

PREFACE

*This Report of the Comptroller and Auditor General of India for the year ended March 2009 containing the results of the Performance Audit of the '**Role of Tea Board in Tea Development in India**', a unit under Ministry of Commerce and Industry (Department of Commerce) has been prepared for submission to the President of India under Article 151 of the Constitution.*

The Performance Audit was conducted between June 2008 to December 2008 and January 2010 to March 2010 through test check of records relating to tea development, tea marketing and promotion, tea research, regulatory activities of Tea Board and other functions of Tea Board.

The results of our audit, recommendations and response of the management to our recommendations are contained in this Report.

Executive Summary

Why did we decide to examine this issue?

Tea Board of India was established in 1954 under section 4 of the Tea Act, 1953 as a statutory body under the Ministry of Commerce and Industry (MOC&I). The functions of Tea Board can be grouped into regulatory, developmental, research, marketing and promotional activities. We conducted a Performance Audit of Tea Board in view of the following:

- **Declining productivity of tea in India,**
- **Comparative decline in the prices of Indian tea,**
- **Increased cost of production for Indian tea, and**
- **Decline in India's production and export share.**

What were our audit objectives?

In order to assess the performance of Tea Board, we framed the following audit objectives:

1. Whether Tea Board performed its **regulatory role** effectively;
2. Whether **developmental activities** undertaken by Tea Board had an impact on **enhancing productivity of tea** in India;
3. Whether **developmental activities** undertaken by Tea Board had an impact on **improving quality of tea** in India;
4. Whether **developmental activities** undertaken by Tea Board had an impact on **reducing cost of production** of tea in India;
5. Whether **research activities** undertaken by Tea Board or financed by Tea Board were effective in delivering results for effective tea development;
6. Whether adequate and effective steps were undertaken for **marketing and promotion** of Indian Tea to improve its position in world as well as domestic market; and
7. Whether an **effective financial management** and **internal control mechanism** existed in Tea Board.

What did our Performance Audit reveal?

Regulatory role The Tea Board has failed to discharge even its basic regulatory role effectively. More than 80 *per cent* of small growers in India continued to remain outside the ambit of regulations by the Tea Board. The system of inspection for regulating the activities of various stakeholders was weak and non-transparent. The Board was not able to ensure submission of business information by stakeholders so as to exercise effective control on their activities.

(Chapter 3)

Enhancing productivity The increasing trend of commercially unproductive bushes which constituted 57 per cent of total bushes at the end of 2008 is a serious threat to the tea industry and unless appropriate and timely interventions are made for

	<p>arresting this trend, there could be serious implications on productivity of tea. Efforts by Tea Board to increase productivity by replantation of commercially unproductive bushes were grossly inadequate and ineffective both in terms of area covered as well financial support provided. The targets for replanting/replacement planting were set very low. The backlog for replanting up to 2008 would take 149 years to clear at the present pace of implementation.</p> <p style="text-align: right;">(Chapter 4)</p>
<p>Improving Quality</p>	<p>Indian tea realised prices lower than the tea of other countries. This was due to its inferior quality and adverse product mix. The production of orthodox tea fell substantially below the targets set despite a subsidy scheme being in place for more than five years.</p> <p style="text-align: right;">(Chapter 5)</p>
<p>Reducing Cost</p>	<p>India has the highest cost of production among major tea-producing countries of the world. Tea Board failed to identify areas of cost reduction to ensure long-term sustainability for the tea industry. It undertook no major initiatives to improve labour productivity by way of training or incentivisation.</p> <p style="text-align: right;">(Chapter 6)</p>
<p>Research</p>	<p>Research activities were not fruitful as neither any deliverables were transferred for the use of the tea industry nor were any patents filed. The Tea Board failed to adequately support research activities by not providing sufficient funds, or adequate number of staff, nor in ensuring completion of research projects. No controls were put in place to evaluate and monitor research activities undertaken by external entities supported by Tea Board.</p> <p style="text-align: right;">(Chapter 7)</p>
<p>Marketing and Promotion</p>	<p>The Export Incentive Scheme for assistance to tea exporters was implemented in an ineffective manner. No benchmarks in terms of quantity of export were defined for exporters to make them eligible for grant of subsidy, nor for assessing the outcome of promotional activities related to the export of tea. As such, Tea Board is not in a position to co-relate the impact of the grant of subsidy to exporters on the quantum of increase in exports.</p> <p style="text-align: right;">(Chapter 8)</p>
<p>Financial management and internal control</p>	<p>Financial management and internal controls in Tea Board were weak. Cess levied by the government was not transferred to the Tea Fund since 2005-06 and rates of cess were revised at varying intervals ranging from nearly three years to more than 14 years. Internal audit was also not commensurate with the extent of activities undertaken by the Board.</p> <p style="text-align: right;">(Chapter 9)</p>

What do we recommend?

- Tea Board may evolve a mechanism to ensure registration of all small tea-growers and ensure that all the stakeholders in tea business furnish requisite and complete information on time which can be used by Tea Board for better regulation under the provisions of Tea Act. Tea Board may plan and conduct regular inspections for exercising effective control and ensuring fair practices in tea.
- The Government needs to take a holistic view of critical situation of declining productivity of tea in India and take major structural and strategic decisions like redesigning of programmes, schemes, delivery mechanisms and much higher financial outlays.
- Tea Board needs to strengthen the monitoring mechanism for implementation of the quality upgradation scheme to ensure the augmentation of processing capabilities of orthodox tea. A mechanism may be devised to analyse the reasons for decline in quality even after payment of subsidy for remedial measures.
- 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.
- Tea Board may provide adequate scientific manpower and other resources for tea research, while ensuring effectiveness in terms of papers published along with Impact Factor of the papers and technology developed/ transferred/ commercialised and patented. Tea Board may evolve an effective mechanism to ensure accountability of the money spent by external research entities.
- Tea Board may fix quantifiable benchmark for increase in exports for exporters to become eligible for any incentive/support and assess the impact/outcome of the support activities. The Board may evaluate the impact and effectiveness of all its marketing and promotion activities on tea promotion in international and domestic markets by fixing appropriate criteria/ benchmarks.
- Tea Board may strengthen internal audit to make it commensurate with the level of activities of the organisation. The Government needs to consider periodical revision of the rates of cess.

What was the response of Ministry of Commerce and Industry and Tea Board to our recommendations?

Ministry of Commerce and Industry and Tea Board accepted most of the recommendations suggested by us. Recognising the criticality of the issues reported in the Performance Audit, Tea Board has submitted details of action already taken and action proposed to be taken on our recommendations. **We are of the view that the response of Tea Board and the action proposed to our recommendations may not be sufficient enough to increase the impact of Tea Board in the areas of regulation, development, research, marketing and promotion unless the Government considers redesigning its programmes, schemes, delivery mechanisms and allocates higher financial outlays to effectively address the problems that plague the tea industry in India.**

Ministry finally intimated us that the suggestions made by us would be taken up in earnest spirit and modifications would be brought in while finalising the Twelfth Five Year Plan subject to the financial outlay.

Chapter 1 Introduction

About Tea

1.1 The botanical name for tea is *Camellia Sinensis*, a shrub with leathery green and shiny serrated leaves. It is a hardy plant that grows from mean sea level to 6000 feet and above - from temperate to tropical climates, wherever the soil is slightly acidic with well distributed rainfall and



Camellia Sinensis

good drainage. If left to grow naturally, it can grow up to 15 meters or more, but for ease of harvest, it is pruned at 18 to 28 inches every few years, which assures an explosion of young flushes of two leaves and a bud.

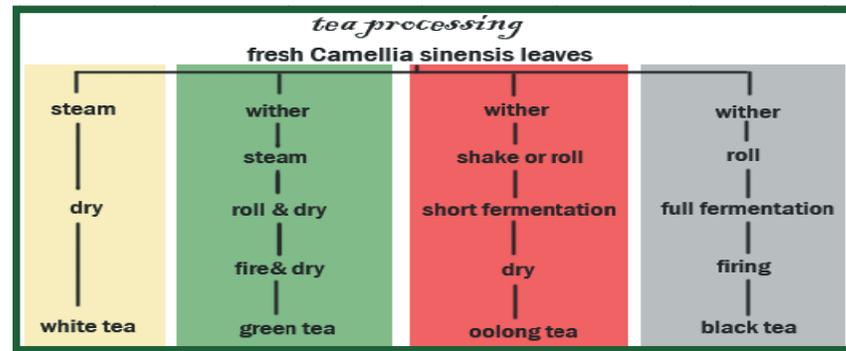
1.2 Harvesting is largely done by hand, which requires both skill and dexterity and care is taken to pluck only the fully developed two leaves and a bud and not the stalk. Majority of tea leaf pluckers are women. An experienced plucker can gather up to 45 to 90 kgs of leaves in one day. Although the newly planted tea plant becomes ready for its first harvest in its second year, the regular commercial yield can be obtained only after the formative prune, which is done after 4 to 5 years from planting.

1.3 Tea can be classified based on the type of manufacture and most commonly, it is differentiated as green¹, oolong², black and white³. The processing of tea of various types can be seen in the figure below:

¹ Green tea is not fermented. The leaves are either lightly pan-fried and tossed in a wok-like metal pan for half an hour or more, or steamed after plucking to prevent oxidation.

² Oolong tea is semi-fermented. The leaves are withered, pan fried and then rolled and twisted, which gives more flavor than flat leaves.

³ White tea is produced from mature buds of a rare tea bush found only in Fujian, China. It is neither oxidised nor rolled.



Black Tea is the most popular and accounts for 83 *per cent* of world tea trade. Green Tea holds the balance 17 *per cent* share. Black Tea is of two types⁴ viz. Orthodox Tea and CTC (cut, tear and crush) Tea. The share of Orthodox Tea in the world market is 44 *per cent*, whereas for CTC, it is 39 *per cent*.



Black Tea- CTC and Orthodox and Green Tea

1.4 Other forms of tea traded include Value Added Tea and Convenience Tea such as Instant Tea, Tea Bags, Specialty Tea like Yellow tea⁵, Compressed tea⁶, Puer tea⁷, Organic Tea, Decaffeinated tea, Flavoured Tea, Spiced Tea, Iced Tea etc.

World Tea Market

1.5 India, China, Kenya, Sri Lanka and Indonesia are the largest tea producing countries in the world. Details of the area covered, production and estimated⁸ export share in the year 2010 is detailed below:

⁴ Black tea is of two types - CTC and Orthodox. Though the raw material (i.e. green leaf), and the basic stages of processing (i.e. withering, rolling, fermentation, drying and sorting) are same for both, the difference lies in the methods of rolling. In the case of orthodox, Tea the leaf is rolled simulating a process as if it is rolled between two palms with gentle pressure. In case of CTC, the leaf is passed through a set of three pairs of rollers with sharp edges and rotating at high speed. Thus, the particle size of CTC tea is smaller and the same is larger in case of orthodox tea since the entire leaf is twisted and mostly remains intact.

⁵ A special tea processed similarly to green tea, but with a slower drying phase, where the damp tea leaves are allowed to sit and yellow.

⁶ Blocks of whole or finely ground tea leaves packed in molds and pressed into block form.

⁷ Large leafed tea from the Yunnan province in China.

⁸ Figure for 2011 not available in Tea Board.

Table 1–Data about major tea producing countries in the world

Country	Area covered (lakh hectares)	Production (million kgs)	Export share (per cent)
China	18.49	1370.00	17.45
India	5.79	966.40	11.15
Indonesia	1.27	129.20	5.03
Kenya	1.58	399.01	25.44
Sri Lanka	1.88	329.38	17.23

Source: Information received from Tea Board

About the Indian Tea Industry

1.6 Other than Central and State Governments which formulate legislations on tea, the major players in the Tea Industry are Tea Planters' Associations⁹, Tea Auctioneers Association¹⁰, Tea Traders Association¹¹, Tea growers¹², manufacturers¹³, exporters and distributors¹⁴, buyers¹⁵, brokers¹⁶, owners of bought leaf factories¹⁷, owners of co-operative factories¹⁸, owners of corporate processing sector¹⁹, Tea Research Association (TRA)²⁰, United Planters' Association of Southern India²¹(UPASI) and Tea Board of India. The map given below depicts the tea growing areas in various states in India viz., Assam, Arunachal Pradesh, Tripura, Mizoram, Nagaland, Manipur, Meghalaya, West Bengal, Uttarakhand, Himachal Pradesh, Karnataka, Kerala, Tamil Nadu and Orissa covering an estimated area of 5.79 lakh hectares as of January 2009.

⁹ Tea Planter's Associations formulate policies and initiate action towards the development and growth of the Industry, facilitate liaison with the Tea Board, Government and other related bodies.

¹⁰ Tea Auctioneers' Associations have been set up with an objective of promoting and safeguarding the interests of tea auctioneers.

¹¹ Tea Traders Associations have been constituted with a view to bring buyers, sellers and brokers of tea to a common forum and to provide an institutional framework for the conduct of the public tea auctions.

¹² Tea grower means any person, firm, company or body corporate or cooperative society engaged in cultivation of tea plants.

¹³ Manufacturer means any person, firm, company, corporate body, co-operative society etc., who manufactures tea made from the leaves of *Camellia Sinensis*, (including green and instant tea), which includes Estate Factories, Bought Leaf Factories and Co-operative Factories or who produces value added products commercially such as packet tea, tea bags, flavoured tea and quick brewing black tea.

¹⁴ Exporter/ Distributor means a person, firm, company, corporate body, co-operative society engaged in the business of export of tea (including export of imported tea outside India) / distribution of imported tea.

¹⁵ Buyer means any person, firm, company, corporate body, cooperative society etc., including a consignee or commission agent, who receives tea by way of stock transfer from the manufacturer, with a place of business in tea in India, engaged in purchasing or procuring tea either from public tea auctions or directly from manufacturers of tea.

¹⁶ Broker means any person, firm, company, corporate body, cooperative society etc., engaged in the business of brokering in tea through the licensed auction systems.

¹⁷ Bought leaf tea factory means a tea factory which sources not less than two-third of its tea leaf requirement from other tea growers during any calendar year for the purpose of manufacture of tea.

¹⁸ Government owned factories buying leaf from small growers.

¹⁹ Organised sector with estates and associated processing units. Sometimes, they may also buy leaf from small growers.

²⁰ The Tea Research Association (TRA) is a registered co-operative society dedicated to scientific research and extension for improvement in productivity and quality of tea in the North East (NE) India.

²¹ UPASI is an apex body of planters of tea, coffee, rubber, pepper and cardamom in the Southern States of India viz., Tamil Nadu, Kerala and Karnataka and engaged in activities such as, research, welfare schemes for workers, sports etc.



Map showing tea growing area in India

**Tea Board –
Functions and
Organisational
Structure**

1.7 Tea Board of India was established in 1954 under section 4 of the Tea Act, 1953 as a statutory body under the Ministry of Commerce and Industry (MOC&I). The Board is responsible for the following important functions as per Para 10 of the Chapter II of the Tea Act, 1953:

Functions of Tea Board

- Regulating the production and extent of cultivation of tea;
- Improving the quality of tea;
- Promoting co-operative efforts among growers and manufacturers of tea;
- Undertaking, assisting or encouraging scientific, technological and economic research and maintaining or assisting in the maintenance of demonstration farms and manufacturing stations;
- Assisting in the control of insects and other pests and diseases affecting tea;
- Regulating the sale and export of tea;
- Training in tea testing and fixing grade standards of tea;
- Increasing the consumption of tea in India and elsewhere and carrying on

promotional activities for that purpose;

- Registering and licensing of manufacturers, brokers, tea waste dealers and persons engaged in the business of blending tea;
- Improving the marketing of tea in India and elsewhere;
- Subscribing to the Share Capital of or entering into any arrangement or other arrangement with any other body Corporate for the purpose of promoting the development of Tea industry or for promotion and marketing of tea in India or elsewhere;
- Collecting tea statistics from growers, manufactures, dealers and such other persons as may be prescribed on any matter relating to tea industry; the publication of statistics so collected or portions thereof or extracts therefrom; and
- Securing better working conditions and provision/improvement of amenities and incentives for workers.

1.8 Tea Board is headed by Chairperson who is assisted by Deputy Chairperson, Secretary, Financial Advisor & Chief Accounts Officer, Director (Development), Director (Promotion & Marketing), Joint Director (Licensing) at their Headquarters at Kolkata. Besides, the Board has its two Zonal Offices at Guwahati and Coonoor headed by Executive Directors and 12 regional/sub-regional offices²². The Board also has three overseas offices at London, Dubai and Moscow. The Organisational Structure of Tea Board is as follows:



Organisational Structure of Tea Board

²² New Delhi, Siliguri, Mumbai, Cochin, Chennai, Silchar, Kottayam, Agartala, Jorhat, Tezpur, Kurseong and Palampur

Activities of Tea Board

1.9 The Board functions as a statutory body of the Central Government under MoC&I and has 31 members (including Chairperson) drawn from Members of Parliament, tea producers, tea traders, tea brokers, consumers and representatives of Governments from the principal tea producing states and trade unions. The Board is reconstituted every three years and guided by four standing committees dealing with administrative matters, export promotion of tea, developmental activities and labour welfare activities.

1.10 The activities of Tea Board can be grouped into the following areas:

a) Regulatory Activities, which include according permission for growing tea to big and small growers and registration & licensing of various stakeholders in Tea Industry as per Tea Act, 1953. The functions of Tea Board in respect to regulating the production and extent of cultivation of tea, regulating the sale and export of tea, registering and licensing of manufacturers, brokers, tea waste dealers and persons engaged in the business of blending tea and collecting tea statistics from grower, manufactures, dealers and such other persons and publication of statistic so collected fall under the Regulatory Activities.

b) Developmental Activities, which include various loan and subsidy schemes undertaken by Tea Board for providing impetus to various developmental activities such as enhancement of productivity, improvement of tea quality and reducing the cost of tea production. Functions of Tea Board including improving the quality of tea, promoting co-operative efforts among growers and manufacturers of tea and securing better working conditions and provision/improvement of amenities and incentives for workers are part of Developmental Activities.

c) Research Activities, which include various research activities conducted by Tea Board's own Tea Research Centre for Darjeeling tea at Kurseong and industry-backed Tea Research Centers which are financed by Tea Board. Undertaking, assisting or encouraging scientific, technological and economic research and maintaining or assisting in the maintenance of demonstration farms and manufacturing stations and assisting in the control of insects and other pests and diseases affecting tea form part of Research Activities.

d) Marketing and Promotional Activities, which include various schemes and other activities undertaken by Tea Board for overseas and domestic promotion. Increasing the consumption in India and elsewhere of tea and carrying on propaganda for that purpose, improving the marketing of tea in India and elsewhere, subscribing to the Share Capital of or entering into any arrangement or other arrangement with any other body Corporate for the purpose of promoting the development of Tea industry or for promotion and marketing of tea in India or elsewhere form part of Marketing and Promotional Activities of Tea Board.

Chapter 2 Scope of Audit

Our Scope **2.1** The scope of our audit was to examine whether the activities undertaken by Tea Board during 2002-03 to 2008-09, which were directed towards increasing tea production and productivity, catalysing co-operative efforts, backing up of research and development, labour welfare, market development and export promotion and regulatory functions, were adequate and effective. We studied and reviewed the regulatory, developmental, research, marketing and promotion activities undertaken by Tea Board and financial management aspects during course of the Performance Audit.

Why we took up this audit **2.2** We took up this study in view of the following:

Declining productivity of tea - The productivity of tea in India has declined over the years from 1865 kg/hectare in 1997 to 1693 kg/hectare in 2008. A tea bush is commercially productive for 40 years. Almost 42 *per cent*²³ of tea bushes in India aged more than 40 years, which has a direct impact on the productivity of tea bushes. Supporting activities of replanting/replacement planting and other related activities for enhancement of productivity is, thus, a major thrust area for Tea Board.

Decline in the prices of tea - Over the last decade there has been a steady decline in the prices fetched by the Indian tea as compared to countries like Sri Lanka and Mauritius. Tea Board has been supporting activities for quality improvement by providing subsidy to tea factories for augmentation and upgradation of machineries etc. To cater to the needs of world market, where there is a high demand for orthodox tea (44 *per cent* of the total tea market), Tea Board has been providing subsidy to tea manufacturers for diversifying production and growing more orthodox tea.

Increase in the cost of production - India has the highest cost of production amongst tea-producing countries in the world and India is the only tea producing country where cost of sales is above the auction realisation. The cost of labour within India varies from 32 *per cent* to 50 *per cent* in North India and 43 *per cent* in South India. Tea Board provides financial help by funding welfare activities in tea estates and gardens and providing professional training to persons related to tea industry, with a view to facilitate cost reduction and improve efficiency.

International Market scenario - India's production share has declined from 41 *per cent* in 1950 to 26 *per cent* in 2008. India's export share has declined from 48 *per cent* in 1950 to 12 *per cent* in 2008. Import of tea has gone up from 1.37 million kg in 1992-93 to 25 million kg in 2009.

Thus, ageing of tea bushes is leading to decline in quality and productivity which has further resulted in the cost of production of Indian tea becoming the highest among major tea producing countries in the world. Effective and

²³As of 31st December 1997.

	<p>efficient implementation of the activities aimed towards enhancing the productivity, improving the quality, reducing the cost of production and increasing the export share in the world market and achievement of scheme objectives have a direct bearing on addressing these issues. The effectiveness and efficiency with which Tea Board performs its role as a Regulator also has a direct bearing on the health and prosperity of the tea industry.</p>
<p>Objectives of the Performance Audit</p>	<p>2.3 The detailed objectives for our examination were:</p> <ol style="list-style-type: none"> 1. Whether Tea Board performed its regulatory role effectively; 2. Whether developmental activities undertaken by Tea Board had an impact on enhancing productivity of tea in India; 3. Whether developmental activities undertaken by Tea Board had an impact on improving quality of tea in India; 4. Whether developmental activities undertaken by Tea Board had an impact on reducing cost of production of tea in India; 5. Whether research activities undertaken by Tea Board or financed by Tea Board were effective in delivering results for effective tea development; 6. Whether adequate and effective steps were undertaken for marketing and promotion of Indian Tea to improve its position in world as well as domestic market; and 7. Whether an effective financial management and internal control mechanism existed in Tea Board.
<p>Audit Criteria</p>	<p>2.4 Audit criteria were mainly derived from the instructions, procedures, rules and practices put in place by the Tea Board. Apart from these, decisions and recommendations of various committees were used to arrive at appropriate criteria for various issues. The following are some of the sources of criteria used to assess the performance of Tea Board:</p> <ul style="list-style-type: none"> • Tea Act, 1953 and Rules made there under, other relevant acts and orders. • Rules and instructions issued by MOC&I, Government of India from time to time. • Recommendations of different independent agencies appointed and approved by Tea Board. • Documents and records pertaining to schemes, projects and other activities. • Tea Statistics and Tea Digest published by Tea Board and Statistics of Indian Tea Association, UPASI and TRA. • International best practices and trends.
<p>Audit Methodology</p>	<p>2.5 We discussed our audit objectives with the auditee in an Entry Conference with Tea Board in Kolkata on 2nd July 2008. Tea Board agreed with the objectives and methodology adopted in this Performance Audit. We conducted scrutiny of records relating to tea development, tea marketing and promotion, tea research, regulatory activities of Tea Board and other</p>

functions of Tea Board during June to December 2008. Our audit teams visited Tea Board Head Quarters at Kolkata, two Zonal offices at Guwahati and Coonoor, Tea Centre at Mumbai and Darjeeling Tea Research and Development Centre in Kurseong for study of records and collection of information. Preliminary audit findings were communicated to appropriate authorities for confirmation of facts. The replies of Tea Board/Ministry of Commerce have been considered while arriving at audit conclusions. The Exit Conference was held on 30 October 2009. Our audit team again visited Tea Board, Head Office at Kolkata between January and March 2010 to supplement the information collected earlier. Tea Board has accepted our audit recommendations and has proposed an action plan with timelines for implementation of these recommendations.

We issued the final report after considering the replies of the Ministry of Commerce on 24 December 2010 and held another exit meeting with the Ministry on 03 March 2011. The Ministry furnished final responses to the conclusions in Chapter 10 of this report which have been considered by us and included in that chapter.

Audit Sample

2.6 In **Regulatory Activities**, we reviewed functions of Tea Board as laid down in the Tea Act, 1953 and other orders such as Tea (Marketing) Control Order, Tea (Distribution and Export) Control Order and Tea Waste Control Order. We studied records relating to registration of growers, licenses given to exporters/distributors/ manufacturers, returns submitted by different stakeholders and scheme for rehabilitation of closed tea gardens.

Under **Developmental Activities**, we reviewed the schemes viz., Tea Plantation Development Scheme, Special Purpose Tea Fund, Orthodox Subsidy Scheme, Quality Upgradation and Product Diversification Scheme and Crash Scheme related to the elements like productivity and quality of tea for which the Board disbursed subsidy. We studied Human Resource Development Scheme from where subsidy was disbursed to meet the cost of welfare activities and to impart training to plantation workers which were related to the element 'cost of production'. We also reviewed another scheme which was introduced to provide support to small growers' viz., Price Subsidy Scheme. Different Schemes (implemented during 2002-09) wise audit samples are indicated in **Annexure I**.

In **Research Activities**, we examined subsidy disbursed for research activities and reviewed 50 *per cent* (₹58.53 crore of ₹116.72 crore) of the total expenditure incurred by Tea Board during the period 2002-09, including expenditure on completed research projects, grants to various research institutions and expenditure on IT Portal project.

Under **Marketing and Promotional activities**, we reviewed 46 *per cent* (₹62.31 crore of ₹135.53 crore) of total expenditure incurred on Marketing and Promotional Activities during 2002-09, which included expenditure on various schemes for export promotion, overseas and domestic promotion and implementation of recommendations of Medium Term Export Strategy. The total Plan Outlay for various schemes under the Tenth and Eleventh Five Year

Acknowledgement

Plan was ₹496.25 crore and ₹806.43 crore respectively.

2.7 We acknowledge the cooperation of Tea Board and its Zonal Offices during the course of audit.

Our detailed findings

2.8 Our detailed findings with regard to regulatory, developmental, marketing and promotional activities and financial management are discussed in the chapters that follow.

Chapter 3 Regulatory Activities

Objective 1: Whether Tea Board performed its regulatory role effectively

3.1 One of the primary functions of the Tea Board is to regulate the activities of the various stakeholders in the cultivation of tea and its business in accordance with the provisions of the Tea Act and orders issued thereunder. The effectiveness of Regulatory functions also aid in the effective discharge of other functions like Developmental Activities, Marketing & Promotional Activities and Research Activities.

In this context, we reviewed regulatory functions of Tea Board as laid down in the Tea Act, 1953 and other orders such as Tea (Marketing) Control Order, Tea (Distribution and Export) Control Order and Tea Waste Control Order. We studied records relating to registration of growers, licenses given to exporters/distributors/manufacturers, returns submitted by different stakeholders and scheme for rehabilitation of closed tea gardens.

The Licensing Branch of the Board has been given the following powers:

Regulatory Powers of Tea Board

- Granting permission to small growers²⁴ and big growers²⁵ for tea cultivation;
- Issuing license to exporters, tea distributors;
- Issuing tea waste license;
- Registrations of tea manufacturing units, auction organisers/ auction brokers, buyers; and
- Taking action on closed gardens.
- Impose penalties on stakeholders

Permission to tea growers

3.2 As per Tea Act 1953, no one shall plant tea on any land not previously planted with tea, on the date of commencement of this Act unless permission has been granted to him in writing by or on behalf of Tea Board.

With regard to powers of Tea Board in respect of granting permission to tea growers, our audit findings are discussed below.

Low percentage of small growers registered with Tea Board

3.3 As on 1st January 2004 the total number of big and small growers in India were 1661 and 127366 respectively. During the period 2004-08²⁶, 25 big growers and 30,138 small growers started the activity of planting tea thereby increasing the total number of big and small growers to 1,686 and 1,57,504.

According to the information furnished by Tea Board as of December 2010, all 1,686 big growers were registered with Tea Board. However, we observed that only 32,288 out of 1,57,504 small growers (a mere 20 per cent) could be registered by Tea Board. The Board was not able to furnish information in

²⁴ A small grower is one who holds tea cultivated land up to 10.12 hectares.

²⁵ A big grower is one who holds tea cultivated land more than 10.12 hectares.

²⁶ Data was not available in Tea Board after 2008.

February 2010 relating to how many small growers were registered out of the 30,138 small growers who started activity during the period 2004 to 2009. We further observed that Tea Board did not have year-wise data (February 2010) for registration of small growers. In the absence of such data we could not ascertain the number of applications received, permissions granted, permissions pending, permissions denied, reasons for denying permissions etc. Tea Board, however, compiled yearwise figures of registration and furnished the same in May 2011.



Tea Garden of a small grower

The state-wise data in respect of small growers is given in the table below:

Table 2 – State-wise number of Small Growers registered with Tea Board		
State	Estimated total number (2008)	Registered with Tea Board (2010)
Assam	64597	4561
West Bengal	9990	1032
Tripura	1410	3378
Arunachal Pradesh	36	57
Manipur	427	490
Sikkim	3	0
Nagaland	1451	3354
Meghalaya	1013	72
Mizoram	269	1360
Uttarakhand	70	0
Himachal Pradesh	3695	0
Bihar	980	154
Total - North India	83941	14458
Tamil Nadu	68147	10404
Kerala	5402	7412
Karnataka	14	14
Total - South India	73563	17830
Total - All India	157504*	32288

*Source: Tea Board

From the table it can be seen that:

- None of the small growers in the state of Sikkim, Uttarakhand and Himachal Pradesh were registered.
- The percentage of small growers not registered in Assam, West Bengal, and Tamil Nadu was as high as 93 *per cent*, 90 *per cent* and 85 *per cent* respectively.

Thus, 125216 growers constituting about 80 *per cent* of the total small growers are continuing tea cultivation as of 2010 without the requisite permissions of Tea Board under the provisions of Tea Act 1953. **It is indeed a matter of concern that even after more than fifty-six years of its existence, Tea Board has not been able to even bring all the small growers into its folds.**

The Ministry agreed in October 2009 that there was a need for complete census of both small and big growers. It stated that steps were being taken in co-ordination with the State Governments to ensure coverage of small tea growers under the provision of Tea Act, 1953 and that they had extended funds to State Government of West Bengal and Assam to conduct census activities. However, the fact remains that failure to regulate the activity of small growers even after more than five decades was adversely impacting the effectiveness of its other functions as discussed in succeeding chapters.

Process of granting registration to plant tea

3.4 Tea Board grants permission for planting tea, extension planting, replacement planting or establishment of new tea area as well as identification of tea area along with its ownership. The conditions for granting permission to plant tea are given below.

Conditions for granting registration

Tea Board has the powers to grant permission to plant tea as per the provisions of Rule 30A of Tea Rules. For getting the permission applied for, the owner needs to submit records in support of:

- His ownership/grant/lease of the land,
- His ability to finance the undertaking including erection of a factory, where necessary,
- Suitability of the land in terms of the nature of the soil and climatic conditions

Further, the tea estate owner to whom the permit is issued is required to submit a return on 31st March of each year, showing the area planted up to that date in pursuance of the permit, the reasons for non-utilisation of any area that may not have been planted and the programme for planting tea for the next two years.

Granting permission without following procedures

3.5 We test checked the process of granting permission to plant tea in respect of six big growers and 10 small growers (permission granted during August 2003 to February 2010) and observed that:

- In 15 out of 16 cases, soil report did not contain the required certificate from the authorised laboratories stating that the land was suitable for planting tea. In four cases, Tea Board granted permission for cultivation of tea despite deficiencies of certain chemical properties of soil recorded in the soil reports.
- No returns were submitted by the owners of the Tea Estates, though the same were required to be submitted to Tea Board after permission to plant tea was granted.
- In three cases, Tea Board granted permission though the notarised copy of the sale deed was not submitted by the owners of the Tea Estates at the time of submitting the applications, whereby the fact of ownership could not be verified.

Thus, the procedure for granting permission to the growers (small and big) did not appear to be transparent and fair.

Regulating Tea Business

3.6 Tea Board is empowered²⁷ to regulate activities of different stakeholders in the tea industry like exporters, distributors, manufacturers, buyers, brokers and those dealing with tea waste. A few of the important regulatory functions are given below:

Regulation of activities of various stakeholders in tea industry by the Tea Board

The regulatory activities of tea include ensuring that no person engages himself as a manufacturer, broker, buyer, exporter, distributor or deal with tea waste except under and in accordance with the provision of a license issued by the Board. Accordingly, Tea Board has the right to:

1. Inspect the stock in the factory of the manufacturer or a buyer and draw sample of prescribed specification to check whether the sample conformed to the specifications as laid down under the Prevention of Food Adulteration Act 1954.
2. Enter and search at any time any land, building, premises or vehicles in which they had reason to believe that tea was stored, carried, distributed or sold in contravention of the laid down provisions.
3. Inspect the consignment prior to export to verify the compliance with any or all of the laid down the provisions, prior to export.

Further,

4. The manufacturers/ buyers/ exporters/ distributors should furnish the business information to the Board in prescribed formats.
5. Business license issued to exporters would be valid for a period of three

²⁷ Tea Act read with Tea (Marketing) Control Order (TMCO) 2003, Tea (Distribution and Export) Control Order 2005 and Tea Waste (Control) Order 1959.

years from the date of its issue/renewal. It should be cancelled by Tea Board if the exporter has not exported tea from India during any of the preceding three consecutive years.



A Tea Garden in Munnar

Ineffective regulatory control over various stakeholders

3.7 With respect to these regulatory functions of Tea Board, our audit findings are discussed below:

As of March 2011, 1720 manufacturers and 6079 buyers were registered with Tea Board. Similarly, 1821 exporters were registered with Tea Board as of March 2011. In this regard, we observed that:

- Although Tea Board was empowered to inspect the factory stock, no internal procedure existed in Tea Board as to how and when to inspect the factory stock and draw sample of prescribed specification to check whether the sample conformed to the specifications as laid down under the Prevention of Food Adulteration Act 1954. In absence of this procedure, Tea Board did not undertake inspections unless a complaint was received regarding quality of tea exported or a malpractice in trade by manufacturers/buyers. It also did not undertake inspections of factory stock to ensure that samples drawn conformed to the specifications laid down under the Prevention of Food Adulteration Act 1954.
- The Board also did not maintain information regarding number of inspections planned and undertaken in exercise of powers conferred under the subsections (3) and (5) of Section 30 of Tea Act. After being pointed out in audit, the Board started maintaining files including show-cause notices issued under the above order since September 2009. As such, there was no mechanism in Tea Board to exercise its regulatory

**Inadequate
monitoring of
manufacturers
and buyers**

function to prevent manufacturing/buying/export/ distribution of adulterated tea.

- We observed that only one-third of the 1046 registered tea exporters as of December 2008 were active in export of tea. This indicated that Tea Board did not take action to cancel the permanent²⁸ licenses held by these exporters after ascertaining their performance during the last three years as envisaged in the rules. Thus, the Board did not exercise its function of regulating export licenses as per laid down rules and provisions. The Ministry stated in October 2009 that they were taking action to cancel permanent exporters licence after ascertaining their performance during preceding three consecutive years.

Thus, by failing to undertake prescribed inspections, regulating exporter's licenses and ensuring fair trade practices by those who are involved in tea business, Tea Board had not exercised its regulatory powers effectively.

3.8 Manufacturers are required to furnish details of sale of tea in Form "E", which includes mode of selling i.e., through registered buyers/own retail outlets or branches directly to consumers/direct export etc. Similarly, buyers are required to furnish details of purchase of tea through public tea auction and total tea purchased in any calendar year in Form "F".



Tea leaves collected in a tea factory for manufacturing tea

We observed that such returns were not furnished regularly to Tea Board by the manufacturers and buyers. We test checked monthly returns ('E' and 'F') submitted by 10 manufacturers and 10 buyers for the period 2007-09. We observed that instead of submitting the returns every month, only one monthly return was submitted by four manufacturers as against 24 monthly returns each. The remaining six manufacturers did not submit any return during this period.

²⁸ Tea Board issues temporary license to an exporter first. Permanent license is issued thereafter.

Similarly, as against a total of 240 'F' returns which were to be submitted by 10 buyers in two years to Tea Board, only 54 returns were submitted.

Thus, due to non-submission of returns by the manufacturers and buyers on a regular basis, the Tea Board remained unaware of the activities of manufacturers and buyers and was not in a position to exercise control over their activities as envisaged. This also affected the timely compilation of Tea Statistics by Tea Board as we observed that there was delay in publication of Tea Statistics from one year to three years.

Tea Board agreed in October 2009 that submission of such returns regularly is necessary to exercise control over their activities.

Inadequate penalties for breach of provisions of Tea Act

3.9 Sections 36 to 42 stipulate different types of penalties for illicit export, making false return, obstructing a member of the Board in the discharge of any duty, illicit cultivation, contravention of order relating to control of price and distribution etc. In this regard, we observed that failure of Tea Board to effectively perform its regulatory role is in part attributable to the failure to levy appropriate penalties on the stakeholders. We also observed that the quantum of penalties which ranged from ₹1000 to ₹5000 only were not adequate as they did not serve as a deterrent for violation of various provisions of Tea Act. For exercising effective regulatory role, there is a need to review the existing rates of penalty for breach of various provisions of the Tea Act and to make effective use of the provisions so that Tea Board carry out its regulatory role as per the mandate of the Act.

Ministry of Commerce stated in May 2011 that for review of existing rates of penalty for breach of various provisions of Tea Act, all related sections of the Act need to be amended and this would be considered at the time of amendments in the Act.

Action taken on revival of closed gardens

3.10 One of the regulatory functions of Tea Board was to take action on closed tea gardens which was defined in Section 16(E) of Tea Act, 1953. As per the said provision, Central Government can take over the management without conducting any investigation in cases where due to reckless investment, creation of encumbrances or diversion of funds, a situation has arisen which is likely to affect production of tea or where the entity has been closed for a period not less than three months.

In June 2007, Ministry of Commerce approved a rehabilitation package for revival of closed tea gardens. The main features of the scheme for revival of closed gardens are given below.

Rehabilitation package for revival of closed gardens

The existing outstanding bank loans against the closed tea gardens were to be restructured by converting the same into term loans with a moratorium

period of five years, with recovery starting from the sixth to tenth year and accumulated penal interest waived. The banks were to charge a simple rate of interest of 11 *per cent* per annum on the restructured loan with moratorium of one year for payment of interest. The accumulated simple interest was to be shared equally by the banks, Central Government and the beneficiaries to the extent of one third each. The banks were to extend further facilities of working capital to the closed tea gardens after their accounts were regularised as stated above. Only after regularisation, could closed tea gardens become eligible to obtain loan and subsidy from the Board under Special Purpose Tea Fund Scheme.

Deficient formulation of the scheme

3.11 As of February 2010, 12 gardens remained closed with a financial liability of ₹92.51 crore of which ₹70.33 crore was towards liability of banks, affecting livelihood of 11,417 workers. The main causes for sickness/closure of tea gardens were falling quality and price realisations due to poor yields and poor garden management, labour to land ratio and labour productivity, uneasy industrial relations scenario, overall lack of development perspective and deterioration in profits since last few years etc.

We observed that no bilateral agreement/MOU was signed between the Board and Banks. The Banks were reluctant to carry out the restructuring as per the scheme. Thus, failure by Board to obtain formal commitment from the banks before formulation of the scheme resulted in the scheme becoming unworkable and only one tea garden account has been restructured till date. Tea Board invoked Section 16(E) in respect of only three²⁹ tea gardens so far, of which owners of the two³⁰ gardens in Kerala moved the High Court and obtained a stay against the proceedings for invoking of the section.

Our Recommendations and response of Tea Board

3.12 We recommended in November 2009 that Tea Board may evolve a mechanism to ensure registration of all small tea growers and ensure that all the stakeholders in the tea business furnish requisite and complete information on time which can be used by Tea Board for better regulation under the provisions of Tea Act. We also recommended that Tea Board may plan and conduct regular inspections for exercising effective control and ensuring fair practices in tea business.

Tea Board accepted these recommendations and stated in December 2009 that:

- *As a short-term measure, they are preparing a list of small growers with the help of their associations. It also stated that, on a long-term basis, a complete census of small tea-growers would be done for which survey has already been initiated by State Governments of Assam and West Bengal. This would be completed by **the end of the***

²⁹ Lone Tree, Permada and Bamondanga

³⁰ Lone Tree and Permada

Eleventh Five Year Plan.

- *Tea Board was advising all the stakeholders to provide requisite information and they were developing a computer-aided system for collection and analysis of information from various stakeholders. It added that it plans to completely re-engineer the existing process of information collection by **the end of the Eleventh Five Year Plan.***
- *Tea Board had formulated a plan to form a panel of independent inspectors for scheme like Special Purpose Tea Fund. For other areas, they propose to carry out inspections on the basis of complaints received. Complete details of manpower required to ensure effective inspections would be sent to the Ministry for approval. However, implementation of this recommendation would depend upon the approval by the Ministry.*

Conclusion 3.13 Even after five decade of existence of Tea Board, more than 125216 (80 per cent) small growers in India continue to be outside the ambit of regulations by the Tea Board. Inspection for regulating the activities of various stakeholders was weak and non-transparent. Further, no internal procedure existed in Tea Board regarding conduct of such inspections which led to failure to ensure fair practices and quality. Tea Board was also not able to ensure submission of business information by stakeholders so as to exercise effective control on their activities as well as timely collection of Tea statistics. The scheme for rehabilitation also remained ineffective due to failure of Tea Board to get a formal commitment from the banks.

Thus, Tea Board had been ineffective in exercising its role as a Regulator of Tea in India. This has also had an adverse impact on the effectiveness of its functioning in other areas of development, research, marketing and promotion of tea in India. Therefore, Tea Board needs to revamp its regulatory structure so as to exercise better control on its regulatory activities.

We are of the view that the response of Tea Board and the action proposed by it in response to our recommendations may not be sufficient to increase the registration of small growers, ensure better regulation of all stakeholders through collection of complete business information and ensure increase in inspections for better discharge of its regulatory role. Therefore, Tea Board needs to reassess its manpower requirement in consultation with the Ministry so that Tea Board is able to discharge its primary role of regulating Tea Business in India more effectively.

Chapter 4 Development of Tea: Enhancing productivity

Objective 2: Whether developmental activities undertaken by Tea Board had an impact on enhancing productivity of tea in India.

Surplus tea for Indian markets

4.1 The Tea Act, 1953 defines the following responsibilities of Tea Board in the field of development of tea:

- Regulating the production and extent of cultivation of tea;
- Improving the quality of tea;
- Promoting co-operative efforts among growers and manufacturers of tea;
- Securing better working conditions and provision/improvement of amenities and incentives for workers.

The position of production, import and export of tea and its domestic consumption in India during the last 13 years is given in the table below:

Year	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Production	810	874	826	847	854	838	878	893	946	982	986	981 (E)	979 (E)	966 (E)
Import	3	9	10	13	17	25	10	31	17	24	16	20 (E)	25 (E)	20 (E)
Total availability	813	883	836	860	871	863	888	924	963	1006	1002	1001 (E)	1004 (E)	986 (E)
Exports	203	210	192	207	183	201	174	198	199	219	179	203 (E)	198	193 (E)
Domestic consumption	597	615	633	653	673	693	714	735	757	771	786	802	819	837
Total absorption	800	825	825	860	856	894	888	933	956	990	965	1005	1017	1030
Surplus(+)/ Deficit(-) of availability vis-à-vis absorption	13	58	11	0	15	(-)31	0	(-)9	7	16	37	(-)4	(-)13	(-)44
Cumulative overall surplus	13	71	82	82	97	66	66	57	64	80	117	113	100	56

E – Estimated

In million kgs (mkg)

During the period from 1997 (start of the Ninth Five Year Plan) to 2010 (Third Year of the Eleventh Five Year Plan), the overall production of tea in India has increased by 19 *per cent*. The domestic consumption of tea has also been increasing steadily. However, the export of tea has been stagnant during this period and has shown declining trend after 2008. This has led to an overall surplus of 56 mkg tea in the Indian market as of 2010.

Tea Board stated that the reason for surplus tea was excess supply over demand. It further stated that tea being perishable item and the demand – supply being estimated for certain period, this surplus or excess supply over

demand remained in the trade chain and utilised by the absorption at the lower price.

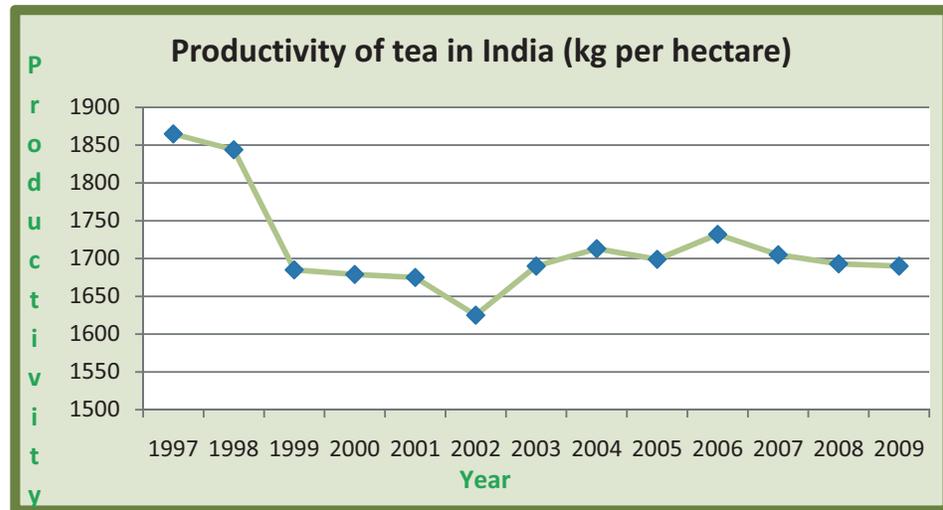
4.2 The stagnated exports despite surplus situation is also linked with the fact that cost of production of tea in India is relatively high, the quality is poor and productivity is low due to ageing plantations. Therefore, the tea industry needs to take concrete steps towards improvement in quality of tea as well as cost reduction which is, *inter alia*, related to the increase in productivity of tea.

As per Tea Board, the excess supply situation is likely to persist during major part of Eleventh Five Year Plan also and thus, it would be necessary for them to curtail unbridled expansion of tea area and to focus on enhancing the productivity in order to enhance returns, reducing the units costs through productivity gains, building capacity of small growers, streamlining marketing channels and improving infrastructure in the Eleventh Five Year Plan.

With the above background, we studied the activities undertaken by the Board towards enhancing productivity, improving quality, reducing cost of production and extending support to small growers with reference to individual cases under various schemes. These are discussed below and in Chapters 5 and 6 respectively.

Productivity of tea in India

4.3 Productivity is defined as yield of tea grown per hectare. The productivity of tea in India has declined over the years³¹ as can be seen from the graph below:



The above table shows that there is stagnation in production during last four years despite increase in area of tea plantation.

³¹ Figures after 2009 not available with Tea Board

Reduction in productivity of tea in India

4.4 We observed that while productivity in respect of all major tea-producing countries has been increasing over the years, productivity in India has been reducing as can be seen from the table below:

Name of the country	1994	1995	1996	2003	2004	2005	2006	2007	2008	2009
China	519	528	538	636	662	692	718	707	731	735
India	1768	1770	1809	1690	1713	1703	1732	1705	1693	1690
Indonesia	998	1010	1078	1182	1095	1127	1083	1026	1077	1071
Japan	1584	1579	1683	1868	2059	2084	2087	1943	1958	1964
Mauritius	1681	1822	2251	2109	2199	2070	2278	2205	2376	2088
Sri Lanka	1300	1304	1349	1611	1633	1683	1648	1615	1692	1540

Age of tea bushes in India

4.5 One of the primary reasons for low productivity and substandard quality of tea produced in the country was ageing plantations. The area under tea plantation for the past ten years and quantum of aged tea bushes beyond 40 years which were not commercially productive can be seen from the following table.

As on	Total area under tea (ha)	Area containing tea bushes aged over 40 years (ha)				Replanting/ Replacement planting (ha)		Total Replanting/ Replacement planting (ha)	
		NI	SI	All India	Increase	NI	SI	Total	%
31.12.97	434294	128121	54484	182605		2364	64	2428	1.33
31.12.98	474027	128582	54647	183229	624	2587	18	2605	1.42
31.12.99	490200	129968	55271	185239	2010	2141	92	2233	1.21
31.12.00	504366	129320	53777	183097	-2142	1965	28	1993	1.09
31.12.01	509806	136068	54034	190102	7005	1577	15	1592	0.84
31.12.02	515832	140642	54168	194810	4708	1901	19	1920	0.99
31.12.03	519598	141422	54243	195665	855	2101	18	2119	1.08
31.12.04	521403	141474	54471	195945	280	733	0	733	0.37
31.12.05	556807	147982	54958	202940	6995	1451	0	1451	0.71
31.12.06	567020	180099	58230	238329	35389	2009	0	2009	0.84
31.12.07	578460	182050	58480	240530	2201	NA	NA	1820	0.75
31.12.08	579353 (E)	188250	59360	247610	7080	NA	NA	NA	--
					65005				

Source: Tea Statistics, NI-North India, SI-South India, NA – not available with Tea Board, E-Estimated

³² Figures after 2009 not available with Tea Board

³³ Figures after 2008 not available with Tea Board

Area replanted abysmally low

4.6 As the above statistics show, in 1997 out of the total area of 4,34,294 hectares under tea cultivation, 1,82,605 hectares (42 *per cent*) of tea bushes were not economically viable as they were more than 40 years old. Further, as of 1 January 2009, the area under unproductive tea bushes has increased steadily from 1,82,605 to 2,47,610 hectares indicating increase of 36 *per cent*. As a result, the total area under commercially unproductive bushes increased from 42 *per cent* in 1997 to 57 *per cent* in 2009³⁴. These tea bushes continued to remain commercially unproductive and required replantation/ replacement planting for maintaining the productivity.



Replanted Area

We observed that the percentage of replanting/replacement planting in the country as a whole was abysmally low and less than two *per cent*. The status of replanting/replacement planting in South India was negligible. At this rate, clearance of the backlog for replanting/replacement planting of 190102 ha as on 31 December 2001 would take another 114 years³⁵ and the backlog as on 31 December 2008 would take 149 years³⁶ to clear. This would have an adverse impact on the productivity of tea plantations in the country. This indicates that increasing age of tea bushes with tardy rate of replanting would pose a high risk to tea industry in future.

The Ministry agreed in October 2009 that the performance of the industry since inception of the scheme to subsidise

³⁴ Based on total area under tea plantation as on 31st December 1997.

³⁵ Average replanting/replacement planting done between 2001 to 2007 was 1663 ha. Thus to cover a backlog of 190102 ha, as on 31 December 2001, it would take another 114 years (190102/1663).

³⁶ Average replanting/replacement planting done between 2001 to 2007 was 1663 ha. Thus to cover a backlog of 247610 ha, as on 31 December 2008, it would take another 149 years (247610/1663).

**Investment
required in
replantation**

replanting/replacement planting has been tardy.

4.7 Replantation is a capital-intensive activity in tea cultivation as, apart from the capital investment, it takes at least five years before the new tea bush gives yield for tea production. The total cost for Tea-Grower for replantation comprises of capital investment considered by Tea Board for subsidy support and crop loss of more than five years during gestation period.

We observed that capital investment for replantation of 2,47,610 hectares of tea bushes aged more than 40 years (as on 1 January 2009) worked out to ₹6091.21 crore³⁷ (based on average unit cost) and cost of subsidy support at the rate of 25 *per cent* was ₹1522.80 crore for the Tea Board. We also observed that the unit cost was only an indicator of minimum amount required for replanting as it did not take into consideration the cost to be borne by the grower on account of temporary closure of business as a result of replantation during the gestation period. Against this huge requirement, Tea Board had spend yearly only ₹21.06 crore during Tenth Five Year Plan and yearly ₹18.87 crore in first four years (March 2011) of Eleventh Five Year Plan on all activities including replantation.

Therefore, intervention of Tea Board in replantation to bring tea bushes of more than 40 years to acceptable level (from 57 *per cent* as on 1 January 2009) to increase productivity was grossly inadequate as brought out in succeeding paragraph also.

We further observed that Tea Board did not realistically estimate requirement of funds for replantation and chalk out a plan for increasing the coverage of the activity. They also failed to mobilise funds from other agencies as suggested by the Ministry. Lack of sufficient funds was one of the main reasons for insufficient replantation.

The Ministry stated in October 2009 that the funds requirement for replanting/rejuvenating the old aged bushes had been worked out in consultation with National Bank for Agriculture and Rural Development (NABARD) which was responsible for fixing the unit cost of planting in various tea growing regions in the country. However, the fact remains that though the unit cost was worked out in consultation with NABARD, total requirement of funds as well as provision for adequate intervention was not made.

³⁷ 247610 ha x ₹2.46 lakhs [average of units cost of replantation per ha applicable in plains (₹2.10lakh), hills (₹2.50 lakh) and Darjeeling hills (₹2.77lakh)].

Tea Plantation Development Scheme (TPDS)

4.8 Tea Plantation Development Scheme was introduced for the Tenth Plan Period in order to achieve the objectives of replanting/replacement planting, rejuvenation pruning, creation of irrigation facilities, organising self-help groups amongst small growers for easy reach of extension services and ensuring fair price for the green leaf. Tea Board provided financial incentives in the form of subsidy for the following activities to be undertaken by the growers under the TPD scheme:

Subsidy under Tea Plantation Development Scheme

All growers (regardless of the size of their holdings)

- For replanting/replacement planting (Para 4.9)
- For rejuvenation pruning and consolidation by infilling of vacancies (Para 4.10)
- For creation of irrigation facilities (Para 4.11)

Small growers (holding up to 10.12 hectares)

- For new planting in the North Eastern states and Uttarakhand (Para 4.12)
- For setting up of pilot tea-producers' societies (Self-Help Groups) (Para 4.13)
- For usage of mechanical aids (Pruning Machines) for field operations. (Para 4.14)

A sum of ₹105.00 crore was received from Government of India during the Tenth Five Year Plan (2002-07) and Tea Board disbursed ₹105.28 crore as subsidy under TPDS. The subsidy was to be disbursed at the rate of 25 *per cent* of the approved unit cost per hectare in three installments for replanting by big growers and in two installments for replanting by small growers. In case of replacement planting, subsidy was to be disbursed in three/four installments for plains/hills.

In the Eleventh Five Year Plan, a Special Purpose Tea Fund (SPTF) has been set up. Under this, the applicant is allowed subsidy of 25 *per cent* by Tea Board along with 50 *per cent* loan from a commercial bank. For this, a line of credit of ₹150 crore has been secured by the Government from four commercial banks against security. The applicant may opt for either loan and subsidy or subsidy alone. A total sum of ₹35.50 crore was received from Government of India during 2007-08 to 2008-09 and Tea Board has disbursed ₹38.07 crore so far.

Shortfall in sanction of activities

4.8.1 Some of the general audit findings relating to TPDS and SPTF are given below:

The status of activity-wise sanctions vis-à-vis targets as set by Tea Board under the Tenth Five Year Plan was as follows:

Table 6 – Sanction of activities vis-à-vis targets under Tenth Five Year Plan			
Activity	Target	Sanctioned	Percentage shortfall
New Planting	2700 ha	8444 ha	-

Replanting	5000 ha	15429 ha	-
Rejuvenation Pruning and infilling	15000 ha	10903 ha	27
Intensive Pruning in small holdings	25000 ha	0 ha	100
Creation of Irrigation facilities	9000 ha	169 ha	98
Setting up pilot tea producer's societies	100 (in no.)	37	63

We observed that under the Tenth Five Year Plan:

- Tea Board set a target of a mere 5000 hectares for replanting/replacement planting under the Tenth Five Year Plan, which was just 2.63 *per cent* of the 190102 hectares of commercially unproductive tea plantations at the beginning of the Tenth Five Year Plan.
- There were shortfalls even in sanctions as against the targets in four activities viz., rejuvenation pruning, intensive pruning in small holdings, creation of irrigation facilities and setting up of tea producers' societies.
- No funds could be disbursed for intensive pruning in small holdings, shortfall under the creation of irrigation facilities and setting up of pilot tea producer's societies was 98 and 63 *per cent* respectively.

We further observed that in the first four years (2007-08 and 2010-11) of the Eleventh Five Year Plan:

- There was 66 *per cent* shortfall in sanctions against a target of 54,524 ha area for replanting in the first four years (March 2011) as only 18,642 ha area was sanctioned for replanting. The area of 2,04,462 ha targeted to be covered under replanting/replacement planting in 15 years would take 43 years³⁸ to achieve at this rate of sanction. For rejuvenation pruning, Tea Board/Ministry fixed a target of 16,890 ha (@ 3378 ha per annum) during the Eleventh Five Year Plan i.e., 13,512 ha in the first four years of the Plan. Against this, only 5702 ha was actually sanctioned registering a shortfall of 58 *per cent*.

We observed that actual replantation achieved was substantially lower than the sanctioned as actual replantation was only 10,052 ha in six calendar years (2002 to 2007) against the sanction of 15,429 ha in Tenth Five Year Plan. Tea Board did not furnish actual achievement against sanctions for 2008-10.

The Ministry attributed shortage of manpower as one of the reasons for shortfalls in achievement of targets. It also agreed in October 2009 that the targets were set at the lower level due to reluctance on the part of

³⁸ $(204462)/(18642/4) = 43$ years.

Inadequate documentation

the industry in taking up replanting in larger areas as the activity demanded huge investment cost, immediate crop loss due to uprooting of old tea and almost nil return during the gestation period.

As such, Tea Board needs to increase funds allocation to the replanting activity to cover more area so that more and more tea planters come forward to avail the benefits of the scheme.

4.8.2 We observed that Tea Board did not maintain a list of parties to whom subsidies were paid and amounts disbursed there against under this scheme. As such, we could not ascertain as to how many gardens had availed subsidy out of the total 159190. We prepared a list of all payments of subsidy under replanting/replacement planting from the ledger book containing 2,565 payment cases amounting to ₹60.51 crore during 2002-07. Similarly, we also prepared list of all payments of subsidy under rejuvenation pruning containing 1320 payment cases amounting to ₹2.40 crore during 2002-07. These lists were used to select samples for review in audit (Refer **Annexure 1**).

The Ministry stated that every application was processed separately for each activity and payment made was reflected in cash book and the ledger and hence, no separate list of names of parties to whom the subsidy was paid had been maintained. The Ministry, however, stated that henceforth, a separate list would be maintained with all the particulars of disbursement made and the activity supported.

Delay in identification of area for replantation

4.8.3 Using the capabilities of multi-sensor, satellite data can be acquired in different wavelength bands and different seasons for tea crops. Health of tea crops can be analysed based on the Normalised Difference Vegetation Index (NDVI) ³⁹ techniques of satellite data processing. NDVI, with ground truth data, help in identifying the healthy crops as well as poor yielding crops and as such, age of the tea gardens can be worked out using satellite derived information and the areas for replantation can be located.

Tea Board undertook a project in October 2008 with Indian Space Research Organisation (ISRO) at a cost of ₹5 crore, which intended to use NDVI techniques of satellite data processing to map tea growing areas, analyse site suitability for new area, to identify degraded tea areas for uprooting and replantation, to identify small growers and to generate database for facilitating Tea Board to provide technical and marketing support etc.

We observed that though Tea Board was to provide all relevant maps and data pertaining to tea gardens (processing, production, labour management and other relevant data) and soil map/in-situ observations with respect to Tea gardens, the same was not provided to ISRO as of

³⁹ The Normalised Difference Vegetation Index (NDVI) is a simple numerical indicator that can be used to analyse remote sensing measurements, typically but not necessarily from a space platform, and assess whether the target being observed contains live green vegetation or not.

**Replanting/
Replacement
Planting**

January 2010. As such, the work could not be commenced effectively.

Audit findings specific to the activities covered under the above schemes are discussed below.

4.9 The salient features of the scheme for Replanting/Replacement Planting were:

Terms and conditions for subsidising replanting/ replacement planting

- During pre-approval inspections, Tea Board was to evaluate the impact of the past activities on production, productivity, quality improvement etc., and verify past performance of the applicant, for which the garden was to provide necessary documents.
- A monitoring mechanism was put in place to ensure that the requirements of the earlier step were fulfilled before approving the next installment.
- The field activities undertaken prior to pre-approval inspection were not eligible for financial assistance. After the inspection, a no objection certificate (NOC) was to be issued by the field office to the applicant for proceeding with the field work. The condition was relaxed if NOC was unduly delayed or field activity had been undertaken after 75 days from the date of submission of application to Tea Board.
- Similarly, three further inspections were to be carried out.
- The applicants were eligible for subsidy only if their Provident Fund (PF) dues were less than ₹10000. For dues more than ₹10000, they were to submit a Court decree or written consent from the PF authorities for allowing the payment of arrears of PF dues in installments. Tea Board was required to verify the correctness of PF dues from the challans of payment of current PF subscription.
- Specific conditions in respect of rehabilitation⁴⁰ were to be adhered to by the applicants.

Of 2565 payment cases of Replanting/Replacement Planting during the Tenth Five Year Plan, we selected a sample of 701 cases (27 per cent) covering 309 gardens and 430 sections. Of ₹38.07 crore disbursed to 156 producers during 2007-09, we selected the records of 18 producers (12 per cent) who received subsidy of ₹5.49 crore relating to 57 gardens. In this regard, we observed the following:-

**Impact of past
activities not
evaluated**

4.9.1 Of the 309 gardens test checked, in 192 gardens, the Tea Board had also paid the subsidy earlier, but did not evaluate the impact of the past activities on production, productivity and quality improvement etc.,

⁴⁰ After a prolonged period of monoculture under tea, the physio-chemical as well as biological properties of the soil deteriorate considerably. Rehabilitation adds organic matter and nutrients to the soil, helps in improving soil structure and thereby better aeration and moisture storage, draws nutrients from deeper soil layers and added to the top soil through the lopping, increases the activity of micro organisms and conserves the top soil and breaks the food chain of the primary root diseases.

	<p>while conducting pre-approval inspection in these cases. In the remaining gardens, either the subsidy was granted for the first time or the fact was not recorded in the application forms. By allowing subsidies without assessing the impact of past activities, the effectiveness of the scheme was compromised. The Ministry stated that the impact of replanting was assessed by AF Ferguson and the productivity gain ranged between 42 to 74 <i>per cent</i> when compared with yield prior to replanting. We observed that AF Ferguson evaluated the impact only for an area of 299.98 ha, which was a mere 1.94 <i>per cent</i> of the total area of 15,429.44 ha covered under replanting/replacement planting during 2002 to 2007. Furthermore, the scheme conditions required evaluation of impact in all cases during the pre-approval inspections.</p>
<p>Subsidy granted for sections with productivity higher than the average</p>	<p>4.9.2 In the first two years of the Eleventh Five Year Plan, out of 57 gardens test checked, in 20 gardens, Tea Board granted subsidy for replantation to sections where the sectional yield was higher (up to 3,170 kg per ha) than the average yield of tea gardens in India. As such, despite such a large area of old tea bushes yet to be replanted, Tea Board gave priority to tea bushes with high productivity.</p>
<p>Delay in conducting inspections</p>	<p>4.9.3 There were delays in conducting various inspections by Tea Board. In 76 <i>per cent</i> cases, there were delays ranging from 31 to 1161 days in conducting pre-approval inspections. Delays of 32 days to seven years were noticed in conducting first, second and third inspections in 92 <i>per cent</i>, 93 <i>per cent</i> and 69 <i>per cent</i> of the cases respectively. Further, two or more inspections were done on the same day in many cases. Delays in conducting inspections defeated the very purpose of putting in place a detailed and purposeful monitoring mechanism. The Ministry stated that the major cause for delay in carrying out field inspections was the limited manpower at the disposal of the Board. However, the fact remained that as of January 2010, there were no serious shortages (Sanctioned Strength: 56, Men-in-Position: 51) of Inspecting officers in the Development wing. Thus, delay in inspections had adversely affected the achievement of actual replantation which impacted productivity.</p>
<p>Release of subsidy without adhering to scheme conditions</p>	<p>4.9.4 (a) In respect of 116 out of 309 tea gardens, the Board paid subsidy on the basis of statement of PF dues submitted by the tea garden owners without verifying the same through the challans. In 11 cases, no clearance certificate was produced by the applicant and in six cases, no declaration regarding outstanding dues of PF were submitted. Tea Board disbursed subsidy amounting to ₹4.82 lakh to Simulbarie Tea Estate despite outstanding dues of ₹11.99 lakh towards the Employer's share of Provident Fund and no court decree or written consent from the PF authorities was available. The Ministry stated that specific cases pointed out by the Audit would be revisited and if the PF liabilities continued beyond the admissible level, the subsidy paid would be recalled. It further stated that serious efforts would be made to avoid such lapses</p>

Grant of subsidy despite deficiencies in adherence to conditions for rehabilitation

hence forth.

4.9.4 (b) Tea Board released subsidy of ₹ 52 lakh to 12 gardens which had started conducting field activities before the pre-approval inspection, thereby, not ensuring the status of physical suitability of soil through soil analysis report. Tea Board also made irregular payment of subsidy of ₹ 48 lakh to eight gardens, where field activities were undertaken prior to issue of NOC and in these cases, the criteria of 75 days was not adhered to. The Ministry stated in October 2009 that in few cases where soil has been analysed after commencement of planting, subject to soil suitability analysis report and based on the satisfactory growth of the tea plants, the lapse on the part of the garden is condoned. We, however, observed that condonation of non-adherence to such scheme conditions, were not kept on record in individual cases.

4.9.5 The scheme prescribed minimum rehabilitation period of 18 months for plains and 12 months for hills before replanting and ensuring physical and chemical suitability of soil before replanting. We reviewed cases of 430 sections and observed that:

- ✓ In 14 *per cent* sections, no rehabilitation was done despite the fact that there was no certificate/recommendation from Tea Research Association/United Planters Association of South India (TRA/UPASI) that the same was not required.
- ✓ Of 318 sections where rehabilitation was undertaken, in 32 *per cent* (100 sections), dates of completion of rehabilitation were not recorded. As such, adherence to the prescribed period of rehabilitation could not be verified in audit.
- ✓ In 29 sections, the Tea Gardens did not adhere to the minimum time period of rehabilitation before replanting.
- ✓ In 12 *per cent* sections, the soil analysis test reports were not submitted by the Tea Gardens.
- ✓ In 114 sections, though recommendations were made by soil-testing laboratories to make the soil suitable for plantations, the Board released the subsidy without ascertaining the action taken by these Tea Estates/Gardens in this regard.

Therefore, Tea Board released payments for subsidy without ensuring adherence to the laid down scheme conditions. The Ministry stated in October 2009 that though 12-18 months rehabilitation period had been prescribed, it was not sacrosanct to adhere to this period and replanting was permitted on the basis of merits of soil analytical report. Though we agree that the same could be decided on the basis of merits of soil analytical report, Tea Board should ensure adherence to the laid down terms and conditions by the applicants where need for rehabilitation has been felt and the same has been commenced.

Thus, monitoring was lax and weak as prescribed inspections were not carried out on time or not carried out at all. While disbursing subsidy, Tea Board could not adequately ensure that the growers were adhering to the various laid down conditions. The Board also allowed further

Rejuvenation pruning

subsidies without assessing the impact of earlier subsidies to the same growers. Thus, the focus of Tea Board was on the disbursement of subsidy rather than on ensuring completion of actual replantation which could enhance the productivity.

4.10 Rejuvenation pruning is one of the most important operations, next to planting, which directly determines the productivity of tea bushes. It has to be carried out periodically in spite of huge crop losses it results in. Tea Board subsidises the activity of rejuvenation pruning under TPDS. The salient features of the scheme were as under.

Terms and conditions for subsidising rejuvenation pruning

- Tea Board was to evaluate impact of rejuvenation on productivity (long term performance).
- To be effective, rejuvenation pruning should be carried out only on potentially healthy bushes.
- The prescribed period of undertaking the activity of pruning was from 1st April to 30th September. The application specifies that if the rejuvenation pruning is not done in the prescribed period, the application is liable to be rejected.
- Specific time schedule was laid down for inspections by Tea Board officials.
- All the beneficiaries should be registered with Tea Board.

Of 1320 payment cases, we selected a sample of 414 cases (31 *per cent*) covering 187 gardens and 220 sections. In this regard we observed that :

Failure to evaluate long-term impact of rejuvenation

4.10.1 Tea Board did not evaluate the impact of rejuvenation on productivity in any of the cases test checked. The Ministry stated in October 2009 that as per the evaluation report of AF Ferguson, the fields rejuvenated during the Tenth Plan period have registered productivity increase of about 47 *per cent* as compared to the pre-pruning average yield. However, we observed that total area selected as sample by AF Ferguson was only 124.77 ha (1.14 *per cent* of the total area under rejuvenation pruning).



Pruned tea bush

Prescribed period for rejuvenation not adhered to

4.10.2 Though Tea Board prescribed undertaking the activity of pruning during the period from 1st April to 30th September, rejuvenation pruning was conducted beyond the above period in 167 sections (76 per cent) out of 220 sections.

Delay in conducting inspections

4.10.3 Though the scheme stipulated specific time schedule for each inspection, there were delays of one to five years in conducting first inspection in 50 per cent (110 out of 220 sections) sections test checked in audit. The Coonoor office conducted pre-approval and first inspection on the same date in 40 per cent cases. It stated that the major cause for delay in carrying out field inspections was the limited manpower at the disposal of the Board.

Subsidy released to non-registered growers

4.10.4 In Coonoor office, all the beneficiaries examined in audit were small growers, who were not registered with the Tea Board. As such, the Board paid a subsidy of ₹12 lakh to the unregistered growers who were not eligible to receive subsidy.

Thus, Tea Board did not assess the impact of rejuvenation pruning on productivity. Delayed inspections and non-adherence to prescribed period (April to September) for carrying out rejuvenation (in 76 per cent of cases) added to the ineffective implementation of the scheme. The deficiencies in implementation of rejuvenation pruning need to be addressed to ensure enhanced productivity. The Ministry stated that the deficiencies highlighted and the recommendations made by Audit have been taken note of for better administration of the scheme.

Creation of

4.11 The salient features of the scheme for creation of irrigation

irrigation facilities

facilities were:

Terms and conditions for subsidising creation of irrigation facilities

- Tea Board was to subsidise (25 *per cent* of the total cost including cost of creation of Irrigation sources or @ ₹10,000 per hectare whichever was less in one installment) procurement of various items like sprinkler equipment, drip irrigation system, pipelines, motors, pump sets and creation of irrigation source such as check dams, tube wells etc.
- Tea Board was to conduct pre-approval inspection and issue a “No Objection Certificate” for installation of machinery procured.
- If the No Objection Certificate (NOC) was not issued within 75 days from date of submission of application, the applicant could go ahead with the activity.
- A post-installation inspection was also to be done.

Deficiencies in disbursement of subsidy

4.11.1 Tea Board fixed an overall target of 9000 ha for coverage under the scheme during the Tenth Plan Period. We observed a shortfall of 98 *per cent* against this target. 25 beneficiaries were disbursed subsidy of ₹1.09 crore during 2002-07. In this regard, we examined 20 cases and observed that:

(a) Tea Board did not conduct pre-approval inspections in seven cases due to lack of manpower. In these cases, post installation inspections were conducted after a time gap of 237 to 736 days.

(b) In eight (40 *per cent*) cases, the Tea Board disbursed subsidies although applicants were not eligible for grant of subsidy due to reasons like installation of machinery before submitting application/before issue of NOC, default in payment of PF, loan etc.

(c) Though Ministry assured during 2009 that a list showing the names of the beneficiaries would be prepared, no such list was prepared as of March 2010.

Due to the substantial shortfall of 98 *per cent* in creation of irrigation facilities, this scheme could not have any positive impact on productivity. Tea Board however, intimated in May 2011 that they have achieved the target during Eleventh Five Year Plan.

New Planting in North Eastern

4.12 The salient features of the scheme for New Planting in North Eastern States and Uttarakhand were:

States and
UttarakhandDeficiencies in
execution of the
scheme

Terms and conditions for subsidising new planting

- Subsidy was allowed for new plantations (up to 10.12 ha) in North Eastern states and Uttarakhand as a part of TPDS.
- Applicant should have title over the land proposed to be planted and should be registered with Tea Board.
- The soil should be suitable for tea cultivation.
- Only approved planting materials to be used for planting.
- All culture operations and soil conservation measures should be undertaken.

4.12.1 Guwahati office disbursed ₹22.78 crore during 2002-07 to 1563 beneficiaries in North Eastern states. In this regard, we examined 10 per cent cases (163 beneficiaries containing 163 sections) and observed that:

(a) In 90 per cent (147 out of 163) sections, Tea Board disbursed subsidy even though the applicants had completed planting before submission of applications under the scheme.

- In 40 sections (27 per cent), planting was done prior to April 2002 and in some cases as early as 1998. These cannot be considered as cases of 'new planting'.
- In balance 107 sections where planting was completed after April 2002, but before submission of application, Tea Board did not conduct pre-approval inspections and did not assess physical suitability of soil.

(b) Tea Board delayed the first inspection from 33 to 1526 days. The delay was more than one year in 69 of these cases.

(c) Though Ministry assured during 2009 that a list showing the names of the beneficiaries would be prepared, no such list was prepared as of March 2010.

The Ministry did not furnish specific reply in this regard. As Tea Board has kept a target of 7450 ha with an outlay of ₹36 crore in the Eleventh Five Year Plan for new planting in North Eastern States and Uttarakhand, these deficiencies need to be addressed.

Thus, Tea Board disbursed the subsidy in the cases where the plantation was completed even before the submission of the applications and, therefore, the adequacy of pre-requisite conditions like soil suitability, adherence to the proper culture operation and soil conservation measures were not assessed.

4.13 The salient features of the scheme for setting up of pilot tea-producers' societies were:

Terms and conditions for subsidising self-help groups

- SHGs were to be provided subsidy on their collective efforts towards tea development. Each society was to have at least 50

Setting up of pilot
tea producers
societies (Self help)

groups - SHGs)

small grower members and registered as per the provisions of the Societies Act.

- The specific activities included extension – technology and information dissemination, leaf collection, storage and transportation and procurement and supply of inputs such as fertilisers, plant protection chemicals, sprayers, pruning machines, irrigation equipment etc. to the members of the society.

Shortcoming in implementation of the scheme

4.13.1 We observed that there was a shortfall of 63 *per cent* in achieving the target of setting up 100 SHGs during the period 2002-07. Tea Board disbursed ₹2.27 crore to 37 SHGs. We examined case files of 21 SHGs (57 *per cent*) and observed that:

- No SHG was registered as per the provisions of Societies Act.
- No documentary evidence was found in support of activities of these SHGs such as technology and information dissemination, leaf collection, storage and transportation etc., to the members of the society.

The Ministry stated that as there was considerable difficulty in bringing together large number of growers, it was decided to limit the minimum size of the membership to 20 per SHG and to recognise such SHG provided the group had an affiliation to the All Assam Small Tea Growers Association which was a registered apex body for the small tea growers in Assam.

Tea Board may ensure adherence to laid down terms and conditions in the Eleventh Five Year Plan as they have a target of setting up 212 SHGs to achieve and disburse subsidy of ₹6.80 crore.

Tea Board stated in May 2011 that they have achieved the target for the first four years of Eleventh Five Year Plan.

Non-usage of mechanical aids (Pruning Machines) for field operations

4.14 We further observed that though the Board targeted 25,000 hectare tea cultivated land for use of Pruning Machines for field operations, no field operation was conducted using such machines and the activity registered 100 *per cent* shortfall during 2002-11. Though the above practice is prevailing in major tea producing countries like Sri Lanka, Japan and Africa, Tea Board could not popularise this practice amongst the planters with the aid given by the Ministry. The Ministry attributed the shortfall to lack of adequate manpower for close supervision.

Our Recommendations and response of Tea Board

4.15 We recommended in November 2009 that there was a need to strengthen documentation both in individual cases as well as for overall scheme implementation. There was also need to identify mandatory terms and conditions for various developmental schemes to ensure their strict compliance. We also recommended the need to conduct inspections on time and evaluate the impact of the subsidies disbursed.

There was a need for Tea Board to devise a mechanism to ensure that subsidy for new planting was given only in genuine cases involving 'new planting' and non-adherence to laid down conditions should result in calling back of the subsidy.

Tea Board accepted these recommendations in December 2009 and October 2010 and stated that:

- *Documentation process in Head Office, Zonal and Regional Offices would be strengthened by computerising the data entry process for easy generation of Management Information System for getting snapshot of the progress of implementation of the scheme as well as particulars of payments made to individual tea gardens at any given point of time by March 2012.*
- *Fresh directions had been issued (August 2010) to the field offices to evaluate the physical performance in the areas for which assistance had been provided in the past while carrying out new inspections in respect of fresh applications, ensure fulfillment of the important mandatory conditions by the gardens to become eligible for the financial assistance by March 2012.*

Conclusion 4.16 One of the primary reasons for low productivity of tea cultivation in the country was ageing plantations. Therefore, programmes for replantation/replacement plantation, rejuvenation pruning etc., are necessary for enhancement of productivity which has declined substantially over the years. The total area under commercially unproductive bushes increased from 42 per cent in 1997 to 57 per cent in 2009. As of 2009, the capital investment and cost of subsidy support for replantation is estimated at ₹6091.21 crore and ₹1522.80 crore respectively. Against this huge requirement, yearly spending of Tea Board was mere ₹21.06 crore during Tenth Five Year Plan and ₹18.87 crore in first four years of Eleventh Five Year Plan on all activities including replantation.

The targets for replanting/replacement planting were set very low and area covered during the Tenth Five Year Plan was a mere 2.63 per cent of the commercially unproductive bushes as on 31 December 2001. At this rate, the backlog for replanting/replacement planting up to 2007 would take another 145 years to wipe off. Interventions by Tea Board to increase productivity by replantation of commercially unproductive bushes were thus grossly inadequate. There were also deficiencies in implementation of various other activities aimed at increasing productivity. **Continuously increasing commercially unproductive bushes which became 57 per cent of total bushes at the end of 2008 is a serious threat and may pose major risk for the tea industry in the immediate future unless appropriate and timely interventions are made for arresting increasing trend of commercially unproductive**

bushes along with exploring areas for new plantations. This would require massive efforts in terms of finances and manpower.

Considering the poor performance of Tea Board in enhancing productivity of tea in India by replacement of unproductive tea bushes, we are of the view that Tea Board is not fully equipped to effectively deal with this critical situation threatening the Tea industry. Tea Board's proposed course of action and timelines for enhancing productivity, even if implemented, may only impact on improving effectiveness of the schemes already designed. The Government thus needs to take a holistic view of this critical situation and take major structural and strategic decisions like redesigning of programmes, schemes, delivery mechanisms and much higher financial outlays.

Chapter 5 Development of Tea: Improving quality of tea

Objective 3: Whether developmental activities undertaken by Tea Board had an impact on improving quality of tea in India.

Improving quality of tea

5.1 The price of a commodity like tea depends on its quality. In the past, Indian tea used to command premium prices in the international markets due to its superior quality.

Low increase in unit price of Indian Tea

5.2 In respect of export of tea, the unit price can be worked out by dividing the total quantum of tea exported at a particular time by the total value of tea exported at that time. Unit price of Indian Tea as compared to that of other major tea-exporting countries like Japan, Mauritius, Sri Lanka and Kenya are shown in the following table:

(in US \$ per kg)

Table 7 – Comparison of unit price of tea of major tea-exporting countries⁴¹

Name of the country	2000	2001	2002	2003	2004	2005	2006	2007	2008 (E)	2009
India	2.04	1.95	1.79	1.97	2.06	2.09	2.03	2.45	2.71	2.91
Japan	15.87	13.11	14.60	16.29	18.15	18.34	16.37	16.47	18.90	18.76
Kenya	2.12	1.75	1.58	1.68	1.64	1.67	2.09	1.99	2.34	2.63
Mauritius	4.37	5.27	5.72	5.63	8.29	7.57	8.44	7.41	9.26	3.06
Sri Lanka	2.37	2.28	2.24	2.25	2.41	2.58	2.64	3.26	4.02	4.09

Source: Tea Board, E – estimated

It can be seen from above that price realisation from export of tea by Sri Lanka has increased by 73 per cent, whereas price realisation of Indian tea has shown increase of only 43 per cent. The reason for lower increase in price realisation of Indian tea is primarily due to inferior quality, adverse product mix and other marketing factors. Further, while the world market demands orthodox tea, India produces only 10 per cent orthodox tea (90 per cent CTC tea). Tea Board thus, needs to stress on the improvement in the quality of CTC tea and increase the production of orthodox tea.

During the Tenth and Eleventh Five Year Plans, the schemes implemented by Tea Board mainly focused towards production of good quality tea and the thrust areas were renovation of old worn out machines to augment the processing capabilities, diversification of product profile i.e., from CTC to Orthodox/green tea manufacture, improving packaging standards and increasing the volume of value added tea and specialty tea. Tea Board formulated and implemented three schemes for quality improvement i.e. Orthodox Tea Production Subsidy Scheme, Quality Upgradation & Product Diversification Scheme (QUPDS) and Crash Scheme.

⁴¹ Figures from 2009 onwards not available with Tea Board

India's
position in
production of
Orthodox tea

Low share in
export of
orthodox tea

5.3 Production of tea in India by different methods of manufacturing during the last five years is given below:

(in million kgs)

Category	2004	2005	2006	2007	2008 (E)	2009 (E)	2010 (E)
CTC	815	849	894	887	875	870	850
Orthodox	71	87	77	89	97	95	100
Green	7	10	11	10	9	14	16
Total	893	946	982	986	981	979	966

It can be seen from the above table that in 2010, of the total tea production in India, 98 per cent is black tea and only two per cent is green tea. Of the 98 per cent, 88 per cent tea is CTC and 10 per cent is orthodox.

5.4 In the world tea market of 1,648 million kg in 2008, black tea accounts for 83 per cent, while green tea accounts for the remaining 17 per cent. In the black tea segment, the share of orthodox tea is 44 per cent, whereas for CTC it is 39 per cent (643 mkg). Thus, orthodox/green tea segment accounts for 61 per cent (1005 mkg) of world tea trade. Therefore, even if we assume that all the orthodox/green tea produced in India is exported (without taking into account the domestic consumption of orthodox/ green tea), the export share of orthodox/green tea would be around 10 per cent. Thus, to enhance its share of export, India needs to enhance production of orthodox tea. The overall picture of orthodox tea production in India since 1961 is given in table below:

(In million kgs)

Year	Production of orthodox tea ⁴²	Total production of tea	Percentage of total production
1961	232	354	66
1971	196	436	45
1981	203	560	36
1991	151	754	20
2001	94	854	11
2002	93	839	11
2003	79	878	9
2004	78	893	9
2005	97	946	10
2006	88	982	9
2007	99	986	10
2008	106	981	11
2009	109	979	11
2010	116	966	12

⁴² Includes orthodox and green tea

Orthodox Tea Production Subsidy Scheme

The percentage of orthodox tea production in India which was as high as 66 *per cent* of total production in 1961, came down to 11 *per cent* in 2001. Since then, the share has remained more or less stagnant.

5.5 Some of the main reasons for limited production of orthodox tea are inadequate capacity to produce and higher cost of production of orthodox tea vis-à-vis CTC tea. Tea Board proposed to address the issue of higher cost of production through Orthodox Subsidy Scheme and inadequate capacity through QUPDS and Crash Scheme. These schemes have been discussed in the succeeding paragraphs.

5.6 The scheme was introduced to correct the imbalance in the product mix within the country and to re-establish the earlier pre-eminence of India as a supplier of high quality and competitively priced orthodox tea in the international market. The scheme was approved by the Ministry in June 2005 and an amount of ₹132.41 crore was disbursed during November 2005 to March 2011. The main features of the scheme are given below.

Terms and conditions of Orthodox Tea Production Subsidy Scheme

The scheme allowed subsidy for production of orthodox tea @ ₹3 per kg for leaf grades and ₹2 per kg for dust grades for existing levels of production with additional incentive @ ₹2 per kg for the incremental volume over the previous year from 1st January 2005 to 31st March 2007.

(a) In the case of producers who produced only (100 *per cent*) orthodox tea, Tea Board was required to carry out periodic inspections, verify factory records to check the volume of tea manufactured. The Inspectors of the Board were to certify that the factory was registered with the Board and produce only 100 *per cent* orthodox tea and thus was eligible for subsidy.

(b) In case of producers who route their tea through auctions, the quantity of tea sold through auction during the given month was to be considered for subsidy provided that the said volume was certified by the brokers auctioning the tea and countersigned by the competent authority of the concerned auction organiser.

(c) For producers who did not route their tea through auctions or who did not produce 100 *per cent* orthodox tea, such as producers of both CTC and orthodox tea, in the case of direct exports by the producer or for the tea offered for exports through merchant exporters, a list of documents was specified, which were to be relied upon for releasing the subsidy, whereby ensuring that subsidy was not released for CTC tea.

(d) Additionally, in the case of Darjeeling Tea Producers, the quantity certified under Certification Trade Mark scheme of the Board with the clear indication of grades of tea produced during the scheme period only were to be considered for subsidy.

In all cases, the Board was to ensure that the subsidy was not claimed under two different modes for the same quantity of tea.

A formal Committee comprising of Commerce Secretary, Additional Secretary (Plantations), Additional Secretary & Financial Adviser, Department of

Impact of the scheme on production of orthodox tea

Commerce, Chairman, Tea Board and representatives of Planning Commission, Department of Expenditure, Department of Revenue, Banking Division and the Industry associations (north and south) was to monitor the implementation of the scheme. Our audit findings in respect of the Orthodox Subsidy Scheme are discussed below:

5.6.1(a) The scheme was introduced in June 2005 and subsidy disbursement was started from November 2005. However, there was only marginal increase in quantum of orthodox tea production during 2006 to 2010 as compared to 2005, though an amount of ₹132.41 crore was disbursed up to the year 2011. In fact, the target for production of 160 m kgs of orthodox tea per year as spelt out in Medium Term Export Strategy as a result of the steps taken by Tea Board on its recommendation was never met. Tea Board stated in January 2010 that price of orthodox tea is generally market driven. The all-India average auction price of orthodox tea in 2004 was ₹77.18, while in 2005 it was ₹63.42. Hence, considering the decreasing price trend of 2005, the owners could not risk producing more orthodox tea during 2006. This indicates that there was no impact of subsidies disbursed by Tea Board under this scheme.

(b) The target of 160 m kgs was set in the Medium Term Export Strategy (approved by the Ministry) for the terminal year of Tenth Five Year Plan. However, this depended on the industry diversifying its product profile from CTC tea to dual manufacturing (CTC and Orthodox). The role of the Board in this regard was first to identify CTC manufacturing units/ new entrants, who were capable to transform themselves into dual manufacturers/ start manufacturing orthodox tea. After assessing the units, the requirement of funds was to be estimated and subsidy was to be provided accordingly. We observed that the Board did not exercise the said functions. Therefore, neither the target of 160 m kgs which was set by the Medium Term Export Strategy nor the target of 126 m kgs per annum set as per the Tenth Five Year Plan could be achieved.

(c) During the Eleventh Five Year Plan (2007-12) the Board fixed a target of 380 m kgs for orthodox tea production i.e., an average of 76 m kgs per year. The target has no meaning as up to the year 2007, annual production has never been less than 76 m kgs.

(d) The effectiveness of the scheme was to be monitored by a high-level committee. However, no such monitoring of the scheme had been done as of January 2008. The Ministry stated in October 2009 that an independent professional was entrusted the work of scheme evaluation and mid-course correction, if any, would be done based on the outcome of the study.

(e) We further observed that the eligibility conditions were deficient to the effect that subsidy was paid on the quantity of production/auction sale/export etc., without making it mandatory to increase a minimal percentage of the production of orthodox tea.

**Excess/
irregular
payment of
subsidy**

The Ministry stated in October 2009 that the producer needs to factor in the risks involved in production of orthodox tea. Hence, it was contemplated to achieve the incremental production through incentivisation rather than prefixing minimal percentage of production increase as a mandatory requirement.

However, the fact remains that in the absence of a benchmark for perceptible increase in orthodox tea production, there was no impact of the subsidy paid. The independent professional agency which was entrusted the work of evaluation of the scheme also opined⁴³ (December 2009) that due to generic nature of the subsidy scheme across all regions and for all tea companies producing orthodox tea irrespective of volume and quality of tea produce, exact impact of the scheme could not be evaluated.

5.6.2 In 2009, there were 482 orthodox tea factories in India (including dual manufacturing factories) of which 321, 323, 374 and 230 factories were disbursed subsidies in the year 2005, 2006, 2007 and 2008 respectively. We reviewed 204 payment cases covering 115 factories⁴⁴ during the period November 2005 to December 2009 on a test check basis. In respect of cases of 100 *per cent* orthodox tea producers, we observed that:

(a) Tea Board did not carry out periodic inspection of factory records to verify the volume of tea manufactured as per the instructions of the Ministry in all the 60 factories manufacturing 100 *per cent* orthodox tea. In fact, Tea Board amended the scheme in October 2006 and stated that the procedure in respect of volume of tea produced would be based on documentary evidence submitted by the factories. However, we found that volume of tea produced in the factory could not be verified from Excise invoices, as the invoices ed details of total dispatch of tea from factory premises, which could include tea produced during previous years or tea purchased from outside for blending and sale. Thus, by not carrying out periodic inspections for verification of factory records to verify the volume of tea manufactured, Tea Board disbursed subsidy to all factories irrespective of increase/decrease in production of orthodox tea. In four⁴⁵ illustrative cases, we observed that Tea Board disbursed subsidy on the basis of Excise invoice for 9,05,455 kgs during 2005. We, however, found that the quantity actually produced by these factories on the basis of the e-returns submitted by them to Tea Board was only 8,06,662 kgs. Therefore, Tea Board made payment of subsidy for an excess quantity of 98,793 kgs.

The Ministry stated that subsidy was paid on the basis of Excise Invoice as per scheme guideline and not on the basis of e-return. Hence, there was no excess payment. However, the fact remains that e-returns are submitted by the manufacturers to Tea Board monthly declaring the production of tea

⁴³ The report has been submitted by AC Neilson and acceptance/approval of the Ministry is awaited.

⁴⁴ 60 factories manufacturing only orthodox tea, 21 factories manufacturing Darjeeling tea, 20 manufacturing both CTC & orthodox tea and 14 Green tea factories.

⁴⁵ KDHP Pvt. Ltd, Stanes Amalgamated Estate Ltd., Rahimpur Tea Company Ltd., Harrision Malyalam Ltd.

while excise invoice indicates the quantum of tea exported which may have included a portion of quantum of tea procured by the manufacturer from outside their factory. Therefore, we are of opinion that the condition formulated in the guidelines itself is deficient.

(b) Out of the above 60 factories, in 54 case files, Tea Board did not keep on record a certificate stating that these factories were producing only 100 *per cent* orthodox tea. Tea Board stated in March 2010 that factories once inspected, need not be inspected every year for certifying them as 100 *per cent* orthodox tea factories. We, however, observed that in six factories to which subsidy was disbursed in 2005 itself, i.e., at the very beginning of the scheme, no certificate was placed on record.

(c) In two⁴⁶ other cases, while calculating the incremental volume of a year over the previous year, the Board considered only those months where there was an increase in production and ignored the months where there was a decrease with respect to the previous period. Thus, due to wrong calculation of incremental volume of production the Board made an overpayment of ₹2.97 lakh. The Ministry stated that the subsidy was paid on the incremental production of the current year over the previous year. However, the fact remains that total increase cannot be arrived at without taking into consideration the decrease in production during this period. Considering only the months with increased volume and not the months with decreased volume would lead to a situation wherein without any overall incremental increase during a year, the applicant would get subsidy. This loophole needs to be plugged.

(d) In respect of Darjeeling Tea Producers, the subsidy was to be disbursed for the quantity certified under Certification Trade Mark (CTM) scheme of the Board with the clear indication of grades of tea produced. We, however, observed in all the 21 cases test checked that Tea Board disbursed subsidy on the basis of information provided by Darjeeling Tea Association and not on the basis of CTM scheme. Tea Board replied in March 2010 that it was due to absence of indication of separate grade in the CTM scheme.

(e) Tea Board adjusted a subsidy of ₹1.64 crore involving 91 applicants against the loan on which they had defaulted, thereby defeating the purpose of providing incentive to manufacturers to reduce their production cost of orthodox tea. The Ministry stated that it was the policy decision of the Board. However, the fact remains that in these cases, production of orthodox tea was not encouraged.

Thus, while the tea industry needed to produce more orthodox tea to capture international markets, production of orthodox tea in India is not significant. Tea Board's support to boost up orthodox tea production had not been effective as there was no mandatory condition of a perceptible

⁴⁶ Bhavani Tea Co. Ltd., United Nilgiri Tea Estate Co. Ltd.

Quality Upgradation and Product Diversification Scheme

increase in production of orthodox tea for release of subsidy.

5.7 The QUPD scheme was implemented from 2002 to provide subsidy to the needy tea gardens/factories towards production of good quality tea as well as augmenting their processing capabilities by improving packaging standard, product diversification and quality certification. During 2002-09, Tea Board received ₹109.43 crore and disbursed ₹110.87 crore to 1747 manufacturing units, out of the total 1896 manufacturing units in India. The main features of the scheme are given below.

Terms and conditions of Quality Upgradation and Product Diversification Scheme

- Bought leaf factories, single estate tea factories and medium sized tea gardens were eligible to get the subsidy.
- Orthodox processing facilities including rollers, conventional dryers and various sorting equipment (Middleton sorters, bichromatic colour sorters, etc.) withering facilities – complete withering troughs inclusive of construction were to be subsidised.
- Green tea processing facilities, tea-packaging facilities, tea-bagging facilities, tea-cleaning equipment, blending and allied machineries were also to be subsidised.
- The applicant factory had to mobilise 75 *per cent* of the total funds required and Tea Board provided subsidy of 25 *per cent* of the total cost subject to a limit of ₹0.25 crore in single installment after installation of the approved machinery.
- Subsidy for acquisition of ISO⁴⁷/HACCP⁴⁸ and organic certification was extended at 50 *per cent* of the cost of certification subject to a maximum of ₹0.75 lakh.

Ineffective monitoring of impact/benefits accrued

5.7.1 We selected a sample of 19 *per cent* (338 out of 1747) cases, for scrutiny and observed that:

(a) In none of the selected cases, the quality of green leaf was verified, though the manufacturing units availing the subsidy were supposed to use only good quality green leaf⁴⁹ as per the scheme guidelines. The Ministry stated that these were the general guidelines and it was the responsibility of the factory to ensure that they procure only the good quality green leaf and it would be simply impossible task on the part of the Board to keep a daily watch on the quality of leaf purchased by each and every factory. The reply may be viewed in light of the fact that this was one of the important conditions for disbursement of subsidy, violation of which was to result in

⁴⁷ International Standards Organisation.

⁴⁸ Hazard Analysis and Critical Control Point (HACCP) is a process control system designed to identify and prevent microbial and other hazards in food production. It includes steps designed to prevent problems before they occur and to correct deviations as soon as they are detected. Such preventive control system with documentation and verification are widely recognised by scientific authorities and international organisations as the most effective approach available for producing safe food. Bureau of Indian Standards (BIS) offers such certification.

⁴⁹ Not less than 85 *per cent* of the leaf consisting of two to three leaves + single and two leaf banjies

refund of subsidy along with 12 *per cent* interest. Thus, the intention of the scheme to disburse subsidy for only good quality green leaf was not met in absence of verification mechanism with Tea Board.

(b) The Board did not assess the benefits accrued from the activity in terms of price realisation, product augmentation, quality upgradation and cost reduction in manufacturing process, as required under the scheme. Though the Ministry stated that the scheme was evaluated by an independent agency, we observed that case to case evaluation was not done as prescribed under the scheme.

(c) Applicants were required to submit annually a document showing performance of the machinery items installed and benefits accrued in terms of value realisation, augmentation, reduction in cost of processing. We found that this was not submitted by any client in respect of Kolkata and Guwahati offices. In respect of Coonoor office, though in four cases, manufacturers submitted the annual statements, the follow-up information was furnished only once and not every year as required. Thus, in the absence of such details, Tea Board had no mechanism to follow up on the impact of subsidy. The Ministry agreed and stated in October 2009 that actions have been initiated for mandatory submission and follow up of performance report after completion of each account year in the current plan period.

Subsidy paid for ineligible items

5.7.2 Tea Board paid subsidy of ₹1.40 crore in 41 out of 338 cases for ineligible items such as conveyor systems, dehumidifiers, AC machine, electronic weighing scale, moisture meter, electrical equipment and fittings etc. No justification for release of subsidy to these ineligible items was placed on record by the Tea Board. The Ministry stated in October 2009 that the list of eligible items is continually updated as and when the industry seeks inclusion of additional items. Tea Board is empowered to amend/condone/relax any norm of the scheme provided it meets the objective of the scheme. However, such condonation/relaxation granted by Tea Board was not found on record in these cases.

Objective of conversion from CTC to orthodox tea not achieved

5.7.3 (a) 157 (46 *per cent*) out of 338 cases test checked, who availed the subsidy of ₹16.87 crore for upgradation of existing machinery, were solely CTC tea manufacturers. Only they could have converted to orthodox tea manufacturing. They, however, chose to upgrade their existing machinery instead of converting to production of orthodox tea. The Ministry stated that the scheme had only an enabling provision for facilitating the conversion from CTC to orthodox, but it cannot be mandatorily forced on the tea factories as it was a commercial proposition to be decided by the factory managements in consideration of the market conditions. Thus, the objective of conversion from CTC to orthodox tea was not fulfilled in these cases.

5.7.3 (b) In one case, a company applied for subsidy in May 2006 for establishing a new orthodox factory and buy Colour Sorter machine from Japan. Though the firm did not procure the said machine till September 2008, Tea Board released a subsidy of ₹20.85 lakh for other machines

<p>Objectives of quality certification and awareness not achieved</p>	<p>procured and installed prior to submission of the application. The purpose of releasing subsidy was thus not achieved.</p> <p>5.7.3 (c) In 15 cases (4 per cent) only, subsidy of ₹5.82 crore was released by Tea Board to encourage blending and packaging.</p> <p>5.7.4 Of 338 cases, only in 11 cases, subsidy was released for obtaining Hazard Analysis and Critical Control Point (HACCP) certification and organic tea certification. In none of the cases test checked, subsidy was released to promote quality awareness programmes in small growers segment. Thus, the objectives of undertaking quality certification and promoting quality awareness were not achieved.</p> <p>The Ministry did not give any reply for the same.</p>
<p>Crash Scheme</p>	<p>5.8 In the year 2001-02, Tea Board implemented Crash Scheme for encouraging correction of imbalance in manufacturing capabilities of manufacturers and production of non-Reconditioned (RC)⁵⁰ CTC tea. A payment of ₹8.23 crore was made to 79 factories over Ninth and Tenth Five Year Plan. Our review of 25 cases (32 per cent) showed that Tea Board allowed subsidy for machineries, other than those mentioned in the scheme conditions in five cases. Only three factories committed for conversion and 18 factories obtained quality certification under HACCP/ISO, despite the same being mandatory. Tea Board did not test check and verify quality standards of tea leaves as well as made tea as per the requirement of the scheme.</p>
<p>Price Subsidy Scheme (PSS)</p>	<p>5.9 The scheme aimed at giving relief to registered small growers of tea in view of the low price realisation for green leaf. The scheme was operated for four months (with effect from February 2004), depending on the price situation and was to be suspended, if the average price of made tea exceeded ₹55 per kg in South Indian auctions and ₹65 per kg in North Indian auctions for five consecutive weeks. The subsidy payable was an amount equivalent to one fourth of the difference between the ceiling price limit of ₹55 or ₹65 and the monthly average auction price of the region per kg of made tea, subject to the maximum of ₹2.00 for each kg of green leaf. Other features of the scheme were as under.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p style="text-align: center;">Terms and conditions of Price Subsidy Scheme</p> <ul style="list-style-type: none"> • Small growers had to submit application in the prescribed form (Form I) to their respective tea factories and the factory was to then consolidate these particulars in respect of all their supplier small growers (Form II) and send the </div>

⁵⁰ In Bought Leaf Factories (BLFs – a factory that procures at least 2/3rd of its leaf from small growers)) in South India, high percentage of coarse leave in the raw material (i.e. plucked green leaf) results in low/un-withered leaves, which, during subsequent stages of manufacturing, results in formation of big balls and do not conform to standard manufacture. Such tea does not have any market. BLFs reuse this un-saleable form of tea for re-conditioning along with fresh batch of green leaves. The practice is not desirable as it leads to the manufacture of sub-standard quality of tea. The scheme was introduced to address two aspects to enhance quality viz., fine plucking of tea leaves (Good quality tea is produced from tender and succulent fine leaves i.e., first 2 to 3 leaves from the tip of a shoot) and correction of imbalance of tea-processing line in a tea factory.

same for claiming subsidy to Tea Board.

- Tea Board granted subsidy to the tea factories, which were to be encashed and disbursed to small growers by the factories after obtaining a stamped receipt from each of them.
- The factories were supposed to maintain original cash receipts and record the quantum of payment every month in a separate ledger (Form III) and send monthly certificates (Form IV) to the Board to the effect that payment had been made to each of the supplier small grower as per the sanction order.
- All tea factories were required to properly maintain all the records regarding cash receipts and subsidy payment ledger so as to enable Tea Board officials to verify the same.

During 2004-05 and 2005-06, the Board disbursed ₹21.33 crore under this scheme, of which ₹21.14 crore (99 *per cent*) was disbursed from Coonoor office. We observed that up to March 2005 Coonoor office disbursed subsidy of ₹20.36 crore to 194 Tea Factories who, in turn, disbursed the amount to 47,379 small growers. In this regard, we observed the following:

Payment made to un-registered growers

5.9.1 The Board disbursed subsidy to 47379 growers planting tea in South India through its regional office at Coonoor. We, however, observed that in South India, the total number of small growers registered with the Board was 16583 as of December 2009. As such, the Board released subsidy to 30796 growers who were not registered with the Board.

Proper record of payment to small growers not maintained

5.9.2 Only 31 out of 194 Tea Factories submitted the Form IV giving a declaration regarding disbursement of subsidy of ₹2.32 crore to small growers. Further, records showed that though subsidy was disbursed to 47379 small growers through these factories, acquittance of only 393 small growers for ₹4.60 lakh was found on record in Tea Board, Coonoor. Thus, there was no evidence to prove that the remaining 163 factories had paid the amount of subsidy of ₹20.31 crore as disbursed by Tea Board to the remaining 46986 small growers.

The Ministry stated that the scheme was purely an ad hoc intervention which provided some relief to the small growers to tide over the distress condition and had no impact in bringing out any positive changes. However, the Ministry did not offer any comments on the authenticity of disbursement of ₹20.31 crore to remaining 46986 growers.

Our Recommendations and response of Tea Board

5.10 We recommended in November 2009 that the perceptible increase in production of orthodox tea may be prescribed as a one of the conditions for release of subsidy under the Orthodox Subsidy Scheme. We also recommended for strengthening of the monitoring mechanism for implementation of the QUPD scheme to ensure the augmentation of processing capabilities of orthodox tea. We further recommended that a mechanism may be devised to analyse the reasons for decline in quality even after payment of subsidy for remedial measures.

Tea Board accepted these recommendations and stated in October 2010 that

in the event of Government agreeing for the continuation of the scheme during the remaining period of Eleventh Five Year Plan, the suggestions of Audit regarding introduction of a benchmark for perceptible increase in production would be considered for implementation. Tea Board issued directions in August 2010 to field offices to carry out periodic inspections of factory records to verify actual orthodox tea production. Tea Board proposed the strengthening of inspections of factories by appointment of Factory Development Officers as a new cadre, put in place a mechanism to assess the impact of the subsidy disbursed on the quality of tea and evolve appropriate remedial measures.

Conclusion **5.11** Lower price realisation of Indian tea was primarily due to inferior quality and adverse product mix. The main objective of Orthodox Tea Production Subsidy Scheme was to correct the imbalance in the product mix within the country. There was no increase in production of orthodox tea and actual production of orthodox tea was substantially below the target of Tea Board despite the scheme being in operation for more than four years. The scheme was ill conceived as it did not lay down enhancement in production of orthodox tea as a pre-requisite for eligibility of subsidy and was ineffectively implemented as subsidy was allowed despite non-submission of proper documents/without proper verification of factory records.

QUPD Scheme could not ensure improvement in quality of green leaves, higher price realisation, product augmentation and quality upgradation. The objective of product diversification was also not achieved.

The Price Subsidy Scheme was a one-time scheme and had no long term impact. In the absence of adequate documentary evidence, it is also questionable whether the intended benefit to the small growers actually reached them.

We are of the view that Tea Board's proposed course of action and timelines for improving quality of tea and product mix, even if implemented, may not yield any positive results unless efforts on these measures are very well structured and supported by appropriate quality of manpower and timely support from the Government.

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
Production cost	328.27	52.92	64.09	47.16	67.85	58.29	55.59	69.50	63.04
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
Total cost of sales	353.91	55.15	73.86	53.12	78.75	60.84	62.08	84.22	72.35
Average realization	239.18	54.78	65.78	54.21	87.04	54.77	62.41	83.78	67.41

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.

Chapter 7 Research Activities

Objective 5: Whether research activities undertaken by Tea Board or financed by Tea Board were effective in delivering results for effective tea development.

Support for research activities

7.1 Tea Board undertakes research work on tea through Darjeeling Tea Research and Development Centre (DTR&DC) in Kurseong, which was established by the Ministry in 1977 to primarily provide research and development support to the Darjeeling tea industry on demand of the State Government and Tea Associations. The Ministry, through Tea Board, also finances a substantial part of the expenditure of two industry-based Tea Research Institutes viz., Tea Research Association (TRA) and United Planter's Association for South India (UPASI-TRF), which also undertake research work on various tea-related areas. During 2002-11, the Board received ₹169.07 crore from the Ministry towards research and development activities which included funding to DTR&DC, TRA and UPASI-TRF and expenditure on IT Portal. Tea Board incurred an expenditure of ₹171.91 crore during this period.

Darjeeling Tea Research and Development Centre

7.2 The objective of this Centre is to perform research on various botanical and agronomical aspects, soil aspects, biochemical aspects and plant protection aspects of Darjeeling Tea. The Centre also extends advisory services to various gardens on specific requests. The Centre is headed by a Project Director. It has four divisions/ laboratories viz., Farm Management, Soil Science, Bio-chemistry and Plant Protection. An experimental farm of 21.6 hectares is also a part of the Centre.

Failure to provide research and development support to the Darjeeling tea industry

7.2.1 During 2002-09, DTR&DC received ₹76.46 lakh under Plan and ₹2.55 crore under Non-plan head from Tea Board. We observed that:

(a) DTR&DC spent only ₹73.57 lakh on Plan activities during 2002-09 which was inadequate to undertake proper research activities.

(b) There were 27 per cent vacancies of scientific staff⁵¹ in the centre. As such, the centre was not equipped with adequate manpower to undertake research activities to support the Darjeeling tea industry as per its mandate.

(c) Extension Services to the tea estates in the Darjeeling hills could also not be provided due to shortage of staff.

(d) Only one seminar was organised in the year 2004 at Darjeeling. No targets were set for conducting trainings /seminars /symposia /workshops and no training courses were organised to train people associated with tea industry.

(e) The Centre undertook 21 projects and completed eight during 2002-09.

⁵¹ Against the sanctioned strength of 11, only 8 scientific personnel were posted as of March 2009.

Neither were any deliverables transferred for the use of the tea industry nor were any patents filed. Tea Board also did not fix any target for research publications for the Centre. The Center published eight research papers in Indian Journals and one research paper in International Journal during 2002-09, however, impact factor of the same was not furnished.

(f) Scientific Advisory Committee, with expert scientist members, is responsible for evaluation and finalisation of the programmes prepared by first and middle level committees. We observed that the Committee did not meet twice a year as mandated and met only thrice during April 2002 to October 2008. This indicated inadequate monitoring at apex level.

Thus, projects activities of DTR&DC did not give any fruitful end results for use of the tea industry due to inadequate manpower and resources. The Ministry agreed in October 2009 that due to lack of scientific manpower and infrastructural development, significant contribution of research in the form of publication and development of package of practices for the industry did not happen.

Other research organisations funded by GOI

7.3 Government of India supports Tea Research Association (TRA) and United Planters' Association for Southern India–Tea Research Foundation (UPASI-TRF) by contributing 49 *per cent* of their annual expenditure on certain approved administrative items⁵² subject to a specified ceiling, from the Plan Budget of Tea Board. Tea Board released an amount of ₹8.15 crore to UPASI-TRF and ₹43.07 crore to TRA during 2004-05 to 2010-11. In addition, an amount of ₹4.86 crore and ₹16.45 crore was released by the Board to UPASI-TRF and TRA as research grant during the said period. The responsibilities assigned to these organisations are given below.

Responsibilities of Tea Board to monitor performance of TRA and UPASI-TRF

To ensure that the grant-in-aid is spent by these research organisations for the purpose envisaged

- These organisations are required to submit their accounts of previous financial year, duly audited and passed by their respective Council/Trustee Board to Tea Board by 30th September.
- Tea Board is required to audit their annual accounts and ensure accountability for proper utilisation of funds.
- The Ministry directed Tea Board to develop a system for monitoring and evaluating the research activities undertaken by UPASI-TRF and TRA and take steps to ensure that research results were disseminated to end-users.

Failure to conduct

7.3.1 We observed that Tea Board conducted audit of TRA for the period

⁵² The approved administrative items include salary and allowances including gratuity, PF and medical expenses (excluding pension), expenses on meetings and conferences, seminars and training, consumables, electricity and water supply, printing and stationery, postage and telegram, travel expenses, books and journals and clonal selection and nursery.

audit by Tea Board

from 2001-02 to 2004-05 only in December 2005. Tea Board did not conduct audit of TRA thereafter. Tea Board also did not conduct audit of UPASI-TRF for the period from 2002-03 to 2007-08. The status of conducting audit of these two institutions during 2008-09 was not intimated. As such, there was no mechanism in Tea Board to assure that the funds released by them were utilised for the purpose for which they were released.

The Ministry agreed in October 2009 that regularity in conduct of audit of TRA and UPASI-TRF was lacking and they would do it on regular basis in future.

Increased dependence of GOI funding

7.3.2 We observed that though till the year 2003-04, Tea Board released 49 *per cent* of the annual expenditure of these research organisations as envisaged, from 2004-05 onwards, the percentage share of GOI increased to 80 *per cent* as these organisations were not able to meet their own expenses. On the other hand, a huge amount i.e., ₹5.86 crore towards subscription from member tea gardens was lying outstanding in respect of TRA during 2002-03 to 2008-09. Outstanding subscriptions in respect of UPASI-TRF were not furnished. This led to increased dependence on Government of India funding.

The Ministry stated that both Tea Board and TRA have been continuously pursuing this issue of outstanding subscription with the Industry and there has been some improvement as compared to earlier years.

Absence of controls to evaluate and monitor research activities

7.3.3 We observed that no mechanism was put in place by the Board to monitor and evaluate the research projects undertaken by them. These organisations undertook 34 projects from 1997 to 2009 at an expenditure of ₹22.52 crore and completed 19 projects. We reviewed 10 (50 *per cent*) projects costing ₹7.09 crore and observed that:

- In four projects, technologies were not commercialised for end use of the industry, though developed.
- In the remaining six projects, no technology was developed.
- Tea Board had no information regarding the number of research papers published, their impact factor, patents filed and granted and technologies developed, transferred and commercialised etc., despite instructions of the Ministry to monitor and evaluate research activities of TRA and UPASI-TRF.

During the Exit Conference, Ministry/Tea Board agreed that a strict control needs to be put in place for monitoring and evaluating the performance of these research organisations, so as to make them accountable for the grants provided by the Ministry.

Information Transparency- Development of IT Portal

7.4 Tea Board undertook development of IT framework to facilitate consolidation and dissemination of information globally. The plan laid down a specific programme for setting up an Indian Tea Portal on the *World Wide Web* with the following three-fold objectives:

- Disseminating information about Indian Tea to the industry, both in India and abroad.
- Assisting various tea auction centers in their initiatives to create an efficient market place for trading Indian tea, and
- Generating awareness of information technology in areas that are primarily dependent on tea industry.

To fulfill the above objectives, the Ministry approved a research project titled 'Supply, installation and implementation of the IT based Information Dissemination Plan' at a cost of ₹23.01 crore in July 2003. While conveying the approval, the Ministry had categorically directed that the Government/Tea Board would not bear any recurring expenditure after 2004-05 and that the same should be borne by the tea industry from the year 2005-06 onwards. In November 2002, Tea Board awarded, the work for 'Supply, Installation and Implementation of an Electronic Commerce Solution' to IBM India Limited. The scope of work included providing technical architectural design, business requirement specifications (BRS) and detailed system design and install, commission and execute testing plan to meet the defined business requirements and the system functionality. However, the project could not be completed and after incurring an expenditure of ₹17.26 crore, Tea Board awarded the work to another vendor i.e., Information Technology arm of National Stock Exchange (NSE.IT) in September 2007 at a cost of ₹9.35 crore. Tea Board intimated during the exit conference in October 2009 that the newly developed software was functional.

Deficiencies in planning of the project

7.4.1 In this regard, we observed that the planning for the project and its execution was deficient as discussed below:

- The Ministry accorded approval to the project categorically stating that Tea Board would not bear any recurring expenditure after 2004-05 and that the same should be borne by the tea industry from the year 2005-06 onwards. We, however, observed that Tea Board took up the project without any commitment from the industry and incurred recurring expenditure of ₹6.71 crore during 2003-04 to 2007-08, which was ₹2.40 crore in excess of the sanctioned funds of ₹4.31 crore. The Ministry stated that the Board could not pass on the burden of sharing the revenue expenditure from third year onwards to the Industry, as the e-auction system was not fully functional at that time and could not be handed over to them. We further observed that the Tea Board awarded a contract for a new IT Portal to NSE.IT, again without obtaining formal commitment from the industry to take responsibility of financing recurring expenditure after a specified period. There were gaps between the business requirements and the system functionality, as the BRS prepared by IBM was not comprehensive. As such, the desired software could not be developed and the project could not be implemented.

Deficiencies in execution of the project

- In the absence of a penalty clause in the agreement, the Board could not impose penalty on IBM and had to bear losses as discussed in Para below.

7.4.2 The Board incurred ₹10.55 crore for capital items and ₹6.71 crore for recurring expenditure from November 2002 to March 2008. The implementation of the software had two components. In the first part, separate contracts for Internet housing and communication services, system integration and operation management and IT Portal support services etc., were awarded at a cost of ₹9.35 crore. The second component comprised of procurement of servers and other related hardware, 265 PCs and 480 laptops at an estimated cost of ₹6.87 crore. In this regard we observed the following :

- An amount of ₹6.71 crore towards recurring expenditure was rendered unfruitful as services contracts for these services were terminated. Hardware worth ₹2.16 crore was disposed off at a loss of ₹0.43 crore.
- The laptops and PCs procured for Auction Centers remained idle since 2003, blocking an expenditure of ₹4.71 crore. In order to make these compatible in the new environment, Board further needs to upgrade RAM of these laptops and PCs from 256 MB to 512 MB, which would require additional expenditure.

The Ministry agreed and stated in October 2009 that the Board had taken all possible steps to protect the investments made in the project, but it was not a cost effective solution to use the hardware procured earlier and thus, it was decided to dispose of the same.

Non-updation of Tea Statistics

7.5 We observed that the statistics of the Tea Board were published up to 2005-06. The statistics were posted on the web site of the Tea Board only up to 2003-04. Thus, late publication of the statistics resulted in poor dissemination of data to the tea industry.

Despite incurring an expenditure of ₹26.61 crore on development of IT Portal, Tea Board was unable to maintain the website with updated data on tea statistics.

Our Recommendations and response of Tea Board

7.6 We recommended in November 2009 that Tea Board may provide adequate scientific manpower and other resources for Tea Research, while ensuring effectiveness in terms of papers published along with Impact Factor of the papers and technology developed/ transferred /commercialised and patented. We also recommended that Tea Board may evolve an effective mechanism to ensure accountability of the money spent by external research entities like UPASI and TRA and obtain formal commitment of the industry for fruitful/effective implementation and continuance of the e-commerce initiative of IT-portal.

Tea Board accepted these recommendations and stated in October 2010 that the following measures would be taken.

- *Augmentation of equipment and development of infrastructural*

facilities including establishment of Quality Control Laboratory and Training Centre.

- *Strengthening of monitoring of the funds release and fund utilisation mechanism based on performance on a quarterly basis and evaluation of Annual Progress Report by Tea Research Liaison Committee formed by MOC&I once in a year.*
- *Conducting mid-term scientific review by independent agencies like CSIR and ICAR and Performance Audit/Outcome Audit along with scientific evaluation in line with CSIR adopted system.*
- *Getting mandatory number of research papers to be published in peer reviewed journals with impact factors for each scientist/department/institute and encouraging Patenting (product/process) wherever applicable.*

*Tea Board proposed timeline for implementation by **March 2012**.*

Conclusion 7.7 Research activities were not fruitful as neither any deliverables were transferred for the use of the tea industry nor were any patents filed due to inadequate monitoring and shortage of manpower and resources. The outcome of the research activities was also not commensurate with the support provided to external entities i.e., UPASI-TRF and TRA. Tea Board despite having regulatory and development role, failed to bring tea industry along in implementation of e-commerce initiative of the IT Portal Project which impacted the success of its initiative and an expenditure of ₹7.14 crore on revenue/capital account was rendered unfruitful. Tea Board is yet to secure the financial commitment from the industry for operating IT Portal Project post implementation.

We are of the view that proposed course of action on our recommendations for improving the results of research can be achieved only when the adequate scientific manpower and other resources for Tea Research along with effective monitoring system are ensured. Further success of IT portal project would depend on the ability of Tea Board to rope in Tea industries willing support.

Chapter 8 Marketing and Promotional Activities

Objective 6: Whether adequate and effective steps were undertaken for marketing and promotion of Indian Tea to improve its position in world as well as domestic market.

International market scenario

8.1 The production and export share of major tea producing and exporting countries is given below:

Table 12 – Production and Export share of major tea producing and exporting countries (%)

	1993		2005		2006		2007		2008		2009(E)		2010(E)	
	Production share	Export share												
China	23.50	17.42	27.12	18.28	28.72	18.12	30.06	18.37	32.54	17.93	34.55	19.14	33.69	17.45
India	29.80	15.17	27.45	12.70	27.43	13.83	26.01	11.34	25.38	12.26	24.90	12.50	23.76	11.15
Indonesia	5.35	10.72	4.53	6.53	4.10	6.03	3.62	5.31	3.56	5.81	3.47	5.83	3.18	5.03
Kenya	8.27	16.30	9.53	21.64	8.68	19.74	9.75	21.81	8.95	23.15	7.99	21.64	9.81	25.44
Sri Lanka	9.14	18.16	9.20	19.06	8.68	19.91	8.03	18.68	8.25	18.04	7.37	17.68	8.10	17.23

Source: Tea Statistics

Domestic market scenario

In the world market, India, China, Sri Lanka, Kenya and Indonesia are major producers as well as exporters of tea. From the table it can be seen that:

- India's production share has declined from 29.80 *per cent* in 1993 to 23.76 *per cent* in 2010 while China's production share has increased from 23.50 *per cent* in 1993 to 33.69 *per cent* in 2010.
- India's export share has declined from 15.17 *per cent* in 1993 to 11.15 *per cent* in 2010 while Kenya's export share has increased from 16.30 *per cent* in 1993 to 25.44 *per cent* in 2010.

8.2 The role of Tea Board in promoting Indian tea in domestic market is to increase consumption of tea in India and carrying out propaganda for increasing domestic consumption of tea.

The trend of production, import and export of tea in India and consumption of tea in domestic market since the year 2003 is given in the table below:

million kgs

Table 13 – Production, import and export of tea in India and consumption of tea in domestic market								
Year	2003	2004	2005	2006	2007	2008	2009	2010
Production	878	893	946	982	986	981 (E)	979 (E)	966 (E)
Import	10	31	17	24	16	20 (E)	25(E)	20 (E)
Total availability	888	924	963	1006	1002	1001 (E)	1004 (E)	986 (E)
Exports	174	198	199	219	179	203	198	193 (E)
Domestic consumption	714	735	757	771	786	802	819	837
Total absorption	888	933	956	990	965	1005	1017	1030

Source: Tea Board E-Estimated

From the table, it can be seen that, while the production of tea in India has increased by 10 per cent since 2003 to 2010, the domestic consumption has increased by 17 per cent since 2003 to 2010. The exports have remained stagnant during this period.

During 2002-09, the Board received ₹129.44 crore for Marketing and Promotion and disbursed ₹135.53 crore. We reviewed 46 per cent of total expenditure incurred on Marketing and Promotional Activities during 2002-09. We studied documents relating to incentive/subsidy schemes, Medium Term Export Strategy, marketing and promotion through foreign offices and activities undertaken for domestic promotion. Our audit findings in this regard are discussed in the following paragraphs.

Schemes for export, marketing and promotion

8.3 Tea Board implemented the three schemes for marketing and promotion of tea during the Tenth and Eleventh Five Year Plans viz., Export Incentive Scheme, Transport Subsidy Scheme and Export Promotion Scheme. Audit findings on these schemes are discussed below:

Export Incentive Scheme

8.4 An Export Incentive Scheme for assistance to tea exporters towards meeting cost of handling, packaging, transport/freight charges and value addition with an outlay of ₹5.25 crore was approved by the Ministry as a one-time measure in January 2002. Conditions for grant of export incentive were as under.

Terms and conditions of Export Incentive Scheme

Tea Board was to monitor the progress of volume of export during the remaining period of the year 2001-02 and grant subsidy only when there was perceptible increase in quantity of tea exported during the year 2001-02 as compared to the corresponding period of the year 2000-01.

Deficient implementation of the scheme

8.4.1 The Board released incentive of ₹3.60 crore to 68 exporters between January to March 2002. In this regard, we analysed the quantum of exports by these 68 applicants and observed that:

- Tea Board granted subsidy to 31 applicants despite the fact that their exports had declined in 2001-02 as compared to the year 2000-01.

	<ul style="list-style-type: none"> • The quantum of exports further declined In respect of these 31 applicants post subsidy. • There was no quantifiable measure to define perceptible increase in the quantity of tea exported so as to decide on grant of subsidy. <p>As such, there was no outcome of this expenditure.</p>
<p>Transport Subsidy Scheme</p>	<p>8.5 The scope of Export Incentive Scheme was extended to Transport Subsidy Scheme implemented subsequently and the main features are given below.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p style="text-align: center;">Terms and conditions of Transport Subsidy Scheme</p> <ul style="list-style-type: none"> • Tea for exports from North East is sent to Kolkata and Haldia ports by road where it is directly containerised, customs cleared and exported via Inland Container Depot (ICD), Amingaon, Assam. The scheme proposed to compensate the exporters who had to bear extra cost for empty haulage of containers to Amingaon. • Financial assistance by way of incentive towards export of tea through ICD, Amingaon was fixed at ₹ 1.00 per kg of tea with effect from January 2002 and ₹1.50 per kg with effect from April 2006. </div>
<p>Non achievement of the objectives of the scheme</p>	<p>8.5.1 An amount of ₹23.05 crore was disbursed under the scheme during 2002-03 to 2008-09 to 16 exporters. In this regard, we observed that:</p> <ul style="list-style-type: none"> • Though most of the companies have gardens in North East, the scheme benefited only 16 companies who availed of the subsidy during last seven years (2002-03 to 2008-09). The share of tea exported by these companies was only 12.40 <i>per cent</i>, 15.91 <i>per cent</i> and 14.15 <i>per cent</i> in the years 2006-07, 2007-08 and 2008-09 respectively. • During 2006-09, though ₹12.38 crore was disbursed to these 16 exporters, the quantity of export came down from 28.72 mkg in 2006-07 and 27.33 mkg in 2007-08 to 26.47 mkg in 2008-09. • No benchmark in terms of quantity of export was defined for exporters to make them eligible for grant of subsidy. <p>As such, Tea Board released subsidies despite decrease in exports by these applicants.</p>
<p>Export Promotion Scheme</p>	<p>8.6 An amount of ₹0.57 crore was spent under this scheme during 2005-09. Features of the scheme were:</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p style="text-align: center;">Terms and conditions of Export Promotion Scheme</p> <ul style="list-style-type: none"> • The scheme was introduced in 2003 to help exporters exporting value-added tea, boost exports and also make forays into new markets. • Assistance was provided to individual exporters for export promotion activities abroad for participation in trade fairs/exhibitions/buyer seller meets (BSM). • After participation in a particular fair/exhibition/BSM, Tea Board was required to submit an evaluation report indicating the outcome of the </div>

Failure to assess the outcome of support activities

visit and the actual business transacted.

- Exporting companies with f.o.b.⁵³ value of ₹15 crore were eligible under the scheme.

8.6.1 Of the 25 *per cent* (27 cases) of the total payment vouchers (110 cases) called for audit review, Tea Board furnished only five case files relating to five fairs/exhibitions where 34 exporters participated.

In this regard, we observed that:

- None of the above participation was in Pakistan, Chile, Syria, Sudan or South Africa, though these were considered as the new markets for India to gain entry.
- Though India's prime products such as Darjeeling, Assam and Nilgiri were displayed, no specific products of the participating exporters were displayed. Thus, the objective of participation of exporters in exploring individual products/brands was not achieved.
- The reports submitted by the Board did not spell out the outcome of the fairs/exhibitions/ buyer-seller meets. The reports were also silent about the actual business transacted.

Thus, in the absence of benchmarks/quantifiable measure to assess the outcome of these support activities, the impact of the scheme was not verifiable.

The Ministry stated that it was difficult to identify quantifiable measures to assess the outcome of support activities under Marketing and Promotion Scheme. However, the fact remains that the Board was to monitor the progress of volume of export and grant subsidy only when there was perceptible increase in quantity of tea exported.

Medium Term Export Strategy

8.7 The Medium Term Export Strategy which was based on the report of M/s Accenture (January 2002) laid down various recommendations which were initially agreed to by the Tea Board. A Steering Committee comprising industry representatives from North and South India as well as members from Tea Board was formed. A Programme Management Cell was set up along with a Secretariat to handle the working of the Steering Committee. 10 Task Forces were also formed to implement specific recommendations of the report.

We observed that these task forces eventually became defunct as Tea Board could not hire/provide manpower to support its functions. We also observed that though Tea Board initially accepted all the recommendations of the Medium Term Export Strategy, they did not implement all the recommendations fully. During the Exit Conference, the Ministry/Tea Board took a stand that formal rejection of some recommendations was not recorded but Tea Board is now looking

⁵³ Free on Board- A shipping term which indicates that the supplier pays the shipping costs (and usually also the insurance costs) from the point of manufacture to a specified destination, at which point the buyer takes responsibility. The value of export quantity of tea at the time of shipment at India is to be more than ₹15 crore.

Market Portfolio Diversification

forward to take up the important issues flagged by the Accenture Report in a different manner. However, we observed that out of 11 major recommendations, Tea Board accepted 10 recommendations. A list containing the recommendations highlighted in the Medium Term Export Strategy and action taken by the Board against these recommendations are given in **Annexure II**.

Response of Tea Board to some of the important issues suggested in the Medium Term Export Strategy are discussed below.

8.8 The Medium Term Export Strategy identified Chile and Syria as lucrative markets for CTC tea, where India had almost no or insignificant share. To get opportunistic entry to these markets, Tea Board was to commission structured market research to determine consumer and importer preferences to formulate strategy in terms of target products, customer segments and geographic segments, contact key players and generate list of interested parties and generate list of interested tea importers/packers in UAE to evaluate Joint Venture (JV) opportunities for routing tea to Pakistan and to identify regulatory changes and, taxation incentives that could be made to encourage formation of JVs.

In July 2002, Tea Board commissioned market research studies on Chile, Syria, UAE and Saudi Arabia. The market research brought out 'Entry Plans' to these countries and spelt out specific activities to be undertaken by Tea Board.

We observed that though market research was conducted and 'Entry Plans' made, Board did not launch any specific scheme to encourage exports to Chile and Syria. Moreover, there was no impact on the exports to these countries as can be seen from the table below:

(in thousand kgs)

Name of the Country	2003	2004	2005	2006	2007	2008	2009	2010 (E)
Chile	49	0	11	0	0	0	3	12
Syria	84	2467	37	127	154	282	286	80

Source: Tea Statistics

The Ministry stated that capturing new markets cannot be done in the short term and a long-term plan was required, since Chile is quite far geographically and is catered to by Argentinean tea. Tea Board has been participating in trade fairs in Chile with Indian tea exporters. Regarding Syria, the Ministry stated that Syria was still on the Tea Board radar and different ways of entering the market were being considered.

8.9 Further, to gain opportunistic entry in Pakistan market, Tea Board, through its Dubai office, was to generate a list of interested tea importers/packers in UAE to evaluate Joint Venture (JVs) opportunities for routing tea to Pakistan and identify regulatory changes and taxation

**Activities towards
Export Market
Development**

incentives which could encourage formation of JVs. We, however, observed that no scheme for providing financial incentives to encourage investments in JVs was formulated and no JVs had materialised till date.

The Ministry agreed that formation of Joint Ventures was one of the ways to facilitate market access provided both parties were interested in such a venture. Thus, neither has any long-term plan been implemented nor JVs formulated to diversify market portfolio of Indian tea.

8.10 The Medium Term Export Strategy recommended devising an overall promotion strategy as well as market specific strategies. These promotions were needed to be tailored to the right target segment i.e., end-consumer or trade. Tea Board had to undertake Logo Development and its administration and also develop an Exporter Rating System for rating of exporters. In this regard we observed the following.

**Failure to enhance
the coverage of
Indian Logo**

8.10.1 To develop single Indian logo, Tea Board was to finalise logo rules, set criteria for quality control and hire an independent agency for quality monitoring and to commence trials with trade. Further, subsidiaries logos viz., Darjeeling, Nilgiri etc., were also to be developed.



Indian Tea logos

Based on the study of Sri Lankan logo, an international agency J. Walter Thompson undertook development of the India Tea Logo with the new bye-line 'World's Gold Standard'. The logo was launched on a trial basis in the Russian market for which benchmarking was done. Trials were conducted and companies adopted the logo for their Indian tea packets exported to Russia. We observed that, as the quantum of packet tea exported to Russia was much less as compared to bulk tea, very few packets were carrying the India Tea logo, the number further declining due to decline in exports to Russia. Despite being introduced in 2002, India Tea Logo is yet to be used (February 2010) for 21 major markets except Russia, where India exports tea.

The Ministry replied that the system in place domestically for grant of permission for use of all logos is being reviewed and revamped along with implementation of their respective administrative systems.

**Failure to
implement
Exporter Rating
System**

8.10.2 The Medium Term Export Strategy recommended establishing an Exporter Rating System to provide transparency and guarantee exporter reliability, to help build credibility of the Indian exporters by encouraging better exporters to improve service levels.

Promotional activities through foreign offices

We observed that though the Exporters' Rating System was introduced in September 2002, the level of response was inadequate. Initially over 80 exporters signed up but most companies backed out since they felt that if they did not get good rating, it would affect their export prospects. Unless Tea Board takes adequate measures to ensure this rating system is accepted by the exporters, it cannot play its role of a catalyst in enhancing transparency and reliability of Indian Exporters in the International Market.

8.10.3 Tea Board's export promotion work is carried out from Head Office and through its foreign offices located at London, Moscow and Dubai. Tea Board incurred ₹11.56 crore during 2006-09 towards promotional activities through these offices. We analysed the expenditure incurred by these offices on various marketing and promotional activities such as market surveys, participation in buyer seller meets, fairs and exhibitions, promotional support/joint promotion, logo promotion/media publicity etc. The activity-wise expenditures of the three foreign offices is given below:

(₹ in lakh)

Table 15 – Expenditure of overseas offices on marketing and promotional activities							
Year	Fair and exhibition	Buyer-Seller Meet	Promotional Support/ Joint Promotion	Media publicity/ Logo Promotion	Market survey	Other expenses*	Total expenditure
<i>Moscow*</i>							
2007-08	25.46	8.99	3.59	0	0.17	123.51	161.72
2008-09	65.49	7.35	0.98	0	0	121.28	195.10
<i>London</i>							
2006-07	9.87	0.28	16.32	0	0	60.21	86.68
2007-08	0.16	1.98	0.94	0	0	25.74	28.82
2008-09	78.09	0	13.01	0.63	0.43	84.04	176.20
<i>Dubai</i>							
2006-07	20.85	4.27	0	21.27	0.43	60.54	107.36
2007-08	37.61	3.51	0	15.5	1.28	142.72	200.62
2008-09	9.56	0.88	0.9	4.51	0	184.31	200.16
Total	247.09	27.26	35.74	41.91	2.31	802.35	1156.66

*Figures in respect of Moscow for the year 2006-07 not available

*Salary, PR activities, Contribution to Tea Council, Wages, Loss in exchange, Bank charges and other miscellaneous expenses

In this regard, we observed that:

- Expenditure on Market Survey by three foreign offices during 2006-09

**Non assessment
of impact of
activities of Tea
Councils**

was insignificant, though market surveys help determine consumer and importer preferences and can be used for detailed strategy formulation.

- The activities of the above three offices for participation in buyer seller meet was insignificant.
- Though a significant amount (21 *per cent*) was spent on participation in fairs and exhibitions by all the three offices during 2006-09, no quantifiable measures were set for assessing the outcome of the activity.
- No activity was conducted for logo promotion from Moscow and London office during this period.
- Other expenses which were in nature of indirect expenses constituted major share of 69 *per cent* of total expenditure impacting the effectiveness of outcome of marketing and promotional activities.

Thus, the marketing and promotional activities of the foreign offices were mainly focused on attending fairs and exhibitions, for which Tea Board neither fixed any annual target for participation in the potential markets nor laid down any mechanism to measure impact of such participation. Given the negligible impact of these foreign offices of Tea Board, the Ministry should review whether this function could instead be performed through the Economic Wing in the Missions/Posts abroad. The Ministry did not furnish reply in this regard.

8.11 The Tea Board undertook generic promotion of tea through Tea Councils to increase overall consumption of tea and subscribed for membership of the tea councils of UK, Germany, Canada and USA. In this regard, we observed that:

- Tea Board justified membership to these councils taking export figures to these countries as an important parameter. However, despite spending ₹3.42 crore during 2005-09 as subscription, the quantum of tea exports to these countries fluctuated with marginal increase in some cases, as can be seen from the table below. The Ministry itself questioned (August 2006) the justification for continuing with these memberships.

(In thousand kgs)

	2002	2003	2004	2005	2006	2007	2008	2009	2010 (E)
Canada	1233	1497	1170	1611	1131	1041	1517	2440	2120
Germany	5002	5116	5222	4846	4364	5833	4329	4001	4390
UK	20912	19904	19787	21356	23210	17876	19298	16720	14821
USA	7361	8693	7781	9077	8536	9550	9547	9210	10320

- Tea Board acknowledged that generic promotion was slowly becoming a weak platform and there was a need to shift focus to promotion of original brands. We observed that the issue was not yet taken up with other councils.

Domestic promotion - Formal review on effectiveness of Domestic Media Campaign not conducted

- The Board did not furnish information on the nature of the promotional campaign activities or any other campaign undertaken by the councils for the last three years. The Board also did not assess the impact of these activities on Indian Tea.

The Ministry informed in October 2009 that the utility of the Tea Councils was undergoing review. Tea Board had resigned from the Canadian Tea Council and also reviewing the role of the UK Tea Council.

8.12 The activities of Tea Board under domestic promotion mainly include media campaign and domestic fair and exhibitions. Tea Board incurred an expenditure of ₹36.35 crore on these activities during 2005-09, of which an expenditure of ₹28.07 crore was incurred on domestic generic campaign of tea. We examined expenditure of ₹17.33 crore incurred on two campaigns viz., Domestic Generic Campaign through electronic media to M/s. Ogilvy & Mather (₹13.06 crore) in March 2006 and 'Publicity and promotional work of Darjeeling, Assam and Nilgiri tea along with publications in reputed dailies and magazines i.e., print media to M/s. J Walter Thompson, Kolkata for a period of three years (₹4.27 crore) in June 2006.

In this regard, we observed that:

- Tea Board did not fix any criteria / benchmark to evaluate its efforts towards domestic promotion.
- No formal review of the effectiveness of the print and electronic media campaign was conducted by the Board.
- The telecast was campaigned in the TV channels such as Star One-Nach Baliye, ESPN/Star Sports and Aaj Tak. However, the Board did not intimate any plan which recommended a particular bouquet of channels in preference to others for an effective media campaign.

During Exit Conference, the Ministry/Tea Board agreed that a formal review on effectiveness of Media Campaign was necessary.

Poor performance of Tea Centre, Mumbai

8.13 Apart from the regular functions of a branch office the Mumbai Office of Tea Board runs a Tea Centre where tea and snacks are served. In this regard, we observed that:

- No commercial benefit could be gained from the Tea Centre during July 2002 to May 2007 as Tea Board earned an amount of ₹81.6 lakh from M/s Basu Media⁵⁴ and spent an amount of ₹3 crore towards development grant to the building authority, apart from ₹16.37 lakh under non-plan expenditure.
- The Tea Centre was set up to promote Indian tea in the domestic market by popularising speciality Indian tea. We observed that though tea of different types viz. Darjeeling, Assam and Nilgiri were served, specialty teas such as White tea, Yellow tea, Compressed tea, Puer

⁵⁴ The contractor who was given the contract of running the Tea Centre

**Our
Recommendations
and response of
Tea Board**

tea, Organic Tea, Decaffeinated tea, Flavoured Tea, Spiced Tea, Iced Tea etc did not form part of the menu.

- No expenditure was incurred on plan activities such as participation in fair/exhibitions and domestic market survey for tea promotion.
- The Board also did not review the performance of the Centre for the last three years, though business review committee meetings were to be held twelve times during the above period.

The Ministry stated that promotional activities of Mumbai office like participation in exhibitions was largely dependent on fund availability.

8.14 We recommended in November 2009 that Tea Board may fix quantifiable benchmarks for increase in exports for exporters to become eligible for any incentive/support and assess the impact/outcome of the support activities. We also recommended that effective steps be taken to implement exporters rating system and frame logo rules to ensure that exporters adhere to set benchmarks in quality. The Board may evaluate the impact and effectiveness of all its marketing and promotion activities on tea promotion in international and domestic markets by fixing appropriate criteria/ benchmarks.

Tea Board agreed in December 2009 with the recommendations and proposed to put in place a mechanism by March 2012 to assess the impact of promotional support being provided. It further stated that logo usage and monitoring norms are being put in place and quality norms to accompany the logo would be finalised thereafter without indicating any time-line. Tea Board also agreed to review the effectiveness of various promotion activities including tea council and domestic promotion and take measures to streamline the activities by March 2012.

Conclusion

8.15 Market diversification efforts including exploring new markets through its overseas offices and other promotional activities have not yielded any effective results and exports have remained largely stagnant. The three schemes for promoting exports viz., Export Incentive Scheme, Transport Subsidy Scheme and Export Promotion Scheme had not made even marginal impact and benefitted only 11 *per cent* of total exporters. Domestic promotion where more than ₹36 crore were spent without specifying outcomes to be achieved, no formal evaluation of benefits derived was done. Medium term export strategy covering introduction of Indian tea logo, exporter rating system and market portfolio diversification was also not implemented fully. Tea Board neither fixed any target/outcome in any schemes nor laid down any mechanism to measure impact of such schemes. As a result, India's export share has declined from 15.17 *per cent* in 1993 to 11.15 *per cent* in 2010.

We are of the view that Tea Board's proposed course of action and timelines for improving the results of Marketing and promotional schemes can be achieved only when Tea Board is able to frame a long term strategic plan and detailed plan for marketing of Indian tea. The plans should clearly identify the weaknesses including those brought out

in our Report as well as the Medium Term Export Strategy and appropriately devise schemes and action plan with the proper involvement of all stakeholders.

Chapter 9 Financial Management and Internal control

Objective 7: Whether an effective financial management and internal control mechanism existed in Tea Board.

Financial management

9.1 During 2002-11 funds received by Tea Board and expenditure there against was as follows:

(₹ in crore)

Year	Plan			Total Plan	Non-Plan	Total
	Subsidy	R&D	Recovery of loan & interest/loan received from MOC&I			
2002-03	46.97	9.36	11.78	68.11	16.49	84.60
2003-04	30.99	14.70	10.59	56.28	15.50	71.78
2004-05	69.17	18.00	11.83	99.00	16.00	115.00
2005-06	82.88	18.38	11.37	112.63	17.15	129.78
2006-07	116.76	15.51	40.53	172.80	17.75	190.55
2007-08	96.42	14.00	22.41	132.83	18.75	151.58
2008-09	87.02	22.97	10.14	120.13	21.86	141.99
2009-10	86.51	27.32	14.20	128.03	22.22	150.25
2010-11	100.56	28.83	11.26	140.65	26.43	167.08
Total	717.28	169.07	144.11	1030.46	172.15	1202.61

(₹ in crore)

Year	Plan			Total Plan	Non-Plan**	Total
	Subsidy	R&D	Loan disbursed			
2002-03	51.68	13.88	6.78	72.34	18.20	90.54
2003-04	31.68	15.81	7.01	54.50	17.67	72.17
2004-05	68.05	18.01	3.15	89.21	17.17	106.38
2005-06	76.35	17.12	0.70	94.17	19.54	113.71
2006-07	123.91	14.60	0.55	139.06	20.43	159.49
2007-08	89.06	11.83	0.25	101.14	20.16	121.30
2008-09	102.35	25.44	0.00	127.79	33.17	160.96
2009-10	85.62	27.24	0.00	112.86	43.96	156.82
2010-11	101.77***	27.98***	0.00	129.75***	40.50***	170.25
Total	730.47	171.91	18.44	920.82	230.80	1151.62

*Source – Annual Accounts of Tea Board

** information furnished by the Tea Board.

***Estimated and subject to finalization of accounts

The observations on financial management, manpower management and internal audit are discussed in paragraphs given below.

Need for review of rates of cess

9.2 In terms of Section 25 of Tea Act, a cess is levied on all tea produced in India at rate not exceeding 50 paise per kilogram. The cess as reduced after deducting the expenses of collection would be used for development of Tea and would be made over to the Tea Board as per Section 26 of the Act. Analysis of year- wise revenue receipts on cess on tea exhibited in the Union Government Finance Accounts revealed the following:

(₹ in crore)

Year	Receipt of Cess on Tea*	Amounts transferred to Tea Fund**			
		Opening Balance	Receipt during the year	Disbursement during the year	Closing Balance
2005-06	26.43	53.00	70.00	26.58	96.42
2006-07	37.40	96.42	0.00	32.68	63.74
2007-08	30.15	63.74	0.00	49.42	14.32
2008-09	32.14	14.32	0.00	4.06	10.26
2009-10	32.68	10.26	0.00	4.06	6.20
Total	158.80		70.00	116.80	

Source: *Statement 8 of Union Finance Accounts, **Statement 13 of Union Finance Accounts

During 2005-10, a total sum of ₹158.80 crore was collected as cess on all tea produced in India. However, only ₹70 crore was transferred to the Tea Fund during 2005-06. It was observed that there were no transfers made in lieu of cess collection on tea for the financial years 2006-07 to 2009-10.

The details of rates of cess imposed from time to time are shown below:

Date	Rate of cess
From 10 June 1967	4 paise per kg
From 27 November 1975	6 paise per kg
From 11 August 1978	8 paise per kg
From 15 August 1986	8 paise for tea produced in hilly areas of Kurseong, Kalimpong and Darjeeling sub divisions 15 paise per kg on tea produced in other areas
From 1 April 1997 till date	12 paise for tea produced in hilly areas of Kurseong, Kalimpong and Darjeeling sub divisions 30 paise per kg on tea produced in other areas

As evident from the table above, the rates of cess have been revised at varying intervals ranging from nearly three years to more than 14 years. Since Tea Board had a resource constraint for the developmental activities as discussed in paragraph 4.7, rates of cess should be considered for revision by the Ministry at more regular intervals. We further observed that the ceiling of cess at rate not exceeding 50 paise

Diversion of Plan funds for Non-Plan activities

per kilogram was fixed way back in 1986. The Government may consider review of the ceiling so fixed.

Ministry of Commerce stated in May 2011 that a proposal to increase the cess is under active consideration of the Government. As regards increasing the ceiling of cess beyond 50 paisa per kg, It stated that since this would require amendment in the Tea Act with the approval of the Parliament, this would be considered at the time of amendments in the Act.

9.3 As per rule 10(6) of Delegation of Financial Power Rules (DFPRs), appropriation or re-appropriation from Plan head to Non-Plan head should be made only with the prior approval of Ministry of Finance. We observed that during 2002-03 to 2007-08, Tea Board diverted a total amount of ₹48.10 crore from Plan to Non-Plan head and ₹32.18 crore from Non-Plan to Plan head. However, approval of the Ministry for such diversion was not placed on record. In the following instances, Plan funds were utilised for Non-Plan activities.

(a) Government of India approved creation of a Revolving Corpus by freezing the outstanding loan dues payable by Tea Board up to April 1998. In December 2001, Government accorded approval to retain a sum of ₹43.96 crore in the corpus, which was otherwise payable to them by Tea Board. We observed that during the period 2002-08, the Board transferred ₹7.50 crore from Revolving Corpus (Plan Head) to Tea Board Tea Fund Account (TBTF) (Non-plan Head) and realised back ₹4.50 crore, leaving a balance of ₹3.00 crore yet to be transferred to Revolving Corpus. Tea Board/Ministry stated in October 2009 that the same was done to meet the day to day expenditure of the office.

(b) During 2003-08, a total sum of ₹13.77 crore was paid by the Board from its Research and Development Account to its Non-Plan account for meeting salary and allowances of personnel other than those involved in research and development. However, the said amount was not credited back to Research and Development Scheme. The Ministry did not furnish a specific reply.

Funds retained in current account resulting in loss of interest

9.4 Analysis of closing balance of Revolving Corpus fund during the period 2002-08 revealed that yearly closing balance ranging from ₹3.51 crore to ₹19.08 crore were lying in the current account. Further analysis of monthly closing balance revealed that due to retention of funds in the current account, the Board had borne loss of interest of ₹93.43 lakh⁵⁵ during the period from September 2005 to March 2008.

The Ministry stated in October 2009 that as government funding was stopped for new loan schemes, the available fund was retained for

⁵⁵ Simple interest @ 6 per cent on monthly closing balances.

Inadequate generation of internal resources

fulfilling the committed payment of already sanctioned cases and also for repayment of government loan. However, the fact remains that retention of funds in current account resulted in loss of interest.

9.5 Government of India has, from time to time, taken steps such as forming of Revolving Corpus, so as to reduce the dependence of Tea Board on government grants and enhance the degree of self reliance. In November 2005, Ministry of Finance issued guidelines to all Ministries wherein, as a measure to reduce dependence of autonomous bodies on government budgetary support and on greater self-reliance, the grants were reduced by 10 *per cent* for the year 2006-07.

We observed that Tea Board largely depended on the funds released from the Ministry and their revenue⁵⁶ generation was only 1.76 *per cent* of the total Non-Plan expenditure incurred during 2002-08. The percentage of revenue generation had reduced from 2.73 *per cent* in 2002-03 to 0.86 *per cent* in 2007-08.

The Ministry stated that generation of external resources also included sale of tea by their own counters, miscellaneous receipt, and interest on advances etc. All taken together, Tea Board generates revenue more than the fixed target for Internal and Extra-budgetary Resources. However, the fact remains that sale price of tea cannot be reflected without taking into account the purchase cost of the tea sold. Further, the interest earned by Tea Board was on grants given by the government.

Weaknesses in Internal Audit

9.6 Internal Audit is conducted to ascertain how far the rules and regulations, systems and procedures and instructions issued by the top management in accounting, financial and administrative matters are being followed in the organisation. It is the primary responsibility of the management to install an effective internal audit system and take prompt corrective action in respect of the deficiencies in its working as pointed out by such audit. In this regard, we observed that:

- Eight personnel were engaged for conducting Internal Audit in 2004-05, which was reduced to six in the year 2007-08.
- In spite of staff available for conducting Internal Audit, no Internal Audit was conducted in Tea Board during 2005-06, 2006-07 and 2007-08. Further, only two units were audited in the year 2004-05 out of 15 units.
- Adequate attention was not paid to the findings of Internal Audit as Tea Board, Coonoor did not comply with the observations raised by the Internal Audit during 2004-05 and did not furnish replies to observations issued earlier.
- Tea Board could not furnish the number of old audit objections and

⁵⁶ License/registration fee earned from various regulatory activities

also the number of audit objections added/settled during the period 2003-08.

- Tea Board did not prepare any manual detailing procedure for preparation of audit plan based on the risk assessment, prioritisation and fixing of periodicity for audit and processing of audit objections for guidance of the members of the staff conducting Internal Audit.

The Ministry stated that Chairman Tea Board had already approved revamping of Internal Audit and that Internal Audit of units would start covering every due office once in two years to begin with and shift to annual audit in due course. It stated that Chairman had approved preparation of an inventory of all Internal Audit objections and monitoring of their clearance through quarterly meetings. It also stated that approval has also been taken for preparation of Internal Audit Manual.

Manpower Management

9.7 On the request of MOC&I, the Staff Inspection Unit (SIU), Ministry of Finance, conducted detailed study over the staff strength of Tea Board during April 2003 and assessed the manpower requirement of Tea Board in different categories of posts, on the existing level of workload. SIU, in its report of July 2003, recommended abolition of 355 posts and creation of 24 new posts, thereby reducing the staff strength of Tea Board to 623. Subsequently, in September 2009, Tea Board assessed requirement of 116 new posts (Technical 83 and Non-Technical 33) for Development Directorate and requested the Ministry for approval. Another proposal for creation of 22 posts of Factory Advisory Officers was sent by the Board in October 2009 to the Ministry.

In this regard, we observed that, against 116 new posts, the Ministry approved only one post. The Ministry was yet to approve creation of posts of Factory Advisory Officers.

Inadequate monitoring

9.8 During February 2002 to December 2007, Board meetings were conducted on 24 occasions as required. In this regard, we observed that in thirteen meetings (48 *per cent*) the presence of members was less than 50 *per cent* of the total 31 members comprising the Board. The status of presence of the members in Board meeting indicated not only the lack of interest and commitment by Board members but also resulted in inadequate monitoring of activities of Tea Board by its Board.

The Ministry stated in October 2009 that the Administration has no scope to ensure presence of Board Members. It further stated that one probable reason of less percentage of attendance may be the late constitution of the Board. The Board, during the period April 2005 to March 2008 was constituted fully only after two and half years.

**Our
Recommendations
and response of
Tea Board**

9.9 We recommended in November 2009 that internal audit may be strengthened commensurate to the level of activities of the organisation. We also recommended that Tea Board address the issue of providing adequate and professionally qualified manpower to undertake its functions and responsibilities efficiently and effectively. *Tea Board accepted these recommendations in December 2009 and stated that they have taken steps to strengthen its Internal Audit.*

Conclusion

9.10 Financial management and Internal controls in Tea Board were weak as Tea Board diverted funds from Plan to Non-Plan from time to time for meeting Non-Plan expenditure. Internal generation of funds was not adequate and Tea Board was fully dependent on the Government for support in respect of every activity despite its role of regulation and development of tea. Internal Audit was also not commensurate with the extent of activities undertaken by the Board.

Chapter 10 Final Responses of the Ministry of Commerce and Industry

10.1 Tea Board of India was established in 1954 under Section 4 of the 'Tea Act, 1953' as a statutory body under the Ministry of Commerce and Industry (MOC&I). Tea Board was mandated to perform regulatory, developmental, research, marketing and promotional activities. We conducted a Performance Audit of Tea Board in view of declining productivity of tea in India, comparative decline in the prices of tea, increased cost of production and decline in India's production and export share.

10.2 Our audit examination highlighted the following critical issues.

Regulatory role **10.2.1** Even after more than five decades of its existence, Tea Board has failed to discharge even its basic regulatory role effectively. More than 80 per cent of small growers in India continue to be outside the ambit of regulations by the Tea Board. System of inspection for regulating the activities of various stakeholders was weak and non-transparent. Tea Board was also not able to ensure submission of business information by stakeholders so as to exercise effective control on their activities.

Tea Board needs to completely revamp its structure so as to exercise better regulatory control on the Tea industry in India.

Final Response of the Ministry of Commerce and Industry *The Ministry agreed with the observations of Audit as large extent of small growers had remained outside the purview of regulatory control. The Ministry felt that the major factors for the small growers to be outside the ambit of regulations were the increase in number of small tea-growers and inadequate land records available with them. On the directions of the Government, Tea Board had extended financial support to the State Governments of Assam, West Bengal and Tripura to conduct a base-line survey for complete enumeration of the small growers. While the survey in Assam and West Bengal had since been completed, it was under progress in Tripura. On completion of the surveys, the Board would be in a position to update the registration, provided the state Governments confirmed their land ownership.*

Further, manpower deployment of Tea Board was designed for carrying out regulatory functions of the Tea Board considering the large size of the big gardens. With the increase number of small growers and limited scope for redeployment, creation of new posts had become a necessity. Tea Board had already submitted a proposal for establishing a separate cell for looking after the interests of small sector and the same was under active consideration of the Government.

Increasing Productivity **10.2.2** One of the most critical reasons for low productivity of Indian tea was that 57 per cent of the tea bushes were commercially unproductive.

	<p>Tea Board's efforts at replantation were insignificant both in terms of area covered as well financial support provided. The backlog for replanting up to 2008 would take 149 years to clear at the present pace of implementation. Yearly spending of merely around ₹19.97 crores during the last nine years was insignificant as compared to requirement of capital subsidy (25 per cent) of ₹1522.80 crore for replantation alone.</p> <p>Continuously increasing commercially unproductive bushes is the most serious threat to the tea industry in the immediate future and appropriate and timely interventions are essential for arresting this increasing trend.</p>
<p>Final Response of the Ministry of Commerce and Industry</p>	<p><i>The Ministry agreed with the observations of Audit and stated that the tea industry was shy of borrowing under the scheme and the loan off take over the last four years was only ₹36 crore as against the envisaged target of lending @ ₹150 crore per annum because of the long gestation period. The other issues of significance which also had a bearing on the decision of tea companies in taking up replanting was the non-availability of high yielding planting materials and labour apart from high unit cost. Government had directed TRA & UPASI to focus the R&D efforts in identifying the clones capable of yielding more than 5000 kgs. For addressing the problem of shortage of labour which was prevalent in the other plantation sectors, Ministry was in the process of formulation of some schemes on farm mechanisation on the lines of Coffee Board.</i></p> <p><i>The Ministry stated that some of issues which were hindering the progress would be taken up with the Planning Commission for the Twelfth Plan period. Some other suggestions on these issues would also be considered while formulating Twelfth Plan scheme. In the meantime, stakeholder consultation had begun for Twelfth Plan proposals and their views would also be incorporated.</i></p>
<p>Improving Quality</p>	<p>10.2.3 Despite the schemes for improvement in quality being in operation for more than four years, there was no increase in production of orthodox tea. For improving quality of tea and product mix, Tea Board needs to take very well structured measures supported by appropriate manpower and finance from the Government.</p>
<p>Final Response of the Ministry of Commerce and Industry</p>	<p><i>At the instance of the Ministry, an evaluation of the ongoing scheme was carried out by Tea Board through an independent consultancy firm. The recommendations emerging from the study had been deliberated at length with the industry and Tea Board. Government had already enhanced the allocation for orthodox subsidy by ₹20 crore this year. It had been decided to factor in the recommendations while considering the scheme for continuation during the Twelfth Plan period. At that point of time the suggestions of the audit with regard to manpower and finance will also be given due consideration.</i></p>
<p>Reducing Cost</p>	<p>10.2.4 Tea Board needs to adopt an appropriate system of cost studies for identifying areas for cost reduction to ensure long term sustainability</p>

<p>Final Response of the Ministry of Commerce and Industry</p>	<p>for the tea industry. We are of the view that improving the productivity of manpower and appropriate technology intervention are essential for cost reduction.</p> <p><i>The Ministry agreed with the suggestions of Audit for the Tea Board to adopt an appropriate system of cost studies for identifying areas for cost reduction to ensure long term sustainability for the tea industry. The Board would be asked to undertake such cost audit on a regular basis. Since the Indian tea plantations were bound by various legislations which mandated the owners of the tea gardens to take care of the welfare amenities of the workers which inevitably result in high cost of production, the Government was contemplating to bring more schemes for the welfare of the garden workers. For technological intervention, the scheme such as farm mechanisation, new roller machines and packaging for value addition might be evolved after taking the views of the stakeholders.</i></p>
<p>Research</p>	<p>10.2.5 Research activities were not fruitful as neither any deliverables were transferred for the use of the tea industry nor were any patents filed due to inadequate monitoring and shortage of manpower and resources.</p> <p>Tea Board needs to ensure availability of adequate scientific manpower and other resources for fruitful Tea Research along with effective monitoring systems.</p>
<p>Final Response of the Ministry of Commerce and Industry</p>	<p><i>The Ministry agreed with the observations of Audit and stated that the suggestions of Audit would be given due consideration while formulating the new R&D schemes for the Twelfth Plan period and Tea Board had been already advised to disseminate the research findings to the tea industry.</i></p>
<p>Marketing and Promotion</p>	<p>10.2.6 In view of ineffective implementation and execution of schemes aimed at marketing and promotion of Indian tea in India and abroad, Tea Board needs to frame a long term strategic plan and detailed plans for marketing of Indian tea. The plans should clearly identify the weaknesses including those brought out in our Report as well as the Medium Term Export Strategy and appropriately devise schemes and action plans with the adequate involvement of all stakeholders.</p>
<p>Final Response of the Ministry of Commerce and Industry</p>	<p><i>The Ministry agreed with the observations of Audit and stated that it was in the process of evolving a scheme that would give emphasis to value addition, brand promotion, market access and product mix for exports. A strategy paper in this regard was under preparation for impact of promotion in five countries. Ministry further stated that Tea Board would be advised to give due consideration while formulating the market promotion scheme for the ensuing Twelfth plan period.</i></p> <p>10.3 Thus, Tea Board needs to carry out major structural and strategic changes in its policies and plans to perform its regulatory functions more efficiently and effectively. Considering the poor performance of</p>

<p>Final Response of the Ministry of Commerce and Industry</p>	<p>Tea Board in enhancing productivity, improving quality and reducing cost of Indian tea, we are of the view that the Government needs to review the entire functioning of Tea Board and take a holistic view on its existence and role in the future. The Government may also consider redesigning its programmes, schemes, delivery mechanisms and allocate higher financial outlays to effectively address the problems that plague the tea industry in India.</p> <p><i>Ministry stated that suggestion made by Audit will be taken up in earnest spirit and modification will be brought in while finalising the Twelfth plan. Ministry further stated that it has already requested Indian Institute of Plantation Management, Bangalore and Central for Development Studies to provide their views on structural infirmities faced by the plantation industry including tea. The report was expected be a holistic exercise and effort would be made to enhance the outlay of Tea Board.</i></p>
<p>Overall Response of the Ministry of Commerce and Industry</p>	<p>The Ministry stated that any major changes in the ongoing scheme might not be possible at this juncture as they were in the terminal year of Eleventh Five Year Plan. Suggestions made by Audit would taken up in earnest spirit and modifications would be brought in while finalising the Twelfth Five Year Plan subject to the financial outlay of the Department of Commerce.</p>

Chapter 11 Conclusion

Tea Board of India was set up in 1954. Yet, even after five decades of its existence, more than 80 *per cent* small growers in India continue to be outside the ambit of Tea Board's regulations. We found that the system of inspection for regulating the activities of various stakeholders was weak and non-transparent. Tea Board was also not able to ensure submission of business information by stakeholders so as to exercise effective control on their activities, nor was it able to collect Tea statistics in a timely manner. We found Tea Board ineffective in exercising its role as a regulator of tea in India. This had an adverse impact on the effectiveness of its functioning in other areas of development such as research, marketing and promotion of tea in India.

Ageing plantation is one of the primary reasons for declining productivity of tea cultivation in the country. The total area under commercially unproductive bushes has increased substantially. Therefore, programmes for replantation/replacement plantation, rejuvenation, pruning etc., are necessary for enhancing productivity. The targets for replanting/replacement planting are set very low and at current rate, it would take another 149 years to wipe off the backlog for replanting/replacement planting up to 2008.

Tea Board neither fixed any target/outcome in any of its subsidy schemes nor laid down any mechanism to measure impact of such schemes. There are deficiencies in implementation of various other activities aimed at increasing productivity. The capital investment and subsidy support for replantation is grossly inadequate as compared to the requirement. The continuous rise in commercially unproductive bushes is a serious threat and may pose major risk to the Tea industry in the immediate future unless appropriate and timely interventions are made for arresting this trend and unless efforts are made to explore areas for new plantations.

Indian tea realises low price as compared to its other competitors primarily due to its inferior quality and adverse product mix. Production of orthodox tea has not increased and actual production of orthodox tea has fallen substantially below the targets set. Tea Board failed to lay down enhancement in production of orthodox tea as a pre-requisite for eligibility of subsidy and allowed subsidy despite non-submission of proper documents/without proper verification of factory records.

India has the highest cost of production amongst major tea-producing countries in the World and cost of sales are often higher than the auction realisation. Yet Tea Board did not prescribe regular cost studies to identify the components which would aid cost reductions.

Research activities are not fruitful as neither any deliverables are transferred for the use of the tea industry nor are any patents filed. This is attributable to inadequate monitoring and shortage of manpower and resources. Tea Board failed to work in consonance with the tea industry in implementation of e-commerce initiative of the IT Portal Project as well as for securing its financial commitment for operating IT Portal Project post-implementation.

Market diversification efforts including exploring new markets through its overseas offices and other promotional activities have not yielded any effective results and exports have remained largely stagnant. Government budgetary support is inadequate for effective discharge of functions of the Board. Generation of resources from duty of excise as a cess on all tea produced in India is also not adequate. The rates of cess have been revised at varying intervals ranging from nearly three years to more than 14 years. The ceiling of cess at rate not exceeding

50 paise per kilogram was fixed way back in 1986. Internal generation of funds was also not adequate.

Thus, Tea Board needs to carry out major structural and strategic changes in its policies and plans to perform its regulatory functions more efficiently and effectively. Considering the poor performance of Tea Board in enhancing productivity, improving quality and reducing cost of Indian tea, we are of the view that the Government needs to review the entire functioning of Tea Board and take a holistic view on its existence and role in the future. The Government may also consider redesigning its programmes, schemes, delivery mechanisms and allocate higher financial outlays to effectively address the problems that plague the tea industry in India.

New Delhi
Dated:

(GEETALI TARE)
Principal Director of Audit,
Scientific Departments

Countersigned

New Delhi
Dated:

(VINOD RAI)
Comptroller and Auditor General of India

Annexure I

Sample reviewed under various schemes (Chapter 4, 5 & 6)

Name of the scheme	Tenth Five Year Plan (2002-07)	Eleventh Five Year Plan (2007-09)	Total	Audit samples	Percentage	Remarks
A. Productivity						
Tea Plantation Development Scheme (PDS)						
Replanting/Replacement Planting	Continued	Discontinued	2565 payments	701 payments	27 per cent	Out of total 15429 ha, examination conducted on 2798 ha
Rejuvenation	Continued	Discontinued	1320 payments	414 payments	31 per cent	Out of total 10903 ha, examination conducted on 1391 ha
Irrigation	Continued	Continued under PDS	25 payments	20 payments	80 per cent	For Kolkata and Coonoor, period covered 2002-07
New Planting	Continued	Continued under PDS	1563 payments (2002-07)	163 payments	10 per cent	Out of total 8444 ha, examination conducted on 286 ha during 2002-07
Self Help Groups	Continued	Continued under PDS	37 SHGs (2002-07)	21 SHGs	57 per cent	Period covered 2002-07
Special Purpose Tea Fund	--	Introduced in this Plan	156 companies	17 companies	10 per cent	Out of total 7217 ha examination conducted on 1303 ha during 2007-09
Revolving Corpus Fund						
Loan Scheme	Discontinued but loan account of defaulters are continued.		317 gardens	52 gardens	16 per cent	52 case files reviewed
B. Quality						
Orthodox Subsidy Scheme						
Scheme started in November 2005	Continued	Payment was made up to Dec 2008	2747 manufacturers	200 manufacturers	7 per cent	200 case files reviewed. Overall sample 7 per cent.
Quality Up-gradation and Product Diversification (QUPDS)						
QUPDS	Continued	Continued	977 manufacturers	261 manufacturers	27 per cent	Period covered 2002-07
			770 manufacturers	77 manufacturers	10 per cent	Period covered 2007-09
Crash Scheme						
One time scheme introduced in 2002	Continued	Discontinued and merged with QUPDS	79 manufacturers	25 manufacturers	32 per cent	--
Price Subsidy Scheme						
One time scheme introduced in 2002	Continued	Discontinued	21.33 crore	21.14 crore	99 per cent	--

Name of the scheme	Tenth Five Year Plan (2002-07)	Eleventh Five Year Plan (2007-09)	Total	Audit samples	Percentage	Remarks
C. Cost reduction						
Human Resource Development Scheme (HRDS)						
Training	Continued	Continued	0.91 crore	0.91 crore	100 per cent	--
Welfare	Continued	Continued	11.16 crore	6.32 crore	57 per cent	--

Annexure II

Key elements of Medium Term Export Strategy and action taken by Tea Board (Paragraph number 8.7)

Implementation Plan	Action taken by Board
FRONT-END	
1. Market Portfolio Diversification	Accepted
CHILE, PAKISTAN & SYRIA	
Target Chile, Syria and Pakistan for opportunistic entry	Market research was conducted in four markets (i.e. Syria, UAE, Saudi Arabia and Chile) to assess potentiality. The reports were disseminated amongst the industry for further follow-up action.
Conduct structured market research and detailed strategy formulation for these markets	
Contact key players and generate list of interested parties. Share information with industries	
Tea Board to actively participate in discussions with buyers for initial contracts	
Contact key buyers in Pakistan, and generate list of interested parties	
Industry associations to organise workshop inviting these buyers along with select Indian players	
Generate list of interested tea importers / packers in UAE to evaluate JV opportunities for routing teas to Pakistan	
Identify regulatory changes, taxation incentives that can be made to encourage formation of JVs	
2. Export Market Development	Accepted
(a) LOGO DEVELOPMENT & ADMINISTRATION	
Define a task-force for promotion & marketing	The Lion logo of Sri Lanka was studied by the Board and benchmarking was done for the Russian market. An attempt was made to implement Exporter Rating System.
Hire an international agency to handle all promotion activities	
Develop single Indian logo	
Finalise Logo rules in consultation with the industry	
Study Sri Lankan Logo processes in detail	
Initiate discussions with industry on logo - attributes, administration processes and finalise rules	
Define a sub-group responsible for quality control - comprising industry experts	
Set quality benchmarks specific to each market	
Hire independent agency for quality monitoring	
Commence trials with trade	
Set processes for monitoring promotion effectiveness	
Develop subsidiary logos - Darjeeling, Nilgiri etc	
Develop an Exporter Rating System for Exporters using the Indian logo	
Design mechanism for rating exporters	
Hire independent body to collate data and implement mechanism	
Develop a formal trade feedback mechanism	
Develop process for rewarding top exporters	
Develop regular updation process	
Pilot system in test market and subsequently roll out to other markets	
(b) CONSUMER PROMOTION & TRADE PROMOTION	
Develop and plan campaign activities	Major campaign in overseas countries could not be conducted due to paucity of funds.
Pilot campaign in Russia, and subsequently roll-out in other markets	
Conduct formal research to evaluate effectiveness	
Target focused trade promotion activities in countries like UAE, UK, Iran	

Implementation Plan	Action taken by Board
(c) PRIVATE BRAND DEVELOPMENT	
Individual players to develop brands in international markets	Draft scheme had been prepared.
Government to assist in promotion of brands of individual players	
Tea Board to formulate detailed rules for private brand assistance	
Allocate fund to part subsidise promotion spends of individual players.	
Government to subsidise only actual direct spends on mass media promotion up to a cap of 20 <i>per cent</i> of total spends	
(d) MARKET RESEARCH	
Hire professional international agency to conduct research	Independent agencies were hired to conduct market research.
Commission market research in 1 market every 2 years on a rotational basis	
(e) AGGREGATED MARKETING	
Industry to evaluate formation of single / multiple entities for aggregated marketing of tea	No action taken.
Evaluate formation along geographic groupings, product groupings, or ownership types	
Develop business case for organisation and operating strategy - roles, ownership structure, high-level financials	
3. Information Transparency Accepted	
Process review to establish required information flow to industry, Tea Board and buyers	A project titled 'Supply, installation and implementation of the IT based Information Dissemination Plan' was implemented.
Develop a comprehensive IT plan outlining application systems, data flow, h/w, communication	
Develop IT back-bone to facilitate collation and dissemination of information	
Introduce mechanism for ensuring transparency of auction and private sale prices	
Auction price information sharing to be made mandatory	
Introduce mechanism for monitoring and reporting private sale prices	
4. Value Addition Accepted	
Identify list of interested parties in these markets for import of packet tea	A list of interested parties wanting to import teas was prepared for circulating trade enquiries.
Remove import duties on import of packing material / machinery	
South India clear teas to be utilised for the RTD segment	
Aim to enter long-term relationships with bottling companies in USA and Japan - who control the instant tea segment	
5. Niche Segments Accepted	
Activities to target single-estate teas and organic tea segments aggressively	Subsidy was given to encourage organic production and HACCAP certification.
Conduct seminars for plantation owners to demonstrate high revenue opportunity in single-estate & organic exports	
Convert low realisation estates in Darjeeling into organic estates	
Government to encourage organic tea production by part subsidising conversion of traditional tea estates to organic	
Tea Board to generate list of niche tea importers in these markets in USA, Japan, UK and Germany	
Implement consumer activities in select stores - in-store promotions, tea tasting sessions	
Government to part subsidise up to a cap of 20 <i>per cent</i> of the total direct spend	

Implementation Plan		Action taken by Board
BACK-END		
6. Conversion of CTC to Orthodox		Accepted
Identify players with dual capabilities and estimate additional capacity requirement		Orthodox Subsidy scheme was introduced in 2005.
Tea Board to design financial package to support conversion & commence disbursement of finances		
Establish mechanism for monitoring conversion		
7. Landed Cost Reduction		Accepted
(a) LABOUR COST REDUCTION		
Representations to the Government for review of existing Plantation Labour legislations to link wages to productivity		No action was taken.
Initiate discussions with labour unions to demonstrate cost imperative		
Link wages to productivity - redefine productivity as a function of quality & quantity		
Evaluate feasibility of reducing permanent labour force		
Estimate financial resources required to implement labour force cut		
Implement labour force reduction		
Individual players to evaluate mechanised plucking		
(b) OVERHEADS & FIELD INPUTS		
Target reduction in estate overheads and HO expenses by 25 per cent in FY02 and additional 15 per cent in FY-03		No action was taken.
Target reduction in field input procurement cost by 8% in FY-02 and additional 5 per cent in FY-03		
Pilot cost reduction in select regions, set benchmarks and roll out process subsequently		
Create fund to part subsidise any expenses incurred in hiring professional assistance in this process		
8. Quality Improvement		Accepted
(a) BENCHMARKING OF BLENDS		
Institutionalise process of tracking customer preferences		Popular brands in Russia were benchmarked and standards developed for using Indian teas.
Benchmark top 3 brands in each category in top 20 markets to ascertain blend profiles & packaging standards		
Formal collation of product and market feedback from top 5 importers in each market		
Sourcing of available market research & commissioning of new research every 2 years		
(b) TRAINING, R&D		
Implement formal mechanism to synergise Government and industry R&D initiatives		Human Resource Development Scheme and Crash Scheme (for moving away from practice of reconditioning) were implemented.
Implement ongoing training in plantation and garden practices		
Create a task force of industry experts to implement training		
Individual players in South India to move away from practice of reconditioning		
(c) PRE-SHIPMENT QUALITY CONTROL		
Form a quality control committee with required legal authority		No action was taken.
Devise criteria for minimum quality of exports		
Hire independent agency to set pre-shipment quality norms, and monitor shipments		

Implementation Plan	Action taken by Board
Make it mandatory for all exporters to obtain quality certification within the next 2 years	
(d) STORAGE OF SEASONAL TEAS	
Individual exporters to examine vacuum packing for better storage of seasonal teas	No action was taken.
Industry players to evaluate option of warehousing near destination and estimate financial requirement	
(e) REPLANTING / REJUVENATION	
Focus on replanting	The SPTF (Special Purpose Tea Fund) has been introduced with main focus on replantation.
Government to reallocate present subsidies in new area development to replanting	
Government to source funds from international agencies to fund replanting	
Government to set fixed portion of 33AB exemption to replanting	
Form a sub-group to coordinate implementation in this area	
Source funds from international agencies to fund development of new clonals and replanting efforts	
9. Program Management of Implementation Accepted	
Define a program management cell to manage and monitor implementation process	Task forces though introduced, became defunct as Tea Board could not hire/provide manpower to support its functions.
Design and maintenance of a comprehensive monitoring mechanism	
Coordinating effort amongst various task forces	
Monthly status review with task forces; highlighting potential issues	
Moderate mid-course corrections to recommendations, if any	
10. Sourcing of Funds Accepted	
Define task force for sourcing funds for the industry	No funds were mobilised except UNDP funding for South India.
Task force to be headed by Tea Board Chairman	
Members to include representatives of ITA, UPASI, and other industry associations	
Identify areas for financing from multilateral institutions based on experience of other countries/industries	
Target areas for financing ; build strong business case	
Tap multilateral international financial institutions; make presentations	
11. Reviewing Roles of the Tea Board Not accepted	
Redesign structure of Tea Board based on revised priorities	
Develop measurable key performance indicators for the top 3 levels of Tea Board management	
Ensure adequacy of controls and legal authority to enable execution	
Redeployment of staff in HO	
Realign geographic spread of foreign offices based on the revised focus markets	
UAE office to exclusively focus on UAE and its re-export markets	
Germany office can be redeployed	
UK office to handle all of Western Europe	
Moscow office to be retained	
One office to focus on niche markets	