



# THE URGE OF TEA INDUSTRY FOR EQUILIBRIUM PRICING

## Authors

### **1. Ms.Shivani Rajendran**

PhD Scholar

Department of Corporate Secretaryship  
PSG College of Arts And Science,Coimbatore

### **2. Dr.S.Jeyalakshmi**

Associate Professor

Department of Corporate Secretaryship  
PSG College of Arts And Science,Coimbatore

## **ABSTRACT**

Tea industry is one of the major contributors for the growth of our country. India is well known and is an established country for its tea production. India being the second largest producer of tea is now in a stagnating position as the industry could not face the hiking cost of production inspite of high demand all over the world. Price equilibrium has become a question mark and is an unanswerable allegation put forward to the tea industry. Though coffee is a substitute product for tea in a perfect competitivemarket ,demand for tea has not fallen leading to high production which in turns increases the cost . It is a severe attack for the leading producers of tea. Price equilibrium is attained at the point where the demand meets supply. The tea bodies keeps urging the government to make measures to resolve the problem of disequilibrium condition. The article makes a path of awareness and knowledge on the importance of maintain price equilibrium in tea industry ,its impact on the Indian economy and effects of disequilibrium on producers and consumers.It also suggest the measures through which equilibrium can be restored.

Keywords: Price equilibrium, disequilibrium, Tea industry, Economies on scale, Market condition. Government intervention, perfect and imperfect competition, Elasticity.

## **INTRODUCTION**

### The Indian Tea Industry

India being the second largest producer of tea takes the pride of producing the superlative tea with a sturdytopography, processing units and innovation. The augmented product mix and market expansion with differentiation has made the beverage stand on top. Surveys conducted in 2018 states that 6.37 lakh hectares

of land cultivated tea in India. 80% of the tea produced is consumed by Indians itself. Total production during the year 2020-21 was 1283 million kg. About 83% of annual production is from north. Assam and West Bengal being the leaders of lot. 17% of the production is from southern regions of Tamil Nadu, Kerala and Karnataka. 10% of exports out of the total are carried by India. Around US\$687.9 million tea exports were from India in 2021. Total exports in the period Jan-April 2022 was 65 million kg which is 9% increase. Tea board of India is the regulatory body which was set up in the year 1953. It controls producers, brokers, manufacturers etc under the tea act.

With these many pros and significance towards the economic development of India, the tea industry is currently facing the major problem of imbalance in demand and supply. The industry is struggling to restore its price equilibrium. The challenge is huge for the industry and the tea board of India to manage as the cost of production is at peak and there is a lack of labour and capital to produce as per the demand. This has led to hike in price of tea, bringing the demand down. Many tea plantations have closed the production to the unmanageable cost of production and maintenance. Red Bank, Dharanipur, Dheklapara, Surendranagar and Bundapani of the Dooars and Raipur Tea estate in West Bengal are some major tea parks that has shut down production. Equilibrium is the concept of making the price stable by balancing the demand and supply in market. The media is shouting out these challenges and the plight of tea producers in all means. Price disequilibrium is a threat to the economy and can cause adverse effect of destruction to the growing economy. The issue must be resolved and has to be addressed by the government to ensure price stability without compromising the industrial lineage. The paper in detail discuss about the mechanism of price, the equilibrium pricing and the effect of price instability in the tea industry.

## **UNDERSTANDING EQUILIBRIUM PRICING**

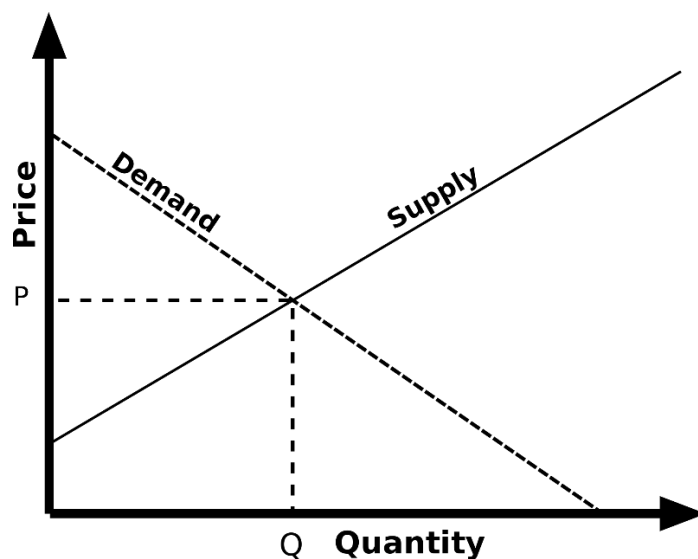
In simple terms, price equilibrium refers to the situation where the market demand and market supply is equal. When there is a rise in the price of a product, market forces will interact and will induce the sellers to produce more. In contrast, if the price is lower than expected, the buyers will urge to purchase more. Therefore there is need to stabilize the price at a range where the demand and supply is at rest.

The market equilibrium demonstrates 3 characteristics

- Behaviour of agents is consistent
- There is no incentives to change behaviour
- Dynamic process governs equilibrium outcomes.

Disequilibrium is the situation in which market demand does not match the market supply/In economics the equilibrium price is calculated by setting the supply and demand function equal.

### Determination of Equilibrium Price:



The intersection of the supply and demand curves, shown graphically, indicates the equilibrium price. It is the price at which all available stock has been sold and all unmet demand has been satisfied. As a result, the market clearing price is another name for it. When the price drops below the equilibrium price, supply declines and demand rises, all other things being equal. A shortage of the product occurs, which raises the price to its equilibrium level. Similar to this, supply grows and demand drops when the price exceeds the equilibrium price. A supply overflow occurs, which causes the price to fall to its equilibrium level. As a result, the market automatically returns to the equilibrium price.

### Reasons for Disequilibrium:

Market disequilibrium can be attributed to a variety of factors. When a supplier establishes a fixed price for a good or service for a specific amount of time, disequilibrium occasionally results. If the market's demand for the commodity or service grows during this period of sticky prices, there will be a scarcity of supply. Government action is another cause of unrest. If the government sets a minimum or maximum price for an item or service, the market may become inefficient if the amount of supply compared to demand is out of proportion. The labour market may experience disequilibrium from an economic perspective. When the government establishes a minimum wage, a price floor on the amount that an enterprise can offer its employees, it may cause a disequilibrium in the labour market. There will be an excess supply of labour in the economy if the required price floor is higher than the price at which labour equilibrium exists.

- Sticky prices - Businesses might be obligated to maintain the same prices for a whole year. As a result, if demand increases during a particular season, there will be a shortage because the company will not keep raising prices, especially if demand is unpredictable. There are costs associated with pricing changes, but they also run the risk of driving away business by repeatedly raising prices.
- Social considerations - Businesses occasionally may purposefully keep prices low because they believe they have a responsibility to the community.

- Economics makes the supposition that people are rational and want to maximise their utility. In the actual world, other elements are in play.
- Government controls – e.g. maximum or minimum prices or government regulating prices, e.g. train tickets limited by rail regulators

### **Downfall of the Tea Industry In India**

The region's tea output has been impacted by Assam and West Bengal's recent flooding and heavy precipitation. The wrath of nature has wreaked havoc on the tea sector in Assam and West Bengal, which accounts for over 81 percent of the nation's total tea production. The region's tea industry has been seriously impacted by the record rainfall and following floods. The condition of the tea business for the current season was particularly precarious due to a drop in exports, pesticide attacks, and an increase in daily salaries of the labourers in West Bengal's tea gardens by Rs 30. For bulk tea producers based in Assam, which produces 60% and 50% of the production of North India and all of India, respectively, the wage increase would result in an increase in production costs of Rs. 14 per kg, according to estimates from ICRA. According to ICRA's most recent report on bulk tea, given the Assam government's recent announcement that basic wages will increase on an interim basis by 13% to Rs. 232 per day from Rs. 205 per day, the total wage rate per man day (including bonus, other cash components, and benefits) for tea estate workers in Assam is estimated to increase by 9% with effect from August 1, 2022. According to ICRA estimates, the wage increase would result in an increase in production costs of Rs. 14 per kg for bulk tea growers based in Assam, which provides 60% and 50% of the production of North India and all of India, respectively. The full year impact in FY2023 will be lower, at Rs. 9/kg, because the revised wage rate in Assam will only be in effect starting in August 2022. In Assam, the crop fell 11% in June 2022 to 76.87 million kg from 86.37 million kg in the corresponding month of the previous year. In the Barak Valley, the crop fell to 4.26 million kg in June 2022 from 5.08 million kg in the same month the year before, when 5.08 million kg were produced, representing a fall of 16.14%. The crop fell by 21.01 percent in the Dooars district of West Bengal, from 27.75 million kg in June 2021 to 21.92 million kg in June 2022. Additionally, the terai crop showed a decline of 19.03% in June 2022 to 17.15 million kg from 21.18 million kg in June 2021. The industry is struggling with challenges from high manufacturing costs, low labour productivity, low prices due to an abundance of supply, and an inefficient auction methodology.

### **Stabilizing the Equilibrium in the Tea industry**

Tea body calls for actions to ensure supply and demand are balanced. The country's tea industry is experiencing issues, with a significant contributor being supply exceeding demand. The Tea Authority of India outlined a number of corrective actions, including the requirement to boost domestic consumption of the beverage. Regulating supply and creating demand is the only remedy to restore economy. Only 23.43 million kg of the 69.35 million kg imported over the past three years were exported again; the remaining 36.92 million kg remained in India for internal consumption. The domestic market's equilibrium between supply and

demand is further strained by the imported tea, further threatening the viability of the sector's economy. Enforcement of a minimum import price, anti-dumping tariffs, and strict compliance with local laws governing food safety, sanitary and phytosanitary standards, as well as FSSAI origin rules can bring price equilibrium. Demand-supply balance is necessary for the tea sector to recover. The tea industry's ability to compete is being hampered by high production costs, which are keeping tea prices from rising. Since the manufacture of tea requires a lot of labour, labour costs account for 65% of overall production costs. Consequently, any salary increase also affects the industry. Indian Tea Association paddles in favour of minimum floor price for tea. Production of high-quality tea is no longer feasible at the current rate due to increases in input and labour costs that have outpaced tea prices. The implementation of a minimal floor price for manufactured teas as well as green-leaf benchmarked to quality has been recommended by the Indian Tea Association (ITA). The ceiling price would account for production costs, guaranteeing a self-sustaining business model for all manufacturers, big and small. Currently, supply and demand in the market determine the price of tea, so when crop prices are exorbitant and output is low, prices rise. It is important to distinguish between this minimum floor price and the minimum support price (MSP). This concept, in contrast to the MSP.

### **High cost of production**

Currently, close to 50% of the tea produced is sold below the cost of production, which ranges between 220-240 per kg. Prices increased as a result of the production loss brought on by the Covid-instigated shutdown during the busiest months for picking. The industry cannot be sustainable and produce quality teas at the current price levels.

### **Surplus challenges**

India produces tea on average at a rate of 1350–1400 million kg (mkg). About 1050 mkg of this is thought to be consumed domestically, while about 200 to 225 mkg is thought to be exported. As a result, the system is receiving an annual surplus of roughly 75 mkg. Without a solution, the surplus stock will keep building up and eventually result in an oversupply situation, which would drive down the price. Therefore, in order to maintain the demand-supply equilibrium over the next three to four years, export volumes must be increased to roughly 300-350 mkg, said the officials.

Enhancing exports can be done in a number of ways. First, there are markets where India already has a significant presence, such as Iran, Russia, and China. In these markets, there is still room for growth in terms of both market share and future inroads. Second, there are many untapped markets, including those where India historically had a significant presence but lost to rivals like Iraq and Egypt. The potential to increase export volume on these markets is enormous.

## Equilibrium Price

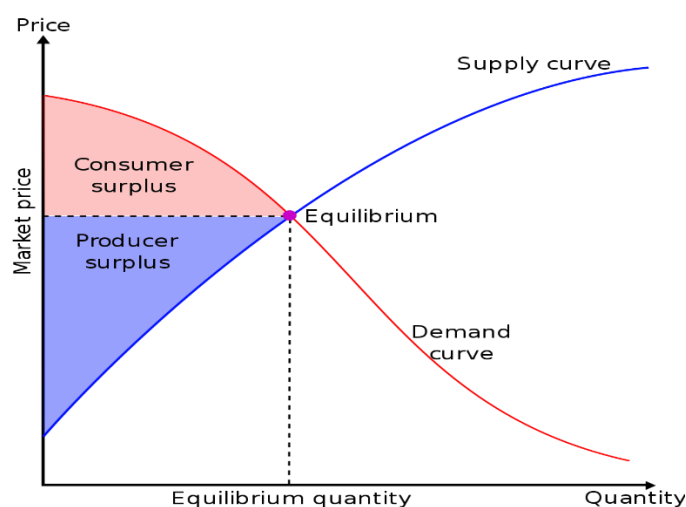


Figure 2 Equilibrium state

Equilibrium refers to a constant state. Evidently, both buyers and sellers are in a state of no change at the equilibrium price. Technically, the amount requested by the buyers and the quantity given by the sellers are equal at this price. At the equilibrium price, the demand and supply side of the market coexist peacefully. The determination of the market price is the central theme of microeconomics. That is why the microeconomic theory is also known as price theory. When a commodity's price rises, vendors rush to the market with their wares in an effort to increase their profits. Due to the condition of excess supply caused by this, the specific product eventually experiences a surplus in its market. The vendors must lower their asking price in order to sell this excess. The price actually keeps dropping until it reaches the equilibrium level. Consumers perceive a chance to purchase a good at a lesser cost when the price of a commodity drops. As a result, there begins to develop a condition of buyer rivalry, which ultimately drives up the price. The price eventually keeps going up until it reaches the equilibrium level.

## Conclusion

Stabilizing the price equilibrium in the tea industry presently hold great importance to the growth of the Indian economy as tea production is the major contributor to the development as India is the second largest producer of world. High production cost, Labour deficit due to inadequate wages, poor climatic support, heavy rainfall and flood had led to shut down of many tea estates in India. As per the law of supply, Other factors being constant, the price and the quantity supplied have a direct relation i.e., when the price increases, the quantity of supply also rises. The increase in price brings down the demand down which in turn leaves the production piled up in warehouse. Ultimately the equilibrium is disturbed. Therefore Demand and supply needs to be balanced. Measures mentioned above will be of great help to the tea industry to restore its economic wellness and contribute positively to the GDP. Though the price of commodities are set by the market forces, there is a need for government intervention at the time of crisis to lift up the stagnating position of the industry. Measures like Minimum price, price ceiling etc can resolve the issue of disequilibrium in the economy.

## Reference

- <https://www.economicshelp.org/concepts/disequilibrium/>
- Tea industry of India <https://www.ibef.org/exports/indian-tea-industry>
- Indian Tea Association bats in favour of minimum floor price for tea - The Hindu BusinessLine,2022<https://www.thehindubusinessline.com/markets/commodities/indian-tea-association-bats-in-favour-of-minimum-floor-price-for-tea>
- Demand-supply equilibrium must for revival of tea industry, Pratyush Deep Kotoky,2019<https://www.sundayguardianlive.com/business/demand-supply-equilibrium-must-revival-tea-industry>
- Tea body urges for measures for equilibrium in demand and supply,Business Standard, 2022 [https://www.business-standard.com/article/economy-policy/tea-body-urges-for-measures-for-equilibrium-in-demand-supply-121112100755\\_1.html](https://www.business-standard.com/article/economy-policy/tea-body-urges-for-measures-for-equilibrium-in-demand-supply-121112100755_1.html)
- Total wage rate of tea workers, The Economic Times, 2022 <https://economictimes.indiatimes.com/news/economy/agriculture/total-wage-rate-for-tea-estate-workers-in-assam-to-increase-by-9/articleshow/94200419.cms>

