

SOME OBSERVATIONS ON THE FINANCIAL ASPECT OF REPLANTING CEYLON TEA

Gordon K. Newton

(Visiting Agent, St. Coombs Estate)

(Note:—The Hon'ble the Minister of Agriculture and Food arrived at 11-00 a.m. on the second day of the Colombo Session to deliver the closing address and was welcomed by the Chairman. Before speaking he agreed to listen to the following addresses by Mr. Newton and Mr. Pathmanathan).

Before I attempted to piece together evidence of costs of tea replanting in practice in Ceylon, I made inquiries from various sources, to find the scale of work done on any one estate (for which I could get details) was so small as to be unrepresentative of commercial tea plantations. The figures given by the Superintendent of St. Coombs are for work carried out at the T.R.I., not on a very large scale but sufficient on which to base estimates for larger programmes. Recorded crop figures from areas planted in clonal stock at St. Coombs indicate yields of 1,000 pounds per acre in the third year from planting, 1,500 the fourth year and 2,000 from the fifth year, which may be expected on other estates under similar conditions as St. Coombs. I would like to emphasise the point of similar or fairly similar conditions being a pre-requisite to such results.

The tea sale averages for Ceylon teas sold at the Colombo Auctions since bulk purchases ceased in 1947 (8 years) up to 1954 have been:—

Up - country tea	211 cts. per lb. average
Mid " "	183 cts. " "
Low " "	184 cts. " "
Total all sales	194 cts. weighted average

These averages include two boom periods.

Tea prices are notorious for variability; the present boom cannot be expected to last and average prices at lower levels seem likely to be re-established.

On this premise one has to try and fix, with data at present available, when replanting old tea by high yielding selected clonal plants becomes an economic proposition. Since so little replanting on a commercial basis is being done in Ceylon, it is not out of place to associate that fact with a share market on which tea can be purchased at Rs. 2,000/- or less per acre and sales of fully equipped tea properties go through at less than half the cost of planting and equipping estates at present. A prospective investor will naturally buy shares or an estate and, unless some encouragement is given to those prepared to put fresh capital into the tea industry of Ceylon, it is unlikely much new opening or replanting can be expected.

Investors in Asiatic agricultural products look for at least 10 per cent. on their capital, so let us, for the purpose of this discussion, take 10 years as our yard-stick.

Tea estate owners will not be interested in replanting high yielding areas; it is the low yielding tea where losses are incurred during lower price periods that come for attention.

A survey of cost of producing Ceylon tea was recently undertaken by a firm of business consultants, covering a cross section of estates where 244,000,000 pounds of tea were produced in 1953 out of a total of 343,033,548 pounds, being 71 per cent. The figures are therefore significant.

They show that after allowing for the last wage increase in August, 1954, 34.59 per cent. of the tea coming under the survey was produced at more than 175 cents per pound, a cost with very small margin below the average price for mid and low country teas between 1947 and 1954, and what is more significant, 20.13 per cent. of the total was produced at 185-210 cents per pound.

Thus there must be a large proportion (possibly 12-15 per cent.) of Ceylon tea which, except for boom periods, is uneconomic to keep in production.

So far the figures I have given are factual, being taken from various publications and records. Taking the 10 year purchase period as the yard-stick, and assuming replanting is to be done over those areas which (on an average) are marginal or nil profit earners, and adopting the figures evidenced at St. Coombs, we get a picture showing the first two years for soil rehabilitation. This is followed by 2 years of maintenance, then 2 years of partial bearing and full bearing for the next 4 years. We know that over a number of years a proportion of the existing tea does not show a profit. Since the small amount of tea such areas give is profitless except to reduce overheads, nothing will be lost by uprooting it. For the first 4 years involved there will be no return from the area for replanting, for the 5th year one may expect a yield of 500 pounds (this is considerably lower than the figure recorded by the T.R.I.), for the 6th year 1,500 pounds, and for the 7th, 8th, 9th and 10th 2,000 pounds per acre, making a total crop for the 10 year period of 10,000 pounds or an average of 1,000 pounds per acre.

Years	1	2	3	4	5	6	7	8	9	10
Crop	Nil	Nil	Nil	Nil	500 lb.	1500 lb.	2000 lb.	2000 lb.	2000 lb.	2000 lb.

The cost taken from the T.R.I. records has been Rs. 6,000/-.

If the replanting work is done under revenue account, allowances under Section 7 of the Income Tax Amendment Act. No. 28 of 1954 may be calculated for; according to the ownership, the allowance will at present be not less than 34 per cent. and may be up to 50 per cent.

According to the market one might expect a profit per pound of 10 cents to 30 cents over the 10 year period, taken in steps of 10 cents, being profit at:—

Cents	Total % profit on replanting cost	Annual % profit
10 × 10,000 lbs. = Rs. 1,000.00	17%	1.7%
20 × 10,000 " = " 2,000.00	33%	3.5%
30 × 10,000 " = " 3,000.00	50%	5.0%
40 × 10,000 " = " 4,000.00	67%	6.7%
50 × 10,000 " = " 5,000.00	83%	8.3%
60 × 10,000 " = " 6,000.00	100%	10.0%

At a profit factor of 60 cents per pound the dividend return of 10 per cent. is attained. Another way to read this table, for costs less than those shown at Rs. 6,000/- per acre, is to read the profit column down until the stage is reached for actual cost of the work done. Thus at Rs. 4,000/- per acre 10 per cent. profit is attained at a 40 cents margin. At 60 cents margin the return is 15 per cent.

Areas which are not totally unprofitable but capable of improvement by replanting have to be considered differently. Say the tea concerned is giving 500 pounds per acre and the average profit 20 cents per pound, for 4 years the owners will lose Rs. 100/- a year or a total of Rs. 400/- for each acre replanted, add replanting cost of Rs. 6,000/-, making a total charge of Rs. 6,400/-. From the 5th year onwards 10,000 pounds of tea is estimated for cropping and the margin between sale and production prices is likely to be wider on the higher yield. To cover expenses and loss of income the profit will have to be 4 cents per pound more than for replanting totally unprofitable tea.

On the same formula figures for various combinations of profit factor and yield may be worked and tax relief calculated.

Tax relief is given where owners are prepared to use some of their profits, but there is no attraction for the new investor who can buy tea shares or estates at a level of Rs. 1,500/- per acre upwards.

The present situation is quite unfair on tea estate companies and proprietors who have their revenue reduced by a heavy export duty; rubber estates are being assisted to replant by a rebate from export duty, why not encourage tea producers similarly?