

REVISED DRAFT

# **Sustainable Livelihoods for Indian Tea Workers The International Dimension**

Written for Traidcraft Exchange

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# 1 Tea in India<sup>1</sup>

## i The tea crisis

Weak international prices over the last five years have led to a worldwide tea crisis, which is felt at its worst in India. In spite of a booming industrial and service economy, Indian agriculture is in difficulty in general, and the result for tea farmers and workers is great hardship as well as sporadic unrest in this scattered and complex part of the country's economy. Untangling cause and effect, and distinguishing between domestic and international factors, are not easy. This paper will relate events on the international market to the problems faced by India's tea workers and smallholders, examining where international actions could help to ease the crisis. The tea economy differs greatly from producing country to producing country, but in many crucial respects the Indian case is unique. Inevitably, many of the solutions to India's crisis will be special to that country. However, there are also some tentative moves afoot to find a worldwide solution to the wider crisis on the world market.

More of India's tea is produced on plantations than small farms, and the consequences of the crisis for plantation workers have been investigated in various tea-growing areas. The most alarming finding was made in a nutritional survey of workers on tea plantations of the Dooars region of West Bengal, published in October 2005. It studied 120 families (including 331 adults) on six tea gardens, of which two had closed, two were 'sick' or struggling, and two were running regularly and had not closed during the crisis period. Based on each adult's body mass index, the survey concluded that 'taken as a whole, the entire population ... can be labeled as a "starving community" or "at critical risk for mortality from starvation"' by WHO criteria. Intriguingly, the situation was less severe among workers of the two tea gardens which had closed in the crisis than the four which remained open.<sup>2</sup>

Regarding smallholders, the Southern head of India's Tea Board wrote that in four years the farmgate price available to South Indian smallholders from local tea auction sales had fallen from Rs18 per kg to Rs5 per kg, 'barely enough to cover the cost of plucking and cultivation'.<sup>3</sup> The small growers themselves face great hardship, but their workers (many of them from Sri Lankan expatriate families) are in an even worse state. They reported to one fact-finding team that, 'They are facing starvation kind of situation. Their children have stopped going to schools and they are surviving by selling off household items.'<sup>4</sup>

The rest of this section of the paper will provide a wider depiction of the tea sector in India's economy. The second section describes the world's tea trade while the third discusses the main issues facing it at present. Section 4 looks at possible international solutions to these problems, while section 5 discusses areas of international advocacy that may be open to Traidcraft. Section 6 proposes some domestic issues which may be followed up within India in a separate report.

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<sup>2</sup> Biswas, S., and others (2005).

<sup>3</sup> Kapur, V. (undated), p. 1.

<sup>4</sup> Banerjee, K., and others (2003), p. 64.

## ii Tea production and markets

Tea is unusual in that in recent decades its international trade has grown rather more slowly than world production. In colonial times, tea was almost entirely exported from the tropical and sub-tropical zones where it was grown, and consumed mostly in European countries such as the United Kingdom and Russia. These are still the two largest import markets, but consumption has grown markedly in some of the tea-producing countries also. Indeed, there are now some major producers which scarcely export any tea at all. Turkey is the most important of them.

**Table 1 Annual Production of Tea in Selected Countries (metric tons)**

	Year						
	1961	1971	1981	1991	2001	2003	2004
<b>World</b>	983,785	1,308,424	1,885,907	2,561,050	3,065,927	3,209,831	3,341,827
<b>China</b>	97,064	179,984	368,223	562,961	721,536	788,815	855,192
<b>India</b>	354,397	435,468	559,583	720,300	848,400	846,000	850,500
<b>Sri Lanka</b>	206,488	217,773	210,148	240,747	295,090	303,230	308,090
<b>Kenya</b>	12,641	36,290	90,941	203,588	294,620	293,670	295,000
<b>Turkey</b>	5,450	33,585	42,606	136,887	142,900	153,800	201,663
<b>Indonesia</b>	77,100	60,922	109,135	139,520	163,068	169,818	164,817
<b>Vietnam</b>	7,500	15,500	21,178	33,100	75,700	99,750	108,422
<b>Japan</b>	81,527	93,111	102,300	87,800	85,000	92,000	101,000
<b>Argentina</b>	6,486	29,900	22,785	46,075	62,775	63,775	64,000
<b>Bangladesh</b>	26,542	12,007	38,772	45,012	52,000	56,833	55,627
<b>Iran</b>	10,922	16,000	33,100	42,091	51,160	52,000	52,000
<b>Malawi</b>	14,288	18,597	31,965	40,501	36,800	41,693	50,090
<b>Uganda</b>	5,100	18,000	1,700	8,877	32,857	36,895	36,000

Source: FAOSTAT database

Nowhere is this change in structure of the market more evident than in India. This has long been the world's largest producer of tea - although even here the situation is changing, as in 2004 for the first time in recent history China's production was larger (see Table 1 above). But India has also become the largest consumer of tea. A recent commentary illustrated the history since just after Indian independence in 1947 thus:<sup>5</sup>

	Indian Production	Domestic consumption	Exports
In 1949	Approx 250 m kg	80 m kg	170 m kg
In 2002/03	Approx 865/880 m kg	680/690 m kg	180 m kg

<sup>5</sup> Sarronwala (undated), p. 1. In the tea trade, volumes are often expressed in millions of kilograms rather than thousands of tons. However, the rest of this paper will refer to metric tons, for ease of comparison with other commodities.

While India's tea production grew by about 250 per cent over the period shown, exports remained little changed. Tea in India is now grown mainly for Indians to drink, where previously it was mostly for foreigners. Any analysis of the sector has to keep this fact in mind. It makes India markedly different from nearly all other tea-exporting countries except China. The significance of the differences between India's domestic and export sectors will become apparent during this report. In 2004 India's tea exports were 175,000 metric tons and their value was US\$378 million. With the exception of a troubled period in the 1990s (to which we will return), this is less than at any time since the 1970s. The exports of all other leading tea-exporting countries have grown rapidly over the same period (see Tables 2 and 3 below). For many years India and Sri Lanka competed to be the leading exporter, but India is now in fourth place, a considerable way behind Sri Lanka, Kenya and China. While China's domestic consumption has grown even more rapidly than India's, that country's exports have kept pace with it.<sup>6</sup>

### **iii Regional differences within India**

India's tea tradition is most famously associated with hill areas in the North of the country, including well-known names like Assam and Darjeeling. But from the start there has been some production in the South. Different areas tend to grow different kinds of tea serving different markets, while production is also organised in different ways. There is a general division between North India - mostly North and West Bengal and Assam - and South India, where the states of Karnataka, Kerala and Tamil Nadu all grow tea. The North mostly produces for the domestic market, although some of its tea, much of it of high quality, is exported; but the South, while producing much less tea overall, is more specialised in exports. Depending on the year, South India produces about 24 to 25 per cent of India's tea but around 50 per cent of the exports by volume.

The prices paid for South Indian teas are often much lower. The reason lies in differences in quality, which are partly related to different methods of production. Most Southern production is of the 'crushed, torn and curled' (CTC) type, which is mechanically processed, while a much larger proportion of the North's output is so-called 'orthodox leaf', or hand-processed. CTCs are more suitable for teabags and orthodox teas for brewing in the pot. We will discuss the marketing implications of these differences below.

### **iv Plantations and smallholders**

Tea is best known as a plantation crop, and that has been its basis in India since it was introduced there in the 19<sup>th</sup> century. Tea plantations are often called 'estates' or 'tea gardens'; the three terms will be used interchangeably here. A plantation comprises a large area, producing a single agricultural product as a commercial venture. The model was introduced into India in colonial times by 'planters', mostly from the UK, and until the 1950s it was thought to be the only way to produce tea to commercial standards. However, it was not the norm for another tree crop, coffee, which is grown mainly by smallholders, sometimes as a

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<sup>6</sup> All the statistics in this paragraph are taken from the U.N. Food & Agriculture Organisation's FAOSTAT database. See [faostat.fao.org/faostat/collections?version=ext&hasbulk=0&subset=agriculture](http://faostat.fao.org/faostat/collections?version=ext&hasbulk=0&subset=agriculture).

supplement to subsistence agriculture. When, during the 1950s, Kenya decided to produce tea for export, it based its plan on smallholders. Adequate standards were ensured by a government body, the Kenya Tea Development Authority (KTDA), which was also made responsible for marketing the crop. The experiment succeeded, marking the start of the modern trend for smallholders in developing countries to produce cash crops to export standards as 'outgrowers' for an external agency. Since that time there has been a steady trend in the tea-growing world away from plantation production towards smallholders. More than half of Sri Lanka's tea is now produced by smallholders, as a consequence of privatisation and land reform. They are coordinated in a similar way to the KTDA by a Tea Smallholdings Development Authority (TSHDA). Under China's initial economic reforms in the late 1970s the communes were in effect broken up into individual smallholdings. And in India, there was a large increase in smallholder production in the Nilgiris area of Tamil Nadu in the 1980s, and since then it has been on the rise in Assam, North Bengal and Bihar in the North.

As we have seen, the Indian tea crisis affects both estate workers and smallholders severely. Although the terms of reference of this paper make no distinction between tea growers (in their own gardens) and tea workers (employed in those gardens or larger plantations), the wider project of which it forms part is about smallholders. These are more concentrated in South India, where more of the production goes to export than in the North, so this paper will examine their situation most closely.

The human implications of the difference are important. According to an earlier report,

*Obviously, the collapse in the price of green leaf tea has been the most significant aspect of this crisis. Sunil Paliwal, managing director of the Tamil Nadu Small Tea Growers' Industrial Cooperative Tea Factories Federation (Indcoserve), explains that the human dimension of the problem has been more pronounced in the Nilgiris than elsewhere because a large section of its population earn its livelihood from tea grown on small plots with an average size of between one and two acres.<sup>7</sup>*

Indian smallholder production is most concentrated in the Nilgiri (or Blue) Mountains, part of the South Western Ghats range in Tamil Nadu state. This is the largest centre of tea production in the South, especially since, from the 1980s on, indigenous Badaga people were persuaded to switch to tea as a more remunerative crop than the potatoes and vegetables which they previously grew. In the 1980s they found a ready market for CTC teas in the Soviet Union, a captive market for India at the time as a consequence of bilateral trade agreements. This market expanded fast in its last 10 years, with Soviet imports doubling from 84,521 tons in 1981 to 170,000 tons in 1991 (see Table 4 below). There are now more than 60,000 small tea growers in the Nilgiris, producing a reported 60,000 tons of black tea per year.<sup>8</sup> As most of this is CTCs for export, it means nearly one-third of India's tea exports is of Nilgiris origin.

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<sup>7</sup> Sridhar, V. (2000).

<sup>8</sup> Sridhar, V. (2000), p. 3.

## **vi Indian exports - and imports**

Until 1991, most of India's tea exports went to the Soviet Union. This had two consequences for India. When the USSR collapsed, its import market went into sharp decline, and India's tea exports suffered as a consequence. Russia's economy began to recover after the rouble was devalued in 1998, but that country's tea importers then sought to diversify their sources, with Sri Lanka in particular making inroads. This was partly because of a currency agreement between India and Russia, which meant that Indian exporters were not able to take as full advantage of Russia's devaluation as Sri Lanka's were. It also reflects rising quality in Russian tea demand: nearly all of Sri Lanka's output is of orthodox leaf.

So India's problem was compounded by the nature of the tea it used to send to the USSR, which was mostly CTCs. In 1998, at the time of the rouble crisis, as much as 87 per cent of India's output was CTCs.<sup>9</sup> CTC remains the principal form of tea consumed in the UK, the world's other leading import market. But the British market is to a large extent supplied by Kenya, which also specialises in CTC production, and India has had some difficulty building up its share in it. It is reported that in 2004 the UK imported 53,400 tons of tea from Kenya and 17,700 tons from India.<sup>10</sup> In any case, British consumption has been stagnant for several decades.<sup>11</sup> For new export markets, especially of CTCs, this leaves India to a large extent competing with Kenya to supply countries such as Egypt and Pakistan.

Under WTO rules India has also relaxed its duties on tea imports, which have risen from negligible quantities before the turn of the millennium to more than 30,000 tons in 2004. Most of this tea is of poor quality from countries like Vietnam and Indonesia, where prices are lower than in India. Most of it is blended with Indian teas and re-exported. There is some concern in India that the quality of the resulting blends might reflect badly on the country's reputation, at a time when the Tea Board is campaigning to upgrade tea quality. The pressure eased to some extent in 2005 as Vietnam's total exports fell by 14 per cent to 85,000 tons. The head of Vietnam's Tea Institute admitted this was due to quality concerns, as his country's tea-processing network had 'developed too fast and spontaneously'.<sup>12</sup> But it seems safe to predict that it is only a pause in the rapid growth of Vietnam's tea trade.

A counterpart to this was shown a few weeks later when interest was reported from China in importing some of India's highest-quality tea, from Darjeeling. However, there was a possible sting in the tail as the inquirer, representing a company in Zhejiang province, wished to know if foreign direct investment was allowed in India's tea industry, as he would be interested in acquiring a garden of 500 hectares.<sup>13</sup> Black tea, in which India specialises, is gaining in popularity in the Chinese market over that country's traditional green tea. This would provide a much-needed new direction for exports from India, but possibly at the risk of ceding some control over its most prestigious and valuable element.

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<sup>9</sup> Kumar, P. (undated), p. 1.

<sup>10</sup> Foretell (2006), p. 2.

<sup>11</sup> FAOSTAT shows UK imports, net of re-exports, falling from 237,612 tons in 1961 to 135,302 tons in 1981 and holding fairly steady ever since then. In 2004 they were 127,783 tons. See Table 2.

<sup>12</sup> *Asia Pulse* (2006).

<sup>13</sup> Ravidas, R. (2006).

## vi Tea's place in the wider Indian economy

The tea industry is reported to be the second largest employer in India, directly employing more than 1.1 million people.<sup>14</sup> However, this is a small number in comparison with India's population, or that of its needy rural people. Tea is of significance in specific parts of the country. Like coffee, it grows best in remote highland areas, including some of the poorest areas of India, such as parts of Bihar and West Bengal. Tea provides incomes and employment in these areas and in some cases to disadvantaged social groups (e.g. the Badaga people in the Nilgiris).

However, tea's financial contribution to the economy has become negligible. Indian merchandise exports are now very diverse, and in 2004 tea provided only 0.5 per cent of India's exports. Agricultural products in total were less than 10 per cent of them.<sup>15</sup> There is not the same pressure on India's large, diverse and dynamic economy to acquire foreign exchange from agriculture as there is in most poor countries, including leading tea producers like Sri Lanka and Kenya. Tea's most important role in the national economy is as an employer in remote and poor rural areas.

However, the rapid growth of Indian domestic consumption also reduces the need to make sales abroad - and quality for quality, prices realised on the Indian markets are often higher than for exports. And although India consumes more tea in aggregate than any other country, its consumption *per capita* is still quite low.

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<sup>14</sup> Krishnan, R. (2000).

<sup>15</sup> Figures derived from data on the FAOSTAT database.

## **2 The world's tea trade**

### **i Size and structure of the trade**

International trade in tea is among the largest in value among tropical and sub-tropical crops. Historically, world tea exports have generally been worth between one-half and one-third of the value of coffee exports, and rather more than those of cocoa (although opposing price trends recently pushed the value of the cocoa trade above that of tea).

However, tea is less well-known in development circles than many other commodity markets, and less analysis has been done of its significance for development. This may be because little tea is produced in the very poorest countries. Cocoa production, for example, has traditionally been dominated by West Africa, but (Kenya notwithstanding) tea remains largely a product of Asia. The analysis of agricultural trade among development experts seems also to some extent to be based on the visibility of this or that crop. The market for an industrial crop like palm oil is much less visible than for the consumer goods produced from coffee, cocoa and bananas. And the trade in palm oil tends to be neglected although it is worth substantially more to developing countries than any of the others just mentioned.

The narrowness of tea's market on both the production and consumption sides may have a similar effect. For the tea market is much narrower than similarly sized markets for other products. Tea is grown in fewer countries and exports are dominated by just four, China, India, Kenya and Sri Lanka. Indonesia, Vietnam and Argentina fall into a second group, with export volumes some way behind. Tea is also less widely consumed than other leading tropical export crops and is a major item of consumption only in the UK, Russia and Pakistan among the importing countries of larger size.

### **ii How tea is priced and traded**

Tea is unique among leading internationally traded commodities in that its prices are set at auctions, where the physical product is traded. The London auction was the first to be established and for most of its history the largest, setting the trends in international prices. But it closed in 1998. Competing auctions had been set up in all the main exporting countries, reflecting the greater geographical diversity of tea over the later 20<sup>th</sup> century. Six of the 12 present-day auction centres are in India, with three in the North and three in the South.

An implication of this form of price-setting is that there is no single, accepted reference price for the commodity, as will exist for example where a commodity is traded on an international futures market. Even when there was one dominant auction, in London, each lot that passed through it found its own price, reflecting demand and supply for its own origin as well as the 'grade' of tea. To that extent the market is less easy to read than many others.

There are problems with an auction pricing system for Indian smallholders. This partly reflects their limited degree of organisation and coordination, which means they are price-takers, having to accept whatever price is available to them on the market. Auction pricing is not universal, but it is dominant in tea exports.



### 3 Current issues

#### i International market balance and price trends

The balance of production and consumption is less transparent on the tea market than many comparable markets. On many markets changes in stock levels are used as an indicator of the balance of supply and demand, but tea stock figures are less reliable and readily available due to tea's perishability. Secondly, while detailed production data are plentiful (although not very consistent between different sources), there are fewer reliable figures for tea consumption. One reason lies in the large amount that is consumed in producing countries, especially India, China and Turkey, while it is the international trade that is most closely examined. Here, what is measured is net imports of tea (import volumes minus volumes which are re-exported to other countries). This is an unreliable measure of overall consumption since net imports now account for less than one-half of global production. Import data is useful mainly as an indicator of demand in *importing* countries: where that demand is rising, where it is stable and where contracting.

**Table 2** Annual Exports of Tea from Selected Countries (by volume, tons)

	Year						
	1961	1971	1981	1991	2001	2003	2004
World	592,167	768,216	951,994	1,196,095	1,451,098	1,518,571	1,613,633
Sri Lanka	193,103	200,800	183,362	212,017	293,524	297,003	298,909
Kenya	11,957	41,688	84,095	175,625	207,244	293,751	284,309
China	47,403	71,355	99,267	190,188	252,204	262,663	282,643
India	204,959	199,561	238,750	215,144	177,603	174,246	174,728
Vietnam	2,266	1,784	8,100	7,953	67,900	58,600	99,400
Indonesia	32,242	44,803	71,259	110,207	99,797	88,176	98,572
Argentina	5,352	22,454	25,872	36,029	58,110	59,062	67,819
Uganda	4,215	15,268	501	7,018	18,220	8,071	36,856
Malawi	13,000	18,157	31,017	37,047	36,587	36,924	32,672
Bangladesh	16,310	9,000	31,786	26,862	6,400	7,348	10,635
Iran	367	644	2,889	0	10,004	7,402	9,491
Turkey	0	17,497	3,315	2,314	4,817	6,711	5,929
Japan	7,999	1,420	2,708	289	625	845	923

Source: FAOSTAT database

Statements that the tea market suffers from serious oversupply have to be taken therefore with a degree of caution. However, it has been argued that the background to price falls in India lay in overproduction in the 1990s (when export demand from Russia had fallen), leading to an accumulation of tea stocks

amounting to 165,000 tons between 1995 and 2001.<sup>16</sup> However, the international market has evidently not been strong in recent years either. The only clear sign of a major increase in consumption is in China, but production has been increasing in China, Vietnam and Turkey.

**Table 3 Annual Exports of Tea from Selected Countries (by value, US\$'000)**

	Year						
	1961	1971	1981	1991	2001	2003	2004
<b>World</b>	682,754	695,083	1,813,617	2,464,398	2,821,874	2,922,601	3,271,661
<b>Sri Lanka</b>	233,933	192,142	335,089	426,085	679,951	672,517	732,521
<b>Kenya</b>	12,000	39,001	149,395	274,863	448,677	481,485	463,726
<b>China</b>	39,128	53,574	210,642	395,441	358,348	385,158	453,672
<b>India</b>	259,205	201,794	506,832	490,292	367,207	333,408	377,742
<b>Indonesia</b>	25,700	28,881	100,837	143,122	99,967	95,816	116,018
<b>Vietnam</b>	2,178	1,790	7,400	9,221	78,406	58,392	95,550
<b>Argentina</b>	3,824	11,736	25,660	27,661	41,981	34,119	40,512
<b>Malawi</b>	11,500	14,381	34,188	35,895	34,088	42,069	39,360
<b>Uganda</b>	4,507	13,400	300	6,780	16,230	8,259	37,256
<b>Bangladesh</b>	23,239	4,300	40,969	43,088	6,500	8,223	12,168
<b>Japan</b>	4,708	1,110	3,091	3,660	9,972	13,763	16,732
<b>Iran</b>	69	289	1,693	0	6,254	6,550	8,257
<b>Turkey</b>	0	3,873	7,161	3,090	4,073	6,959	6,857

Source: FAOSTAT database

The best indicator of the state of the market lies in prices. Agritrade reports World Bank figures to suggest that between 1970 and 2000, tea prices fell by 44 per cent in real terms.<sup>17</sup> But 2000 was itself a peak year for tea prices, and since then they have fallen not just in real terms but absolutely. The Food & Agriculture Organisation's composite tea price (combining prices found at the different auctions) averaged US\$1.80 per kg in 2000 and \$1.65 per kg in 2004, a decline of 8.3 per cent without taking inflation into account. And during this period the dollar fell in value against other hard currencies, so the tea price in sterling, euros or yen fell further.

The weakest among the tea-producing countries has been India. In 1981 its share of world tea exports was 25.1 per cent and it was the leading exporter by a margin of some 55,000 tons over Sri Lanka. By 2004 India's export market share had fallen to just 10.8 per cent. We have already seen that quality is a factor in this: world import demand is gradually shifting from CTCs to orthodox teas, but India has not kept up with this. On the contrary, easy sales up to 1991 to the USSR, which

<sup>16</sup> Banerjee, K., and others (2003), p. 70.

<sup>17</sup> Agritrade (2005), p. 3.

steadily increased its imports but was undemanding as to quality, left India behind the quality standards achieved in countries like Sri Lanka and Kenya.

Secondly, India's production costs are by some way the highest among the major exporters. Relative costs per kg were recently quoted as \$1.60-\$1.62 in India, \$1.16 in Sri Lanka, \$1.40 in Kenya and less than 90 cents in Vietnam and Indonesia.<sup>18</sup> In some cases this has been facilitated by national currency devaluations. Chinese production costs were not quoted and are perhaps not known outside that country, but as in other export sectors, China is aided by a chronic undervaluation of its currency, the renminbao. The India rupee, on the other hand, faces continued upward pressure on its foreign exchange value, as a result of strength in non-agricultural export markets. Akin to the 'Dutch disease' effect which is often found in oil-exporting countries, this is an important factor in the malaise of Indian agriculture in general, and tea exports in particular.

**Table 4 Annual Net Imports of Tea to Selected Countries (volume, in tons)**

	Year						
	1961	1971	1981	1991	2001	2003	2004
World	592,466	745,108	883,209	1,137,346	1,385,202	1,359,108	1,404,308
Russia					154,448	168,894	172,145
USSR	14,900	42,600	84,521	170,000			
United Kingdom	251,999	226,289	160,408	178,148	164,016	156,636	156,311
Pakistan	16,056	31,800	72,531	104,056	106,822	108,147	115,967
United States	49,594	79,584	86,297	84,332	96,668	94,174	99,484
United Arab Emirates	0	2,300	15,079	22,401	40,000	35,923	65,826
Japan	1,970	14,072	13,910	36,674	60,396	47,354	56,234
Morocco	13,856	12,855	22,622	24,289	37,701	44,925	45,670
Germany	8,270	11,597	20,052	25,087	37,758	45,787	43,409
Poland	2,285	9,712	24,547	9,523	33,102	30,594	32,119
Syria	1,694	2,435	7,812	21,409	22,336	29,036	30,330
Egypt	22,764	11,002	30,131	88,528	56,403	38,318	2,627

Source: FAOSTAT database

## ii Buyer power

Among importing nations, tea is an important item of consumption only in the UK, Russia and certain Middle Eastern countries. In these countries, supermarkets have developed great power over agricultural supply chains in the UK but not yet elsewhere. And even in the UK, the market share of supermarkets' own brands of tea has recently declined. In other developed countries, such as the United States,

<sup>18</sup> Sarronwala (undated), p. 1.

tea is too specialised an item for the supermarkets to have much desire to use own brands.

Yet there is circumstantial evidence of strong buyer power of a more traditional sort in the tea chain. ActionAid reports:

*Auction prices for tea have fallen by around 33 per cent in southern India, from 69 rupees per kg in 1998 to 46 rupees in 2004, and by nearly 12 per cent in northern India within the same timeframe. This means prices are below the cost of production - estimated to be approximately 75 rupees per kg in 2004... While producer prices have collapsed, ... the retail price for tea in India has gone up - from 85 to 105 rupees per kilo between 1999 and 2002, and continues to rise.<sup>19</sup>*

These are classic symptoms of buyer power on an agricultural supply chain, directly comparable to the consequences of Nestlé's and Kraft's position on the world coffee market as well as supermarkets in dairy products and much else besides on many domestic markets. Of the two leading companies in India, Hindustan Lever owns two big international tea brands, Liptons and Brooke Bond, while Tata Tea recently acquired Tetley. These companies own their own plantations and are major purchasers of tea from other plantations. Meanwhile on the tea auctions, manipulation in the interests of tea buyers is widely suspected.

A now familiar picture emerges of tea farmers' and workers' livelihoods being squeezed as a result of their lack of bargaining power on the supply chain, and not just the consequences of oversupply as such. The issues here cannot all be unravelled from as far away as the UK; they should be looked at closely within India itself. An important facet of the question is the interplay between the corporations' interests in selling tea in India and their ownership of leading international tea brands - whose position on the UK market may if anything be strengthening, rather than weakening in the face of supermarket power as so many other food processors have done recently.

### **iii Aid to tea supplies**

India is well-known as the world's largest and longest established producer of black tea. Until recently black tea was even called 'Indian tea'. It may therefore seem superfluous to suggest any assistance to India in its tea production or marketing: who should know these things better than the *doyen* of the market? But other countries have benefited from foreign aid for their tea sectors, and been able to challenge India's pre-eminence as a result. Such aid can take either of two forms. The more benign will aid the competitiveness of a country's tea production. An example is a \$35 million loan 'Tea Development Project' from the Asian Development Bank (ADB), which has assisted smallholder tea production in Sri Lanka since 1997.<sup>20</sup> However, there is a second category of aid projects which set out to help a country *expand* its production - so it will either take market share away from other producers, or force up supply in general and therefore weaken the price. This is not necessarily harmful. UK aid was instrumental in establishing competitive tea production in Kenya during the 1950s and 1960s, and it would be hard to argue that the smallholder production model which it developed has harmed the tea industry overall. Each project has to be addressed on its merits.

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<sup>19</sup> ActionAid International (2005), pp. 33 and 35.

<sup>20</sup> Details can be found at [www.adb.org/Documents/Profiles/LOAN/29600013.ASP](http://www.adb.org/Documents/Profiles/LOAN/29600013.ASP).

In the case of Vietnam, the World Bank has persistently denied reports that it advised that country to move into coffee production during the 1990s.<sup>21</sup> But this sort of assistance is occurring with tea - and in Vietnam itself. In 2001 the ADB launched a \$57.6 million 'Tea and Fruit Development Project', including a loan element of \$40.2 million, to help small-scale farmers in 13 Vietnamese provinces to diversify into these areas of production. The programme has also been supported by a DfID project completed in 2004, in the 'Making Markets Work Better for the Poor' series, and an €8.5 million French (AFD) project for tea development in Phu Tho province, launched in September 2005.

But in Vietnam tea has encountered similar problems to coffee. Despite the foreign assistance, the Vietnamese government seems to have drawn more inspiration from the Communist tradition of central planning than the smallholder model pioneered long ago in Kenya. Thus, Vietnam's tea expansion is well targeted by the government, focusing on specific provinces and bringing significant pay-offs in foreign exchange revenues. But there has been little extension advice to enable the farmers to produce a previously little known crop to the standards required, and those standards have been low. This is intriguingly reminiscent of the problems facing smallholders in India's Nilgiris, who have also suffered in the long run from inadequate extension and the lack of concern with quality among their former Soviet buyers. As in India, the Vietnamese authorities are now campaigning to raise the standards of smallholder tea production.<sup>22</sup> As we have seen, the problems led to a 14 per cent downturn in the country's tea exports in 2005.

However, in 2004 it was reported that Vietnam proposed, as it were, to pass on the compliment by helping Laos and Cambodia to export tea.<sup>23</sup> And on another continent, the European Development Fund recently supported a €20 million 'Smallholder Tea Development Programme' to develop Uganda's smallholder tea sub-sector.<sup>24</sup>

#### **iv Have auctions had their day?**

There have been frequent accusations of manipulation of tea auctions by buyer interests. In Sri Lanka in the 1970s, a government inquiry concluded that there appeared to be 'a high degree of collusion' in buying and 'wide scope for collusion between brokers and buyers'.<sup>25</sup> Such collusion, if it occurred, would tend to reduce the price at which producers could sell tea at the auctions, and would also affect prices of direct sales which bypass the auctions.

Even longer ago, a similar practice was openly admitted, at least under certain conditions:

*Early in 1955 when auction prices were high, four companies, Brooke Bond & Co. Ltd., J. Lyons & Co. Ltd., the English and Scottish Joint Cooperative Wholesale Society Ltd. and Ty.Phoos Tea Ltd., had an arrangement whereby each of the four would bid for its full requirements only in alternate weeks,*

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<sup>21</sup> According to a World Bank coffee sector report for Vietnam in June 2004 (report no. 29358-VN), 'There is no evidence to support some claims that donors or multi-lateral organizations are responsible for the impetus or the financing of coffee area expansion.' The point was put to this author just as persuasively on a visit to the Bank's office in Hanoi in 2003.

<sup>22</sup> Viet Nam News (2005).

<sup>23</sup> Ministry of Fisheries of Vietnam (2004). I have no information whether this proposal was approved by the respective governments or not.

<sup>24</sup> Agritrade (2005), p. 6.

<sup>25</sup> Agritrade (2005), p. 2.

*limiting its bidding in the other weeks to not more than half the lots put up. This arrangement lasted for four weeks (in the case of the English and Scottish Joint Co-operative Wholesale Society Ltd. three weeks only) and was abandoned after the fall in the market which began in February, 1955.*<sup>26</sup>

More recently, in 2004, the Kenya National Chamber of Commerce and Industry called for tea auctions to be shut down, alleging frequent collusion between brokers. The Kenyan Government found, in March 2005, that tea buyers at the Mombasa auction were involved in collusive bidding: instead of bidding against each other competitively for each lot of tea sold at auction, the big buyers were reported to be sharing out lots between them.<sup>27</sup>

There are now pressures for various alternative forms of pricing:

- **Direct sales:** many tea blending and packing companies are bypassing auctions and making direct purchase deals with plantations. These are less transparent than auctions as the prices are not made public, while this option is not open to smallholders, unless perhaps they were to form marketing cooperatives. The lack of transparency of the price at which tea is sold can cause difficulties for wage bargainers on tea plantations. This trend is like that of supermarkets to buy produce direct from producers rather than through wholesalers.
- **Electronic trading:** modern communications technology makes it possible to trade via the internet, without a physical presence at an auction centre. This reduces overheads and is becoming more widespread in the Indian tea trade. It can be compared with electronic trading on commodity and stock exchanges in the financial centres of developed countries.
- **Futures trading:** common reference prices for a commodity derived from a futures market are more transparent and uniform, but generally also more volatile than prices arising from physical trading such as auctions. Futures provide a mechanism for large producers and consumers (in this case, mainly the larger plantations and the blender/packer companies) to hedge against the risk of adverse movements in price. The United Planters' Association for South India (UPASI) has proposed to establish a futures market in association with the Multi Commodity Exchange of India in Mumbai. However, although planters and small growers make allegations of price manipulation in favour of buyers at the tea auctions, futures markets are equally open to manipulation - but in different ways. Smallholders gain little benefit from a pricing system based on auctions, but they could be even more vulnerable if futures trading was to take over.
- **Fair trade:** fair-trade sales in developed countries have expanded rapidly, providing some growers with direct and usually long-term contracts and a 'social premium' over auction prices. According to the Fairtrade Foundation, there are two premiums for tea: €0.50 per kg for CTCs and the lower grades of orthodox tea, and €1.00 per kg for other orthodox teas. While clearly beneficial to those growers in the export sector who contract into it, the fair-trade system relies on the goodwill of consumers who choose to buy its products, and its impact on mainstream trade is therefore limited. This is especially likely to be the case in India, where most of the tea produced is sold on the domestic market.

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<sup>26</sup> Monopolies and Restrictive Practices Commission (1956), p. 38.

<sup>27</sup> Agritrade (2005), p. 2.

## **v Indian tea quality and value added**

It has been said that India produces some of the best tea in the world and some of the worst. The quality of the best orthodox leaf from Darjeeling and Assam is world-renowned and fetches the best prices. However, much of the CTCs which formed the basis of exports to the USSR has proven harder to sell on other markets.

The Tea Board of India is running a quality upgrading programme and has destroyed some sub-standard tea. Part of the aim is to encourage a move from CTC to orthodox production. This could benefit the Nilgiris in particular since the region has long been famous for high-quality orthodox teas, even if they form only a small part of production there now. The chief of the Tea Board for South India emphasised the need 'to win back the internal market for South Indian producers, since it is this market that is rewarding quality by higher prices.'<sup>28</sup>

It is not this paper's task to discuss policy for tea sales on the domestic market, but on the international market there has also been something of a drive for quality recently. Sri Lanka has kept its place as the largest exporter while producing high-quality orthodox teas. Table 4 indicated how well this works not only in volume terms but in value, as Sri Lankan exports are now worth roughly twice as much as India's. In India there is a recognition of the importance of this with the encouragement of more orthodox leaf production. India well knows the value of the most prized single-origin labels for tea, such as Darjeeling. Sri Lanka has been able to use its own reputation for quality more generically, to promote all of the island country's tea exports. In the exporting area of South India, this approach could be pursued by promoting traditionally prized origins such as Nilgiris. A well organised smallholder sector could make use of India's industrial expertise to process, package and market this tea for export sales, rather than relying on TNC brands to do so.

Other sources of value added in tea should also be pursued, such as fair trade and organic, as long as they mean that producer margins are increased rather than held back by any associated increase in costs.

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<sup>28</sup> Kapur, V. (undated), p. 3.

## **4 Possible ways to tackle the crisis internationally**

### **i Aid and development policy**

There is a presumption in many aid programmes for poor countries' agriculture that the first requirement is to produce crops for export. This thinking is still influential in the tea projects for Vietnam and Uganda which were described in the previous section. Yet the tea market has not seen even the partial recovery in prices experienced by coffee and cocoa over the last four to five years. In India the domestic market is proving remunerative for tea growers and maybe getting higher standards out of them. Export orientation has never been fundamental to development philosophy in India; it should also be removed as the prevailing motive to assistance in the tea sector internationally. It is important to cease to provide aid with the intention of increasing exports of a crop, if that will increase overall world supplies and spoil the market for other producers.

### **ii Buyer power**

Both domestic and international approaches are needed to deal with this severe problem. The domestic approach is to build up tea farmers' and workers' bargaining power in the tea sector, by helping them form cooperatives and trade unions respectively. Stronger small farmers' associations and cooperatives could break down the smallholders' crippling dependency on the private 'bought leaf factories' to which most of them sell their tea currently. Other government measures in support of smallholders, to be discussed later in this paper, would also increase their bargaining power.

The international approach would encompass a range of measures to reduce the corporations' power on the supply chain, for example by the adoption of global competition policies to break up market concentrations.

Meanwhile, the role of supermarkets has given rise to two, possibly contradictory proposals in the interests of tea workers and growers. First is the proposition to ensure that the New Delhi government resists pressures from international chains such as Tesco and Wal-Mart (ASDA) to relax foreign investment rules so that they can enter the Indian grocery market. In the latest development, it is reported that an Indian conglomerate, Bharti Enterprises, is hoping to facilitate either Tesco's or Wal-Mart's entry into the market via joint ventures.<sup>29</sup> The experience of other countries where this has already happened, such as Thailand and South Korea, suggests that it could be very risky for rural people as well as for the convenience of local food supplies.

On the other hand, it has been suggested that links with foreign supermarkets might enable tea producers to bypass the blender/packer companies which still hold the real power in the tea sector. The proposal is for Indians to undertake outsourced blending and packing of tea on behalf of supermarkets' own brands in leading export markets. At present this would mean mostly the UK. There is an analogy with India's recent success in outsourcing in other areas of the economy, in corporate service sectors such as software, back office functions and call centres. This is centred on South India. India has the technical ability to do such work. It

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<sup>29</sup> Awbi, A. (2006).



might be objected that this would risk losing one of the most important elements of blending, that of finding teas from different national origins to meet a brand's requirements, and the implications for transport costs would not necessarily be appealing to supermarket buyers. But to some extent this is already happening within India, with the blending of cheaper Vietnamese and Indonesian teas with Indian export produce. However, the proposal would be playing with fire, by assisting the process of buyer power in general even if it limited the way it manifests itself currently in India.

### iii Supply management

If a market proves incapable of reversing a production surplus, governments have sometimes responded by themselves imposing limits on production, thus performing an essential task which the market has failed at. Half a century ago the economic logic of this was fully recognised in British official circles. A Monopolies Commission report on tea supplies explained as follows the creation of the International Tea Agreement (ITA) in 1933 as a response to the Great Depression:

*By the early 1930's tea prices had fallen heavily; we are told by the trade that much tea was sold at prices below the cost of production. To deal with this situation the producers in the three main producing countries, India, Ceylon and the Netherlands East Indies, proposed the regulation of exports from those countries with the object of restoring and maintaining equilibrium between supply and demand.<sup>30</sup>*

Supplies have often been controlled in similar ways by commercial companies. There are many ways in which supplies have been managed at various times, and there is increasing interest in this as part of a worldwide solution to agricultural overproduction and falling prices. However, little work has been done recently on this for tea.

There are both technical and political requirements for supply management to work. Technically, the task is easier for tea than other tree crops such as coffee and cocoa, at least in principle. Tea is produced from leaves rather than fruit or berries, and so does not rely on an annual harvest. Production can therefore be regulated to match demand more precisely than for most crops, by modifying the rate at which the leaves are plucked. This also appears to be one of the reasons for less volatility in tea's price than many others. When fewer leaves are plucked, it means only the more tender shoots are taken, which also tends to improve quality. So supply management, by reducing output, could also have some positive impact on tea quality.

Government-related tea authorities also play an important role in the major exporting countries, e.g. the Tea Board of India, the Kenya Tea Development Authority, TSHDA in Sri Lanka and the Vietnam Tea Association (Vinatea). These have an important potential in managing supplies. This is in contrast to coffee and cocoa, more of which is grown in countries which went through structural adjustment, leading to the abandonment of similar institutions and their replacement by private traders. The loss of marketing boards is often advanced as a reason for doubting that coffee supply management could be re-introduced as it existed in the 1970s and 1980s.

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<sup>30</sup> Monopolies and Restrictive Practices Commission (1956), p. 21.

However, there is a long history of actual or attempted cooperation between tea-producing countries, including more than 20 years of successful supply management in the mid-20<sup>th</sup> century. This history is curiously little known outside the tea trade. The commodity market arrangements which predated the Second World War have in general received little attention of late, although the International Commodity Agreements (ICAs) of the 1950s and later were in many ways modelled on them. The ITA was one of the longest lasting. After a false start in 1930, a successful agreement was reached between the governments which then controlled India, Sri Lanka and Indonesia, the main tea producers of the time. The problem lay in overproduction and collapsing prices. Under the 1930 agreement effective controls on production were not achieved in Indonesia (the Dutch East Indies). However, the continuation of the Depression seemingly convinced its tea planters and farmers that controls would be worthwhile, and a new agreement was signed in 1933 to cover a period of five years. Operations were repeatedly renewed until 1955. All three participating countries faced an initial reduction in exports by 15 per cent of the maximum attained in any of the years 1929-32. Export quotas were assigned to individual firms but could be traded. The agreement was run by an International Tea Committee in London, financed by a levy on tea exports from member countries. There was an immediate increase in prices, which rose by 50 per cent between 1932 and 1937. The agreement also banned the export of seeds, which might enable other countries to develop competing tea industries and thereby hobble the export controls and undercut prices.<sup>31</sup>

However, this was not really a producer-consumer agreement like the later ICAs, because India, Ceylon (Sri Lanka) and the Dutch East Indies were colonised and their final authorities (the governments of the UK and the Netherlands) represented both the producer and consumer sides of the market. The first ITA was in fact agreed between the governments of three producer countries and their own producers' (or planters') associations.<sup>32</sup> This had as much in common with state intervention in *domestic* agricultural trade as in international trade between sovereign nations. But the agreement was renewed only once after India and Indonesia became independent in the late 1940s. Then, the same format was retained, the signatory nations being India, Ceylon, Pakistan and Indonesia, with no importing nations. As such, it was more of an OPEC-style producers' association than a producer-consumer ICA such as were later to develop. In the present world that seems more attractive, since the chances of persuading the UK or EU as well as Russia, Pakistan, Egypt and other importers to join a supply management agreement are somewhat limited.

The ITA of 1933-55 was by no means the last attempt by tea-producing countries to cooperate on the world market. In 1969 they agreed to impose voluntary export quotas. This lasted for a couple of years but failed to secure the cooperation of countries like Kenya, where tea production was expanding. Their interests were taken into account in 1974, when the FAO proposed a scheme of minimum export prices and the coordination and regulation of marketing. India supported a move by Sri Lanka for countries like Kenya to take up the greater part of the growth in world import demand, but still the East African countries opposed it.<sup>33</sup> In 1977 an International Tea Promotion Association was finally established, as part of the wave of developing-country commodity initiatives which followed OPEC's raising of

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<sup>31</sup> Gupta, B. (2004).

<sup>32</sup> Monopolies and Restrictive Practices Commission (1956), p. 21, lists 10 producer associations as signatories to the 1950 Agreement, either in their own right or by proxy.

<sup>33</sup> Oxfam International (2002), p. 12.

oil prices in 1973. However, it proved short-lived as both of the main exporting countries of the time (India and Sri Lanka) withdrew by 1984. Ten years after that a more ambitious attempt was made to establish an International Tea Producing Association to counter declining world prices. Led by India and Sri Lanka, discussions in Colombo included officials of those countries as well as Bangladesh, China, Iran, Indonesia and Malawi - but not the then rising power in the tea world, Kenya. The discussions eventually came to nothing.

Just recently, new discussions have been reported, involving India with all three other leading producers, China, Sri Lanka and Kenya. According to a report in the Kolkata newspaper, *The Telegraph*, about a meeting which took place in Siliguri, North Bengal, in March 2006, China favoured the proposal. It reported the leader of that country's delegation as saying, 'We must make a start and form this union. We are already too late.'<sup>34</sup>

However, full cooperation between the main exporting countries is essential for any such endeavour to succeed. Despite its domination by a small handful of exporting countries, the tea market does not provide the ready solidarity found between oil exporters in the Middle East, or between Indonesia, Malaysia and Thailand on the tin and rubber markets. They differ greatly in the degree of importance of tea to their economies, the size of their populations and their official attitudes towards agricultural exports. It is of some interest that if there is any new impetus for cooperation between exporters, it should originate in India and China. There has been recent cooperation between these great Asian rivals in other areas of international trade: for example, in 2003 they combined with Brazil to thwart an attempt by the European Union and the US to impose an agreement on agricultural trade at the Cancún meeting of the WTO. Maybe India and China are less persuaded than other countries of the virtues of untrammelled international markets. Or maybe they are simply more self-confident when faced with those markets. However, given the importance of domestic consumption in both countries, any programme of supply management would have to consider whether to impose the limits on tea *exports* or on production in general; or to combine export limits with the promotion of domestic markets. This is a more complicated proposition than in the days when the ITA was set up in 1933. At that time neither Indian, Sri Lankan nor Indonesian consumption was significant, while China did not export much.

Despite India's authority as the largest producer of tea, it is in a weak position to demand anything of other tea-exporting countries. Kenya and Sri Lanka have for some years been the two leading exporters, both are much smaller countries than India and China and their governments pursue policies of export orientation in which tea is important. Leading forces on export markets often have both the power and the incentive to thwart other exporters' attempts at cooperation; especially if their exports are growing, as Kenya's have continued to do.<sup>35</sup> Recent examples on other markets have been both Brazil and Vietnam on the coffee market and Ecuador on the banana market. As one of the main stars in the international tea trade, Kenya is even more influential than it was in 1995. It is also the leading sponsor of the African commodities initiative at the WTO Doha Round. Any proposal for supply management would have to be phrased carefully because of the importance of tea to Kenya's agriculture and exports, and the dynamism of its place on the tea market - in marked contrast to India.

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<sup>34</sup> Ravidas, R. (2006).

<sup>35</sup> However, in 2006 Kenya's production and exports have been affected by the severe drought in parts of the country.

A further warning may be provided by the manner in which Vietnam's expanding coffee exports undermined an attempt in 2000 by other coffee exporters to restore prices in much the same way as is being discussed for tea at present. Vietnam does not appear to have been included in recent discussions on tea, yet its production could not be controlled from outside, as was done with the ban on seed exports under the 1933 agreement. Other 'free-riders' which might undermine such arrangements are Indonesia and Turkey.

A report for Oxfam<sup>36</sup> provided a list of five possible mechanisms for international management of tea supplies by public authorities. The report argued against each one of them, but in this author's view some of those arguments were thin. The five mechanisms are listed below, together with an appraisal of the possibilities for each one.

- **Stock reduction:** the Oxfam report argued that this would have little impact on prices, due to the product's perishability and the small size of tea stocks in relation to consumption. In any case any impact would only be short-term if at the same time production was not cut back or consumption increased.
- **Reduced production:** the report argued that supply management would provoke opposition specifically in India, because of the beverage's popularity there. But it is in India that the present initiative originates, and the depth of the tea crisis there could make the management of supplies appear more obviously necessary than in other countries. It seems to me that other questions may be more important. Firstly, are there any institutions which could impose control on producers as the planters' associations did 60-70 years ago? Secondly, it would be politically difficult to decide which kinds of production should be reduced - whether just those teas which go mainly to export, or teas serving the Indian domestic market.
- **Minimum quality standards:** these are often proposed in similar circumstances today. In effect, it is a covert way of reducing production: those producers which cannot meet the new standards will have to give up. However, in the long run it is hard to see how effective it can be. It could simply ratchet up the quality required of all producers (and therefore also their costs) while doing little or nothing to limit overall supplies. That outcome would be counterproductive in terms of price and producers' margins.
- **Export quotas:** the Oxfam report rightly pointed out that opposition from expansion-oriented countries can make this difficult - as the experience after the tea arrangement of 1969 showed. The International Coffee Agreement faced an opposite problem, when existing producers were reluctant to cede quota to new suppliers of the market. Some quota-based systems have proved entirely inflexible in this way, for example the ACP Sugar Protocol, which has virtually frozen in aspic the cane producers' export shares agreed under the Commonwealth Sugar Agreement of the 1950s. However, producers on the tea market have previously demonstrated a readiness to accommodate new suppliers, with the so-called 'principle of differential growth' proposed in the 1970s. Of the five mechanisms discussed here, this one appears to be the most workable.
- **A uniform ad valorem export tax:** this is a complicated mechanism, aimed at making domestic sales more profitable than those for export. Its complexities may make it politically infeasible on the tea market. The first blockage might lie in resistance from countries which do not have large domestic markets due

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<sup>36</sup> Oxfam International (2002), pp. 12-13.

to low population: some of them are the most successful at exporting, but they would face the same barriers to foreign sales as other countries, without being able to compensate for them on their home markets.

#### **iv Fair trade**

As has already been argued, fair trade will take a long time to benefit the majority of tea producers, although the help it does provide is invaluable and its rapid expansion is most impressive. But fair-trade prices for particular products have sometimes been criticised, and tea is a case in point. Auction prices are recognised as the international marker for the tea market. However, they face many criticisms for the opportunities they afford to buyers to collude and reduce prices. That is not a satisfactory basis on which to conduct fair trade. The movement would do well to see whether it can find another price basis.

Auction prices are more public than the only current alternative reference, which lies in the prices agreed for producers' direct sales to blender/packers. But a fixed reference defined by the fair-trade movement itself for a basic quality of tea would be worth considering. Since coffee prices on the market have been so low for so long, this is in effect what exists for fair-trade coffee with the two price markers for arabica and robusta coffee respectively (although they are officially defined as 'floor' prices). The schedule of actual fair-trade coffee prices is much more complicated than that, since it takes into account the market's array of price premiums and discounts for various qualities and countries of origin; but the basis is simple and clear. This seems to work well on the coffee market, and it could surely be adapted to suit the grades and origins of tea. Traidcraft would be in a strong position to press for it within the movement.

However, besides its lack of universal coverage, fair trade faces two further dangers. The first is that, as with any niche category, production could run ahead of demand, reducing the premium available. This has not yet happened in the fair-trade market but it is not impossible. Secondly - perhaps a bigger danger at present - big corporations can try to smother it with a tactic of co-option, as many accuse Nestlé and Ahold (with its Utz-Kapeh initiative) of attempting on the coffee market.

#### **v 'Special products' at the WTO**

The Doha Round of negotiations at the World Trade Organisation is in severe difficulty at the time of writing. A big point at issue lies in the demand for each developing country to be able to designate certain agricultural products as 'special products' which it could protect from imports more fully than WTO rules otherwise permit. The primary objectives of the proposal have been succinctly defined as follows:

1. *'To protect and enhance developing countries' domestic food production, particularly in key staples.*
2. *'To sustain and enhance the employment, food security and livelihood opportunities of the rural poor.'*<sup>37</sup>

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<sup>37</sup> Ruffer, T. (2003), p. 3.

At present it is not even clear whether there will be a new Agreement on Agriculture at the WTO, let alone whether special products will be included in it or what form they will take. However, assuming that they are included in something like the form supported by most developing countries, India will at the end of the Doha Round be able to choose which of its agricultural products to make 'special'. Tea clearly plays little part in the first of the two objectives defined above, but in India it surely matches the second. The tea sector is important for the employment and livelihoods of many poor people, and good earnings from it are necessary to ensure their food security - as the nutritional findings quoted earlier in this report indicate. This applies both in the smallholder and plantation sectors. There would therefore be a strong case for designating tea as a WTO special product.

However, a complicating argument is that Indian tea imports come from other developing countries such as Indonesia and Vietnam, while in other countries most of the imports that special products would protect against are from developed countries. Moreover, such a declaration by India could be used by China as a pretext for also declaring tea as a special product, so curtailing the growth of Indian exports to that country. However, the dangers that India's present imports impose would seem to warrant that risk.

## **5 International advocacy**

In this section we will examine for each policy area which actors need to be influenced to advance the proposed policy goals, which civil society organisations have relevant expertise and who might be appropriate allies for Traidcraft. This means considering what - if any - campaigns, activities and advocacy stances are being pursued by others; and whether Traidcraft should join them, or work in other areas which no one is currently addressing. A further question is, which international organisations are best placed to influence change in tea trade rules?

### **i Aid and development policy**

Tea is a classic example of aid agencies assisting some developing countries to expand production, regardless of the wider impact in increasing surpluses and spoiling the market for other producers. The Asian Development Bank has a longstanding project of this sort in Vietnam, which both the British and French governments have supplemented bilaterally at different times. The European Development Fund is running a project with similar implications in Uganda.

While the UK's project in Vietnam has now ended, DfID should be persuaded that such action is generally unwise, and that it be more circumspect about such project proposals in the future. This is particularly important when DfID has just determined a new agricultural strategy and is likely to boost expenditure in that area.

A second advocacy target should be the EDF and its sponsor, DG-Development at the European Commission. A sympathetic policy analyst there is Liselotte Isaksson, and she could no doubt advise which other officials to approach. The ACP countries could also be sounded out to warn them of the dangers of this type of aid, so that they might be more resistant to it in future.

Since there are several development NGOs in France with a good understanding of commodities, it would seem wise to draw their attention to ADF's project in Vietnam and recommend that they lobby their own government in the same terms as suggested here for DfID. Two influential individuals are Bénédicte Hermelin, Head of Public Policy and International Regulation at Groupe de Recherches et d'Echanges Technologiques (GRET) in Paris, and Henri Rouillé d'Orfeuil at Coordination Sud. Possible intellectual support could come from academics such as Hélène Delorme at the Sciences-Po institute in Paris and several at the CIRAD institute.

### **ii Buyer power**

Curbing corporate buying power is the most urgent as well, perhaps, as the most promising approach in tackling the international problems of the tea sector. No international body has taken the issue up, since they are all to a greater or lesser extent in thrall to neo-liberalism. However, over recent years an increasing number of NGOs and thinktanks have done so. The most ambitious project is the Agribusiness Accountability Initiative, which is mapping corporate concentration globally from its original base in the United States. Its key figure in the UK is

Judith Whateley of Grassroots Action on Food and Farming (GAFF), which is closely related to Corporate Watch. Both the International Institute for Environment and Development (Bill Vorley) and ActionAid (e.g. Dominic Eagleton) have programmes in this area. Friends of the Earth is also pursuing it strongly (Ronnie Hall and Eve Mitchell). Outside the UK, Darren Qualman of the National Farmers' Union of Canada has done some excellent research; even if it does concentrate on the Canadian situation, there are many parallels with India.

Certain crop-specific campaigns could also be useful allies, such as Banana Link and Euroban. Trade unions are also pursuing this question. The food workers' international secretariat, the IUF in Geneva (Sue Longley and Peter Rossman), has cooperated closely on the tea crisis with member unions in India. However, there are political complexities among the unions of plantation workers in India, and advice should be sought from Indian specialists on the strengths and weaknesses of different unions. An apparently useful potential ally the Centre for Education and Communication in New Delhi.

### **iii Supply management**

Supply management can take many forms, but some campaigners seem dazed by the defeat in the late 1980s and 1990s of the UN and UNCTAD approach through ICAs that involved both producer and consumer countries. Historically this was an exception. Most successful SM operations have been based on only one part of the market: whether commercially run, like the former aluminium cartel on the producer side or supermarkets' systems of supply chain management in the present day; or producer government-based like OPEC or indeed the Tea Agreement of 1933-55. In present circumstances a producer-country initiative is surely the only feasible option, and lobbying would be best directed at the big four exporting countries - especially Kenya and Sri Lanka if they are reluctant to sign up.

Among international agencies the most sympathetic is likely to be the FAO, which has a specialist tea committee and has shown the most concern recently about the commodities price crisis and the need to take action to counter it.<sup>38</sup>

Within the UK there are two NGO initiatives. ActionAid is looking at the question as part of its corporate power campaign, while the UK Food Group has a 'Food Supply Chain and Market Power' working group, which is running a series of seminars on supply management over the next few months, starting in July 2006 with tomatoes as an example of a horticultural crop. Traidcraft is recommended to engage with this working group if it has not done so already.

Interest in supply management is greater in many places outside the UK, especially among farmers' groups, although often it has not gone beyond rhetoric. Besides GRET and Coordination Sud in France, Collectif Stratégies Alimentaires in Brussels (Marek Poznanski) has done the best analytical and proselytising work. Other key allies are both IUF, representing plantation workers, and the International Federation of Agricultural Producers in Paris (David King, Secretary General), which made a strong policy statement at its 2004 World Farmers' Congress. Among other farmers' groups promoting supply management, the most influential is Via Campesina (Nico Verhagen and Paul Nicholson), and national and regional groups which support it. Examples of these are Coordination Paysanne Européenne, a European umbrella group based in Brussels (Gérard Choplin), ROPPA representing

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<sup>38</sup> See Food & Agriculture Organisation (2004).



West African farmers, and the National Family Farm Coalition in the US (George Naylor, President).

**iv Fair trade**

It is otiose to make recommendations to Traidcraft about lobbying on fair-trade issues, but representations to both the Fairtrade Foundation and FLO on the price basis for tea would appear to be desirable.

**v Special products**

It was suggested above that India would do well to include tea among its list of special products at the WTO, if a useful provision eventually emerges from the Doha Round. Clearly advocacy on this should go through Indian channels to the government in New Delhi.

## **6 Domestic Indian issues**

This section briefly discusses Indian domestic policies which might revive the Indian tea sector and improve conditions for smallholders and plantation workers alike.

### **i Role of integrated tea corporations**

Some farmers have asked why Indian retail tea prices have not declined when prices at the auctions have fallen so dramatically since the late 1990s, noting the large profits which are made by companies such as Hindustan Lever and Tata Tea. The issues here include the role played by these companies' own plantations, the implications of direct purchases by them from other plantations, and their relationship with the tea auctions, where price manipulation is widely suspected. Another question is the interplay between their interests in selling tea in India and their ownership of international brands (such as Liptons and Brooke Bond in Hindustan Lever's case, and Tetley in Tata's case). Both companies clearly now have great power in both the Indian domestic and export sectors, and this needs to be investigated.

### **ii Foreign supermarket chains**

Two distinct attitudes towards supermarket chains such as Tesco were reported above. It is difficult to tell from this distance which one would best advance the interests of tea workers and growers, and an analysis of the situation within India would be helpful.

### **iii Domestic implications of international supply management**

If there is indeed a serious move towards international supply management on the tea market, it will be important to decide how production or export controls under it should operate. This is especially sensitive in such a diverse sector as Indian tea. It must not be forgotten that supply management means imposing limits on production. This should lead to higher incomes for those remaining in tea, but alongside a probable loss of employment and acreage in the sector. It would require many smallholders to find alternative crops or livelihoods, although most of them moved into tea only in the last 20 years, precisely because tea was more remunerative than the vegetables which they previously grew. The geographical implications of tea growing in remote hill areas should be taken into account: what alternatives are available there? Conversely, what could be done there with the higher incomes available from tea for those remaining in the sector? Some forethought and planning is required.

Regarding the mechanism of supply management, should there be a uniform reduction of production for everyone, like the 15 per cent cut in 1933? If not, on what grounds should decisions be made? Should different rules apply to producers that sell on the domestic market and those that sell abroad? Can a hard and fast distinction be made between them? Or should quotas only attach to the export

sector? This could be thought to discriminate between parts of the country which depend on exports of tea and those that do not. Far from reducing oversupply on the market as a whole, it might also divert some of the trade from the export sector to internal sales, weakening other Indian producers as a result and doing nothing to reduce surpluses or increase prices overall. On the other hand, a system of licences could control exports more easily than production can be cut. But what is the danger of either system opening up new channels for corruption, and do the leading tea-exporting countries have strong enough administrative systems to prevent this? The domestic implications of these decisions would have to be thought through more carefully in India than other countries.

**iv Investigate India's tea auctions for signs of abuse by buyer interests**

Several other auctions have been investigated over the years, but India accounts for half of the world's auction centres, and the volumes of tea traded on them are greater than at other leading centres such as Colombo and Mombasa. An authoritative investigation, perhaps at Indian government or parliamentary level, might lead to changes in the structure or operations of tea auctions to limit the danger of manipulation by buyers. Indian advice on this question should be sought.

**v What reforms can be introduced to defend small growers' interests?**

A feature of smallholder production in India lies in the haphazard way in which it was introduced, especially in the Nilgiris in the 1980s - even though it was done with the backing of the state government. The lack of extension advice, inputs and coordinated marketing is more reminiscent of the campaign-style development of tea and coffee in Vietnam than the orderly way in which it has been carried out in Kenya and, more recently, Sri Lanka. The consequences in poor quality and minimal protection of growers are similar. But unlike their Vietnamese counterparts, Indian smallholders do not have a cheap currency to enable them to win export markets. Given the support that Kenya's and Sri Lanka's smallholders have received from the KTDA and the TSHDA respectively, it would seem essential to create a similar institution in India. It could perhaps be based on the existing Tea Board. Other means of providing extension and input services, as well as market information and coordination for small growers, should also be considered.

**vi How can quality be further upgraded (including both the shift from CTC to orthodox and the prospects of niche markets)?**

This is centrally important for the future livelihoods of tea farmers and workers, and nowhere more so than in the smallholder export sector.

**v Floor prices**

There are demands to establish a minimum price for farmers to receive. The figure of Rs13 per kg has been suggested. Is this realistic? Should a distinction be made between small growers and plantations?

**vi Domestic versus export prices**

We saw on p. 14 the suggestion that the internal Indian market 'is rewarding quality by higher prices'. The relationship between prices found on India's domestic and export markets should be investigated, and the implications for tea growers and workers.

**vii Inward and outward investment**

Information on the implications for tea of both inward and outward investment should be sought. Inward investment applies not only to long established TNCs such as Unilever/Hindustan Lever, but - if it was a serious proposal - whether the recent Chinese query about investing in a Darjeeling estate should be entertained or not.

Just as worthy of action is outward investment, as when Tata Tea acquired the UK tea brand, Tetley, it extended its grasp well beyond the domestic scene and on to the world market. This may be good for commercial interests in India (or at least for Tata), but it is not at all so clear that it helps Indian tea growers and workers since it increases buyer power. The interplay between Tata's Indian interests and Tetley's UK and global ones is complicated, and more information and analysis from the Indian side would be useful.

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