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Putting Technology in India's Tea

By JEREMY KAHN

GUWAHATI, India — Traders crowd around wooden desks in a huge dusty auditorium, poring over thick catalogs describing chests of tea. A broker seated at the front of the room calls out prices in a quick, rolling cadence as the traders shout and gesture, signaling their bids.

A sharp rap of the gavel closes each sale, and the process starts over — under the market's rules, the auctioneer must sell at least three lots in a minute.

The scene repeats itself every Tuesday and Wednesday morning here at the Tea Auction Center in the state of Assam, heart of India's famed tea country, wedged among Bhutan, Bangladesh, Myanmar and China.

Tea has been traded this way in India since 1861.

But this year, the cacophony of the public tea auctions will give way to the gentle tapping of keyboards: India's tea markets are going digital.

Just as electronic trading rocked the floors of the [New York Stock Exchange](#) and the [Chicago Mercantile Exchange](#), the move to computerized auctions promises to turn the tradition-bound world of tea traders upside down. While tea growers and large multinationals have welcomed the promise of computerized trading, many small tea brokers fear an electronic exchange will mean the end of their livelihoods.

The government body that sets the rules for tea sales in India, the Indian Tea Board, sees electronic trading as a way to help planters who have been hit hard by low tea prices for much of the last decade. Electronic trading is supposed to result in fairer prices and lower transaction costs.

Studies in other commodity markets around the world have shown even modest reductions in costs through automation can produce large increases in trading volume. The Tea Board's effort is just one of several experiments in India in which computerized spot trading is being promoted as a way to improve the prices impoverished farmers receive for their crops.

The main advantage of the computerized system, according to the Tea Board, is that buyers can bid from anywhere, without having to be physically in the trading hall — or even in the same city where the tea is warehoused. "That means buyer participation will be more, competition will be more," said H. N. Dwibedi, a consultant who has been advising the Tea Board on computerized trading. "Greater competition ensures that the true price is discovered."

Mr. Dwibedi also said an electronic system should help automate the compilation of tea catalogs and eliminate the paperwork involved in settling sales, saving brokers time and money.

India, the world's largest tea producer, is also the third-largest exporter, after Sri Lanka and Kenya. Today, nine auction centers like the one here in Guwahati operate throughout the country, handling about 55 percent of the one million tons of Indian tea sold each year. (The rest is sold from plantations directly to tea companies or consumers.)

Getting tea to auction now can be time-consuming and expensive: planters harvest green leaves then process them into black tea or sell them to be processed. After processing, a broker takes a consignment of tea, warehouses it, assesses its quality, sends out samples to potential buyers for tasting, and produces a catalog listing the teas for sale — a process that can take weeks.

The broker then goes to an exchange and auctions off the consignment. He ensures that the winning buyer pays the agreed price and takes delivery, and in return, receives a commission, usually 1 percent of the selling price, plus warehousing charges and other fees.

An electronic system is particularly attractive to large tea companies, like Tata, the Indian conglomerate that owns Tetley brand tea, and Hindustan [Unilever](#), the Indian arm of the international consumer products company Unilever, which owns the brand PG Tips.

Collectively, these two companies control about 45 percent of the market. They have been pushing for the electronic auctions.

Tata hopes the computerized system will allow it to better coordinate its purchasing efforts nationwide and save on labor costs, according to Kevin Paul, a senior manager in the exports division of [Tata Tea](#). The auction system may also give an advantage to large purchasers by making it more difficult to split lots, a practice in which several small buyers team up to jointly purchase a single large batch of tea.

For that and other reasons, many smaller buyers are fearful — especially those who act as bidding agents for distant tea companies. “If their principals are in a position to bid from hometowns anywhere in India their role would be minimized,” said Jayanta Kakati, the secretary of the Guwahati Tea Auction Center.

Eventually, the nine separate auction centers might be consolidated, perhaps resulting in a single national spot market.

Brokers are concerned, too. Some say that an electronic exchange will allow planters and factories to bypass them and sell directly to the market, although they are quick to point out that tea, unlike many other agricultural goods, is not a true commodity.

Each batch of tea is unique and buyers must sample it to know the quality of what they are buying, making tea more akin to fine wine — where the vineyard, the soil and the weather all play vital roles — than it is to winter wheat or pork bellies.

“We will have to change but there will always be a requirement for someone to assess the quality of the tea, make proper cataloging of tea,” said Bikram Barua, director of Contemporary Brokers, one of north India's largest tea traders. “For that, I don't see that the broker will disappear.”

But India's tea brokers are right to worry, said Benn Steil, a senior fellow at the [Council on Foreign Relations](#) in New York. “It is very hard for firms and individuals specialized in floor trading to adapt to electronic

markets," Mr. Steil said, noting the difficulties that many specialist firms trading on the New York Stock Exchange have encountered since electronic trading was introduced last year.

Even some buyers who support the electronic market say they have concerns about its design. For instance, they worry that entire tea catalogs may be offered for sale simultaneously. Some tea buyers say they prefer a serial auction, where lots are offered one at a time, because this allows them to adjust their bids to obtain enough of the right kinds of tea to maintain a consistent taste in their tea blends.

This is India's second major attempt at electronic tea trading. In 2005, the Tea Board mandated that all tea auctions be conducted electronically, but the trading platform the board purchased from [I.B.M.](#) was plagued by software failures and within a year the entire system was abandoned. I.B.M. did not return calls seeking comment over several weeks.

An Internet start-up called [teauction.com](#) also tried to offer online auctions earlier this decade, but it never gained much trading volume and shut down.

Indian authorities say this time will be different. The latest exchange is being designed by NSE-IT, a branch of India's national stock exchange that specializes in designing trading platforms. The Tea Board plans to roll out the system in Calcutta, where the first Indian tea auctions began, by December, with the software being introduced to other auction centers over the following three months.

At first, although the trading will be conducted by computer, buyers and brokers will still have to be present at the exchange. But if the system performs well, according to Mr. Kakati, it will be opened up for remote trading over the Internet.

Older tea traders, many of whom are not computer literate, already speak wistfully of the auction floor, as if it were already gone.

"We could walk into a trading floor and get the pulse of the market within 5 to 10 minutes — who is buying from which country and why," said Ulhas Saraf, the head of the Saraf Trading Corporation, a tea company in the southern Indian city of Kochi.

Still, Mr. Saraf, who began trading tea in the 1950s, said he could not stand in the way of progress. "The new generation feels the computer is better," he said.

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