

# Indian Tea Association bats in favour of minimum floor price

Production of quality tea unsustainable at current rates, says association chief

## OUR BUREAU

Kolkata, February 2

The Indian Tea Association (ITA) has sought the introduction of a minimum floor price for made teas as well as green-leaf benchmarked to quality. The floor price would take into account the cost of production, ensuring a self-sustainable model for all producers.

Tea prices are currently governed by demand and supply in the system. When there is excess crop, prices fall. A lower production leads to a surge in prices. ITA had engaged consultancy firm Ernst & Young and law firm Khaitan and Co, about six months ago, to analyse the industry and provide a road map for a self sustainable industry. . .

According to Vivek Goenka, Chairman, ITA, the study should be concluded in the next 2-4 weeks, after which the Association plans to take up the findings and suggestions from the study to the Ministry of Commerce and State governments. It had presented the initial paper to the Union Commerce Minister recently.

“This minimum floor price should not be confused with the minimum support price (MSP). Unlike the MSP, this proposal does not require any financial outlay from the State or Central Government, and ensures a self-sustainable model for all producers both small

and large,” Goenka said at a virtual press conference, on the occasion of the 138<sup>th</sup> annual general meeting of the Association on Wednesday.

## High cost of production

Nearly 50 per cent of the tea produced is currently sold below the cost of production, which hovers around ₹220-240 a kg. The average auction price of tea moved from ₹125 a kg in 2012 to ₹140 a kg in 2019.

The Covid-induced lockdown in the peak plucking months and the resultant loss in production caused a spike in prices in 2020. That was, however,

only for a limited period. Tea prices in 2021 inched closer to the 2019 levels.

“With a CAGR of around only four per cent in the 2012-2020 period, the increase in price of tea has been outpaced by the corresponding increase in input costs ranging between 9-12 per cent and costs pertaining to wages which have more than doubled during this period. What is really shocking to note is that in real terms, tea prices have actually fallen during this time. The industry can-

not be sustainable and produce quality teas at the current price levels,” he said, explaining the rationale behind having a minimum floor price.

## Consumption & exports

According to a study by Deloitte under the aegis of Tea Board, the per capita domestic consumption of tea in India is estimated to be close to 786 grams, which is much lower than a large number of tea consuming countries.

Anecdotal evidence suggests that while there was a drop in out-of-house consumption

during the pandemic, there has been a considerable increase in in-house consumption which may have offset any overall drop.

ITA hopes that once some form of normalcy resumes, normal levels of consumption would ensue.

## Concerns over surplus

The annual production of tea in India is around 1,350-1,400 million kg (mkg). Of this, domestic consumption is estimated to be around 1,050 mkg and exports 200-225 mkg. This results in a yearly surplus of around 75 mkg which is coming in to the system. Unless this surplus can be addressed, the surplus stock will

continue to pile up and ultimately lead to an oversupply situation thereby resulting in lower price.

So there is a need to increase export volumes to close to 300-350 mkg over the next three to four years to maintain the demand-supply equilibrium, he said.

There are several ways to achieve enhancement of exports. Firstly, there are markets, such as Iran, Russia and China where India already has a strong presence. However, there is a scope for further inroads and increasing its market share in these markets.

Secondly, there are several unexplored markets including markets where once India had a strong foothold but it lost to its competitors including Iraq and Egypt. These markets offer tremendous potential to build export volumes.

“We may target two to three such markets every year and work on them on a sustained basis. The need of the hour is for industry and government to work together in market identification, undertaking trade delegations buyer-seller meets, and most importantly a sustained promotional campaign in such selected markets to boost exports and to boost the brand of Indian tea,” he said.

ITA has given a detailed strategy paper to the Tea Board of India towards enhancement of exports and would look forward to working with them in the days to come.

