

NRPPD Discussion Paper

35

**CHANGING INSTITUTIONAL
ARCHITECTURE AND INDIA'S EXPORT
COMPETITIVENESS IN TEA**

Kingshuk Sarkar

2014

**CHANGING INSTITUTIONAL ARCHITECTURE AND INDIA'S
EXPORT COMPETITIVENESS IN TEA**

Kingshuk Sarkar

2014

ABSTRACT

The study raises the issue of export competitiveness of Indian tea over the last three decades. It discusses the changing institutional architecture governing world tea market in a liberalized world economy. During the last two decades, institutional landscape affecting the export competitiveness environment has changed considerably both globally and locally. Formation of WTO in 1995, various multilateral and bilateral trade agreements, imposition of environment and labour standards, exchange rate fluctuation all have an impact on export competitiveness of Indian tea. As part of wider process of global restructuring of tropical product value chain, the role of commodity boards has changed from that of marketing to that of a facilitator of grade and price stabilization schemes. The earlier arrangements have been progressively dismantled and into this place has emerged a host of emergent forms of market exchange and coordination. New structures have reshaped income flows and cost burden. Branded tea manufacturing had become a highly concentrated sector in most national markets with a common group of multinationals dominating. This study analyses different aspects of export competitiveness of Indian tea in the context of changing institutional architecture. It takes into account aspects like existence of huge domestic market and increasing domestic consumption, relative price of Indian tea in global market, changing product mix, multilateral trade agreement and free trade zones, quality of Indian tea in view of emergence of small growers, institutional interventions etc.

1. Introduction

India is one of the major tea producing and exporting countries of the world. During the last three decades, Indian tea experienced a secular decline in share of the world tea market. Internally, share of export out of total production also underwent steady decline over the same period. Domestic production and consumption of tea recorded increasing growth during the same period. This gradual decline of export out of total domestic production and share of world export market brings us to the issue of export competitiveness of Indian tea.

Further, during the last two decades, institutional landscape affecting the export competitiveness environment has changed considerably both globally and locally. Formation of WTO in 1995, various multilateral and bilateral trade agreements, imposition of environment and labour standards, exchange rate fluctuation all have an impact on export competitiveness of Indian tea. As part of wider process of global restructuring of tropical product value chain, the role of commodity boards has changed from that of marketing to that of a facilitator of grade and price stabilization schemes. The earlier arrangements have been progressively dismantled and into this place has emerged a host of emergent forms of market exchange and coordination. New structures have reshaped income flows and cost burde

Also, the last two decades saw major corporate restructuring among leading global tea firms. By the twenty-first century branded tea manufacturing had become a highly concentrated sector in most national markets with a common group of multinationals dominating. The past two decades have witnessed major shifts in the focus and orientation of

leading firms in the world tea industry. Forward integration and brand formation have become the new focal points.

This study intends to analyze different aspects of export competitiveness of Indian tea in the context of changing institutional architecture. The study will take into account aspects like existence of huge domestic market and increasing domestic consumption, relative price of Indian tea in global market, changing product mix, multilateral trade agreement and free trade zones, quality of Indian tea in view of emergence of small growers, institutional interventions etc. The study will evaluate the export competitiveness of Indian tea in terms of conventional definition of competitiveness and would try to relate those to changing institutional framework.

2. Background and context

The export share of tea in the total production of tea in India was 39.19 per cent in 1980. It got reduced to 32.72 per cent in 1986, then to 20.73 per cent in 1996 and only 20.71 per cent in 2008 which is very low considering the fact that production of India has grown at a CAGR of 1.5 per cent on an average till 2008. In 2012, export share of tea out of total domestic production further fell to 18 per cent.

India's share in the global tea market was 26 per cent in 1980 which had been continuously falling to 20.86 per cent in 1986, 14.51 per cent in 1996, 13.77 per cent in 2006 and finally 12 per cent in 2012. Thus within a span of 32 years from 1980 to 2012 India lost a significant 15 per cent share in the global tea market.

During the last five years total world export averages 41 per cent of world tea production and 84 per cent of exports accounted for by six major tea producing countries like India, Sri Lanka, China, Kenya, Indonesia and Vietnam. The largest tea producing countries India and China consume most of their own production and relatively lesser share of world tea export market. Sri Lanka and Kenya have 7 per cent and 5

per cent share of world tea growing area but their market share in world tea market are 23 per cent and 20 per cent respectively.

Comparing the export share of tea of the major tea producing countries of the world with India, it is seen that the export share of the countries, Kenya, Vietnam, Argentina, China and also of the neighbouring Nepal have increased considerably. In 1980, Kenya export share was only 8.71 per cent which increased to 23.26 per cent in 2008. China has also increased its share from 12.57 per cent in 1980 to 18.01 per cent in 2008 despite the fact that consumption of tea in China is very high like India. However, in the same period the export share of other major competing countries like Sri Lanka, Indonesia, Malawi and Bangladesh in the global tea market fell, although their fall was significantly less than that of India.

From the available data, it is clear that export competitiveness of India along with China, Bangladesh and Vietnam has been declining over the period 1996-2008. Relatively recent entrants to the world tea market like Kenya, Sri Lanka and Nepal have gained at the expense of these traditional dominant countries in terms of RCA index. Nepal, who exhibited remarkable increase in the index have reaped the benefit of similarity of its tea with India's famous Darjeeling tea.

There are several causes for the fall in export share in world tea market. Some of the causes are rising domestic consumption, low growth of production, higher export price of Indian tea in comparison to that of its competing countries like Vietnam, Indonesia, Malawi and Argentina, adverse tariff and non-tariff barriers imposed on the basis of several bilateral agreements and free trade zones like Pakistan-Sri Lanka Free Trade Agreement, Common Market for Eastern and South African (COMESA), Indo ASEAN Free Trade Agreement, non-tariff barriers imposed on the basis of Sanitary and Phytosanitary (SPS) agreements and Technical Barriers to Trade (TBT). Changes in the global geopolitical and economic environment in the pre and post WTO period have affected the tea export market of India adversely.

There are certain other aspects involving Indian tea which are also relevant for analyzing its export performance. Some of them are import of tea into India, the growing age of plants, declining productivity and stagnant profitability, emergence of small-growers, changing product mix.

Unlike in other decades, in the recent sub-period of 2000-09, growth rate in production, productivity, export, domestic prices and employment was found to be de-accelerating. Given the export orientation of the present economic regime, it is imperative to look into the performances in the light of changing policy regimes both in terms of trade policy reforms in India and multilateral trade liberalization internationally. During early phases of liberalization, production and productivity showed increasing growth rate. However, de-acceleration in growth rate came about during the period of 2000-09. This aspect cannot be delinked from changing international trading environment. It is expected that greater integration of domestic market following the formation of WTO in 1995 and signing of different free trade agreement have an impact on tea economy. Also there has been a change in the workings of commodity boards in the form of intensified intervention in production and withdrawal from marketing. Post 2000, tea sector is doing relatively well in area, production and productivity whereas there has been a fall in the growth rate of export, domestic price, employment and a marginal fall in that of domestic consumption also. Export and domestic consumption are functions of production conditions which regulates the supply of tea.

In this liberalized economic environment, institutional arrangements and State intervention move towards removal of tariff barriers. So the survival depends on maintaining export competitiveness. This focus on attaining export competitiveness intensified in the new liberal trade environment following formation of WTO and signing of various multilateral trade agreements. Thus it became imperative for the Indian tea industry to be price competitive both in domestic and foreign

markets. Several studies (Harilal & Joseph 1999, Veeramani & Saini 2011, Mohanakumar 2012, among others) have tried to analyze the impact of trade agreements on plantation commodities. For instance, Veeramani & Saini 2011 study of the impact of ASEAN-India FTA on coffee, tea and pepper shows that this agreement may cause a significant increase in India's import from these commodities.

The present study will be situated in the context of domestic production conditions along with international trading arrangements. Role of institutions have undergone considerable changes in liberalized global economy. Most of the studies on plantation crops focused on the trade aspects with very limited attempt being made to understand the production system in the plantation sector in terms of institutions and organizations.

The study will raise the issue of export competitiveness of Indian tea over the last three decades. It will discuss the changing institutional architecture governing world tea market in a liberalized world economy. It will evaluate the impact of such changing institutional landscape on the export competitiveness of world tea market in general and Indian tea in particular.

3. Export performance of Indian tea

Tea is a traditional item in the export basket of India. But after 1950s the share of exports started falling. Volume of export in the year 1950-51 was 200.78 million kg and in 1998-99 it was 205.61 million kg. So in absolute terms export remained static implying decrease in percentage terms while in the same period production increase was more than 200 per cent. In value terms Indian tea exports showed impressive growth from 80.42 crore in 1950-51 to 2042.35 crore in 1998-99 but this was almost entirely due to increase in international price rather than increase in volume of exports. Table 3.1 represents a detailed picture of India's tea export over the years.

Table 3.1: Quantity and value: Indian tea export (1950-51 to 2012-13)

Year	Export (m. kg)	Value (Rs crore)
1950-51	200.78	80.42
1960-61	193.06	119.98
1970-71	202.33	149.54
1980-81	224.78	432.54
1990-91	210.02	1113.35
1995-96	163.74	1191.19
2000-01	206.81	1898.61
2005-06	199.05	1830.97
2012-13	216.23	4005.93

Source: Various issues of Tea Statistics, Tea Board of India

In terms of share in world tea market India suffered consistent decline over the years. In 1951-52 India had 45 per cent share in the world tea market. In 1981-82 the share came down to 29 per cent. World share continued to fall and in 1998-99 India controlled only 17 per cent of world tea market. Table 3.2 describes this gradual decline in export share in world tea market.

Table 3.2: Share of Indian tea exports in world market

Year	Share (%)
1951-52	45
1981-82	29
1991-92	19
1995-96	15
1998-99	17
2000-01	16
2005-06	13
2012-13	11

Source: Tea Board of India

Reasons behind India's falling export share in world tea market are many. First, new entrants in the global tea market such as Kenya and Malawi have the advantage of having younger plantation, which provides yields that are twice that of India. In Sri Lanka tea flourished under the close supervision of the government. In both Sri Lanka and Kenya, the size of the domestic market is very small and they export an overwhelming majority (more than 95 per cent) of their produce. Second, the sudden fragmentation of the erstwhile USSR resulted in a drastic reduction in the export of Indian tea to Russia and the emerging CIS countries. It took them two years to organize their financial system. In those two years, 1994-95 and 1995-96, they imported very little tea. Third, India's dependence on low-return markets, such as Russia and CIS countries, Egypt, Sudan, Iran and Iraq, had further worsened the situation. The global market scenario was also stagnant. Demand for tea in buying markets like U.K., Germany, U.S. and Ireland were also slowing down.

Demand-supply situation in domestic market is also adversely affecting the export performance of the Indian tea. The domestic demand for tea in India is a significant factor in inhibiting export efforts. Internal availability of tea has been increasing steadily over the years. So tea producers in India faced an expanding domestic market over the years. The growth rates in domestic consumption vis-à-vis production during the last four decades are shown in the Table 3.3

Table 3.3: Growth of production and domestic availability of Indian tea

Period	Compound Growth Rate (%)	
	Production	Domestic Availability
1951-61	2.19	6.73
1961-71	2.08	4.67
1971-81	2.55	5.00
1981-91	3.02	3.74
1991-01	2.46	5.03
2001-11	2.32	5.62

Source: Various Issues of Tea Statistics, Tea Board

In recent years growth of production of tea in India is depressed (Tea Board, 2005). But domestic availability is increasing each year implying increase in domestic demand. In such situations producers are mostly interested to sell their output in the domestic market and as a result of this little surplus are left for exports. India's domestic market is the largest single tea market in the world. Existence of such a huge domestic market provides a strong base for the Indian tea producers in terms of demand and price. Growing internal availability of tea since 1971-72 is depicted in the Table 3.4.

Table 3.4: Internal availability of tea in India (in million kgs)

Year	Internal availability (in million kgs)
1971-72	221
1981-82	360
1991-92	511
2001-02	673
2002-03	693
2003-04	714
2004-05	735
2005-06	757
2006-07	771
2007-08	786
2009-10	838
2010-11	856
2011-12	873
2012-13	890

Source: Tea Board of India

Internal availability of tea in India is showing a uniform increasing trend over the years. During the same period export did not grow as such rather it remained stagnant. Stagnancy in export did not affect the producers and sellers of tea in a significant way since expanding domestic market gave them the alternative. It may be explained in reverse way also. As internal availability of tea recorded impressive growth, sellers of tea opted for domestic market at the expense of the export market. Buoyant prices in the domestic market further enhanced the trend.

Also increase in demand for tea in the internal market is inevitable because of the growing population and rising standard of living. As such, internal consumption of tea is expected to rise further in the years to come. It is therefore essential to design the production plan in such a way manner that it can meet the growing demand of both the external and internal markets.

Another factor, as claimed by the tea producer, going against them, is the increase in import of tea (ITA, 2002). But as Table 3.5 would reveal, this contention of producers' is not supported by the facts.

Table 3.5: Import of tea into India

Year	Quantity (in M kg)	Unit price (Rs/kg)
1992-93	1.37	37.52
1993-94	0.87	45.86
1994-95	0.20	55.00
1995-96	0.45	53.56
1996-97	1.25	49.68
1997-98	2.61	68.16
1998-99	8.93	72.49
1999-00	10.36	59.80
2000-01	15.35	63.00
2001-02	16.79	51.56
2002-03	22.49	46.82
2003-04	11.34	58.41
2004-05	32.53	44.61
2005-06	17.41	59.03
2006-07	20.80	53.37
2007-08	16.75	64.51
2010-11	19.26	97.02
2011-12	19.21	96.85
2012-13	21.90	129.02

Source: Tea Digest 2007-2008, Tea Board, India

It is quite apparent that import of tea into India has increased consistently in recent times. Table 3.6 gives few important country-wise imports into India along with unit price for the year 2013.

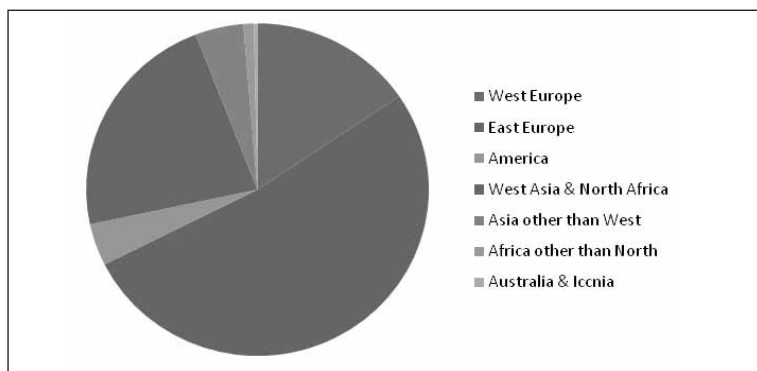
Table 3.6: Country-wise imports of tea into India in 2013

Country	Qty (M kg)	Unit price (Rs/kg)
Nepal	7.35	119.07
Kenya	2.15	172.84
Iran	1.47	74.15
UK	1.25	113.76
Total	16.04	126.9

Source: Tea Board of India

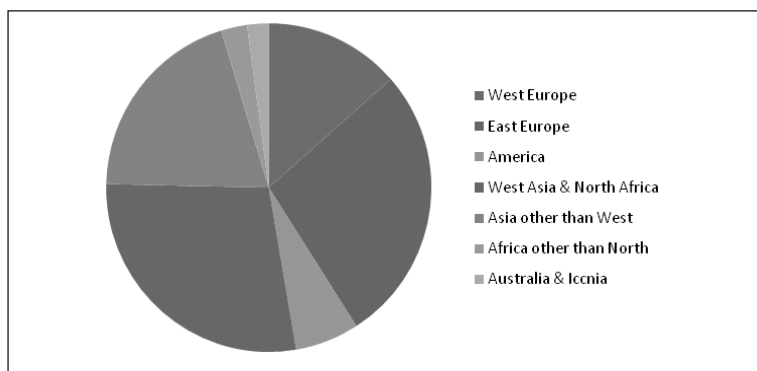
A destination-wise analysis of Indian tea exports during the last decade reveals that there has been a movement away from relatively traditional market of CIS and Middle East countries to other Asian and West European countries and America. At the beginning of the decade majority of tea exports were directed to CIS and West Asian countries. These markets are relatively low-value markets. At the end of last decade a shift towards other Asian countries namely Japan, West European countries and to some extent USA can be observed. These are relatively high-value markets. However, magnitude of such shift is still not that huge but realignment of destination from low-value to high-value market is discernible. This shift is towards the right direction and commensurate with changes in demand and product profile. Following two diagrams 3.1 and 3.2 depict the trend towards the shift as discussed now.

Figure 3.1: Region-wise break-up of Indian tea export 2000



Source: Tea Board of India

Figure 3.2: Region-wise break-up of Indian tea export 2010



Source: Tea Board of India

The distinction of low-value market from that of high-value market is apparent from the fact that unit price realized at different countries show significant divergent. Table shows country-wise destination of Indian tea exports for the year 2013 along with unit price realized. . All the countries were not depicted but the significant ones figured in the Table 3.7.

Table 3.7: Destination-wise tea exports from India 2013

Country	Qty (M kg)	Unit price (Rs/kg)
CIS	52.81	172.15
UK	15.4	194.44
Netherlands	2.89	294.98
Germany	7.47	338.57
Australia	3.05	366.95
Poland	4.26	154.06
USA	14.07	279.59
UAE	22.09	199.13
Iran	22.34	252.39
Japan	3.24	443.43
Pakistan	18.97	98.55
Total	211.86	198.79

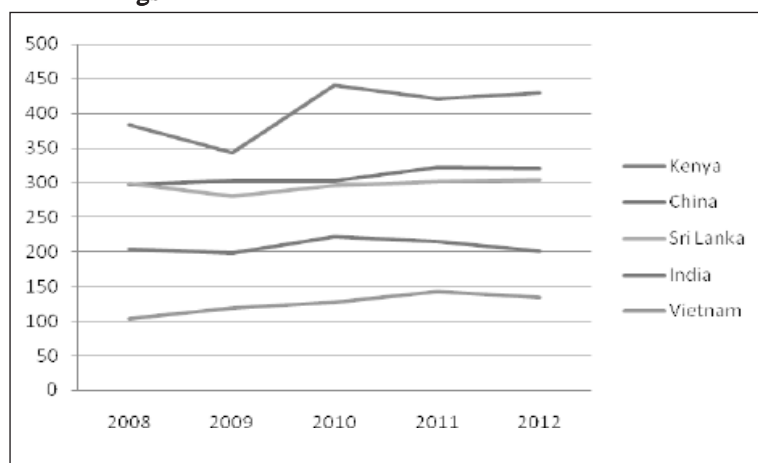
Source: Tea Board of India

It shows that unit price realized in markets like Netherlands, Germany, Australia, USA, Japan are significantly higher than those realized in countries like CIS, UK, UAE, Iran, Pakistan. Destination-wise time series data for Indian exports further confirm the trend that slowly but gradually Indian tea exports are getting redirected to relatively high-value market. This is a trend towards a right direction. Essentially Indian tea exporters should explore high-value markets more since it adds to revenue and has much greater potential to expand. Earlier India was too much dependent on low-value markets like CIS and Middle East Asian countries and for long it had adversely affected India's tea export interest. The present trend of diversification towards high-value market is a positive one.

If we compare India's tea export performance with that of its close competitor during the last five years, India is behind Kenya, China and

Sri Lanka and ahead of Vietnam. As Figure 3.3 shows, for China, Sri Lanka and India export were almost constant during the last five years. For Kenya, it fell in 2009 but recovered significantly in 2010. The important fact is that the three closest competitors in tea export market are well ahead of India in terms of quantity of tea exported. In Figure 3.3 vertical axis represents quantity of tea exported in million kg and horizontal axis represents time in terms of years.

Figure 3.3: Export of tea by major producers 2008-2012 in million kgs



Source: Tea Board of India

In terms of price in world tea market, Sri Lankan and Kenyan prices are higher than that of India. Table 3.8 describes the price realization of three most important exporters of tea in world tea market. During the period 2008-2012, prices increased for all three countries and in all period Sri Lankan and Kenyan prices were higher than the Indian prices.

Table 3.8: Export prices in US\$ per kg for three major exporters of tea

Year	India	Sri Lanka	Kenya
2008	2	2.83	2.18
2009	2.18	3.15	2.29
2010	2.29	3.28	2.54
2011	2.23	3.25	2.72
2012	2.28	3.07	2.88

Source: Tea Board of India

If we look at the world demand and supply of tea during the last five years, it can be observed that there has been an excess supply of tea during the entire period. Excess supply fell significantly in 2012 to 74 million kg from 174 million kg in 2011 as depicted in Table 3.9. Existence of excess supply put downward pressure on price realization in world export market. It is evident as price in world tea market improved in 2012 with fall in excess supply in that particular market. India is finding it increasingly difficult to increase tea export in a world market which has excess supply over fairly sustained period.

Table 3.9: World demand and supply of tea

Year	World demand (m kg)	World supply (m kg)	Excess supply (+)/demand(-)
2008	3879	3724	155
2009	3960	3839	121
2010	4192	4038	154
2011	4449	4275	174
2012	4527	4440	87

Source: Tea Board of India

4. Changing institutional architecture

In earlier period State Marketing Boards looked after the tropical product sector like tea, arranged sales according to crude quality grades and operated price stabilization schemes. These arrangements have been progressively dismantled and into this place has emerged a host of emergent forms of market exchange and coordination.

Liberalised engagement with globalised market structure has led to commodity dependence. This is fundamental to the task of understanding the broader issue of developing country export agriculture. For much of the past decades low tropical commodity prices have impacted severely on these developing country export competitiveness. The collapse of the tea prices provided impetus for extensive rearrangement of the distribution of economic returns within the tea value chain.

The assurances and monitoring imperatives that characterise these initiatives bring to the focus the entwinement of global private regulation with the technologies of traceability – the imposition of compliance regimes which regulate production trails from seed to supermarket. Global private regulation and traceability together shape developing countries capacities both to participate in and extract benefits from international agri-food trade like that of tea. In an economic context of low world market prices for undifferentiated agricultural commodities, the authentication of product standards and credence attributes such as ‘cooperatively grown’, ‘organic’, and ‘no forced labour’ could provide support that act as points of distinction in crowded and competitive marketplace. Whether and how this labelling contributes to improved producer well-being remains, of course, a vexed question. Consumers may pay more for such attributes but it is not always clear whether upstream producers share in these price premiums. Moreover, from producers’ perspective, developing the capacity to respond to such market signals often is costly and difficult. This is precisely where the

importance of the institutional environment takes shape in the sense that producers are embedded within institutional environment which help or hinder their capacities to participate in these chains.

Tea and coffee are typical examples of tropical agriculture that sustains the livelihoods of rural economies across the developing world. Although developing countries have diversified their agri-export baskets over the past decade, tropical commodity exports remain a vital mainstay of agricultural communities like that in Sri Lanka, Kenya etc.

An institutional approach contends that economic activity cannot occur in the absence of the social relations in which it is embedded. They can be formal or informal. Nevertheless, whatever form they take, they configure economic and social dynamics. Institutions shape governance forms and governance is enacted through institutions. Institutional formations and governance arrangements co-exist.

During the 1980s and throughout much of 1990s, the economic policies recommended by development agencies for the Global South were influenced by 'Washington Consensus'. The objective was eliminating government interventions in markets to the maximum extent possible. According to its proponents, such policies would create space for private interests that would translate to increase economic returns to local producers. Accordingly, a powerful push for agricultural market reforms came from World Bank which introduced its first structural adjustment loan in 1980. Applied to developed country agriculture, this line of argument held forth a vision in which industry structures get aligned solely to the conditions and requirements of global markets as defined and allocated by private sector interests.

As recounted by the former Chief Economist of the World Bank, Joseph Stiglitz (2002), the mid-to-late 1990s was a period of intense debate between the neo-liberal economists in favour of minimizing disturbances to market process and 'institutionalisms' who agreed for a

heightened consideration of the fact that markets necessarily took root in specific historical, geographical, political and social contexts.

In the tropical product trade, the current phase of global value chain restructuring is giving rise to powerful forces as multinational retailers and branded manufacturers seek to forge a future more amenable to their interests. Yet at the same time, these lead firms deploy their strategies not in a vacuum, but in a real world of spatially embedded suppliers and consumers with concrete economic and political circumstances. There are instances of interventions that emphasize the importance of institutional arrangements to generate positive socio-economic outcomes.

4.1. Global value chain

Over the past couple of decades, the world has undergone a reorganisation of global institutions that accorded predominance to the market and narrowed down scope for State action. This was facilitated by technological advances combined with liberalization and opening of financial and commercial transactions. In this respect, creation of global value chains has become a distinctive feature of contemporary world trade.

Steady consolidation of the international market ensured that by the mid-1990s eight traders controlled a majority of the coffee imported into Europe, North America, Japan and Australia (Talbot, 2002). In developed market segment of tea sector, comparable processes took place. In the UK, three brands accounted for 58 per cent of the tea bag sales in 2006 (Mintel, 2007).

The massive buying power of these companies was supplemented by institutional shifts in market exchange. On the one hand, the rise of sophisticated market institutions based around electronic data exchange and the internet effectively globalised the processes of buying and selling tea. This is very different from the situation that existed until the

1980s when the mediations of government to government trade via quota allocations and national marketing broad sales shaped the flow of economic returns to individual countries.

There has been a growing concentration of buyers' in Indian auctions since early nineties. A few international blenders and distributors control most of the tea auctioned in major auction centres. Moreover, the retail markets in major tea producing countries are also controlled by a few international blenders (World Bank, 1997). In 1999, in Guwahati auction (30 per cent of total Indian tea is auctioned through Guwahati) Hindustan Lever (HLL) had a share of 33 per cent and Tata Tea had a share of 13 per cent of total sales at the auction. In 1990, the corresponding shares were 19 per cent and 7 per cent respectively. In 2000, in southern India, according to Tea Board's estimate, there were more than 10,000 producers but at Cochin auction the number of registered buyers was below 100 and in Coonoor it was around 70. Among these buyers a small group controlled the major portion of disposal of tea. That kind of buying concentration led to smaller number of retailers which implied less competition. In 1998, in India, two largest tea traders controlled 29 per cent of total market share and the top six companies held 50 per cent share. Because of greater integration along the supply chain, a few traders could dominate the entire supply network. This took place through coordination (mostly pre-financial) or vertical integration with local retailers. By becoming large corporation and by providing a homogenized retail experience with a consistent but not exceptionally good quality product, few tea chains consolidated their holding in the tea commodity chain.

Sharp price fluctuations particularly lower price realization during late nineties and early this decade at auctions adversely affected those producers who were not operating in the retail trading chain. But buyers, who were operating all along the commodity chain, gained from lower price realization at auctions. They bought tea at auctions as

intermediaries and the tea passed through different stages of the trading chain before it reached the final consumer. Now for those buyers who had presence along the entire commodity chain, lower price at auction implied greater profit at the retail end. During the period of sharp increase in auction prices profit of tea retailers fell and in subsequent years buyers (because they were less in numbers compared to producers) got together to depress auction prices which suited them.

According to World Bank (1997), the processing and distribution of tea in 1996 was controlled by four major companies – all were vertically integrated – Unilever, Cadbury Schwaepes, Tata Tea and Twining. Along with six other big companies, these transnational companies controlled 80 per cent of the world tea market (World Bank, 1997). In 1996, 75 per cent of the tea market in New Zealand was dominated by two multinationals – the Bell Tea Company and Unilever group. In a similar manner Australian market was dominated by the Unilever and Tata Tea. The fast growth of the conglomerates was maintained by blocking potential entrants through heavy advertising, expensive marketing strategies and popularising branded products. All these made it difficult for small firms to make any headway in the retail tea business (World Bank, 1997).

In early 2000, the tea market was extremely concentrated as 90 per cent of the world trade was in the hands of seven transnational companies and 80 per cent of world production was sold by multinationals. The larger companies had such large purchasing power that they could influence the price for particular qualities and types of tea at auctions.

Such concentration of buying power was mainly taking place through mergers and acquisitions. During the period of liberalization, Indian tea trading set-up witnessed a number of mergers and acquisitions leading to greater concentration in tea trade. In almost all cases of such mergers and acquisitions, multinational enterprises were involved.

Mergers & acquisitions extended the scope of operation and facilitated group consolidation. Table 4.1.1 represents the numbers of mergers and acquisitions that took place during the period from 1993 to 1999.

Table 4.1.1: MNE related M & A in tea plantations in India

1993	1994	1995	1996	1997	1998	1999	Total
2	0	1	2	1	0	1	7

Source: RIS-ICDRC Database

Some large firms took advantage of the liberalization and started to buy out tea companies in order to acquire an instant marketing chain. For example, economic liberalization, through relaxing restrictions on foreign equity and by delicensing, had a significant impact on the behaviour of Unilever in India. This impact was visible in the consolidation – under the flagship of Hindustan Lever Limited (HLL) - of all of Unilever operations in India which were hitherto remained divided into several companies to escape legal requirements. Seizing the opportunity offered by liberalization, in 1995, HLL raised the foreign equity in two of Unilever’s other subsidiaries in India to 51 per cent- Brooke Bond and Lipton. There then occurred in 1996 the merger of these two subsidiaries into Brooke Bond Lipton India Limited (BBLIL). This was followed by a spree of quick acquisitions by BBLIL which absorbed several local companies making BBLIL in 1996 the largest foods and beverages Company and the market leader in retail tea business. There then took place in 1996 India’s largest ever merger that of BBLIL into HLL amidst rising prices of the shares of both. This new Lever mega-corporation was a market leader in tea. Of course, both HLL and BBLIL were in any case part of the same family earlier and would have been a single entity but for India’s laws. HLL’s merger and acquisitions represented a significant transformation of the link between India and the global economy dominated by TNCs. In 2005, HLL was the largest tea retailer and controlled 33 per cent of total tea trade in India.

Tata Tea's acquisition of Tetley in 2000 was the largest acquisition of a foreign company ever by an Indian company. Tata Tea's earlier bid in 1995 to acquire Tetley failed. Price paid by Tata Tea for the acquisition was US\$ 435 million. The price of acquisition was almost four times the net worth of Tata Tea which stood at US\$ 114 million. Tetley acquisition was executed through a financing mechanism of Leveraged Buy Out (LBO). Tata Tea used this mechanism with the hope that cash flows from Tetley would repay the leverage over the time. The acquisition made Tata Tea the largest tea company in the world after Unilever. Tata Tea also had a 21 per cent share of the Indian branded tea market in 2005. After acquiring Tetley, Tata Tea became a major brand in the Europe as well as the second largest tea brand worldwide.

Unilever was the owner of the world's largest selling tea brand Lipton and the company purchased 12 per cent of total black tea production making it world's largest buyer of tea in 2002. Tata Tea was the world's second largest tea company in terms market share in retail tea trade. Both of these two companies initiated restructuring from production to marketing. The restructuring process is built upon both companies' change in orientation away from producing tea and towards being sellers of tea. They were more interested in purchasing tea at auctions worldwide rather than producing tea. Both companies realized that their level of profits could be greatly increased by selling branded and processed tea products rather than owning plantations.

In April 2005, HLL announced that 6100 permanent workers, 3100 hectares of plantations and three processing factories in Assam would be parceled off into a demerged company called Doom Dooma Tea Company. By December 2005, HLL announced the transfer and sale of Doom Dooma Tea Company to Mcleod Russel India. In the same year HLL parceled together its holdings in Tamil Nadu encompassing 6300 permanent workers, 3700 hectares of plantations and six processing factories into a demerged company called 'Tea Estates India Limited'.

On March 1, 2006, HLL announced the completion of the sale and transfer of Tea estates India Limited to the Woodbriar Group. Thus between 2005 and 2006, HLL managed to divest itself of the responsibility of more than 12000 permanent workers. In practice, total number of workers affected by this decision was much higher as the number did not include temporary workers or dependents of permanent workers. In 2006, HLL showed an increase of 32 per cent in profits compared to 2005.

Tata Tea also followed a similar restructuring process away from manufacturing to marketing. In 2005, Tata Tea management transferred 17 plantations to the company 'Kannan Devan Hills Plantation Limited' of which it retained 19 per cent share. Tata Tea kept the brand name 'Kannan Devan'. Through this restructuring Tata Tea transferred 75 per cent ownership of the company to workers and local management. In West Bengal and Assam, Tata Tea initiated plans to demerge its 24 plantations into 'Amalgamated Plantations Private Ltd.' This affected more than 30,000 workers .

Between 2001 and 2006, Tata Tea experienced substantial reduction in cost related to labour. In 2001, 21 per cent of total expenditure was incurred on workers' payment. In 2006, the corresponding figure was 15 per cent. Volume of permanent labour declined from 58,888 in 2001 to 34,596 in 2006. During the same period, share of wage payment, provident fund payment and welfare payment out of total labour share declined by 12.5 per cent, 43 per cent and 40 per cent respectively.

The liberalization of industrial and trade policies was accompanied by an increasingly receptive attitude towards Foreign Direct Investment (FDI) and foreign licensing collaborations. Policy guidelines were issued to streamline the foreign licensing collaborations. The rules concerning payments of royalties and lump-sum technical fees were also relaxed. Tax rates on royalties were reduced from 40 per cent to 30

per cent in 1986. FDI in tea plantations in 1990 constituted only 4.1 per cent of total FDIs in India. After the adoption of liberalizing policies in 1991 this FDI component of tea plantation was on the increase and in 1999 it constituted 9.5 per cent of total FDI in India (RBI, 2000).

Also there had been a change in the profile of tea as a commodity in the last two decade. Gradually tea is being positioned as a branded product and has shifted away from its generic version. Since mid eighties, sale of branded tea had increased whereas sale of generic version had declined. Table 4.1.2 corroborates this shifting trend of tea from a generic to a branded product.

Table 4.1.2: Changing composition of disposal of tea in internal market during 1986-2006

Year	Packet tea (in m kg)	% out of total	Loose tea (in m kg)	% out of total
1986	113	26	318	74
1988	118	26	328	74
1990	129	28	333	72
1992	145	30	335	70
1994	160	32	340	68
1996	176	34	335	66
1998	184	35	340	65
2000	192	36	345	64
2002	200	36	350	64
2004	214	35	355	65
2006	224	36	366	64

Source: Tea Digest 2005-06, Tea Board, India

Before liberalization, India specialized in bulk tea (Tea Board, 1984). Since the mid 80s there was a major shift towards branded tea business. In 2000, of the total Indian tea market, branded packaged teas accounted for 36 per cent in terms of volume. HLL, owned by Unilever,

was the market leader with around 33 per cent market share followed by Tata Tea with 21 per cent market share.

As discussed earlier, the gap between auction prices and retail prices increased over the years and those who had retail marketing network gained from the situation. In early nineties Tata Tea was basically a plantation company whose major strengths were managing estates, dealing with a huge work force and manufacturing teas. On the other hand, Tetley was strong in marketing quality tea all over the world. Acquisition of Tetley by Tata Tea helped the latter to inherit the trading chain all over the world especially in the European markets. Both companies were already involved in a joint-venture created in 1992 called Tata-Tetley limited. The joint venture company was a 50 per cent holding by each joint venture partner. Acquisition of Tetley by Tata took place in 2000. Table 4.1.3 represents the increase in the market share of Tata-Tetley in two time periods - (2002 and 2006).

Table 4.1.3: Increase in market share of Tata-Tetley after acquisition

Country	2002	2006
U.K.	22.2	28
Canada	39.2	39.5
Australia	16.7	19.9
U.S.A.	6.5	8.2

Source: www.strategy-business.com

In 2006, Tata Tea achieved good financial results, notably it earned highest profit before and after tax in nominal terms (Tata Tea, 2007). Tata Tea's market share of branded tea business has steadily increased over the years as 85 percent of earning came from branded tea whereas rest 15 per cent came from bulk tea. Tata Tea experienced comfortable debt-equity ratio of 0.21 in 2006 and on a consolidated basis the debt-equity ratio was 1:1 (Tata Tea, 2007). Consequently, the level of debt showed a significant reduction from the level of debt at the time of Tetley acquisition.

In tea, notwithstanding the fact that ‘made tea’ is exported from developing countries as a finished product with a price that effectively includes all essential components of manufacture, it has been estimated that average auction price in producing countries are only 8 per cent of average retail prices for tea sold in Western Europe (Van der Wal 2008). The vast majority of the final retail price is accounted for by an non-producer interests including shipping blenders’ packagers, owners of brands and points of sale functionaries. With such high proportions of value-addition to be captured in near consumer nodes of chain, it is hardly surprising that these activities have been intensely fought over by large companies during recent years. The consequence has been a shift in industry governance towards buyer driven arrangements.

Seen in wider frame, the forward integration of large firms into downstream, brand-centric components of tea value chains is connected to the processes of financialization within agri-food production and trade (Pritchard, 1999, Gibbon and Ponte, 2005). Financialization refers to the general set of processes by which financial markets have come to expect that multinational companies approximately value and protect these intangible assets. Prompting this state of affairs is the fact that brands have become a leading weapon in the struggles between multinational food companies and supermarket sector. Its capacities to dictate terms to suppliers have had the power and motivation to overpower poor performing proprietary brands and use own label product to put additional competitive pressure on branded manufacturers.

Domestic implementation of the liberal reform agenda along with periods of low prices and concentration of corporate market power has resulted in a distinctively new competitive landscape. This landscape is actively shaped by the places-specific struggles of institutional actors in their engagements with global value chains.

Table 4.1.4: Distribution of value for tea sold into Western European market

Stage of production	Price per kg	% of final price
Cultivation, plucking, processing, bulk packaging	1.25	6.91
Auction price	1.39	7.68
Shipment, export taxes	2.47	13.65
Insurance, marketing, warehouse packaging	8.51	47.02
Supermarket price (incl. retail tax)	18.10	100

Source: SOMO et al (2006: p19)

4.2 Standards

Developing a common code has become imperative as the matter of environmental conditions and compliance with labour standards have become a requirement for market access.

The enhanced scope and reach of multinational companies has encouraged new protocols for product grading and certifications. Spearheading this latest phase of industry coordination and regulation is a concern by retailers and brand owners to specify requirements with respect to quality food safety and ethical basis of production. Although mostly developed as ‘voluntary’ conditions for producers, increasingly these requirements have become de facto mandatory global standards for export participation. The Global-GAP scheme is a case in point. Established in 1997 as an initiative of European consortia of food retailers seeking to formalize food standards with primary aim of instilling greater consumer confidence regarding food quality, its scope has evolved to the point where it is becoming a regulatory foundation for much international agri-food trade.

Entwined within these developments is a new requirement of audit, which necessitates documentation and authentication. Such private sector initiatives lead to a system that can be labelled as global private regulation: the enforcement of rules and standards on upstream producers by downstream private sector actors. These rules dictate how farmers gain their livelihoods, how they interact with the environment and how their local production systems and trade networks are structured.

4.3 Primary commodity export and role of commodity boards

Tea production has traditionally provided agricultural mainstay for tens of millions of people living in tropical upland areas. It is commonly the case that producers have few viable economic alternatives and numerous tropical countries have come to rely heavily on these products for export incomes.

In tea, the first International Tea Agreement was entered into by producers' associations in North and South India, Ceylon and Dutch East Indies in 1933. African producers, then only minor producers, implemented only part of the scheme. Governments were responsible for enforcing export quotas and were subsequently involved in negotiating inter-governmental agreements. However due to political differences amongst producer countries in late 1940s, the delicate process of determining export quotas was never successful and the agreement was abandoned in 1955 (Griffith, 1967). Nevertheless a de facto regime of managed trade in the industry evolved because of the prevailing cold war bilateralism within Indo-Soviet partner trade agreements having particular importance to the subject matter.

Such political arrangements provided the dominant institutional architecture for the tea trade from 1950s to 1980s before changing radically in the 1990s.

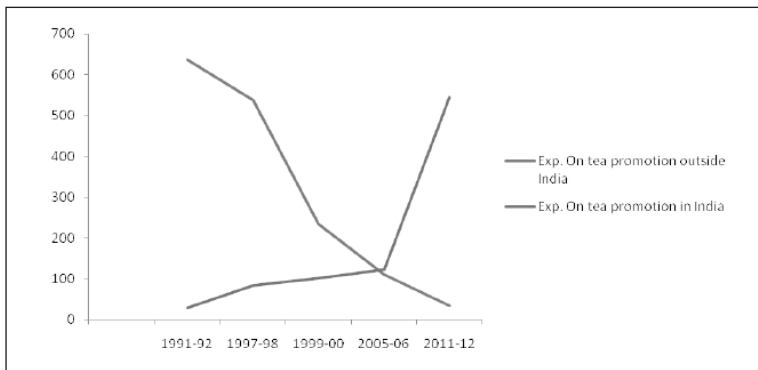
In tea, the shift was defined by the restructuring of international trading alliances following collapse of Eastern Bloc. As far as India was

concerned, the end of cold war saw the demise of the erstwhile bilateral agreements that benefitted Indian tea producers. During the 1990s former communist states became progressively bureaucratic with significant impacts on industry viability.

These changing political conditions of trade occurred hand in glove with domestic shifts in economic power within the industry. Throughout the 1990s there was a spate of mergers and takeovers in the global beverages sector which created new corporate entities with enhanced global reach.

Even the focus of Tea Board of India has changed over time. Earlier, the priority was promotion of tea outside India. It used to hold fairs and awareness camps in prospective countries, send delegations to buyer countries and participate in trade fairs in foreign countries to promote Indian tea. Since the last two decades, priority has changed considerably from that of export promotion to promotion of tea in India as Figure 4.3.1 would reveal. In the Figure 4.3.1, vertical axis depicts expenditure in rupees lakhs and horizontal axis provides for time period.

Figure 4.3.1: Tea promotion in India and outside India over time

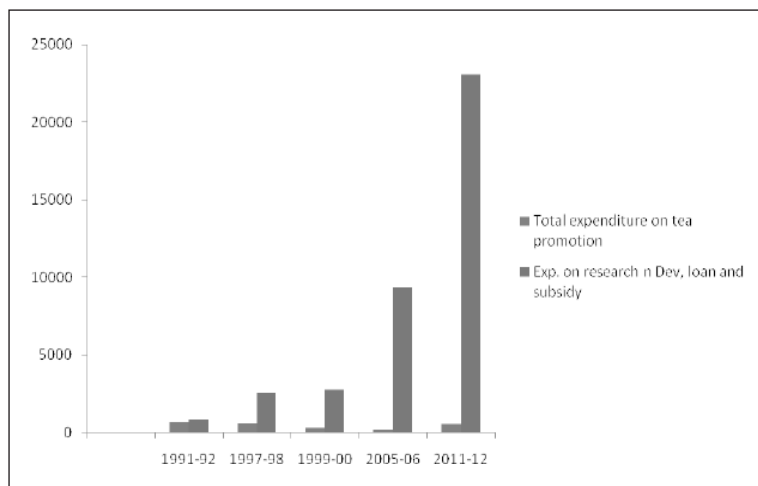


Source: Various issues of Annual Reports, Tea Board of India

As Figure 4.3.1 testifies expenditure on tea promotion outside India declined uniformly since 1991-92 and during the same period expenditure on promotion of tea in India showed rapid increase particularly since 2005-06. This clearly tells us about the shift in priority in promoting tea as far as this particular commodity board is concerned.

Also, if we compare the entire expenditure on promotional activities vis-à-vis expenditure on research and development, loan and subsidy for expansion of tea cultivation, a similar change in focus can also be visible. During the period from 1991-92 to 2011-12, entire expenditure on promotional activities almost remained stagnant and actually went down a bit whereas during the same period expenditure on expansion of tea increased manifold. Figure 4.3.2 clearly depicts such a trend. In the Figure 4.3.2, vertical axis depicts expenditure in rupees lakhs and horizontal axis provides for time period.

Figure 4.3.2: Comparison of promotional and developmental expenditure over time



Source: Various issues of Annual Reports, Tea Board of India

From Figure 4.3.2, it is amply clear how the priority of Tea Board changed from that promoting tea in and outside India to that of facilitating expansion of tea cultivation through various positive interventions.

4.4 Trading bloc

The implementation of ASEAN-India FTA in 2010 has opened up new vistas of trade cooperation between the two partners with both sides showing active interest to deepen and widen the process of economic integration through agreements on services; investment etc. there would be increasing array of issues on trade, investment and connectivity. According to CII, some of the Indian sectors which were negatively affected because of FTA in goods are tea, spices, coffee and rubber. The loss can be compensated by India's services export to ASEAN where India has comparative advantages in many sectors.

Regional Trading arrangements (RTA) have become a prominent feature of multilateral trading system and the surge in RTAs has seen prolific growth since the early 1990s. As of January 2012, 511 notifications of RTAs have been notified to General Agreement on Tariffs and Trade (GATT)/WTO.

Market integration among various regional trading arrangements differs considerably in terms of scope and objectives. Preferential trading is one of the mildest forms of integrative arrangements; the contracting States offer a preferential margin with respect to trade barriers in relation to their most favoured nation (MFN) rates. The most comprehensive integrative arrangements arise in the nature of a common market when all contracting states agree not only to allow free movement of goods and services but all the factors of production including capital and labour.

While trade liberalization at the multilateral level can yield the best positive outcome with widespread scale effects providing for

economies of scale, the complexity of the negotiations among a large number of trading partners at disparate levels of development is well demonstrated by the stalled Doha Round negotiations among the negotiating parties of the WTO. The proliferation of RTAs worldwide is a natural outcome as a second best solution. When RTAs also falter, due to similar reasons of lower intensity, bilateral agreements enter the fray as a third best solution. The smaller countries in the region look towards India's huge and growing market, an entry which would give them first mover advantage. Access to the Indian market could help expand their scale of operation and thereby reap economies of scale which otherwise would not have been possibly given their small domestic market.

The move towards bilateralism has also been induced by the experience of South Asian countries in participating in alternative preferential trading arrangements at pluralistic or regional level. This can be well illustrated by the experiences of three countries viz India, Pakistan and Sri Lanka particularly in alternative RTAs. The experience of SAPTA/SAFTA does not seem to hold much promise for the two countries either.

A detailed analysis of trade flows under the different categories of concessions offered by India and Sri Lanka showed that while a large value of India's exports to Sri Lanka took place under the Sri Lankan negative list, a large value of Sri Lanka's exports to India took the concession-offered route. This reflects the position that while concessions offered by India to Sri Lanka did enhance access to the Indian market but the converse did not hold for India's exports to Sri Lanka. Similar logic applies to India's tea export prospect to Sri Lanka also. In the changing institutional arrangements India will find it difficult to penetrate Sri Lankan market whereas Sri Lankan tea will find a very prospective market in India given the size of the domestic market in India. Changes in value-chain dynamics and multinational dominance would further help this trend.

4.5 Product reorientation and changes in consumer preference

Over the period tea as a product has undergone changes in its nature. Earlier most of the teas were sold loose. But later packet tea made an appearance and subsequently different innovations in the form of certain value additions took place. For example, tea bag, Instant tea, flavour tea, ice tea became popular with the consumers particularly in West Europeans countries and America. Indian tea export did not follow similar trend. As evident from the Table 4.5.1 during the period 1991-2008, quantity of packet tea increased uniformly but export of that did not show similar pattern. Rather export of packet tea significantly fell during that period. Export of packet tea in 1991 was 79,148 kgs but fell to 11,798 kgs in 2008. However, export of tea bags increased from 419000 kgs in 1991 to 8787000 kgs in 2008. This shows significant increase in this category. Export of instant tea showed increase during the same period. In 1987, export of instant tea was 862 thousand kgs and it increased to 3047 thousand kgs in 2008.

Table 4.5.1: Production and export of packet tea and tea bags

Year	Packet tea			Tea Bags		
	Oty (th kg)	Export Qty	Value (th Rs)	Oty (th kg)	Export Qty	Value (th Rs)
1991	260000	79148	4497351	420	419	50634
1996	310000	78957	5667687	1800	1394	193369
2000	310000	70774	7194474	2350	1808	363930
2004	336000	27506	3156194	8500	7010	1388996
2008	450000	11798	1714483	14500	8787	2302280

Source: Tea Board of India

Overall, share of value added tea out of total export did not show an increasing trend. As evident from Table 4.5.2, share of value-added tea out of total export fell from 37.36 per cent in 1992-93 to 11.39 per cent 2008-09.

Table 4.5.2: Export of value-added tea from India

Year	Total tea		Value-added tea		Share of value-added tea	
	Qty (M kg)	Value (Rs cr)	Qty (M kg)	Value (Rs cr)	Qty	Value
1992-93	180.69	1058.7	67.51	438.34	37.36	41.4
1996-97	169.04	1301.46	84.6	641.33	50.05	49.28
2000-01	203.55	1889.79	74.01	841.18	36.36	44.51
2004-05	205.81	1924.71	46.78	611.85	22.73	31.79
2008-09	190.64	2381.79	21.71	505.76	11.39	21.23

Source: Tea Board of India

This trend is significant in the sense that whereas export of value-added tea has increased in the global market but for Indian tea export the figure is a continuously declining one. This implies lack of competitiveness of Indian tea exporters in value-added segment which has become the dominant segment. Out of total value-added tea segment, tea bag and instant tea components have shown increasing trend with respect to Indian tea export but packet tea has shown a huge decline such that share of value-added tea out of total export is a secularly declining one. As the global market is changing towards value-added tea segment, this declining trend of India's export of value-added tea adversely affects competitiveness in world market.

5. Export competitiveness vis-à-vis changing institutions landscape

In this section, I will try to explore the impact of changing institutional architecture on India's export performance during the last two decades. Institutional factors that I will consider are as follows:

1. Role of Commodity Board: One of the basic objectives of the establishment of commodity boards was to promote export as these were commercial crops and India was to earn foreign exchange through export of these commodities. India relied on few commodities to boost its export performance and tea was

one of them. The mandate of the Tea Board was to find ways to improve export performance of Indian tea. Tea Board was geared to market Indian tea in world market. It carried out promotional campaigns in potential markets often through bilateral arrangements. Tea Board actively helped Indian tea producers to explore export market of tea. This continued till mid of 1980s and after that priority of Tea Board of India changed from that of export promotion to that of enhancing domestic production and facilitation of small producer of tea. The role of Tea Board changed from that of export promoter to that of subsidy provider towards rejuvenation and expansion. This is an important institutional shift which has adversely affected export potential of Indian tea since single and small estates do not have marketing acumen outside India. Share of small-growers share out of total production is increasing and production from these sectors is getting entirely absorbed in domestic market. Tea Board could have played a more proactive role here.

2. Expansion of domestic market: Initially when tea was introduced in India by colonial ruler, the objective was to develop it as an export item and tea was conceptualized as a commercial product with predominant export orientation. Even after independence, things were like that till 1980s. However, since late 1980s, domestic consumption started increasing and export became stagnant in absolute terms. Increase in domestic production was channelized towards domestic market and was absorbed as internal consumption. Share of internal consumption out of total domestic production showed a uniform increasing trend during the last two decade and half. This is entirely different from the situation of Sri Lanka and Kenya who are India's strong competitor in world export market. This is precisely because size of the domestic market is relatively smaller in Sri Lanka and Kenya. India's domestic market for tea is huge and expanding

further as tea is becoming popular in hitherto non-traditional areas. Actually, India's domestic market has the capability of absorbing the entire domestic consumption and this is making domestic producers of tea complacent about export performance. Domestic market is so huge that producers can always fall back upon the internal market for absorption of entire produce.

3. Restructuring of tea business: Last two decades have witnessed two types of restructuring. First, emergence and subsequent growth of small tea planters along with proliferation of BLFs. This can be termed as dis-integration of erstwhile production structure as because estate mode of production structure shifted towards small-growers-BLF mode of production. In the former cultivation and manufacturing are conducted under single supervision within a limited geographic space. In the latter, cultivation and manufacturing are carried out separately and proximity to each other is lost. Essentially this is decentralization of production structure along with casualization of labour force. The tendency is a shift towards agricultural mode of production with informal labour. Second, there is a shift of priority from production to marketing of tea. Major producers have taken initiatives away from production and concentrated more on marketing aspect of tea. This has resulted in strengthening of global value chain of tea business where a few multinational control global sale of tea. In such a scenario country-wise export performance takes a backseat and competition among few multinational firms to control global market becomes important.
4. Changes in tea as product: Tea was predominantly a loose product even twenty years back. But after the entry of multinational marketing firms in a big way and popularity of tea bags among the consumers, tea has evolved more as a packeted branded product from that of a generic product sold loose. As discussed in

earlier section, share of branded tea out of total tea sold in the market is showing a secular increasing trend during the last two decades. The implication of such branding of the product along with informalization of production structure is that intermediaries spanning across borders gain importance at the expense of producers of tea. There is a substantial difference in prices realized at auctions and prices obtained in retail markets. Intermediaries earn huge mark-up in the process. Fall in auction prices does not reflect in similar fall in retail prices. In such circumstances, what a country exports is no longer important but what share does a big multinational has is more of a concern.

5. Trade agreements and zonal trading blocs: Last two decades has seen two contradictory developments in the world trading regimes. On one hand, formation of WTO following extensive negotiations among countries has tried to create a uniform trading environment and standard. Gradual removal of tariffs and quota and a free flow of goods and services across nations are the basic characteristics of such an environment. On the other hand, there are region specific trade agreements like ASEAN and SAFTA which extend preferential treatment to member countries. These two are in contradiction to each other since the former talks about uniform world trading regime and the latter accords prominence to regional trade. Because of SAPTA, India needs to allow import of tea from Nepal and Bangladesh even though its own production is sufficient to cater to its domestic market.
6. Imposition of standards: Standards relating to environment and labour are being imposed on goods and services and marking and labeling processes are already been in use. These put restriction on exporting countries trade volumes. In this respect, Indian tea producers face issues like use of child labour, use of fertilizer in tea cultivation etc. In some instances, these standards

are being imposed even by private organizations. One fallout of such standardization of export product is the practice of cultivation of organic tea. Producers of organic tea need to take certificate from private agencies before they export their product. This certification would declare that no residue of any kind of fertilizer is available in tea sample checked by the appointed agency. Similarly, there is a need to take authentication from specific agencies that no child labour is used in the production of tea. Certain standard requirement needs certification that all workers involved in production are provided with sanitation facilities and drinking water. There is nothing wrong with these standards as such but they are selectively used by developed nations and some term them as new instruments of imperial dominance. However, there is no doubt that impositions of standards do lessen export competitiveness by preventing entry and by raising cost of production.

6. Conclusion

Export of tea from India has become stagnant in absolute terms and declined in per cent terms with respect to domestic production. As a result, Indian share in world tea market has showed a secular decline over the years. This can be interpreted as loss in competitiveness on the part of Indian tea producers in world tea market. Certain institutional factors contributed to this fall in export competitiveness. Regional trade agreements showed preferential treatment to certain countries export whereas India lost out. India also had to allow import of tea from neighbouring countries because of regional trade agreement. India has a huge domestic market and it could absorb much of increase in domestic production. This made Indian producers of tea more inward looking. Also tea as product gained acceptability in Indian market as a popular drink over the years and producers found it worthwhile to cater to domestic consumers. Tea Board has also underwent changes in priority

from that of export promotion to facilitator of small growers and rejuvenation of existing tea bushes. These changes in the role of Tea Board have adversely affected the export competitiveness which has seen certain corrections in recent years. Also there have been significant changes in production structure along with a tendency towards a shift from production to marketing. The result was changes in global value chain of tea and subsequent dominance of world tea market by few multinational firms. The identities of such multinational firms are somewhat country-neutral since they procure tea from across the nations. This has also diluted the country-wise export competitiveness of tea. Also tea as a product has undergone transformation from that being a generic product to a branded product because of changes in global value chain scenario. Indian tea producers has lost export competitiveness in this respect also since India is predominantly a exporter of loose tea and failed to design tea as packaged product thus losing out in export option. Further, this implies that Indian tea export needs to adjust in a more appropriate manner towards changes in product profile. Share of value-added segment out of total export is on increasing spree but Indian export is moving in the opposite direction. It has become imperative to correct this trend and focus on exporting more value-added tea. Also there have been introduction of standards and certification relating to labour and environment which have adversely affected export competitiveness of Indian tea. Thus it can be concluded that export competitiveness of Indian tea has suffered setback because of host of institutional factors among others.

Acknowledgements

This Study is financially supported by the National Research Programme on Plantation Development at CDS sponsored by the Ministry of Commerce Government of India. I am indebted to Prof K.J. Joseph for his guidance and constant encouragement during the course of the Study. His comments on the preliminary draft helped me a lot to revise and improve the paper. An earlier version of this paper was presented in the NRPPD workshop held in CDS and benefited from the comments and suggestions offered by the discussants Dr Pradip Barua and Dr Indraneel Bhowmik. Discussions with the Tea Board officials were especially useful. I am also thankful to Rinju for her constant encouragement and suggestions during the conduct of the Study. Last, but not the least, I am thankful to my wife and children for their cooperation and help.

Kingshuk Sarkar is presently working as Deputy Labour Commissioner, Govt. of West Bengal and looks after labour administration and enforcement of social security schemes. He did PhD in Economics from Centre for Economic Studies and Planning, Jawaharlal Nehru University, New Delhi. His area of specialization is plantation economics and particularly tea plantation industry in India. Earlier Dr Sarkar had served at National Institute of Rural Development as Assistant Professor and was also engaged with Ministry of Rural Development, Govt. of India in connection with determination of methodology for identification of BPL population.

References

- A F Ferguson & Co. (2002a) *Study on Primary Marketing of Tea in India-Summary of Recommendations*, Tea Board of India/AF Ferguson & Co. Kolkata.
- A F Ferguson & Co. (2002b) *Study on Post-Auction Pricing Structure and Supply Chain for Tea*, Tea Board of India, Kolkata.
- Accenture (2002), *Medium Term Export Strategy for Indian Tea 2002-07*, Tea Board of India, Kolkata.
- Ali, R Choudhury, Y A and Lister D W (1998), Sri Lanka's Tea Industry: Succeeding in the Global Market: *World Bank Discussion Paper*, 368.
- Angel D P and Rock M T (2005), Global Standards and the Environment Performance of Industry, *Environment & Planning A*, 37(11), pp 1903-18.
- Bair J (2005), Global Capitalism & Commodity Chains: Looking back, going forward, *Competition and Change*, 9(2), pp 153-80.
- Chirtopherson S and Lillie N (2005), Neither Global nor Standard: Corporate Strategies in the new era of Labour Standards, *Environment & Planning A*, 37, pp 1919-38.
- Damodaran A (2002), Economics of Organic Tea Farming: A Study from Darjeeling, pp 11-20 in UPASI & Tea Board (ed) *The Quality Upgradation Seminar on Organic Tea Status, Issues & Strategies*, UPASI Tea Research Foundation, Valparai.
- Dankers C (2003), *Environmental & Social Standards, Certification and Labelling for Cash Crops*, FAO, UN, Rome.
- Fairtrade Labelling Organisation (FLO) (2007), Fairtrade Labelling International at www.fairtrade.net.
- Gibbon P (2001), Upgrading Primary Production: A Global Commodity Chain Approach, *World Development*, 29(2), pp 345-63.

- Gilbert c (2008), Value Chain Analysis and Market Power in Commodity Processing with application to the Cocoa and Coffee sectors pp 5-34 in FAO (ed) *Commodity Market Review 2007-08*, FAO, Rome.
- Gibbon P & Ponte S (2005), *Trading Down: Africa, Value Chains and the Global Economy*, Temple University Press, Philadelphia
- Griffiths P (1967), *The History of the Indian Tea Industry*, Weidenfeld and Nicolson, London
- Hayami Y & Damodaran A (2004), Towards an Alternative Agrarian Reform: Tea Plantation in South India, *Economic & Political Weekly*, 4 September pp 3992-7.
- India Business Insight (2007), Great Guzzler, Tata Tea, *Indian Business Insight*, 3rd June.
- Inter-governmental Group on Tea (IGGoPT) (2005), *Upgrading in the International Tea Sector: A Value Chain Analysis*, Paper presented to the sixteenth session, Committee on Commodity Problems, Inter-governmental Group on Tea, Bali, July, Document CCP-TE, 05/04.
- J Thomas & Co. (2004), *Tea Market Annual Report & Statistics*, J Thomas & Co., Kolkata.
- Jothikumar P D (2002), Practices and Constraints in Cultivation of Organic tea in South India, pp 1-3 in UPASI & Tea Board (ed) *Tea Quality Upgradation Seminar on Organic Tea Status, Issues & Strategies*, UPASI Tea Research Foundation, Valparai.
- Kapur V (2002), Tea Situation in South India, pp 1-9 in Tea Board and UPASI-KVK (ed), *Tea Quality Upgradation Seminar on Organic Tea Status, Issues & Strategies*, UPASI Tea Research Foundation, Valparai.
- Maizels A (1997), *Commodity Supply Management by Producing Countries: A Case-Study of the Tropical Beverage Crops*: Clarendon Press, New York.

- McCormick R (2006), A Qualitative Analysis of the WTO's Role on Trade and Environment Issues, *Global Environmental Politics*, 6(1), pp 102-24.
- Mintel (2007), *Tea and Herbal Tea*: UK, Mintel, London.
- Nadvi K (2008), Global Standards, Global Governance and the Organization of Global Value Chains, *Journal of Economic Geography*, 8, pp 323-43.
- Neilson J & Pritchard B (2006), Traceability, Supply Chains and small-holders: Case Studies from India and Indonesia, *Report to the 17th session of the committee on commodity problems, Intergovernmental Group on Tea*, FAO, Nairobi, Document CCP: TE 06/04.
- Neilson J & Pritchard B (2007), The Final Frontier? The Global roll-out of the retail Revolution in India, pp 219-42, in Burch D and Lawrence G (ed), *Supermarkets and Agri-Food Supply Chains: Transformation in the Production and Consumption of Foods*, Edward Elgar, Melbourne.
- Neilson J & Pritchard B (2008), Big is not always Better: Global Value Chain Restructuring and the Crisis in South India Tea Plantation in Le Heron & Stringer C (ed) *Agri-Food Commodity Chains and Global Networks*, Ashgate, Aldershot.
- Pritchard B (1999), Switzerland's billbong? Brand Management in the Global Food System and Nestle Australian pp 23-40 in Goss J, Burch D, and Lawrence G (ed) *Restructuring Global and Regional Agricultures: Transformations in Australian Agri-Food Economies and Spaces*, Aldershot, Avebury.
- Stiglitz J (2002), *Globalization and its Discontent*, Norton & Co., New York.
- Talbot J (2002), Tropical Commodity Chains, Forward Integration Strategies and International Inequality: Coffee, Cocoa & Tea, *Review of International Political Economy*, 9(4), pp 701-34.

- Tea Board of India (2012), *Annual Reports 2011-12*, Tea Board of India, Kolkata.
- Tea Board of India (2003), *Tea Digest*, Tea Board of India, Kolkata.
- Tea Board of India (2006), India Tea Portal, Online database (accessed on 24.02.2014).
- Tea Board of India (2006), *Tea Statistics*, Online database www.teaboard.or.ke/statistics.asp accessed on 21.02.2014).
- Tharian GK & Joseph J (2005), Value addition or Value Acquisition? Travails of the Plantation Sector in the Era of Globalization, *Economic and Political Weekly*, 25 June, pp 2681-7.
- Unilever (2007): Unilever Commits to sourcing all its tea from sustainable ethical sources, Media release 25 May 2007, www.unilever.com.
- Van Der Wal S (2008), *Sustainability issues in Tea Sector: A Comparative Analysis of Six Leading Producing Countries*, SOMO (Centre for Research on Multinational Corporation), Amsterdam.
- World Trade Organization (2007) Private voluntary standards and developing country market access: Preliminary results, Committee on Sanitary and Phytosanitary Measures, Document G/SPS/GEN/763.

