

## Chapter 6 Development of Tea: Cost Reduction

**Objective 4: Whether developmental activities undertaken by Tea Board had an impact on cost reduction of tea in India.**

### Comparative cost of production against realisation

6.1 India has the highest cost of production amongst major tea producing countries in the world. The cost of sales is also above the auction realisation. A comparison of cost of production against price realisation in tea producing countries is given below:

Name of the country		Cost of production (US \$/kg)	Auction realisation (US \$/kg)	Average margins
India	North India	1.62	1.50	(-) 8%
	South India	1.48	0.95	(-) 56%
Kenya		0.97	2.02	52%
Malawi		0.80	1.02	22%
Sri Lanka		1.52	1.92	21%

Source: Accenture Report 2002 (data in respect of China and Indonesia not available in the report) and information furnished by Tea Board

After 2002, Tea Board did not conduct any study comparing the cost of production in various countries like China, Kenya, Sri Lanka, Indonesia, Japan and Mauritius, which could facilitate analysis of various components and take up measures to reduce the cost of production.

### Failure to take action for reduction in cost of production of tea

6.2 The Medium Term Export Strategy recommended (January 2002) specific steps to be undertaken by the Tea Board to bring about reduction of cost of production through reduction in cost of labour, overheads, field inputs and infrastructure (refer *Annexure II*). We observed that Tea Board did not take action as above. Tea Board in its reply stated in September 2008 that since India has the highest cost of production amongst tea-producing countries, it was important to bring down the cost. The component of the labour-related cost formed about 50 per cent of total cost of production of tea. As these costs are mandated statutorily under the Plantation Labour Act, improvement in the productivity of labour was most essential area to be addressed for overall reduction in cost of production of tea.

### Comparative cost of manufacturing CTC tea in various states of India

6.3 Tea Board engaged a consultancy agency to study the cost of production of CTC tea by estate factory state-wise within India for the year 2004-05, 2005-06 and 2006-07. The cost of manufacturing of made tea (CTC) by various states of India is given below:

Table 11 – Details of components of cost of production (₹ per kg.)

Particular	Sikkim	Karnataka	Assam	Tripura	Himachal Pradesh	Kerala	Tamil Nadu	West Bengal	India
Cost of green leaf	182.50	31.15	42.08	26.64	42.98	41.44	41.23	46.71	42.13
Wages and salaries	79.51	8.26	5.78	7.78	11.64	4.65	2.40	4.22	5.23
Cost including power, fuel, depreciation, packaging etc	65.89	13.25	15.62	12.61	13.00	11.90	11.73	18.30	15.23
Cess	0.37	0.26	0.61	0.13	0.23	0.30	0.23	0.27	0.45
<b>Production cost</b>	<b>328.27</b>	<b>52.92</b>	<b>64.09</b>	<b>47.16</b>	<b>67.85</b>	<b>58.29</b>	<b>55.59</b>	<b>69.50</b>	<b>63.04</b>
Administrative overheads	22.52	0.34	3.06	1.52	0.00	1.83	1.31	8.52	3.63
Cost of selling including transport outward, warehousing, sampling cost etc.	3.12	1.20	3.74	4.44	10.55	0.72	5.18	3.09	3.45
Interest on working capital	0.00	0.69	2.97	0.00	0.35	0.00	0.00	3.11	2.23
<b>Total cost of sales</b>	<b>353.91</b>	<b>55.15</b>	<b>73.86</b>	<b>53.12</b>	<b>78.75</b>	<b>60.84</b>	<b>62.08</b>	<b>84.22</b>	<b>72.35</b>
<b>Average realization</b>	<b>239.18</b>	<b>54.78</b>	<b>65.78</b>	<b>54.21</b>	<b>87.04</b>	<b>54.77</b>	<b>62.41</b>	<b>83.78</b>	<b>67.41</b>

Source: Tea Board

It can be seen from the above table that the largest component of the production cost was cost of green leaf, almost 58.23 per cent to the total cost of production in India. Tea Board did not identify components of cost through cost studies, where the scope of cost reduction existed. In this regard, we observed that no major initiatives were taken by Tea Board in relation to improving the productivity of labour as well as other components of cost where the scope of cost reduction existed. We examined the role of Tea Board in reducing the labour cost by undertaking training and welfare activities aimed at improving productivity through Human Resource Development Scheme.

Our audit findings in respect of the Human Resources Development Scheme are discussed below:

#### Human Resource Development Scheme

**6.4** The objective of the scheme was to bring about overall improvement of skills of people associated with tea plantations at all levels i.e., from workers to managers. Activities to be undertaken under this scheme were as under.

**Terms and conditions of the Human Resource Development Scheme**

- Training was to be provided in plantation management, labour productivity, skills improvement at all levels from workers to managers.
- Tea Board was to subsidise welfare activities such as provision of drinking water, conservancy, canteens, crèches and medical, educational and housing facilities.

**Deficiencies in training activities under HRD scheme**

**6.4.1** The Tenth Five Year Plan outlay of the scheme was ₹6.01 crore consisting of ₹2.29 crore for training activities and ₹3.72 crore for welfare measures. The Eleventh Five Year Plan outlay of the scheme was ₹50 crore of which ₹12.50 crore was for training and ₹37.50 crore was for welfare activities. In this regard, we observed that:

**(a)** The actual disbursement for training activities was insignificant (16 *per cent*) given the large number of labour force employed in the tea industry. Further, against the total Plan allocation of ₹2.29 crore for training, the Board disbursed only ₹0.91 crore under the scheme towards training activities for all levels from workers to managers. Thus, there was a shortfall of 60 *per cent* in spending under training during Tenth Plan against the targets fixed despite the fact that the training programme of plantation labour was the main focus of the scheme as well as the prime need of the tea industry.



*A worker plucking handful of tea leaves instead of tea banjies (2 leaves and a bud)*

**(b)** The Board fixed only financial targets and not physical targets.

**(c)** None of the trainings were conducted through the approved institutions during 2004-05 and 2005-06 except one.

**Deficiencies  
in grant of  
subsidy for  
welfare  
activities**

**6.4.2** We also examined 368 cases (100 *per cent*) under welfare activities where subsidy of ₹6.32 crore was disbursed during 2007-09 and observed that:

(a) No amount was disbursed for facilities like housing, drinking water, conservancy, sanitation, canteens and crèches in the above two years.

(b) The expenditure on medical facilities was 4.57 *per cent*. One of the conditions for sanctioning capital grant to Hospitals/Medical institutions was that the institute should be preferably located in a tea growing area and cater sufficiently to the needs of the tea garden workers and their dependants. Though Board incurred an expenditure of ₹28.87 lakh during the 2007-09, it did not undertake any evaluation to assess whether the medical needs of the tea garden workers and their dependants were met sufficiently.

(c) In October 2007, the Board proposed to the Ministry for payment of some incentive to the plantation workers in the closed tea gardens before the festive season. Ministry approved the proposal for payment of lump sum payment of ₹1000 per ward of the plantation workers of the tea gardens which remained closed as of then. Tea Board disbursed ₹3.35 crore to 33,708 plantation workers of 33 closed Tea Gardens during 2007-08. However, such payments do not have any long-term effect on reducing the labour cost. Further, acquittance in support of money actually received by the beneficiaries was also not found on record.

The Ministry did not offer any specific comments on the above observations. It, however, stated in October 2009 that keeping in view the importance of human resources, their knowledge level besides their physical well being, the outlay has been increased to ₹50 crore in the Eleventh Five Year Plan (Training – ₹12.50 crore and Welfare activities – ₹37.50 crore). The reply of the Ministry may be viewed in light of the fact that as against allotment of ₹3.75 crore during 2007-09, the Board could utilise only ₹1.43 crore thereby registering shortfall of 62 *per cent*.

**Our  
Recommend-  
ations and  
response of  
Tea Board**

**6.5** *We recommended in November 2009 that Tea Board must fix annual physical targets for training and welfare activities and available funds for training activities must be fully utilised without being diverted to other activities. Tea Board accepted these recommendations in December 2009 for implementation by March 2011.*

**Conclusion**

**6.6** Tea Board did not prescribe regular cost studies despite India having highest cost of production amongst major tea-producing countries in the World and cost of sales often being above the auction realisation. Tea Board did not formulate and undertake schemes specifically for states where average realisation was less than the total cost of sales. Tea Board also did not identify other components of cost through cost studies, where the scope of cost reduction existed. As regards reduction in manpower cost, the funds allocated for training activities were insignificant and Tea Board even failed to utilise the same effectively. No physical

targets were fixed for training. Tea Board also did not spend on the facilities like housing, drinking water, conservancy, sanitation, canteens and crèches during the two years reviewed.

**We further recommend that Tea Board needs to adopt an appropriate system of cost studies for identifying areas for cost reduction and effectively address those areas to ensure the long term sustainability. We are of the view that improving the productivity of manpower and appropriate technology intervention are essential for cost reduction.**