

DRO

Deakin University's Research Repository

This is the published version

Roy, Achinto 2013, An Institution based insight into India's Tea Industry,
Academy of Taiwan Business Management Review, vol. 9, no. 3, pp. 20-24.

Available from Deakin Research Online

<http://hdl.handle.net/10536/DRO/DU:30060228>

Reproduced with the kind permission of the copyright owner

Copyright: 2013, Taiwan Institute of Business Administration

An Institution Based Insight into India's Tea Industry

Dr. Achinto Roy, Deakin University, Australia

ABSTRACT

India is the world's largest consumer and producer of black tea and has been at the forefront of the global tea industry since the nineteenth century. This could not have happened without institutions playing a pioneering role in the creation, nurturing and growth of India's tea industry. This paper analyses India's 4 billion dollar tea industry and the institutional factors that helped shape it. The work is based on existing literature and field work undertaken by the author in the Eastern and Southern regions of India.

INTRODUCTION

The strategy tripod comprising of the industry based (Porter, 1980), resource based (Barney, 1991) and institution based (Peng, 2003) views reveal, among others, the competitive dynamics operating within an industry. India's tea industry is a case in study of how one aspect of the strategy tripod namely the institutions (both formal and informal) have played a pivotal role in the development, sustenance and strategic positioning of this industry in a global context. Today, India is the world's largest consumer of tea consuming 25% of all global production¹, the second largest producer of tea accounting for 30% of global tea production² with a complete monopoly over internationally well-known premium teas such as 'Darjeeling' and 'Assam Orthodox'. The country is also the fourth largest exporter of tea after China, Kenya and Sri Lanka. This is as a consequence of a huge domestic market that pays higher prices for tea than export markets, thus making exports less attractive than the domestic market. India's tea industry is growing at a compounded annual growth rate (CAGR) of 15% per year³ and is likely to keep growing with over 1.4 million hectares of land under tea cultivation⁴ coupled with enthusiastic tea growers and a very supportive Tea Board of India (a government body established to assist the industry). How did India's tea industry become what it is today and achieve all this? What are the factors that contributed to the creation and then growth of this industry in India? How is the industry poised for the future? These are the questions that this paper aims to answer in the sections that follow.

In course of seeking answers, one notices that formal institutions such as the government and its extended bodies have indeed played a pioneering role in the creation, nurture and growth of India's tea industry. This has happened both in British India and later in Independent India consistently over the years. Therefore, an institution based analysis has been adopted to understand the role played by peculiar institutional dynamics of each era that has helped shaped the industry, its environment and the nature of competition. An institution based analysis of India's tea industry can be broadly divided into two periods of time in the industry's history, namely: the Raj era and the post-independence era. The Indian tea industry has its roots in the Raj era and has a rich history and tradition associated with it.

The first two parts of the paper traces how commercial cultivation of tea started in India followed by an explanation of tea the product and processes associated with it. The third section deals with the post-independence era, the role played by the Tea Board of India as a trade development and industry support body operating since 1954. The fourth section of the paper discusses the structure and performance of the global tea industry vis-à-vis India's tea industry followed by the last section of the paper that is based on field work in India done by the author to understand the challenges faced by the tea industry as a whole given that India is opening up to global competitive forces and how these are being addressed through formal institutional responses.

COMMERCIAL TEA CULTIVATION IN INDIA

Sometime in 1823, tea plants were found growing in the wild in Assam, Eastern India⁵. Till this point in time, it was widely believed that tea grew only in China. With the discovery of tea in Assam, the British administration saw it as an opportunity to grow tea at a very low cost as compared to the price that Britain was paying to buy tea from China (Sharma, 2009). Assam was a part of British

¹ 'Tea Industry likely to touch Rs. 33000 crores' at <http://www.business-standard.com/india/news/tea-industry-likely-to-touch-rs-33000-cr-turnover-by-2015/458912/> -accessed on 29th July, 2012

² <http://www.worldteaexpo.com/index.php/2012-press-releases/345-tea-board-of-india-delegation-focuses-on-bolstering-international-exports-at-upcoming-world-tea-expo-june-1-3-> accessed on 2nd August, 2012

³ 'Tea Industry likely to touch Rs. 33000 cr' at <http://www.business-standard.com/india/news/tea-industry-likely-to-touch-rs-33000-cr-turnover-by-2015/458912/> -accessed on 29th July, 2012

⁴ Executive Brief: Tea Sector at <http://agritrade.cta.int/Agriculture/Commodities/Tea/Executive-Brief-2011-Tea-sector> accessed 1st August, 2012

⁵ http://www.teaboard.gov.in/inner1.asp?param_link_id=110 accessed on 25th July, 2012

controlled territory and the British administration decided to introduce commercial plantations in Assam to grow tea. However, it took a while for the British administration to actually plant tea on a commercial scale due to shortage of skilled labour for the purpose and partly due to their reliance on smuggled Chinese tea plant seeds, skilled labour and know-how (Sharma, 2009).

The first tea bushes were planted circa 1837 by British planters in Assam which later produced the first batch of Assam tea that was sent for public sale in Great Britain during 1838. A combination of British administration's support for tea growing, eastern India's climatic conditions and the ingenuity of the tea planters created the first of many premium Indian teas such as the 'Darjeeling' and 'Assam Orthodox' during this period and led to the formation of a few hundred tea estates in the eastern and north-eastern region of the country. After the success of tea plantations in eastern India, the first commercially viable tea plantation was set up in the Nilgiri Hills of South India in 1854 followed by a number of tea plantations in South India. Later, tea was also planted in the Kangra region in North western India.

Thus, a new industry was born out of strong institutional support (in the form of the British administration's vision to grow tea in Assam and their actions in that direction in other parts of India). This in turn created a value chain of activities that involved planting, plucking, withering, fermenting, curing, processing, packing, transporting and auctioning of tea controlled by British companies that continued to operate even after India gained independence in 1947.

It is also during this period that tea drinking was promoted both in India and Great Britain by the nascent tea industry, highlighting the health benefits of consuming tea. Tea and coffee were perceived as exotic stimulants during the era of industrial revolution and became an ingrained part of society in the UK and Europe (Neilsen & Pritchard, 2009). The industry's 19th century promotional campaigns have left a permanent mark in the form of generations of tea drinkers in both countries that continue to provide a market for the industry even today.

INDIA TEA: THE PRODUCT

All forms of tea in India start off as a green leaf from the plant *Camellia Sinensis*. The Indian version of the tea plant is called *Camellia Sinensis Assamica*. Tea leaves have to be hand-picked from the tea bush if one wants to ensure that the right buds and leaves are plucked. Once plucked, the process that is applied to the tea leaf creates the type of tea one wants. Largely three types of tea are processed and made depending on the level of fermentation, namely green tea (unfermented) oolong tea (semi-fermented) and black tea (fully fermented). Black tea can be processed either by a hand powered roller that withers and rolls tea leaves on a flat surface producing orthodox tea or a rotary van that curls, tears and crushes tea mechanically producing CTC (curl-tear-crush) tea. India is the world's largest producer of black tea comprising of both orthodox and CTC teas. Orthodox tea is more expensive to make and therefore a premium tea that emanates a rich aroma and colour when introduced to boiling water while machine processed CTC tea produces comparatively larger number of cups of tea.

Indian tea is also classified on the basis of the region where it is grown, namely Darjeeling tea, Assam Tea, Nilgiri Tea and Kangra Tea. Assam and Darjeeling Tea come from the eastern parts of India while Nilgiri tea comes from south India's Nilgiri Hills and Munnar while Kangra Tea comes from the Himalayan foothills of northwest India.

THE POST-INDEPENDENCE ERA

After independence, the Indian government realised the export earning potential of the tea industry but its potential could not be realised by the government since the industry was largely in the hands of British companies and their managing agents (Neilsen & Pritchard, 2009). As a result, the government subjected the industry to heavy regulations whereby the state "exercised key control and coordination functions within these industries" that involved formulation of "policies to restructure the ownership and operations of plantations" (Neilsen & Pritchard, 2009: 213-214).

In recognition of the industry's importance to India's economy and in order to implement what the government of India felt was required to be done in national interest, the Tea Board of India was established in 1954 under an Act of Parliament. The Tea Board was established not only with a view to assist in policy formulation to restructure ownership and operation of plantations but also had the express purpose of extending marketing support; R & D; technical expertise and assistance to small growers including welfare schemes to protect tea plantation labour. Currently, the Tea Board comprises of 31 members drawn from parliamentarians, planters, tea companies, exporters and trade union representatives representing key stakeholders. It operates 17 domestic plus 3 overseas offices⁷ to promote the business interests of India's tea industry which is estimated to be worth USD 4 billion.⁸

⁶http://www.teaboard.gov.in/inner1.asp?param_link_id=110 accessed on 25th July, 2012

⁷http://www.teaboard.gov.in/inner1.asp?param_link_id=110 accessed on 25th July, 2012

⁸ The Indian tea industry is estimated to be worth Rs. 19500 crores i.e. approx. USD 4 billion- see story at 'Tea industry likely to touch Rs 33,000 cr' <http://www.business-standard.com/india/news/tea-industry-likely-to-touch-rs-33000-cr-turnover-by-2015/458912/> accessed on 29th July, 2012

In the post-independence era, the Tea Board of India initiated a number of measures to encourage a small grower sector in keeping with independent India's focus on small and medium enterprises as a priority area for the economy. The small grower sector in the tea industry is thus a post-independence phenomena comprising of individual farmers who started tea cultivation either by choice or because of certain events in tea growing regions.

Boriah (2011) has mentioned a few notable ones. For instance in Assam, the eastern part of India sometime during the early nineties, the plywood industry was closed down by legislation in order to protect the forests from exploitation. The erstwhile plywood factory owners and timber growers/ suppliers shifted to tea cultivation. Also around the same time Assam was experiencing a political situation that involved a group of young people who had engaged in armed rebellion (known as ULFA or United Liberation Front of Assam) against the government. Later, these people surrendered their arms (also known as SULFA- Surrendered United Liberation Front of Assam) through a process of negotiation and were provided with income opportunities by way of land, advice and support by the government to start growing tea. In Southern India's Nilgiri hills region villagers used to grow vegetables, especially potatoes in the lower and middle slopes of the hills. This led to a soil erosion problem. The villagers also suffered as a result of crop failure due to disease (experienced by potato farmers) and that affected their income. As a result, many of the vegetable growers found it difficult to meet ends and needed governmental support. The Tea Board helped out by providing advice, financial support on soft terms, free tea bushes and planting support to help these vegetable growers shift to tea cultivation. In West Dinajpur, Eastern India a number of pineapple growers shifted to tea production because tea offered a better cash incentive as compared to pineapples which yielded less money as compared to tea due to lack of appropriate transport access to big cities and processing facilities for pineapple.

Later the proliferation of small growers in both the eastern and southern regions of India led to the establishment of "bought leaf factories"⁹ in near proximity to the growers. In 2011, India had approximately 160000 small growers who accounted for 26% of India's tea production i.e. approx. 250 million kilos out of over 950 million kilos of total tea production (Boriah, 2011).

Between the two sectors (i.e. corporate and small grower), tea leaves are grown, plucked, processed by factories/ small scale units near the plantations, bulk packed, repackaged and auctioned within India. Typically, India's small grower sector is involved in planting, growing, plucking and selling loose tea leaves to "bought leaf" factories in their immediate vicinity while the corporate sector is involved in the entire value chain from planting to the final retail product i.e. packaged tea.

The corporate sector also exports a part of their production selling value-added products that command premium prices in overseas markets through marketing offices in almost every continent.¹⁰ India's corporate sector and its marketing operations are associated with well-known international brands such as 'Lipton', 'Unilever', 'Twinings', 'PG Tips', 'Tata Tetley' and 'Elephant' to name a few.

Indian tea companies have also extended tea growing operations to other parts of the world such as Vietnam, Uganda, Kenya and Rwanda. In fact the world's largest producer of branded tea is McLeod Russell Ltd. of India with a total annual production of 100 million kilograms of black tea produced on its tea estates and factories in Eastern India, Vietnam, Uganda and Rwanda.¹¹ The internationalisation and global expansion of operations by Indian companies may reflect the institutional constraints (whether perceived or real) that these companies face in India. As a consequence these companies seek international opportunities to access resources in order to overcome or compensate the deficiencies created by the institutional framework within their home country (similar to what is explained in Luo and Tung, 2007).

THE INDIAN TEA INDUSTRY IN THE GLOBAL CONTEXT

Today, the country's tea estates are located mainly in the north-western, eastern and southern regions of the country. Around 74% of India's tea estates are in the hands of tea companies in the corporate sector while 26% is in the small grower sector (Boriah, 2011). Most of the tea estate-owning companies have their origins in the pre-independence era as evident from names such as McLeod Russell, Brooke Bond, Warren Tea, Lipton, Hindustan Lever (Unilever India) and Goodricke although they are mostly Indian owned and/or publicly listed on Indian stock exchanges. The small grower sector that evolved in the post-independence era has blended in well within the industry.

India enjoys a global monopoly over the champagne of all teas, known as Darjeeling tea coveted by tea connoisseurs. The word "DARJEELING" serves as a logo and is copyrighted internationally including Australia, Canada, Russia, Egypt, Lebanon and practically all EU nations. All tea sold under the name 'DARJEELING' tea cannot be sold as such unless the tea has been grown on one of the 87

⁹ Bought leaf factories refer to processing factories which buy the plucked green leaves from the growers by weight

¹⁰ For instance, Tata Global Beverages has offices in Australia, South Africa, USA, China, Pakistan, Poland, Russia, UK (see <http://www.tataglobalbeverages.com/about-us/global-operations> while McLeod Russell has offices in UAE and the UK.

¹¹ <http://www.mcleodrussellindia.com/about-us/our-history.aspx> accessed on 31st July, 2012

tea estates within the district of Darjeeling, West Bengal and processed within that geographic area under license from the Tea Board of India.

According to Boriah (2011), for over a century (1895-2006) India was a world leader in tea production till it was relegated to second place by China because of a number of reasons. First, the Chinese tea industry substantially increased land acreage under tea cultivation within a short span of time during this century. Today, China's tea plantations comprise of 1.86 million hectares of land and equals to half of the land under global tea cultivation.¹² In addition, China specialises in green tea which takes less time to process; and more popular as a drink known for its health benefits. China has also consolidated its small growers and merged them into larger combines to achieve economies of scale unlike any other major tea growing nation such as India, Sri Lanka or Kenya.

The global tea industry comprises of 36 tea producing nations out of which 6 countries account for 80% of global production.¹³ However, production and export is more prominently dominated by the 'big four' of the tea industry i.e. China, India, Kenya and Sri Lanka. The Executive Brief, 2011 for the global tea sector from Agritrade¹⁴ confirms that out of 3.9 million tonnes of total world tea production in 2010, China accounted for 1.4 million tonnes, India for 966403 tonnes followed by Kenya at 398500 tonnes and Sri Lanka at 329300 tonnes.¹⁵ Although, both China and India consume a large portion of their production within their home markets, both countries form a part of the 'big four' in global exports alongside Kenya and Sri Lanka who concentrate on exports as a consequence of smaller domestic markets (see table 1 below):

Table 1: The Big four in global tea exports (in million kg.)

Country	2011(P)	2010	2009	2008	2007
Kenya	421.27	441.02	342.48	383.44	343.70
China	322.58	302.53	302.95	296.94	289.43
Sri Lanka	301.27	298.59	279.84	298.82	294.25
India	192.87	222.02	197.90	203.12	178.75

Source: ITC supplement accessed at <http://www.teaboard.gov.in>.

CHALLENGES AND THE FUTURE

India's tea industry is poised for growth according to an estimate by the Associated Chambers of Commerce (ASSOCHAM), a respected Indian trade body.ⁱ It estimates that India's tea industry will achieve a turnover of USD 6.6 billion by 2015. In order to achieve growth along with sustainability, the Tea Board of India is assisting the industry with the following:

- a) Tea bushes in India's tea estates are old because no planned replanting was ever done. This is a major challenge for the industry. Usual quality production life span of a tea bush is approximately 100 years. In recent times efforts are being made through incentive schemes offered by the Tea Board to tea estates to help them replace old bushes. These are funded through a Special purpose fund which provides up to 70% of cost of replacement of bushes as 50% in the form of a soft loan with a moratorium of 5 years and 20 % in the form of a cash incentive paid up front (Boriah, 2011).
- b) India's tea industry unlike the ones in Sri Lanka and Kenya is likely to face serious shortages of skilled labour. In recent times, with the economic boom experienced in India, companies are experiencing a significant shortage of plantation labour as better opportunities are available in other sectors of the economy. Although, the Plantation Labour Act, 1951 (applies to any tea grower that employs 15 workers/operates on a plantation of 5 acres and above), makes it compulsory for employers to provide free accommodation on the plantation, free access to medical care, schooling for children and subsidised food, the shortages are growing (Boriah, 2011). In order to provide further incentives to attract and retain skilled labour on the plantations, many tea growers provide further incentives such as free food, alcohol and grants for certain purposes etc. In addition, the Tea Board of India has started schemes to educate workers and create specialist workers for the plantations who are provided with better skills, better access to health care, support for children's education, stipends for undertaking training and grants for certain purposes (Boriah, 2011).
- c) A major problem facing the tea industry worldwide is the use of pesticides in tea cultivation as tea bushes are susceptible to diseases. They require monitoring and extensive pesticide spraying

¹² Executive Brief: Tea Sector at <http://agritrade.cta.int/Agriculture/Commodities/Tea/Executive-Brief-2011-Tea-sector> accessed 1st August,2012

¹³ Ibid.

¹⁴ Agritrade is a part of the Technical Centre for Agricultural and rural cooperation ACP-EU operating under the framework of the Cotonou Agreement between the ACP Group of States (Africa, the Caribbean and the Pacific) and the EU Member States, funded by the European Union.

¹⁵ Executive Brief: Tea Sector at <http://agritrade.cta.int/Agriculture/Commodities/Tea/Executive-Brief-2011-Tea-sector> accessed 1st August,2012

¹⁵ The Indian tea industry is estimated to be worth Rs. 19500 crores i.e. approx. AUD 4 billion- see story at 'Tea industry likely to touch Rs 33,000 cr' <http://www.business-standard.com/india/news/tea-industry-likely-to-touch-rs-33000-cr-turnover-by-2015/458912/> accessed on 29th July, 2012

increasing the cost of production substantially as well as contributing to environmental and health issues. In recent times, research initiatives are being undertaken by the Tea Board to address to find solutions (Boriah, 2011).

- d) One of the major challenges facing the industry is how to reduce its carbon footprint. In response, the Tea Board has initiated steps to encourage adoption of clean and green energy measures with the objective of mitigating the carbon imprint of the industry (Ambalavanan, 2011).
- e) One of the major problems facing the Indian tea industry establishing a quality assurance system that ensures that Indian tea sold in both the domestic and international market meets certain Food safety standards. The Tea Board is in the process of introducing and implementing a quality assurance process that will meet the needs of all stakeholders (Ambalavanan, 2011).

The future augurs well for India's tea industry for a number of reasons. The informal Indian institution of hospitality where a "cup of tea" is an implied expectation in social and most official interactions is part of Indian culture. The country has a huge domestic market but with a per capita tea consumption at a modest 750 g (Boriah, 2011). In other words, there is tremendous scope for increasing the per capita tea consumption. Both, companies and the Tea Board of India, are working on value added teas that promote health and wellbeing as a selling point to increase consumption. The other factors that spell growth and stability for this industry are a complete international monopoly over 'Darjeeling' tea and 'Assam orthodox'; the presence of recognised international brands that no other tea-producing nation has; a well experienced corporate sector that has expanded operations overseas, and a focus on producing value added premium teas for the market along with a proposed quality assurance system. Finally, the presence of the Tea Board of India as a formal institution specialising in supporting the tea industry for almost 60 years is another plus and in keeping with the tradition of formal institutional support that this industry has received right from its inception in India in one form or the other.

REFERENCES

- Ambalavanan, R. (2011). Interview with Executive Director at Tea Board of India Office, Coonoor, December 2011.
- Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 17: 99-120
- Boriah, G. (2011). Interview with Director of Tea Development at Tea Board of India Office, Kolkata, India. December, 2011.
- Luo, Y. & Tung, R. (2007). International expansion of emerging market enterprises: A springboard perspective. *Journal of International Business Studies*. 38 (4), 481-498.
- Peng, M. (2003). Institutional transitions and strategic choices. *The Academy of Management Review*, 28 (2) 275-296
- Porter, M. E. (1980). *Competitive Strategy*. New York: Free Press
- Neilsen, J. & Pritchard, B. (2009). *Value Chain Struggles: Institutions and Governance in the Plantation Districts of South India*. Wiley- Blackwell, UK.
- Sharma, J. (2009). 'Lazy' Natives, Coolie labour and the Assam Tea Industry. *Modern Asian Studies*, 43 (6) 1287-1324.