

## Assam tea Industry under pressure due to rising costs, price stagnation

By Sutanuka Ghosal, ET Bureau | Sep 07, 2016



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KOLKATA: The [Assam](#) tea Industry for the last few years is under pressure due to the rising costs of production and stagnant prices. The spiralling cost of production (CoP) due to rising input costs and employment costs continues to pose a challenge for the organised sector.

An [analysis](#) of the last 10 years reveals that tea prices has not been able to keep pace with the inflationary trends which have put considerable pressure on margins. Input costs during this period have increased at a Compounded Annual Growth Rate (CAGR) of more than 10 per cent per annum while tea prices have grown at a CAGR of only 6 per cent to 7 per cent, according to a release issued by [Assam Branch of Indian Tea Association](#) on Wednesday.

As 70 per cent of the input costs comprising of wage (60 per cent), fuel, fertilizer etc are fixed in nature and the selling prices of tea are benchmarked with auction prices, the producer is unable to pass on the increase in the cost of production to the consumer.

Sale Figures of new season Assam teas sold between Sale 14 to 31 have shown a decline with Assam CTC and Dust Teas fetching an average price of Rs 156.12 as against Rs 163.59 in the corresponding period of 2015.

	Assam	Assam	Difference 16/15
	(Rs) 2016	(Rs) 2015	(Rs)
<b>CTC/Dust</b>	156.12	163.59	(-) 7.47
<b>Orthodox</b>	227.40	217.08	(+) 10.32
<b>Average</b>	164.11	169.78	(-) 5.67

While CTC-Dust combined prices for teas from Assam valley are on an average Rs 5.67

lower than last year, a disturbing trend is the shift in buying patterns from the higher selling range to the lower selling range of teas. The following table shows that between 2014 to 2016, there has been a 15 per cent drop in buying in the Rs 180-200 range while, at the same time, there has been a corresponding increase of 13 per cent in the lowest category of Rs 100-Rs 129.

Rs per Kg	Auction Sale 1 – 33 ( % Share)			Diff 2016~2014
	2016	2015	2014	
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% of tea selling between Rs. 180 – 200+	31%	37%	46%	-15%
% of tea selling between Rs. 130 – 179	42%	33%	39%	+2%
% of tea selling between Rs. 100 – 129	27%	29%	14%	+13%

It would appear that despite all efforts of the [Tea Board](#) at introducing Pan- [India](#) Auctions, the platform has been unable to generate competition for a fair price discovery. Many producers are compelled to sell teas well below the cost of production which will have serious consequences in the future on the sustainability of the industry, the release added.

The efforts being made by the producer to explore alternative private channels of sale for better price discovery are also inhibited by the Tea Board mandating that 50 per cent of the teas manufactured must be routed through the auction route. Selling teas through auction system entails a higher transaction cost on account of sampling and warehousing. Further there is no guarantee that the teas would be sold above the Cost of Production. The percentage of outlots in recent times are also reportedly to be higher. ITA has therefore petitioned the Tea Board to withdraw the order.

For long term sustainability, producers have to invest in developmental activities in the field such as uprooting, replanting, rejuvenation and in factory modernization programmes. Schemes like Quality Upgradation and [Product](#) Diversification (QUPD) covering quality up gradation with an outlay of Rs 150 crores for factory modernization, could not be availed by large majority, due to mandatory 20 per cent export obligation eligibility criteria for producers which is not in sync with the stated objective of the Scheme to enhance Quality of made tea through modernization of tea factories and create infrastructure for value addition. Submissions from Industry for review of some flagship schemes continue to remain pending.