came from the Tamil districts of Salem, Madurai and Tiruchirappally which were under the British rule. The immediate causes for the large migration of Tamil labourers to the planting districts of South India and to Sri Lanka were primarily two:

- (a) the extreme poverty and insecurity of work combined with the experience of two terrible famines in the 1850's in Madras and
- (b) the destruction of Tamil weaving trade by the British free trade.

In the native states of Travancore and Cochin the agricultural labour force formed a minority among the agricultural labour population. In Travancore the labour had a reserve

price arising from the state of agricultural development in that state. So the British planters had to cast their net wide in the famine-hit Tamil villages. Even today nearly 50 per cent of wage labour in Kerala's tea plantations are migrants from Tamil Nadu and the rest are immigrants from the plain districts of Kerala.

Initially there was no resident labour. Most of the immigrant labour returned home and a few who remained set up as independent agriculturists and did not continue to work on estates. The early legislative measures with regard to the plantation labour protected the planters' interests and assured them an adequate supply of labourers. (For example, labourers were punishable for breach of contract under the Workmen's Breach of Contract Act 1859). However, the Government of India passed an Act in 1925 repealing the Workmen's Breach of Contract Act. This was meant to create a better climate for work in the plantations.

The system of pre-employment advances continued until restrictions were placed on it by the application of the Payment of Wages Act 1947. The Kangany system of recruitment was removed at one stroke. In October 1951 Government of India, through a directive, abolished the Kangany system.

In general, the development of plantations all over the world necessitated two basic requisites; viz., large area of cultivable land and a large labour force. However, the areas most suited for plantations faced the problem of acute labour shortage. They had to depend on migrant labour whose migration had to be induced by the planters. The early plantations in America and the Caribbean islands were run on slave labour. After the abolition of slavery indenture became a common mode of recruitment. In fact, Capital's unending search for labour for the purpose of extracting raw materials from the colonies in the form of plantation produce or minerals resulted in the migration of workers from one region to another. The use of migrant labour in the colonial plantations was strategically helpful to the British since the chances of sustained opposition from those who had only a temporary interest in the land were much less.

6.2.2 Social Organization in the Tea Plantations

The two important characteristics of the tea plantation system are the (a) specialised capital using and (b) hiring wage labour for production for a foreign cash market. The initial cheap land and labour were used for satisfying the growing demand in the industrialised West which resulted in handsome returns to the relatively scarce factor, namely capital. The tea plantation economy did not by any means

create a free labour market. As an imposition from outside it did not arise with the rise of free wage labour. It was not meant to be an instrument of the generalisation of the commodity form of labour power.⁵ The most distinctive feature of capitalism in the plantation system of production is the production of surplus value as the direct and determining objective function. But it lacked yet another characteristic of the capitalist mode; a radical generalisation of the market relations at home.⁶

The immigrant labour enabled the planters to set up their 'enclaves' in splendid isolation. The peculiar feature of the immigrant labour was that they were forced to live in the plantations away from the rest of the population and, as a result, they became isolated. These, no doubt, have changed since the days of plantation economies of colonial times and are changing even now; but the change in these situations is determined by the context of isolation of plantation from the wider social system, the influence of working class organisations among the workers and the role of the state.

⁵ Shanmugaratnam N., "Impact of Plantation Economy and Colonial Policy on Sri Lanka Peasantry", Economic & Political Weekly, (Bombay, January 17, 1961), p.79.

⁶ Ibid., p.79.

The entirety of tea plantations used resident captive labour. The few locals who got into the labour force of these enclaves became captives themselves. The captive labour was regimented to suit the cycles of operation in the tea plantations. Employment of indentured or slave labour ensured for the planters that the workers were bound to work on the plantations on whatever wage was given to them. In this way the planters were able to obstruct the growth of a labour market and the workers were deprived of a market wage. In the normal course, when the labour market is relatively free, the market wage is determined by the demand for, and supply of labour. When there is a shortage of labour, wages rise in order to attract more workers to the market. However, in the plantations we find that the wage rate was not only static, but it was even lower than the wage rate of the local agricultural workers.⁷

Isolation and almost complete absence of legal protection had placed the plantation worker in a position of total dependence. This prevented the worker from migrating elsewhere for better wages. The planters, on the other hand, enjoyed full protection from their respective governments, as it was noted earlier.

⁷ Bhownik Kumar Shrivastava, "The Plantation as a Social System", Economic & Political Weekly, (Bombay, September 6, 1960), p.1525.

The tea plantation system is a social system with a distinct class structure, economy and way of life that separates it from other types of societies which are not plantation-dominated. The socio-economic structure of these plantations is rigid with a chain of command which is undisputed. The social structure of the plantations is roughly three-tiered with the owner at the top, skilled supervisor or managers directing the production in the middle and the unskilled workers at the bottom.

The plantation society is exhibiting both cultural pluralism and social integration. The creation of a new social order from the elements drawn from different societies and cultures could be achieved only if there was sufficient authority and control to bring these diverse elements into line for a common purpose. The plantation system provided the basis for this. For instance, the plantation system has provided the laws and rules of accommodation among different groups of immigrant labour drawn from different ethnic and cultural origins. The resulting power structure gives the plantation many of the characteristics of a small state with a classification of people into different strata together with a formal definition of the relationship between them. The caste hierarchy of the immigrant labourers was fully exploited by the planters in the regimentation of the labour. The labourers belonged to the lower castes; the supervisors

(Kanganies) were from higher castes. In most instances the Kanganies brought the workers from their own localities. This enabled a direct transplantation of the caste order of the South Indian villages into the estate to the advantage of the management. The workers were by birth subordinates to the Kanganies and this servility was now institutionalised in the estate. Thus race or caste became a moral justification for the pattern of distribution of economic and social power.

The socio-economic formation of the South Indian tea industry, with its heavy dependence on manual labour, is significantly different from other industries. The general isolation of the plantations and its dependence on immigrant labour gave rise to some specific characteristics to its labour force. The social relations among the workers which evolves out of such system is also bound to be different from that of labour in other industries. Further, the social relations and the production relations which spring forth from such a system are important characteristics of the plantation system.

6.3 Changes since Independence

6.3.1 Labour Movements and Labour Legislations

The plantation system is not a static system. The plantation is a component of the socio-economic formation. The factors that are inherent in the plantation system are

in fact allowed to exist or protected by the larger socio-economic system. The production relations in the plantation system change when there is a change in the wider socio-economic formation. For instance, Cuba is a 'plantation economy' having the superficial characteristics of other plantation economies. However, after the revolution in 1959, the socio-economic system has changed. The absence of foreign ownership and the change in the social and class structure shows that Cuba cannot be equated with other plantation economies of the region. Prior to 1959, the Cuban sugar plantations also had coercion, low wages and all other inherent features of a plantation system. These features have changed as the ownership of the plantations passed from private owners into the hands of the state.

In India too, since independence, the political pressures are increasingly mounted on the government to pass laws protecting the plantation worker and giving him a high degree of security in his work. Conditions for the growth of workers' organisations develop and which, in turn, encouraged the plantation workers to fight for better conditions of work. The use of coercion is relaxed to a certain extent and the isolation of plantation is broken down.

In the South Indian tea plantations the old plantation system could run successfully as long as the workers remained out of touch with the wider social system and

remained unorganised. The more the workers came in contact with the wider social system, the faster was the pace of their social emancipation. As early as 1939, the growth of political consciousness had begun to affect tea garden labour and rapid changes were at hand. Before the growth of the trade union movement wages were determined by the planting associations for the respective districts and on the other hand the planters got the support of the government in passing laws in their favour. But, with the organised movement of labour, the respective state governments were compelled to modify many of the stringent laws which favoured the planters at the expense of the workers.

The tea plantation labour movement in South India really began with the formation of the Estate Staff Association of South India in 1929. But this association was registered under the Societies Act and was never technically a union. Its sponsors were a few enthusiasts in the staff of some tea estates in Nilgiris. Its objects, as set out in its memorandum, included the establishment of Death and Retirement funds and the general improvement and increased efficiency of service with the cooperation of employers. In 1947 a group broke away from the Estate Staff Association of South India and formed the Estate Staff Union of South India. The Wynad seems to have led the way and a strike in that district at the end of 1946 led to the formation of a union of estate workers.

With the proliferation of unions in the South Indian tea estates pressures on the employers as well as on the government increased. A tripartite conference of the representatives of the state governments, employers and workers in the tea industry was held on 8th and 9th January 1947 in New Delhi to consider the special problems affecting tea plantation labour and to decide specific measures to be taken to secure a living wage and reasonable conditions of work and housing. The conference agreed that the government should prescribe and enforce standards regarding housing and medical services for plantation labour and the employer should submit their proposals through the state governments.

A second meeting was held in New Delhi in 1948. The committee agreed to discontinue the employment of children who had not completed the age of twelve. A third meeting of the Industrial Committee held in New Delhi in 1950 laid down certain standards in the housing facilities to the workers and recommended that the employers should aim at a target of providing eight per cent of the population in the gardens with houses every year.

The Wage Board for the tea plantation industry was set up in 1960. It submitted its final report in 1966 and recommended the minimum rates of daily wages for tea plantation labour in various states (of course, during this period

three interim increases in wages were given to the plantation workers). For some of the states different wages have been fixed depending upon the size of the estate. In Kerala guaranteed time rates have been fixed and in Tamil Nadu and Karnataka incentives were provided for plucking green leaves. Other benefits given to labourers include housing facilities, food stuff and clothing at fixed prices.

In 1946 workers put forward the demand for profit-sharing and the employers accepted the resolution that every worker in an organised industry should receive an annual lumpsum amounting to at least four per cent of the total earnings in the particular year. But, in Kerala in 1950 the labour unions demanded a bonus higher than four per cent and at a tripartite conference in the following year the figure was raised to $8 \frac{1}{3}$ per cent in the case of tea estates. The Bonus Commission signed its final report in January 1964. According to its recommendations 60 per cent of a company's available surplus (67 per cent) in the case of foreign companies) should be distributed as bonus of four per cent of annual earnings (Basic Wage plus Dearness Allowance) or Rs.40 whichever was higher.

The early acts were not actually labour legislations since they did not regulate working conditions in the tea plantations, but they were legislations related to

immigrant labour. In fact, until the end of the second world war, proposals for wage increases in South Indian tea districts were generally initiated by the government rather than by the labour. Since independence the struggles of other sections of working class encouraged the plantation labour to organise struggles for its own rights. The immediate impact of the growth of political consciousness reflected in the plantation labour movement of Kerala than in any other tea-growing states of South India. There had been continuous strikes in this area on issues such as profit sharing, proper fixing of tasks, wage and retirement benefits, plucking rate and bonus payment etc. Today the most important weakness of the labour movement in South Indian tea plantations is the multiplication of unions. Both the sectarian and regional differences among the labour are skilfully exploited by the plantation management for keeping the wage labour divided. According to the management, multi-unionism among the labour is due to the extension of political cleavages from larger society to the plantation sector. They are actively encouraging the multi-unionism. This is because multi-unionism reduces the bargaining power of labour by promoting intra-group conflicts among them. In this context, it is pointed out that the rivalry between trade unions synchronised with the management-labour cleavages in the plantation sector and both, in turn, are extensions of sectarian and political

cleavages in the larger society which conform to the differential distribution pattern of the scarce values of land in the dominant agricultural sector.⁸

6.3.2 Trends in Employment

The tea plantations, as mentioned at the outset, relies heavily on the presence of a large supply of permanent resident labour. In the South Indian tea plantations the field labour on an average constitutes about 90 per cent of the total labour force and the rest 10 per cent is employed in the tea factories. As indicated earlier, there has been a rise in the wages of plantation labour along with the increased fringe benefits of housing, medical facilities and general amenities through government and trade union pressures under the post-war labour legislations. Although the prices of tea machinery have gone up as a part of the rise in the general price level, the prices of labour have gone up by a larger extent in many cases. This has given a powerful stimulus to the replacement of labour by machinery in the field and the factory. In physical terms, i.e., adjusting for cost-price changes, the industry has been using progressively more machinery and equipment with a steady rise in output per

⁸ Raj Ramachandra, Industrial Conflict, (New Delhi, 1980), p.105.

man-day leading to a reduction in the labour force. Table VI-1 illustrates changes in the volume of employment in relation to the growth of the tea plantation industry as revealed by the growth in area, production and productivity between 1950-1978.

Table VI-1 reveals that despite the increase in acreage and production, the quantum of labour employed in the South Indian tea plantations has decreased significantly during the 28 years by nine per cent between the period 1950-1978. It will be seen that though the rate of growth of area under tea was slow, the increase in production was steady. The volume of employment increased during 1950-1960 and then it was decreasing steadily.

The average number of labour employed per hectare of planted area (measuring labour intensity per unit of land) also recorded a fall of about 16 per cent during 1950-1978. But the output per labour has registered a record increase of 223 per cent during the same period.

The association of the increase in output per labour with a significant decrease in labour-land ratio in the South Indian tea plantations lends to suggest that the improvement in productivity might have been achieved partly through the introduction of tools and machinery of the labour-saving type. As pointed out by Ragnar Nurkse "productivity or output

per man hour depends largely on the degree to which capital is employed in production. It is a function, in technical terms, of the capital intensity of production.⁹ Here, the twin effect of a rising trend in production per hectare and the falling trend in labour employed per hectare would naturally lead to an increase in output per labour employed.

In the South Indian tea plantations the labour-saving techniques have been prevalent in the larger units of the processing factory, including those sections dealing with rolling, cutting and drying. Today many units are trying to mechanise plucking which demands a very large part of the total working force in the tea production and constitutes the most expensive operation for a tea enterprise. A highly debatable technical point regarding the mechanisation of tea plucking is the depreciation in quality associated with mechanical pluckers as they preclude selective picking of the ready leaf. However, weeding and pruning, the other two labour intensive operations, are more amenable to mechanical treatment. But these so-called rationalisation drives in most cases are only devices to increase the workload and reduce employment. Processing jobs in a number of gardens have been mechanised, throwing a number of workers out of employment. However, the so-called mechanisation as rationalisation does not necessarily mean fresh

⁹ Nurkse Ragnar, Problems of Capital Formation in under developed Countries, (Oxford, 1958), p.9.

investment by the owners in overall improvement in the age-old gardens. Many of the tea companies have diverted large sums to other countries or other industries starving the tea gardens of much-needed resources even for minimum maintenance.

As labour is not uniformly organised in all regions, the planters who have to pay higher wages tend to reduce labour inputs per hectare and increase intermediate material inputs for labour. The application of labour-saving type techniques is highly correlated with the level of technology and this change from manual labour to mechanical devices has been gradually displacing labour. A study by the Reserve Bank of India on 139 tea plantation companies shows that investment on capital equipments (plants and machinery) increased at a rate which was three times more than the rate of increase in the total wage bill. This is shown in table VI-2.

It can be seen that total investments on plant and machinery increased by 48 per cent while the total wage bill increased only by 16 per cent during 1960-61 to 1965-66. If we assume that the price of capital equipments did not increase at a faster rate than the increase in wage rates, this would suggest an increase in capital intensity, i.e. a decrease in the labour-capital ratio in our plantations.

From the foregoing analysis it can be observed that the gradual change to a labour-saving technology have favoured

TABLE VZ-2

Total Wage Bill and Investment on Capital Equipments in
139 Non-Government Public Limited Plantation Companies
(1960-61 to 1965-66)

Items of Investment/ Expenditure	1960- 61	1961- 62	1962- 63	1963- 64	1964- 65	1965- 66
Plant & Machinery (in lakhs of Rs.)	921	995	1095	1167	1272	1372
Index of Investment in Capital Equipments (Base: 1960-61=100)	100	108.04	118.89	218.88	138.11	148.87
Total wage bill (including salaries, wages and bonus) (in lakhs of Rs.)	1149	1150	1221	1221	1293	1335
Index of wage bill (base: 1960-61=100)	100	100.09	106.27	106.27	112.53	116.19

Source: Reserve Bank of India Bulletin, Bombay December 1967, p.1563.

greater capital intensity in production techniques and have gone against the objective of maximising employment.

6.4 Wages

Very often wages are referred as a payment made to hired labour at a stipulated rate. The definition covers a wide range - from an unskilled worker to the manager of a firm, insofar as they are hired and insofar as the payment made to them is at a stipulated rate. The classical tradition

is to let wages stand for the earnings of common labour and to contrast it with capitalist's profits. In the Marxian scheme emphasis is given to a class to which the earning belongs. But today social conflict arises not merely between the so-called capitalist entrepreneur and common labour, but also between the latter and the top-level employees in an organization. In fact the latter conflict is direct and hence more conspicuous than the conflict between the wage-earner and the dividend earner.

For the present purpose, it is plausible to restrict the term 'wages' to earnings of common, unskilled labour in the tea plantations and shall use the term 'salary' to represent the earnings of trained labour of all sorts. Salaries will be recognized as a mixture of wages and surplus. The basis for this contention is that today an inordinately large element of profit and rent lies concealed within salaries at higher levels and there is as much conflict between wage earners and salary earners as the classical economists in their time saw emerging between capitalist's profits and wages of common labour. The identification of this sort is of utmost importance from the point of view of an understanding of the social implications of a wage policy.

6.4.1 Wage Structure in Tea Plantations

Wages in tea plantations are fixed and notified by state governments under the Minimum Wages Act for scheduled industries throughout the country. Under the notification wages have not been fixed for all kinds of works in a plantation. Minimum wage is generally related to tasks.

Generally, there are two types of wages in the tea gardens - piece rate during the plucking season and the time rate during the rest of the season. Under the time rate system the labourers are required to complete the task allotted to them within a period fixed for the work. The task rate differs from garden to garden, from work to work and is calculated so as to engage an average labourer for about seven to eight hours in the garden. The task work cannot be standardised because it depends very much on the nature of the ground and the exact type of work required. In a tea factory, however, a worker is paid a fair wage on completion of his duty.

6.4.2 Trends in Wages

Theoretically, wages are settled in the labour market as a result of a bargain between two parties -- the employer and the employed. With regard to any category of labour, there is a supply price and a demand price -- the former representing a minimum at which labour is prepared to offer

its services and the latter a maximum at which the employer is prepared to take on these services. The history of wage theory consists essentially of attempts to formulate principles concerning the manner in which one or the other behaves in the labour market. The classical 'subsistence theory' and the neo-classical 'marginal productivity theory' are instances of such attempts, the former showing the supply side and the latter the demand side of the market. In the classical approach wages are determined at the level of subsistence, irrespective of the condition of demand; in the neo-classical system, the labour supply being fixed, the equilibrium wage is just read off from the demand curve.

As indicated earlier, wages in the South Indian tea plantations were initially fixed either by the planters' associations in the respective areas or by the concerned governments. Historically, the uniformity in the wage structure in the tea plantations was introduced with the enactment of the Minimum Wages Act in 1948. In arriving at minimum wages the traditional assumptions relating to minimum family requirements, the family basis of employment and the fringe benefits available provided the necessary framework. Later, the concept of a 'Fair Wage' is evolved which is to be determined by tripartite wage boards consisting of the representatives of employees, employers and government. The board must pay special attention to the following while making recommendations:

- (i) The minimum wage rate payable to the workers in the industry.
- (ii) The worker's productivity.
- (iii) The prevailing rates for similar work in other establishments in the area.
- (iv) The competitive position in the international market of the class of establishment to which the product relates.

But since independence there has been frequent increases in the wages of South Indian tea plantation labour due to the organised trade union movement and government interferences. A more systematic dimension to the system of wages in the tea plantations arose with appointment of a Wage Board by the Government of India in 1960. The board was appointed mainly to examine the wage structure in the industry and to make appropriate recommendations. The wages of male, female and child workers were increased and the board submitted its final report in 1966.

An important result of the recommendations of this Board is the introduction of increased dearness allowances. In Kerala and Tamil Nadu it was 0.44 per cent of the basic pay for estates above 100 acres and in Karnataka it was for estates above 600 acres from 1-4-1966 onwards.¹⁰ The Wage

¹⁰ Labour Relations Department, UPASI, Progression of Wage Rates in Plantations in South India, (Coonoor, 1978), p.2.

Board rates were to remain in force until 31-12-1970, but they had to be revised from 1-1-1969 in the face of workers' agitation in Kerala.

Table VI-3 shows changes in the D.A. in the three states from 1966 onwards.

TABLE VI-3
Changes in D.A. as a Percentage of Basic Pay from
1966-1978

Year	Kerala			Tamil Nadu			Karnataka		
	Men	Women	Adolescent	Men	Women	Adolescent	Men	Women	Adolescent
1966	.44	.55	.74	.44	.55	.74	.44	.55	.74
1967	4.4	5.5	7.4	4.4	5.5	.74	N.A	N.A	N.A
1968	9.7	12.2	16.3	9.7	12.2	16.3	N.A	N.A	N.A
1969	13.8	17.2	22.9	N.A	N.A	N.A	N.A	N.A	N.A
1970	13.0	16.2	22.9	N.A	N.A	N.A	N.A	N.A	N.A
1971	24.39	30.5	40.5	N.A	N.A	N.A	N.A	N.A	N.A
1972	33.7	41.5	47.13	N.A	N.A	N.A	N.A	N.A	N.A
1973	41.37	50.9	57.3	N.A	N.A	N.A	N.A	N.A	N.A
1974	87.4	103.2	122.3	N.A	N.A	N.A	N.A	N.A	N.A
1975	138.3	170.3	198.6	45.9	52.2	30.7	N.A	N.A	N.A
1976	116.5	143.4	163.1	50.7	57.5	34.3	N.A	N.A	N.A
1977	113.4	139.6	159.2	41.7	47.3	26.8	N.A	N.A	N.A
1978	48.8	48.8	48.8	49.6	49.6	48.9	N.A	N.A	N.A

Note: For Kerala the details include only for estates having more than 100 acres, for Tamil Nadu more than 200 acres and for Karnataka more than 600 acres.

Source: Calculated from Progression of Wage Rates in Plantations in South India, UPASI, Coonoor, 1978.

The figures in table VI-3 show a fluctuating trend. D.A. as per Tea Wage Board formula, i.e. 3/4 paise for every point raise above 170 of the average All India Consumer Price Index Number (1949=100) for the previous calendar year. But very often the Tea Wage Board rates had to be revised due to workers' agitation. In fact, the system of dearness allowances is a significant feature of wage policy in India. The system has emerged as a result of inflationary pressures that have been a chronic feature of the economy since the mid-fifties. During the initial stages of inflation the system was confined to wages and salaries at low levels. Later, in view of the intensity of inflation, it was found necessary to extend it to relatively higher levels.

Thus, since independence the labour expenses have gone up in tea plantations following various forms of social legislation and organised trade union movement. Table VI-4 shows the increase in labour expenses from 1950 to 1978.

From table VI-4 it is clear that in 1978 about 50 per cent of the total cost of production is incurred on unskilled labourers in the South Indian tea estates. Although there are inter-regional variations, a general tendency is that in all regions the labour cost has been rising. Labour cost is the highest in the Kannan Devan region (about 52.2%) followed by Anamallais. The lowest point is at Coorg (about 42.31%).

TABLE VI-4

Labour Expenses in South India as a Percentage of Total
Cost from 1950 - 1978

<u>Year</u>	<u>Labour expenses including D.A. and other fringe benefits as a percentage of total cost</u>
1950	41.71
1965	41.95
1970	38.42
1977	43.51
1978	48.62

Note: Here the labour expenses refers to the expenditure incurred on unskilled common labour. It excludes skilled labourers of all sorts in the tea estates.

Source: UFAEI, Coonoor.

Very often labour requirement varies from garden to garden and from area to area depending on a variety of factors such as soil, elevation, extent of rainfall, age of bushes, type of estate, policy of management regarding agricultural operations etc. To this the labourer's power of collective bargaining must also be added as a factor preventing reduction in labour costs. Although there are major inter-farm cost differences, the full details of labour costs including various amenities provided to labourers by the employers are not available. So it is not possible to get a clear picture of the proportion of labour costs to total costs for tea enterprises.

Labour welfare measures and stipulation of minimum wages are claimed to be cost-push elements. The important problem is that while the labour and other costs of production are rising year after year, the price of tea has remained more or less stationary with the result that the retained profits have diminished considerably. Unlike in the new settlement countries of Africa, the scope of mechanisation is very much limited in South India. It is claimed that one of the most important reasons for the migration of tea companies from India and Sri Lanka is the high wage rates and labour unrest.¹¹ In this context, the claim of the industry is that the present level wages of labour is based on a prosperity period and now that there is a recession and so the position should be reconsidered.

Labour demands higher wage rates because of the spiralling price level of consumer goods. Though the money wage has risen, real wage rate has not risen in many of the tea-growing regions in India. Since the general policy of the government is need-based wage rates, the Wage Board has no alternative but to fix a higher wage when prices rise. Here an attempt has been made to compare the behaviour of money wages with that of real wages. An analysis of this nature is important because in spite of moderate increases

¹¹ Op. cit., Stern N.H., p.11.

in wage levels provided under recommendations of Wage Boards for the tea industry, there has been a considerable erosion of real purchasing power in the last 14 years. This is illustrated in table VI-5.

TABLE VI-5

Index of Money Wages, Consumer Price Index and Index of Real Wages in South India (For Male workers in Estates above 100 acres)

(Base: 1960 = 100)

Year	Kerala			Tamil Nadu			Karnataka		
	Index of Money wages	Consumer Price Index of all items	Index of real wages	Index of Money wages	Consumer Price Index of all items	Index of real wages	Index of Money wages	Consumer Price Index of all items	Index of real wages
1960	100	100	100	100	100	100	100	100	100
1962	108	101	106	100	101	99	100	101	99
1964	116	122	95	118	122	96	100	122	81
1966	131	148	88	131	148	88	135	148	91
1968	143	177	80	143	177	80	147	177	83
1970	161	184	87	162	184	88	167	184	90
1972	202	202	100	183	202	90	200	202	99
1974	284	304	93	212	304	69	215	304	70

Sources: 1. Computed from Tea Statistics, UPASI, Coonoor.
2. Tea Statistics, Tea Board, Calcutta.

After money wages are adjusted for the rise in All India Consumer Price-Index, the figures suggest that there has been, in fact, a gradual decline in the real purchasing power of the plantation workers over the period 1960-74. There are inter-state variations and the worst-hit is the plantation workers in Tamil Nadu. It is important to note that the output per worker as well as per hectare has been increasing at a faster rate than the increase in real wages. Though other factors could have contributed to the increased output per worker such as fertilisers and improved machinery the increase is mainly due to a reduction in the number of workers employed in the estates (see Table VI-1).

Regarding the problem of increasing labour costs a dynamic approach is that instead of inversely correlated wages and profits, they are to be positively correlated through a mechanism of productivity, efficiency and quality production. For the realisation of such correlation the productivity of both labour and management has to be constantly increased, economy has to be ensured, yield per hectare has to be increased and the quality of teas has to be improved. It will as such be wise for the plantation interests to accept the wage loads as given and tolerable and then on that basis to make the costs more competitive by manipulating other elements of cost. Further, increase in wage rates is essential if labour has to have a share in the increased productivity of tea industry.

6.5 Salaries and Wages

One of the most important colonial heritages to tea plantation system in India is the vertical difference between wages of unskilled labour and salaries of top level employees. The general structure of wages and salaries in the tea plantations remains more or less the same as it was before independence. For instance, in an average South Indian tea estate, an ordinary labourer receives about 2,900 rupees (excluding the fringe benefits) per year, whereas an estate manager receives Rs.42,000/- (excluding other benefits such as a car, well furnished bungalow, medical and other benefits to his family). The increase in the degree of progressiveness of the income tax rates has not reduced this vertical difference between wages and salaries.

As pointed out earlier, today, a large element of profit and rent lies concealed within the salaries at higher levels. Their persistence can be explained only in terms of organised oligopolistic class interests. But it is palpably an artificial oligopoly built into the system as a legacy of British rule. To involve a theory of productivity as sanction for these high salaries is not only not warranted, it is wicked.¹²

¹² Op. cit., Das Gupta A.K., p.55.

Another important feature of this characteristic is that the difference not only persists, but also increasing. A recent study conducted by the Reserve Bank of India shows that the increase in the remuneration to employees earning more than Rs.3,000/- per month was about 13.65 per cent during the period 1976-77 to 1977-78 and to other employees (including bonus and other benefits) it was about 10.8 per cent in the tea plantations.¹³ The study further shows that the former group on an average get Rs.60,057 per annum in 1975-76, Rs.61,054 in 1976-77 and Rs.62,962 in 1977-78. The impact of the increasing gulf between the wages and salaries is that the demand for higher wages on the part of labour unions will continue unabated, irrespective of the workers' contribution to production.

The main purpose of the policy in the field of distribution is to see that it brings the income-structure near to what we would envisage for our ideal society. The problem is essentially one of relative share of labour in total income. Therefore, the incomes policy and investment policy must be such as would ensure that the relative share of labour in total income tends to increase overtime. Under conditions of full employment this is largely a question of the rate of wages; employment and output being given, the share of wages

¹³ Reserve Bank of India Bulletin, (Bombay, 1980 May), p.299.

in output is a function of the rate of wages. But the experiences in the tea plantation sector is just the contrary. A recent survey conducted by the World Development Movement (a political pressure group focussing on third World concerns) in the tea plantations in Tamil Nadu described tea as a classic example of unjust commodity relationship after 1975.¹⁴ The group tried to expose the exploitation of poor workers and stressed the need for a new international economic order. It put forward the idea that a higher price for tea would be a necessary way to improve the living conditions of workers, but by no means sufficient. Further, it dealt with complex issues like the role of multinational corporations in the Indian tea industry, the reasons for the weakness of local trade unions, relative wages in India and the reasons for the conflict among the countries who might benefit from an international tea agreement.

6.6 Productivity and Wages

The general consensus among the labour economists would surely be in favour of linking wages to productivity. If labour productivity could be identified, it would seem that wages should not be allowed to lag behind it. The Planning Commission is also of the view that the increases in wages

¹⁴ Tea Pluckers, Economic and Political Weekly, (Bombay, January 27, 1979), p.

should be closely correlated with increases in productivity. According to the neo-classical economists the labour productivity is defined as the specific contribution of labour to a joint product. The specific contribution of labour in a productive process is thus defined by what is lost if one unit of it is withdrawn from the process or what is gained if one unit is added to the process, the quantity of other resources remaining the same.

But this so-called 'Marginal Productivity Theory' is defective due to a variety of reasons, viz.,

- (a) the technical conditions of production being what they are, it is not possible to separate the productivity of labour as such from the joint product of labour and capital. In the short period, the capital-labour ratio does not admit of variation. In the long run, technology varies so as to accommodate more or less labour in a given process of production. But, in the event, the form of capital itself changes and it is no longer valid to say that the quantity of capital remains the same.
- (b) Secondly, there are certain kinds of occupation which do not yield any saleable product. For labour employed in these occupations the concept of marginal productivity is meaningless.

(c) Thirdly, in a situation characterised by large-scale unemployment the marginal productivity theory loses its moorings altogether. Where there is unemployment, the marginal productivity is either zero or it is indeterminate.

Even if the wage is related to the so-called labour productivity, it can be seen that while the labour productivity has registered a substantial increase, the purchasing power of the labourers is declining. Decisions on wage fixation have never taken with reference to any well-defined principle. The framework in which various government-appointed committees and commissions operate are supposed to provide guidelines for a wage policy. But judgements concerning the concrete content of various concepts vary in accordance with the interests and pressures surrounding the industry. A plausible suggestion in this context is that the wage in the tea plantations should be such that the purchasing power and the share of wages in the total output shall be increased at least to justify the objectives set forth in our five year plans.

6.7 Problems of Labour

One of the important problems facing tea estate workers is the housing conditions. It is far from satisfactory; overcrowding and inadequate facilities being the chief characteristics. The houses are not related to the size of the family. Housing becomes worse as the family grows in size.

Houses do not belong to the labourers; hence they cannot expand them. The housing conditions of workers in Tamil Nadu is worse than any other tea-growing regions in South India. Housing in tea plantations is different from other sectors because tea estate workers pay no house rent.

Regarding the literacy rate, it was found that in Kerala it is about 34 per cent and in Tamil Nadu it is 21 per cent among the tea estate workers.¹⁵ Very often the earnings of the workers in the estates are not sufficient to meet their family requirement and this compels the children to go to work. Being unable to continue their education, in course of time, they also join the army of estate labourers. This is a serious situation which requires immediate attention from the concerned state governments.

It is very often pointed out that absenteeism is an important feature of the tea estate workers in South India. A worker is generally absent for reasons of sickness or for social and religious functions. Absenteeism is in fact an expression of the socio-economic condition of labour and the conditions in the industry. Want of a balanced diet is considered to be one of the main reasons for absenteeism. Though no exact figures are available, it can be confidently said that absenteeism is less in South Indian tea estates compared to North Indian estates.

¹⁵ Personal Inquiry among Kerala and Tamil Nadu tea estate workers unions.

As mentioned earlier, the multiplication of trade unions in the tea estates had in fact a favourable effect on the management. The management is actively encouraging the multiplication of unions. Apart from this, it has been pointed out in many areas in Tamil Nadu that the so-called trade union leaders are working on behalf of the management. In return they get sufficient money and their children get reasonable education to become trade union leaders in the next turn. It is not out of place to mention that the introduction of numerous labour laws and the emergence of strong trade unions have yet to destroy completely the old colonial tradition of master servant relationship still existing in the estates.

CHAPTER - VII

7. FINANCIAL AND DEVELOPMENTAL PROBLEMS OF THE SOUTH INDIAN TEA INDUSTRY

7.1 Nature of the Problem

The Indian tea industry (especially the South Indian tea industry) is passing through a serious crisis. Mounting costs of production without corresponding increase in the price of tea have eroded profit margins of the industry. Recently, the working group of the Reserve Bank of India on Tea Finance pointed out that the profitability of tea has been steadily and gradually declining.¹ The study revealed that while the profits of all industries fell from 10.9 per cent in 1960-61 to 9.3 per cent in 1969-70, those of the tea industry declined from 9 per cent to 4.3 per cent during the same period. The present crisis can be explained as follows: on the one hand, the individual producer is in constant need of improving his output level to keep up with

¹ The Reserve Bank of India Bulletin, (Bombay, September, 1972), p.1426.

his cost increases. On the other hand, the substantial improvements in the yields have been aborted by the impact of increasing costs. Thus the producers who are caught by the squeeze between relatively stagnant prices and rising costs cannot find enough money to invest for developmental purposes. To carry on the cultivation many may be forced to save on items of expenditure which may eventually affect their yields and value. In short, the present situation does not permit sufficient cash accruals for ploughing back funds for the development and further growth of the industry.

The view of the industry is that any healthy industry should be able to generate its own resources to maintain its productive assets intact and to grow without expecting concessions or reliefs from the government as special measures for development. When the taxation exceeds safe level it curbs incentive and weakens the competitive position of the industry in the international market. This point assumes more importance when one considers the declining auction prices in the world market and the entry of more and more black tea from the newly-emerged tea exporting countries whose cost of production are comparatively low. Table VII-1 illustrates the point:

TABLE VII-1

Average Cost of Production in Some Important Tea Exporting Countries

Country	Year	Rs. per Kg.
India	1979	11.55
Sri Lanka	1979	6.86
Bangladesh	1979	7.92
Indonesia	1979	9.05
Kenya	1978	8.38

Source: Nair M.N.V., "Incidence of Taxation on the Tea Industry in Kerala" Report of the Indian Institute of Management, Bangalore, 1981, p.2.

From table VII-1 it is clear that India has the highest cost of production which is affecting its competitive position in the world market. Coupled with this situation, another important problem facing the Indian tea industry is that while production has been rising at an annual growth rate of around 3.5 per cent its internal consumption has been rising at an even faster rate of 5 per cent per annum. Today India is the largest producer and exporter of tea in the world. If she has to maintain this position, there should be a favourable climate for the growth of the industry. Since tea is not a luxury item any attempt to bridle the domestic

consumption should be avoided. A positive approach is to increase the production so much that it can take care of both internal and external markets.

7.1.1. Nature of the Crisis in South India

Rising costs of labour and capital can be offset by a more than proportionate increase in productivity, provided prices are favourable. The present crisis of the South Indian tea industry is the outcome of costs of production and the price realisation moving in opposite directions. The increase in the cost of production which has occurred over the last thirty years strikingly altered the conditions of viability of units in South India. The tea plantations in Kerala are the worst-hit victims of the present crisis. According to the estimates of the UPASI, the cost of production of a sample tea estate, whose average yield is about 30 per cent higher than the industry's average of 1,760 Kg. per hectare, has gone up by about Rs.2.69 from Rs.11.32 per Kg. in 1979-80 to Rs.14.01 per Kg. in 1989-91. At the same time, the price realised for Kerala tea at Cochin auctions is now about Rs.12.23 per Kg. The industry is, therefore, losing on an average about Rs.1.78 on every kilogram of tea produced in the state. If the estimate made by UPASI is correct, it is obvious that unless radical measures are taken, the future prospects of the industry will be seriously jeopardised.

The crisis now facing the tea industry in Kerala is threatening to extend to Tamil Nadu and Karnataka in the near future. This has provoked a novel idea of mixed estates which is being actively pursued by a section of the industry for economic survival. A special feature of the South Indian planning is that three main products -- tea, coffee and cardamom -- are grown here, whereas in north-east India only tea is grown. While tea plantations are kept aloof, coffee is often interplanted with cardamom, because they both grow normally at elevations between 1500 and 3500 feet and are functionally better managed together. It has been suggested that if the economically weak tea gardens could be converted into mixed estates of tea, coffee and cardamom, it would help to offset the bad years for one particular crop against the better year of another crop. A section of the industry thinks that this will also be a better way of using the available labour force more efficiently and economically. In short, the present crisis in the tea industry has naturally turned the planters' attention to various novel ways of meeting it such as the introduction of mixed estates, improving the work loads, increasing the plucking averages and eliminating unnecessary overheads.

The National Seminar on Tea held in Delhi in 1976 brought into focus the urgent need for achieving a much faster rate of growth in tea production than hitherto achieved

in order to maintain satisfactory levels of exports after meeting the growing internal demand for the commodity. An increase in tea production can be brought about through an extension of the area under tea, replanting and replacement and higher yield per unit of area. As mentioned earlier, increases in the production of tea has been achieved in the past 30 years are mainly due to the increase in productivity per unit of area. Although South India stands top with regard to productivity per unit of area, there are inter-regional differences. For instance, only three per cent of the tea-growing areas in Kerala find a place in the top bracket of 2,000 Kgs. per hectare against 32 per cent in Tamil Nadu and 19 per cent throughout the country.² At the same time, 77 per cent of Kerala teas are within the productivity range of 1501 to 2000 Kg. per hectare, compared to 67 per cent in Tamil Nadu and 42 per cent at the national level. Another seven per cent of Kerala teas are within the low productivity range of 1000 to 1500 Kg. per hectare and the remaining 13 per cent - more than in any other state - falls below the totally uneconomic 500 Kg. per hectare level. The main reason for the large number of estates in the low productivity group is that more than 50 per cent of the bushes are in the uneconomic age group in the state. This is

² Nair M.N.V., "Incidence of Taxation on the Tea Industry in Kerala", Report of the Indian Institute of Management, (Bangalore, 1981), p.7.

illustrated in table VII-2 in comparison with the age group of bushes in other tea-growing states of South India and the average age group of South Indian tea bushes with the North Indian tea bushes.

TABLE VII-2

Area under Tea in Different Age Groups Expressed as a Percentage of Total Area in Different Regions (As on 31-3-1979)

Age Group	Kerala	Tamil Nadu	Karnataka	South India	North India
Below 5 years	.. .95	5.64	3.44	3.32	6.14
5 - 10 years	.. 3.54	12.32	3.22	7.84	8.90
11 - 20 "	.. 4.95	9.57	2.73	7.16	16.31
21 - 30 "	.. 6.17	7.46	2.73	6.72	10.68
31 - 40 "	.. 6.00	11.02	20.01	8.81	8.26
41 - 50 "	.. 25.93	17.45	59.38	21.99	11.09
Above 50 years	.. 52.46	36.54	8.49	44.56	38.65
TOTAL	.. 100	100	100	100	100

SOURCE: Calculated from Tea Statistics, Tea Board, Calcutta, 1978-79, pp.22-23.

From table VII-2 it is clear that about 53 per cent of the total area under tea in Kerala is in the uneconomic age group. The tea bush like any other living plant has only a limited span of life. There does not appear to be any

exact figure available regarding the length of economic life of the cultivated tea plant. But the prevailing opinion among a large section of planters appears to be that economic life of a tea bush receiving reasonable care may be about 60 years. Although there are differences of opinion with regard to the economic age of a tea bush, there is no doubt that unless care is taken to ensure that old and worn-out plants are replaced from time to time, the whole garden will, in course of time, cease to be productive. From table VII-2 it is also clear that in South India more tea bushes are in the uneconomic age group compared to North India. Therefore a constant process of replanting and replacement of old bushes is necessary to maintain the present rate of increase in productivity per unit of area. Replanting and replacement are necessary not merely for the purpose of maintenance. With proper selection of improved planting material for replanting, experiments have shown that increasing yields are possible -- a factor of considerable economic importance for the future of the industry. Unfortunately, the rate of replantation is nowhere near the desired level of two per cent in India. Table VII-3 shows the trends in replanting, extensions and replacements in South India as well as in North India since 1950.

TABLE VII - 3

Extensions, Replacements and Replanting of Tea

Year	(in hectares)					
	South India			North India		
	Exten- sions	Replace- ments	Replant- ings	Exten- sions	Replace- ments	Replant- ings
1950-51	678.78	29.44	24.10	892.49	272.91	1484.91
1955-56	403.03	25.00	23.85	251.98	239.03	1974.87
1960-61	86.74	6.78	12.47	1626.73	345.99	1769.40
1965-66	249.60	1.10	71.35	3245.13	509.35	1866.01
1970-71	204.31	5.55	42.45	2151.04	105.57	1076.51
1975-76	237.29	7.72	60.43	1421.60	354.40	1117.40
1977-78	187.62	2.00	42.25	2145.68	265.14	1183.11

Source: Tea Statistics, Tea Board, Calcutta, 1979, p.7.

From table VII-3 it is evident that both in South India and in North India there were no signs of increase in the rate of growth in the developmental programmes. In fact the extension of area and replacements have declined considerably in South India. The problems have assumed serious dimensions in Kerala. In some areas low-yielding varieties have to be totally uprooted and replanted with high-yielding varieties. In spite of the need of a programme of replanting for the very existence of the industry in the long run, it is observed that the progress has been very slow. The main

reason is that replanting has now become so expensive that large sections of the industry are unable to launch on a programme on an adequate scale. In the plains the tea bush normally takes about five years after planting before it starts yielding. In the hills this period of waiting is longer and has been variously estimated as 7 to 10 years. During the interval period sufficient expenditure is to be incurred for (a) clearing the land, (b) planting tea and (c) keeping the young tea bushes. The factors which affect the expenditure are:

- (i) location
- (ii) nature of clearing work to be done
- (iii) prevailing wage rate
- (iv) pattern of planting adopted
- (v) cost of materials and
- (vi) period of waiting

According to the UPASI estimate the cost of replanting varies between Rs.12,000 to Rs.20,000 per hectare. The cost varies from place to place and from estate to estate.

The high cost of replanting coupled with the declining retained profits have resulted in the absence of any substantial developmental programme. The rate of profit is declining because of the failure of the price of the product to increase, compensating the ever-increasing cost of production. Since the retained profits are the main source of

internal finance, a continuous decrease in it will naturally force the industry to become dependent on external finance, especially bank borrowings. This is evident from the table VII-4.

TABLE VII-4

Interest Expressed as a Percentage of Gross Profits

Year/Number of companies	Gross profits (in crores of rupees)	Interest (in crores of rupees)	Interest as a percentage of gross profits
<u>135 Companies</u>			
1965-66	8.5	1.2	14.1
1966-67	9.4	1.5	16.0
1967-68	11.6	1.6	13.8
1968-69	7.6	1.7	22.4
1969-70	9.0	1.9	21.1
1970-71	13.2	2.1	15.9
<u>123 Companies</u>			
1970-71	14.1	2.2	15.6
1971-72	12.6	2.7	21.4
1972-73	12.2	2.9	23.8
1973-74	14.5	3.4	23.4
<u>127 Companies</u>			
1973-74	14.1	3.3	23.4
1974-75	32.1	4.2	13.1

SOURCE: Computed from various issues of Reserve Bank of India Bulletin, Bombay.

It is clear that during the decade (1965-75) the interest paid by the companies have increased steadily. It means that external dependency has been increasing for the tea plantation companies in India. The companies borrow from the commercial banks and other financial institutions. Another important source of finance for the companies is the broking firms. It is found that usually they charge a comparatively lower rate of interest than the commercial banks. This is mainly for expanding their business. The commercial banks normally charge an interest rate varying between 11 to 13 per cent. While the financial institutions meet the credit requirements of the industry in general, the growth of the industry as such falls outside the scope of most of these institutions and the industry has to find out means of financing them to a sizeable extent out of their own resources. Although the Tea Board and other soft loan agencies provide finance directly and indirectly to the industry for the developmental activities, it has been reported that the coverage and the quantum of assistance availed from these agencies are insignificant.

The foregoing analysis deals with the nature of the crisis facing the South Indian tea industry and the problems of the Indian tea industry in general. Ever increasing cost of production, stagnant prices, declining rate of profits and the absence of any substantial developmental programs are

its main features. The worst-hit area is Kerala where some of the affected tea estates are forced either to wind up their production of tea or shifted to more profitable plantation crops such as rubber and coffee. Recently, the area under tea in Kerala has shown a declining trend mainly because of the seriousness of the crisis. The crisis is threatening to extend to Tamil Nadu and other tea growing areas in the near future. In brief, this is the nature of the crisis. The following analysis is an attempt to trace the factors behind present crisis facing the tea industry.

7.2 Factors Behind the Crisis

7.2.1 Structural Causes

As pointed in Chapters I and II the Indian tea industry was developed with the massive investment of British capital. The South Indian tea plantations presented for British monopoly capital one of the most important sources of cheap land, cheap labour and one of widest spheres for profitable investment of capital.

The early pattern of ownership was the proprietary ownership. But, in course of time, larger British companies who had a world-wide interest in tea plantations replaced the proprietary planters as well as the comparatively smaller companies. This process has resulted in the concentration

of production by a few companies who had substantial concentration in other activities related to tea plantations such as production of machinery required in the tea factories, shipping, banking, insurance and retail marketing of tea. In short, the tea plantations were developed into a vertically integrated system where the British monopoly capital exercised the ultimate control. Finally, the British colonies provided the necessary strength for the market of the product.

This peculiar situation has some important implications for the future development of the industry. The primary concern of the British capital was the maximisation of profits. And by virtue of their concentration in production and allied activities, they were able to determine the price of tea in the world market. The important producers of tea were the major buyers in the auctions and the same companies had a concentration in the retail trade of tea all over the world.

An important incident which affected the future course of the Indian tea industry was the International Tea Agreement among the producer combines in India, Sri Lanka and Indonesia since 1933. The agreement prohibited expansion till 1948 except to the extent of 1/2 per cent and that too only 'where the existence of a tea estate would be otherwise imperilled'.³ When the restriction under the

³ Op. cit., Sivaraman K.G., p.304.

agreement was found inadequate, voluntary restriction was followed by a combination of managing agencies who had controlled a major share of production of tea in India. As a result of restriction, supply was always kept less than the demand resulting in a price level which gave huge profits. Short supply against large demand was the main feature of this combine tied to restriction of production. As the objective of the combine was maintenance of a high price by restricting production, it was, therefore, opposed to expansion. The British companies were afraid to develop fixed assets lest it might result in increased production. This is an important reason for the poor rate of growth of internal resources as well as assets. For instance, the percentage of net worth to total assets during 1939-53 has fallen for the sterling companies from 87 per cent to 65 per cent.⁴ Similarly the share capital, reserves and working funds had shown negligible growth in sterling and other non-Indian companies.

Poor developmental efforts were the main consequence of the restrictionism to which increase in productive capacity is poison and high profit distribution is, therefore, a necessity. Table VII-5 shows the profit distributed by tea companies under different managements during the period 1939-54:

⁴ Ibid., p.304.

TABLE VII-6

Dividend as a Percentage of Profit After Taxation

Type of ownership/ year	1939	1946	1950	1951	1953	1954
Sterling Companies	51.9	54.99	42.2	91.0	27.5	35.3
Companies under Non-Indian Managing Agent's Control	64.8	72.8	67.1	122.3	20.0	46.1
Partly Indian and partly Non-Indian	72.6	64.5	58.8	106.0	41.2	44.6

Source: Report of the Plantation Inquiry Commission, Part-I, Government of India, New Delhi, 1956, p.792.

Declaring a high dividend means less retained profits which will ultimately result in poor developmental efforts. In this context, the Plantation Inquiry Commission pointed out that a limitation by half would itself have enabled most companies to increase their internal resources by 25 per cent.⁵

An important consequence of the declaration of high dividends was that there was a substantial increase in bank borrowings by the tea companies. Taking all groups together, it increased on an average by 887 per cent and for the sterling companies it was 1351 per cent during the period 1939-1953.⁶

⁵ Ibid., p.57.

⁶ Ibid., p.53.

This shows that the development potential required for the growth and further expansion of the industry had been repatriated in the form of high dividends. Another important way in which funds had been repatriated was the commission paid to managing agents and directors of the British Companies.

TABLE VII-6

Percentage of Commission Paid to Managing Agents and Directors as Related to Gross Profits (1939 - 1954)

Type of ownership	No. of companies	1939	1946	1950	1951	1952	1953	1954
Sterling Companies	95	7.99	6.17	9.70	14.40	53.80	8.40	5.80
Companies controlled by Non-Indian Managing Agents	25	6.29	6.49	10.80	21.20	N.A.	8.40	6.50

Source: Report of the Plantation Inquiry Commission, Part-I, Government of India, New Delhi, 1956, p.783.

A recent study of the Reserve Bank of India shows that the situation has not changed even in the post-independence period. For instance in 1966-67 the commission paid to managing agents was as high as 2.40 per cent of the total income.⁷

⁷ Reserve Bank of India, Finances of Branches of Foreign Companies, (Bombay, June 1970), p.936.

Since independence several changes have taken place which have again a negative effect on the growth and expansion of the tea industry. Although the British capital no longer holds a monopoly position, it can be asserted that British capital still predominates the tea plantations in South India. For instance, they control a major share of production (see table II-7) and these companies are the major buyers in the South Indian auctions (see table IV-7).

But since 1950 the British companies gradually (but steadily) started shifting their tea interests from India to East African countries. The very threat of nationalisation and the restrictions introduced (like higher tax rates) by the Government of India has contributed to this change. This has resulted in the neglect of plantations by the companies. For they now consider the plantations a wasting resource from which they try to make the highest profits in the quickest possible way. They do not see any economic reason for investing in plantations for its further expansion when they do not have the incentives of a secure long-term ownership.

The migration of these companies from India to East Africa has another important implication. By virtue of their concentration in production in the major tea-producing countries, they control the price of tea at auctions (because the

same companies are the major buyers in the auctions). Since these companies are no longer interested in developing the tea plantations in India, a higher price for Indian tea at auctions is really counter productive. Instead, they have pushed up the price of East African teas at the expense of Indian teas in the London auctions (see Table IV-10). This is because in East African countries they enjoy a favourable economic and political climate compared to India. In the Indian auctions also prices are not showing a steady tendency to improve in tune with the increasing cost of production. The major buyers are these companies who have a world-wide network of operations ranging from production to retailing. The fact that the retail prices of tea in India and abroad is almost 300 per cent higher than what the growers get is the proof that wholesalers, blenders, packers and exporters are making huge unearned profits at the expense of the real planter.⁸

Recently, the decision of the Government of India to Indianise the British-owned tea companies under the Foreign Exchange Regulation Act (1973) has considerably affected the working of the tea estates. Under the Act, the British tea companies have to indianise at least 26 per cent of the share capital. Adapting themselves to the new situation, the

⁸ Kothari & Sons, "Plantation Industries", Kothari's Economic and Industrial Guide, (Madras, 1979), p.3.

British Companies have diluted their share capital and a majority of shares were sold to Indian companies involved in the tea industry. An important anomaly in the implementation of FERA 1973 so far as the tea industry is concerned is that there has been in the process a very substantial increase in the share-capital of the successor Indian companies over the original paid-up capital. This is because:

- (i) a very large part of the valuation of the assets of the erstwhile foreign companies has been capitalised; and
- (ii) the amount thus capitalised has been treated as constituting 74 per cent of the paid-up capital of the would be Indian company and the remaining 26 per cent has been made up by fresh issue of shares in India.

As a result, most of the FERA Companies now have a much larger capital base than before, enabling them to make higher remittances on account of dividends which is contrary to the objectives of FERA as well as for the expansion of the industry. This new situation has, in fact, enabled the erstwhile foreign tea companies to strike their roots deeper in the soil of Indian economy with prospects of ever-increasing remittance of dividends in future. A higher dividend rate means less retained earnings which might affect the rate of growth of the industry. Further, with the Indianisation, erstwhile sterling companies will get all the benefits of the Indian companies (eg: Tax Benefits, Subsidies, Development allowances).

Thus it is clear that the main factors behind the stagnant price of tea which is one of the major reasons behind the present crisis can be explained in terms of the way in which tea plantations were developed in India, the organisation and the mode of marketing and the ineffectiveness of the steps taken by the Government of India.

7.2.2 Cost Increases

While on the one hand the auction price of tea is either stagnant or relatively declining, on the other hand the cost of production of tea has been increasing steadily over the years (see Table III-11). Cost of production of Indian tea is higher than the cost of production of any of the major tea-producing countries. One of the most important implications of the higher cost of production is that Indian tea cannot hope to compete successfully in the world market with its rivals. Today the most powerful challenge in the world tea market comes from the East African producing countries where the land suitable for tea cultivation is very extensive and the policy of the concerned governments is to provide maximum encouragement to investment for the expansion of the industry. For instance, in East Africa the question of granting any tax-relief do not arise as there is no indirect taxation on tea and their labour costs are lower compared to South Indian and North Indian tea estates.

Kerala is one of the worst-hit areas in the Indian tea economy owing to the increasing cost of production where the main problem is lack of competitiveness of its tea and the resultant pessimistic attitude in the industry about its long-term prospects. The problem is further complicated by the peculiar nature of the price of tea -- neither the majority of the producers have control over it, nor it is related to the cost of production. So if timely measures are not taken, not only will larger resources have to be forthcoming in future to sustain the industry, but long term rehabilitation may also become very difficult. The industry may also pass into the hands of unscrupulous elements who may be more interested in short-term speculative gains than in long term development. Therefore, any realistic measure adopted to solve the problems of the industry should aim at improving productivity. Though productivity has generally been improving over the years, it is still far behind the levels attained by Tamil Nadu. While in Kerala the yield rate increased from 776 Kg. to 1611 Kg. per hectare between 1951 and 1979, the yield in Tamil Nadu increased from 756 Kg. to 2121 Kg. per hectare during the same period.

Labour cost is an important factor that has contributed to the increasing cost of production. Today in South India it constitutes about 48 per cent of the total cost of production (the highest is in Kerala which is about 52 per

cent). As mentioned earlier, labour costs are increasing mainly because of the various wage increases granted by the concerned state governments and because of the various welfare legislations laid down by the Government of India. Today, in South India, many of the medium-type and small estates find it difficult to cope with the increasing wages as well as to discharge many of their welfare obligations to the labourers. Most of them now realise the imperative need for reducing costs. Plucking is an operation in which more than 70 per cent of the total labour days are spent and which forms a major item of expenditure. On an average 3.25 pluckers are used per hectare in South India in an estate yielding 2500 Kg. of tea per hectare. Many of the planters are of the view that plucking should be reduced by increasing the plucking average and this should be done by using shear harvesters. Some of them suggested that the shade trees now used have no economic value, and should be replaced by eucalyptus, spice or some other trees of economic value which would augment the income of the estates. Manuring is another item in which savings could be effected. For instance, according to some, manuring could be reduced to bring the nitrogen ratio to 8 and later 6 from the present 10 for every 100 Kg. of made tea yield.

7.2.3 Tax Policy

The tea plantation crop by its very nature lends itself to easy taxation and taxation takes many shapes and forms. The industry has to pay a variety of taxes imposed both by the centre and state governments. While the tea cess, excise duty, export duty, sales and income taxes are central taxes, the agricultural income, sales, plantation and land taxes are taxes imposed by the state governments. Some taxes fall on production and some on the income derived from the enterprise. For instance, the land tax, the excise duty, tea cess and export duty fall on production and add to the cost of production. But the tax on the agricultural income and business income has the virtue that it falls on a visible income left over after the expenditure needed to earn that income has been covered.

The incidence of taxation on tea is a much debated question. It is argued that the unimaginative way in which taxes are imposed coupled with the excessive burden of taxation saps the incentives for development of tea on rational lines, and the increase in cost of tea due to duties and cess renders Indian tea in the world market more expensive and to this extent the competitive position weakened. There is some element of truth in it. e.g. the irrational way in which the excise duty is imposed.

Excise duties have not only revenue but other objectives as well. They help to reduce consumption if there is a shortage of the commodity or if surpluses are to be generated for exports. In a normal market situation the producers are able to shift the incidence of the tax on to the consumers. But in the case of a commodity like tea where the majority of the producers having no control over price, it is impossible to shift the incidence of the tax on to the consumer.

Another important malady of the excise duty on tea is the zonal system of classification by which different rates are applied to different tea-growing areas. The present zonal classification of the tea-growing areas in India into 5 zones was introduced in 1958. Among this different zones South Indian tea-growing areas belong to Zone I, II and IV only. The different rates of excise duty is applied to different zones on the basis of weighted average of sale price of tea. The zonal system of excise duty is based on a fundamental assumption that black teas can be divided into two clear cut varieties, viz., quality and common. It is further assumed that they are produced in particular areas and they can be geographically demarcated and so can be zoned. Higher the quality, higher will be the price per Kg. of tea which means higher profits and so higher will be the rate of excise duty and vice versa. Therefore, excise duty varies from zone to zone based on these assumptions. Table VII-7 shows the rate of excise duty in different zones.

TABLE VII-7

Excise Duty with effect from 1-3-1978

Black Tea		Rate (Rs. per Kg.)
Zone I	..	0.40
Zone II	..	0.60
Zone III	..	1.40
Zone IV	..	1.10
Zone V	..	1.30

Source: Tea Statistics, Tea Board, Calcutta, 1979, p.100.

The nature of tea varies from bush to bush, garden to garden and season to season, depending on various factors. Hence branding all teas produced from a particular area as common tea or quality tea is neither scientific nor judicious. Equity demands that there should be hundreds of zones which have to be revamped from season to season. This is administratively impossible and the present notation of administrative convenience offends the canon of equity and it carries a procrustean odour.⁹

Further, the entire zonal system is based on prices and it is found that estates fetching similar range of average

⁹ Op. Cit., Manoharan S., p.77.

price are situated in different zones. In fact, this zonal classification put some gardens at an advantage and others at a disadvantage. This arises from the fact that variation in price of one garden with others in the same zone is wider than the price difference between inter-zonal average price. The zonal system based on the price does not take into consideration the cost of production. A high priced tea may as well mean a high cost of production. In other words, the present zonal system is arbitrary and discriminatory. Under this system unequals are treated equally.

While developing an alternative system, it is important to see that not only the average price, but also other relevant factors such as cost of production and yield rate should be considered. As far as Kerala tea is concerned the excise duty ranges from 44 ps. per Kg. to 66 ps. per Kg. Since the Kerala tea industry is facing a heavy loss on every kilogram of tea produced, the excise duty should be reduced. The improved competitiveness of the tea will find its reflection in profits of the plantations, a major share of which will, in any case, be realized by the government through income tax.

Another important tax which weakens the competitive position of South Indian teas is the central and state sales tax. In theory, sales tax is paid by the buyer. But in the

particular situation of the tea industry and the sale of its product through auctions, the tax is invariably paid by the producer. Taking into consideration the crisis facing the industry, it is suggested that both the central and state sales tax should be suspended for the time being. If the central sales tax on tea is abolished, the loss to the exchequer will be marginal. For instance, during 1978-79 the central sales tax collected was only Rs.1.50 lakhs from Kerala. So far as the state sales tax is concerned, it is suggested that the amount of tax collected under this head should be given to the industry as loan with a low interest rate by the concerned state governments. This amount should be spent exclusively on development and rehabilitation of the estates.

Government has resorted to export duties whenever there was significant increase in the world price of tea. For instance, the positive effect of devaluation was offset by the levy of a flat rate of export duty (Rs.2 per Kg.) and by the withdrawal of tax-credit schemes for export. Recently, during the tea price boom of 1977, the export duty was Rs.5 per Kg. Since government policies are not sensitive to changes in trading conditions, it is more worthwhile that a windfall profit tax should be imposed on the industry when very high rates of profits are earned on account of factors such as devaluation or a sudden rise in prices in the world market.

Another important tax adding to the cost of production of the ailing tea industry of Kerala is the plantation land tax. The rate of tax was increased from Rs.2/- to Rs.8/- per acre in 1961 and to Rs.20 per acre in 1967. (It is the present rate.) However, one virtue claimed for this tax is that it is an effective weapon to encourage optimum use of land. Hence it is suggested that the plantation tax should be increased for the larger estates where the utilisation of grant area is less compared to small growers and the small growers should be exempted from this tax.

Tea is possibly the only commodity which simultaneously attracts both the central income tax and agricultural income tax. Forty per cent of the income is taxed under the central income tax and 60 per cent is charged under state agricultural income tax. It is assumed that 40 per cent of the income of a tea estate is arising from business rather than agriculture. With regard to the state agricultural income tax the rate increases with the increase in profits.

The main weakness of the income tax on tea according to the industry is that normally income tax laws provide for depreciation of capital assets. In a tea estate, the bush is the main asset and its economic life is estimated between 50 and 70 years. This is far longer than the estimated life of most plant and machinery. But there is no provision for the

depreciation of tea plant. It gets depreciation benefits only for machinery, equipments, buildings and vehicles. It is further argued that in some areas (especially in Kerala), low-yielding varieties have to be totally uprooted and replanted with high-yielding varieties. Therefore, the industry may be allowed to build a reserve for undertaking programmes of rehabilitation and development.

Another major problem pointed out by the planters relates to the separate assessments carried out by tax authorities of Centre and the States. It is, therefore, suggested that the provisions in the Central and State Acts, insofar as deductions and exemptions are concerned, should be uniform and assessments of incomes may be made in such a manner that there should be coordination between the two.

Above all, taxation policies should be viewed from the angle of how far they help the industry to generate resources from within to undertake programmes of development. A major problem faced by the industry is the dual control exercised on it by the central and state governments. Not only that they do not always coordinate their policies but also, sometimes operate in opposite directions. Since substantial revenues are earned both by the Centre and by the States from the industry, competing revenue considerations overlook the need for development of the industry. Both are apprehensive

that concessions given by one will be taken advantage of by other. In other words, the proliferation of centre and state taxes prevented the required coordination and resulted in overburdening of taxation.

If the assumption of control over the industry is to have any positive significance, the taxation policy of the Centre must be planned and coordinated with the concerned state governments. It should frame in consultation with the state governments an integrated tea policy in the field of taxation, land utilisation and labour relations.

7.2.4 Entry of New Producers

Very often the pessimists explain the declining tea prices in terms of ever-increasing supply of tea outstripping demand. Although the demand and supply of the commodity are not the main factors determining the price, the entry of East African countries, Argentina, re-appearance of China in the world market and the fast expanding production of tea in Soviet Russia is causing much alarm in the tea circles. The increasing supply of tea will create problem unless vigorous measures are taken to increase the consumption of tea. There is much scope for developing the tea consumption in developing countries in the West Asia and Africa. While all efforts should go on for increase in productivity and expansion of tea areas, it is also important that present brand loyalty should be changed to a country loyalty for the Indian teas.

7.3 Pre-requisites for the Growth of the Industry

From the foregoing analysis it is evident that the tea industry has a legitimate case for priority consideration. Some of the factors that may be taken into consideration in this regard are:

- (i) Tea is an agro-based industry. The productivity of land and labour relative to other crops is high. The value of production is about Rs.25,000 per hectare on an average and the productivity of labour is about Rs.10,000 per worker employed.
- (ii) In South India tea is cultivated in hilly areas where it normally does not compete with other crops. It also helps to maintain the ecological balance and prevents soil erosion,
- (iii) tea is highly labour-intensive per unit of capital and land; it gives a very high level of permanent employment,
- (iv) the tea industry's consumption of scarce resources such as foreign exchange, cement, steel and energy are only marginal,
- (v) it produces an article of mass consumption,
- (vi) it earns valuable foreign exchange,
- (vii) it is mainly located in backward areas and fulfils an important objective of government policies and finally
- (viii) it is an important source of income to the public exchequer.

It is, therefore, obvious that the tea industry has a very strong claim for priority consideration. But it is wrong to view the problems of the tea industry in isolation or to seek short-term solutions. While steps have to be taken urgently to tide over the present crisis, it is imperative that a long-term view of the industry as a whole is taken. Any solution that is arrived at must be consistent with the realisation of the long-term goals of the industry in regard to optimum use of land, relative importance of the commodity, domestic consumption versus exports and productivity per unit of acre etc. An unfortunate aspect of government policy is the absence of a total system of approach to the problems of development. Very often policies are adopted to tide over temporary crisis situations in utter disregard to their long-term implications.

Now what is required is a package of short-term, medium-term and long-term measures for the rehabilitation and further growth of the industry.

At present, increased production through increased productivity per unit of area as an objective must first be decided upon before the possible impediments in achieving it can be considered. The technological improvement of the field and factory operations and subsequent cost reduction is the sole responsibility of tea estates. The institutional

measures like taxation and finance which are more fundamental can be undertaken only by government. The institutions are to create the climate conducive to nursing the industry back to health and technological and operational progress to take advantage of the improved climate.

7.3.1 Short-term Measures

In the short-term, higher levels of production can be achieved through cultural operations relating to plucking, pruning, manuring, weed control, pest control and other plant protection measures. The scientific knowledge and technological advancements with regard to pruning and plucking and other cultural practices are yet to be practical by the majority of the planters in South India. They are mainly the small growers who are yet to be benefitted from the introduction of improved cultural practices. But the small growers who are covered by the cooperative tea factories in Tamil Nadu can be shown as an exception to this. And the well-established company plantations are the main beneficiaries from the advanced techniques of production. Therefore, it is suggested that the advisory services of the Tea Board and the scientific knowledge from the part of UPASI research stations should be extended to the medium and small planters at free cost.

From the survey it is found that estates with high yields generally do manuring which is adequate from the point

of view of intensity of application per acre and coverage of the planted tea. But in many of the estates with comparatively low yields, the total proportion of area manured is comparatively small. Systematic and adequate manuring is one of the most important measures necessary for increasing yields. Tea Board's extension services should guide the planters for the systematic use of fertilisers and it will be more fruitful if regional offices of Tea Board can start with the distribution of fertilisers.

The pest control and weed control measures deserve equal attention from the point of view of the future growth of the industry. Unless the attacks by the insects, pests and weeds are kept in control, they not only reduce crops, but also do serious damage to the plants. It is found that larger units of the industry are alive to the imperative need of pest control. Some of them carry out pest control measures as a routine measure while the majority adopt them only when the need is felt. The medium type estates and the small growers have difficulties in adopting them mainly due to the lack of adequate finance. But small growers under the cooperative factories in Tamil Nadu are an exception to this. It is recommended that the introduction of more cooperative factories in Kerala and the extension of the coverage of small growers by the existing factories will enable them to carry out pest control and weed control measures more satisfactorily.

It seems that the agro-climatic conditions in Tamil Nadu are more suitable for tea-growing compared to Kerala where some of the areas under tea are unsuitable for growing tea. It is estimated that over 7,000 hectares of tea in Kerala yield below 1,500 Kg. per hectare and it should be possible at the existing level of knowledge to achieve production level of 2,300 Kg. per hectare in most lands.¹⁰ A realistic policy should, therefore, aim at improving the productivity of the better lands, bringing under cultivation additional land and abandoning tea cultivation on lands which are not suitable.

With regard to the short-term funds the most striking feature is that by and large the amount of working capital needed with reference to total production is less in South Indian than in the case of North Indian producers. This is because South Indian production compared to North Indian is practically continuous and not seasonal; there is always some tea to be sold each month, the sale proceeds of which keep the producer with liquid money to a certain extent. But, today the situation has changed considerably and many of the gardens find it difficult to cover their working capital requirements with the sale proceeds. This is because the cost of production has gone up considerably compared to the auction

¹⁰ Op. cit., Nair M.N.V., p.8.

prices. Majority of the gardens got their short-term funds either from commercial banks or from brokers. But this is inadequate. It is possible that in its programme of extension of branches, the State Bank of India can give high priority to the opening of branches in tea plantation areas. Further, it is suggested that the industry should be allowed to create a reserve fund to meet such contingencies like a sudden fall in price or production. Any amount credited to that account should be deducted from the profits. If, on any future occasion such funds are either capitalised or used for the declaration of dividends they may be treated as income for the year and taxed accordingly.

7.3.2 Medium-term Measures

The medium-term developmental measures include rejuvenation pruning, infilling replanting, replacement and extension of the area. The UPASI has estimated that about 5,800 hectares need urgent rejuvenation in Kerala. This is very much higher compared to Tamil Nadu. With regard to infilling of vacancies it is already mentioned that the utilisation of grant area is lowest among the largest size group and it is highest among the small growers. In this connection government should either give sufficient incentives to the existing plantations to utilise the area or formulate policies which would enable small growers to undertake the planting with the help of Tea Board and the cooperative tea factories.

Another important problem which needs immediate attention is that of replanting. Bushes in the uneconomic age group need to be uprooted and replanted with high-yielding clonal material. As pointed out earlier, the rate of replanting is below the desired level of 2 per cent per annum. The main obstacle for the slow pace of the replanting is considered to be the increasing cost of replanting and lack of sufficient finance for the same. It is very often pointed out that replanting and infilling are regarded as pre-requisites for deriving maximum of benefit from manuring. Though an intensive replantation programme is important, replacement planting instead of replanting has become more important from the point of view of the present crisis. This is because replacement planting on virgin land instead of replanting of the existing bushes means that the estates will continue to obtain crop from the old areas until the new areas reach maturity, after which the old areas would be discarded.

All these medium-term measures are designed to improve the quantity of output and to curtail the average cost of production. Accordingly, it involves both technological improvements and optimum factor utilisation. Their effect is to yield a new and higher production function and lower per unit costs in the ranges of output in which producers plan to operate.

In South Indian tea plantations, especially in Kerala, majority of the large estates need immediate infilling and replanting with high-yielding clonal material. Besides, the area under tea needs to be extended as a long term measure. Further, a very substantial programme is required to renovate and expand processing capacity in the industry and deserves the same attention as replanting and extension of fields under tea. The view of the industry is that the living plant is the primary productive asset of a tea estate, but unfortunately is not allowed depreciation with the result that taxation of the emerging gross profit is heavier than on similar profits in other industries. Therefore, the introduction of a depreciation-cum-rehabilitation allowance is necessary, so that the proceeds could be diverted for the development purposes of each undertaking. Moreover, it is pointed out that the existing development allowance can hardly be a substitute for depreciation allowance that the industry is asking for because the former is available only when replanting actually takes place.

In the present circumstances, it is more advisable to introduce a replanting reserve - a certain amount should be set apart for replanting in future in the case of existing plants. It should apply to all gardens and there should be no exemption. No company shall pay dividend nor repatriate

capital until a phased programme of replanting in the place of aged bushes now existing is carried out. The funds set apart need not be in the custody of the Tea Board. It will be enough if they are invested in approved banks and securities. The Tea Board might approve of withdrawals for the purpose of replanting.

7.3.3 Long-Term Measures

As pointed out earlier, one of the main features of the crisis is the stagnant price of tea at auctions. It is found that the main reason for this situation is the structure of the industry where a few companies (who have international interests) by the virtue of concentration of production are able to depress the prices at the auction centres while making huge profits by pulling up prices at the retail marketing level by mutual accommodation. The government has not taken any effective measure to control the industry from society's point of view. Although it has taken a few measures to control the British tea companies in India they also became ineffective (A typical example is FERA 1973). Therefore, proper measures to control the operations ranging from production to retail marketing level is required for the growth of the industry.

With regard to increasing costs, it is pointed out that labour costs have registered the fastest increase and

it forms the major component in the total cost of production. It is neither fair nor realistic to hope for a fall in wages to improve the competitiveness of the industry. On the contrary, the industry should be prepared for further escalations in wages. Therefore, the only way it can meet the present challenge is by reducing unit costs by improving productivity of land and labour on the one hand and reducing the cost of government imposts on the other.

Regarding the tax policy it is fair on the part of the government if any tax measure, besides enabling the government to raise revenues, should be capable of helping the healthy growth of the industry. An important element in an enlightened tax policy is the provision of incentives for growth and diversification. A rational and workable system of taxation is an important prerequisite for the survival of the Indian tea industry.

Another important problem affecting the Indian tea industry is the entry of new producers in the world market and their fast expanding production. A plausible line of action is that the tea-producing countries should come to an agreement, so that an effective scheme can be worked out for production, consumption, prices and promotion of tea. But it should not be an agreement between the British tea multinationals who are controlling the world tea trade. For instance, United Nations'

agencies like F.A.O. can take initiative. Since 1965 tea exporting countries of the world have been in adhoc consultations under the auspices of F.A.O. due to the persistent decline in tea prices. The third adhoc consultation held at Kampala in 1969 recommended the setting up of a permanent machinery for international consultation on the problem of tea. Later the inter-governmental group on tea held its first session in Rome. Consequently an informal regulation of exports was mooted which came into operation in 1970. The adhoc working party met in Rome in 1977 and decided intensive promotion campaigns under the auspices of International Tea Promotion Association to expand consumption in traditional and new markets. An important defect of this agreements and campaigns is that the ultimate decisions really reflects the motives of the British tea multinationals who are controlling the world tea trade. But for the future growth of the industry a government-to-government deal is important rather than expressing the needs of a handful of erstwhile British companies.

But the most desirable and productive course of action for the industry should be the creation of new demand for tea. The creation of new demand for tea, i.e., shifting the industry's demand curve to a higher position would resolve any possible conflict between technological progress and income improvement for the industry. There are indeed opportunities for expanding tea consumption, because tea is the most

poorly-advertised beverage compared with the impressive campaigns being waged for competing beverages. Furthermore, being a tropical beverage product, the practical difficulties involved in expanding the market for tea are less than those of many other agricultural exports in that most of the importing countries cannot produce the commodity. Regarding the type of promotional measure to be taken, it is important to see that a proper study of the concerned market is to be done and based on that it is possible to take either generic or uninational promotional measures.

Alongwith these long-term measures, the entry of public sector in the industry should be encouraged. At present there are mainly four public sector corporations connected with the tea industry in India. They are:

- (i) The Tea Trading Corporation of India,
- (ii) The Assam Tea Corporation,
- (iii) The West Bengal Tea Development Corporation and the
- (iv) Tamil Nadu Tea Plantation Corporation.

The Tea Trading Corporation of India is concentrated in export marketing and its performance shows an encouraging trend. But its share in the auctions is not significant. It is possible that the Corporation can take care of the internal market on a substantial scale so that its share in the marketing of tea can be increased gradually. The

other corporations are having their own tea estates and the Tamil Nadu Tea Plantation Corporation's growth is steady with its fast expanding production base. However, it is important to see that the task of the public sector companies should be defined and decision has to be taken about the role of each organisation so as to coordinate their activities and avoid wasteful duplication especially in the following areas:

- (i) production,
- (ii) relationship with small growers,
- (iii) internal marketing,
- (iv) export marketing and
- (v) product development.

Again, the task of public enterprises should be directed so as to buy and manage sick gardens and justify itself by keeping pace with developments in tea-growing and marketing.

Another important problem of the industry is the long-term finance. It is pointed out that the loans advanced by the Tea Board are not sufficient and departmental financial rules do not provide a suitable framework for assessing the need for loan vis-a-vis repaying capacity of a company. There is, as a matter of fact, no efficient objective criteria similar to those followed by the loan-giving institutions. Further, there are complaints that even the sanctioned loan

is not given to the proper unit and there is a lot of corruption in the assessment and disbursement of the funds by the Tea Board officials. Finally, the Tea Board is not a financial institution and does not have the expertise to handle financial assistance schemes involving even the present petty sum of Rs.5 crores per annum.

What is really required is an independent Tea Finance Corporation drawing funds from the government, the Industrial Finance Corporation, the Industrial Development Bank of India, the Agricultural Finance Corporation as well as from other financial institutions which should meet the financial requirements of the industry. The corporation should work on purely commercial lines. It can make available to the tea companies long-term financial assistance at concessional rates for purposes of rehabilitation of tea bushes and processing machinery. The interest rates charged should be at the same rate at which loans are given for agricultural purposes.

7.4 Role of the Tea Board

The functions of the Tea Board are both regulatory and advisory. The extent of cultivation and the export of tea are regulated by the Tea Board. No one is authorised to plant tea on fresh land unless the Board's permission is obtained. Advisory functions include steps to bring about an improvement in the quality of tea, promoting cooperation among growers and manufacturers and better working conditions for workers. By the Tea Act 1953, the production and distribution of tea waste has been brought under the purview of the government.

The main complaint of the industry with regard to the working of the Tea Board is that although it is assumed to function as a direct line of communication between the industry and the government, it is a contact breaker on the line of communication. The impression is that the executive side of the Tea Board is inadequate and that the government acts independently of the views expressed by the board. The fact is that neither the officers with plantation experience manning the Development Directorate, nor the top management drawn from I.A.S., with a few years' administrative experience at the district level but with little or no experience of economic, commercial and financial, can be expected to rise upto the task, particularly because the latter are transferred even before they have acquired the basic knowledge

about the conditions of the tea industry in India in the context of the world tea economy.

The Tea Board is rendering financial assistance to the tea gardens under its three major schemes, viz., Tea Plantation Finance Scheme, (1968); Tea Machinery and Irrigation Equipment Hire Purchase Scheme (1960) and Replanting Subsidy Scheme (1968). Tea plantations are assisted under these schemes and are expected to carry out replanting, replacement planting and extension of area under tea. Table VII-8 shows the amounts sanctioned and utilized under the Plantation Finance Scheme and Hire Purchase Scheme.

TABLE VII-8

Amounts Sanctioned and Utilised Under the
Plantation Finance Scheme and the Hire Purchase Scheme

	(Rs. in lakhs)					
	1974- 1975	1975- 1976	1976- 1977	1977- 1978	1978- 1979	1979- 1980
Tea Plantation Finance Scheme						
Sanctions	8.82	31.38	125.57	62.46	50.00	55.00
Disbursements	10.23	14.52	30.81	40.25	N.A.	N.A.
Hire Purchase Scheme						
Sanctions	125.69	48.71	286.61	425.50	250.00	300.00
Disbursements	85.19	102.40	119.77	200.58	N.A.	N.A.

Source: The Economic Times, Bombay, May 7, 1980, p.12.

It is clear from table VII-8 that financial sanctions under the Tea Plantation Finance Scheme increased by 43.3 per cent between 1974-75 and 1979-80 and under the Hire Purchase Scheme it is about 138.7 per cent. There appears to be, however, little effort at replanting and replacing of old bushes and the record of replacement has been very poor. One of the main difficulties in utilising the Tea Board's financial assistance schemes is the administrative procedures connected with it. It will be more fruitful if some of the present conditions with regard to the utilisation of the assistance are relaxed, so as to enable the planters to make use of it for the growth of the industry. For the financing of development plans the Tea Board alongwith other financial institutions should participate to identify the needs of the industry; its capacity for generation of funds and the required funds for implementing the development plans. It is really important that based on the estimates of the development plan encompassing production, rehabilitation and marketing, a long-term financial plan should be chalked out.

Another important line of action which the board can take care of is the tea auctions. Tea auctions organised by the Tea Board, instead of the present system of auctions where there is an evident collusion among major producers, brokers and buyers, can rectify the travail of the industry

to a certain extent. If the board can undertake the tea auctions, it can successfully control the buying concentration which should be supplemented by a dilution of the control of production from the part of the government. Along with the organisation of auctions, it can also arrange for warehousing facilities for the majority of the producers.

For the present crisis, the government can start with a package deal of measures with a short-term outlook. They include, among other things, a substantial reduction in excise duty on tea, refund of indirect taxes paid on tea exports, simplification of draw-back procedures, suspension of sales tax on auction teas and a concessional credit scheme with simple procedural formalities etc. But most of the tea growers who do not export tea directly and who deserve government help the most are unlikely to benefit from excise rebate or fiscal concessions to tea exports. Instead, these measures would benefit substantially the FERA companies who export their tea for sale in London auctions and export under forward contract and private sales. The other likely beneficiaries would be exporters of blended tea and foreign buyers purchasing tea from public auctions in India. What is needed, therefore, is a selective and judicious approach towards the whole issue of fiscal incentives for expansion of production as well as for tea exports.

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CHAPTER - VIII

8. CONCLUSIONS AND RECOMMENDATIONS

OF THE STUDY

8.1. Section-I

1. The study leads to the conclusion that the Indian tea industry in general and the South Indian tea industry in particular are passing through a serious crisis. The major cause of the crisis is cost escalation and declining or stagnant prices (see table III-13). Consequently, the attempts of the individual producer to improve his output level to keep up with the cost increases have been aborted by the declining or stagnant prices and further increasing costs.

The present situation does not permit sufficient cash accruals and thereby blocks adequate ploughback of funds for the growth of the industry. The present crisis assumes more importance when we consider the relatively declining auction prices and the stiff competition from newly emerged rival producers whose cost of production is comparatively low (see table VII-1).

2. Another major problem facing the Indian tea industry is that while the annual rate of growth of production is 3.5 per cent, the internal consumption has been rising at an even faster rate of 5 per cent per annum. So increased production and productivity is necessary to take care of both the internal and the external markets as well as for maintaining India's position as the largest producer and exporter of the commodity. This, in turn, requires a favourable climate in which the industry can grow without many impediments.
3. The nature of the present crisis has some important implications on the South Indian tea industry, where about 97.7 per cent of the tea gardens are owned by the small growers — the worst-hit victims of the crisis. But region-wise the tea plantations in Kerala are the most affected group where the productivity per hectare is lower and cost of production higher compared to Tamil Nadu and Karnataka (see table III-2 and III-3). According to UPASI's estimate the tea industry in Kerala is losing on an average about Rs.1.78 on every Kg. of tea produced in the state. Now it seems that the crisis facing the Kerala's tea industry is threatening to extend to Tamil Nadu and Karnataka. This situation has provoked a novel idea of mixed estates among the planters to compensate the loss from tea cultivation. This trend is very much evident among the small tea growers of Kerala who are shifting from tea to more profitable rubber and coffee.

4. Another important implication of the crisis is that due to the lack of developmental activities such as replanting and replacement more and more tea estates are falling into the unproductive group although there are inter-state differences (see table VII-2). Even though there are differences of opinion with regard to the economic age of a tea bush, it is obvious that unless care is taken to ensure that old and worn-out plants are replaced from time to time, the whole garden will be unproductive in course of time. Moreover, the declining retained profits has forced the industry to become dependent on external sources of finance over the years (see table VII-4).

8.2. Section-II

1. A clinical-scrutiny of the present crisis has made it clear that there are at least four factors behind the crisis, viz., structural causes, cost increases, irrational tax-policy and the entry of new producers.
2. The structural causes behind the crisis are brought into light by an analysis of the political economy of development of tea plantations in South India.
3. As evident from Chapters I and II the south Indian tea industry was developed with the massive investment of British

capital. The early pattern of ownership was individual proprietary. But, in course of time, the individual proprietary planters and small companies were replaced by large British companies. These companies had a world-wide interest in a variety of activities associated with tea industry mainly due to two factors, viz., the requirements of large amount of working capital and the inability of small companies to withstand the recurrent fluctuations in the price of tea in the world market. Other factors such as the trade boom of 1860s in Britain, the entry of merchant capital (coast firms in south India who were trading in coffee and pepper) and the emergence of managing agencies speeded up the capitalist form of development of tea industry in South India. Later, the early individual planters became associated with the agency houses and the marriage of agency house capital with the managerial experience of the proprietary planters provided the main foundation for the growth of corporate capital in the South Indian tea industry. Consequently, the managing agencies became more important and the companies turned out to be their branches in practice.

4. In short, the pre-conditions for the capitalist form of development of South Indian tea plantations and the consequent concentration of the industry by a few British companies were the following:

- (a) large amount of British capital which allowed the South Indian tea plantation organisation to secure needed factors of production,
- (b) the availability of cheap land for tea cultivation in sufficient quantity and quality for present and future production,
- (c) supply of cheap labour in sufficient quantity,
- (d) British technology of a high level for modern tea cultivation and processing,
- (e) sanctions of a political - legal sort which permitted the British companies to maintain or disciplined labour force and to regulate the distribution of the surplus,
- (f) sizeable market for the commodity in Britain and in her colonies, and
- (g) a system of class stratification which helped to differentiate those with capital from those with only labour services to sell.

5. This sort of development of the industry has some important implications on the future growth of the industry. The primary concern of the British capital was the maximisation of profits. By virtue of the vertical integration and concentration of various activities ranging from production to retail marketing, they are able to determine the price of

tea in the world market (see table II-7 and IV-6). The major of producers of tea are the major buyers in the auctions and the same companies have concentration in the retail trade of tea all over the world.

6. Two important events which affected the future course of the industry were the World Wars and the International Tea Agreements. The net effect of the World Wars and the International Tea Agreements were different and varied.

7. The bulk purchase system adopted by the British government during the World Wars ensured a stable price for an agreed quantity irrespective of quality. It inspired the producers to increase area and the production of tea (see table II-4). In fact, the tea contracts during the World Wars were a direct subsidy by the Indian economy to Britain. It was an arrangement between Britain and its colonies. But when the bulk purchase system was virtually withdrawn in 1951 with the resumption of normal trade channels, the British buyers began to evince a keen preference for quality teas. Indian teas which were mainly of medium and cheap varieties and already overstocked under the stimulus of bulk purchase system had to face a situation of severe over supply. Thus the bulk purchase system which ensured stable prices sowed the seeds of crisis for the industry.

8. The International Tea Agreement among the producer combines in India, Ceylon and Indonesia had been reached on the background of the 'Great Depression'. Short supply against large demand was the main feature of this agreement tied to restriction of production. When the restriction under the agreement was found inadequate, voluntary restriction was followed by a combination of managing agencies who had controlled a major share of production of tea in India. The producer combines in India have achieved their object in maintaining a high cost - profit structure at a high price for tea.

9. As the objective of the combine was the maintenance of a high price by restricting production, it was, therefore, opposed to expansion. Poor developmental efforts were the main consequence of the restrictionism to which increase in productive capacity is poison and therefore high profit distribution a necessity (see table VII-5). The declaration of high dividends had two important results, viz.

- (a) the substantial increase in bank borrowings and external dependency for finance and
- (b) the development potential required for the future growth and expansion had been repatriated in the form of high dividends.

Another important way in which funds had been repatriated was the commission paid to the managing agents and the directors of British companies (see table VII-6).

8.3. Section - III

1. Since independence the British tea companies operating in India gradually started shifting their interests to East African countries owing to the threat of nationalisation and the regulations introduced by the Government of India like the FERA 1973. Now they do not see any economic reason for investing in plantations for its further expansion when they do not have the incentives of a secure long term ownership. The net result is the neglect of tea gardens, especially those largest size gardens controlled by these companies (see table III-4). Consequently, they are now concerned with making highest possible profits in the quickest possible manner.

2. Contrary to the expectations about the much talked FERA 1973, the British companies have now a much larger capital base than before enabling them to make higher remittances on account of dividends through the freely left valuation process of assets which was capitalised. Moreover, the migration of the same companies to East Africa resulted in pushing up the auction prices of East African tea at the expense of Indian tea in the London auctions (see table IV-10).

In short, the structural changes that took place in the industry during the last 100 years - beginning from the

change of proprietary ownership to control by the large companies who had world-wide interests in a variety of activities related to tea planting and the changes since independence — had a negative impact on the growth prospects of the industry.

8.4. Section - IV

1. Increasing cost of production of tea is claimed to be another important factor contributing to the present crisis. Since the cost of production of Indian tea is higher than that of its rivals, it cannot hope to compete successfully in the world market (see table VII-1). The problem is further complicated by the peculiar nature of the price of tea — neither the majority of the producers have control over it, nor is it related to the cost of production. In this connection, it is important to note that the plight of the medium and small tea gardens is most discouraging. Therefore, if timely measures are not taken, not only will larger resources have to be forthcoming in future to sustain the industry, but long-term rehabilitation work may also be very difficult.

2. Although the cost of all inputs are going up, the increase in labour costs is claimed to be the important cost pushing factor. Today, about 48 per cent of total cost of

production is constituted by the labour costs. As a result, many of the big tea estates are trying to introduce labour replacing methods which, in turn, has the effect of reducing labour per hectare (see tables VI-1 & 2). But the fact is that the real wages of labour is declining (see table VI-3).

3. Another cost-push factor is the taxes that fall on tea production. It is very often claimed that the increase in cost of production of tea due to duties and cess renders Indian tea more expensive in the world market. To this extent the competitive position is also weakened. The excise duty on tea is an instance of how irrationally taxes are imposed on tea. While the excise duty based on the social system is arbitrary and discriminatory, the sales tax and the export duty are not sensitive to the changing conditions in the industry. Further, the proliferation of centre and state taxes is preventing the required coordination and the resultant competing revenue considerations overlook the need for development of the industry.

4. Of late, an important factor pointed out for the declining tea prices is the increase in world supply of tea outstripping demand. In fact, the entry of East Africa and Argentina, the reappearance of China in the world market and the fast expanding production of tea in Soviet Russia are causing much alarm in the tea circles. While

it is true that the increasing supply of tea may worsen the crisis, they are compensated by the increase in the consumption in tea-producing countries.

8.5. Section - V

1. It is obvious that the tea industry has a claim for priority consideration. Very often policies are adopted to tide over temporary crisis situation in utter disregard to their long-term implications. Therefore, while steps have to be taken urgently to tide over the present crisis, it is imperative that a long-term view of the industry regarding the optimum use of land, relative importance of the commodity, domestic consumption, exports, increasing productivity per unit of area and the consequent cost reduction etc. is necessary. The institutions are to create a climate conducive to nursing the industry back to health and the industry has to take advantage of technological advancements in the improved climate.
2. In the short-term, higher levels of production can be achieved through improvements in cultural operations relating to plucking, pruning, manuring, weed control, pest control and other plant protection measures. In this connection, it is recommended that the advisory services of the

Tea Board and the scientific knowledge from the part of URSI research stations should be imparted to small growers who are yet to be benefited from the advance made in the cultural practices. With regard to the short-term funds, it is suggested that the industry should be allowed to create a reserve fund to meet contingencies such as a sudden fall in the price or production. Any amount credited to that account should be deducted from the profits.

3. Medium-term developmental measures include rejuvenation, pruning, infilling, replanting, replacement and extension of area. Since the utilisation of grant area is lowest among the largest size-group, the Government should either give sufficient incentives to the existing estates or formulate policies which would enable small growers or labourers to undertake planting with the help of the Tea Board and the cooperative tea factories. The main reason behind the slow pace of the medium-term developmental measures is found to be the increasing cost as well as lack of sufficient finance. Though an intensive replantation programme is important, replacement planting instead of replanting has become more important from the point of view of the present crisis. In the present circumstances, it is recommended that a replanting reserve should be set apart for replanting. It should apply to all gardens and no company shall pay dividend

until a phased programme of replanting of unproductive gardens is carried out.

4. Although the Government of India has taken many measures to remedy the maladies of the industry, they are proved to be ineffective from the point of view of the majority of tea growers. Even today, a few British companies who have international interests are controlling the industry. One possible line of action is that the Tea Board should undertake tea auctions which should be supplemented by a dilution of the concentration of production by the FERA companies. The entry of public sector in the industry should be encouraged but it is essential to see that the role of each organisation must be clearly defined so as to coordinate their activities and to avoid wasteful duplication.
5. Regarding the increasing cost of production, it is neither fair nor realistic to hope for a fall in wages to improve the competitiveness of the industry. Therefore, the challenge may be met by reducing unit costs by improving productivity of land and labour on the one hand and by reducing the government imposts on the other.
6. The loans advanced by the Tea Board and other agencies should provide a suitable framework for assessing the need for loan vis-a-vis with the repaying capacity of a company. It is possible that an independent Tea Finance

Corporation can be established which can take care of the long-term financial assistance at concessional rates for purposes of rehabilitation of tea bushes and processing machinery.

7. Considering the increasing world production of tea without adequate promotional measures for increasing consumption, it is plausible that an agreement may be reached for production, exports, prices, promotion etc. But sufficient care should be taken to see that such an agreement benefits the majority of producers instead of favouring the British tea multinationals.

8. For meeting the present crisis, the Government can start with a package of immediate measures such as a re-organisation and reduction of excise duty on tea, refund of indirect taxes paid on tea exports, simplification of drawback procedures, suspension of sales tax at auction centres and concessional credit scheme with simple procedural formalities. In this context, what is required is a selective and judicious approach towards the whole issue of fiscal incentives for expansion of production as well as for tea exports.

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