

Marketing of Spices in Sri Lanka

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The small producer in the agricultural sector rarely gets a fair or full return for the effort he puts in to produce his crop. This contention is borne out in the recent study carried out by T. Binnur Sappideen of the Department of Agricultural Economics and Farm Management, Faculty of Agriculture, University of Sri Lanka, Peradeniya, where he shows that one reason for the big difference in prices fetched by the producer and exporter is that there are a host of intermediaries in the marketing process. This study was carried out by the author in the Kandy and Nuwara Eliya districts and the material presented here is based on field interviews with spice producers and marketing agents involved in the trade. Although the sample studied was small, the material presented gives some insight into the existing market structure for spices and its major problems and deficiencies. The views expressed here are entirely those of the author, who is grateful to the Department of Agricultural Economics, Faculty of Agriculture, for financing the study.

Sri Lanka has been a traditional exporter of spices and has a lead the field in the export of cinnamon. In all other spices it produces, however, its exports have been small compared to international standards. With the prevailing high prices, increasing world demand and world market prospects bright, it is expected that local production would increase substantially in the near future. The view that local production would increase is further strengthened by the various forms of assistance, incentives and subsidiary schemes now being provided by the government and also included in plans for the future.

Existing Marketing Structure

Spices are primarily grown in the mid-country, lower elevations of the hill country and in the South and Western parts of the low-country. In the mid-country cultivation is generally in the form of mixed gardens of cloves, nutmeg and pepper, coffee, cocoa, etc., while in the hill country and the South and Western regions monoculture of cardamoms and cinnamon, respectively are more common. In spite of this varying distribution and different systems of cropping the marketing structure for these five spices is similar.

(1) PRODUCERS

The producer constitutes the first stage of the marketing process. Producers dispose off their produce through one of the three outlets

available to them, namely, Travelling Collectors (TC), Village Merchants (VM), or Wholesale Buyers (WSB). It is difficult to evaluate the relative efficiencies of each of these outlets, as producers tend to use more than a single outlet at a time depending on availability of stocks and the need for finances.

TC, VM and WSB constitute the assembly trade of the spice industry. They assemble small quantities of produce into bigger lots or bulk before disposal.

(ii) TRAVELLING COLLECTORS

The TC visits farms and collects produce in small quantities ranging from one to twenty five kilos. He travels mainly on foot and may visit four to five villages a day within a radius of five miles or more. The quantity of produce collected as well as number of farms visited per day varies, depending on availability of produce on farms and finances in the hands of the TC. Assembled produce is disposed of the same day to a WSB, as the TC needs the money to continue his business the next day.

(iii) VILLAGE MERCHANTS

The VM typically operates a shop in the village and deals with general merchandise. The spice trade is a sideline activity for him and he buys the produce from producers who bring it to his shop for sale. The VM's role is important, as he is a reliable source of ready cash to producers when they are in

urgent need of money. Unlike the TC, the VM does not go in search of produce, buying only what is brought to his shop for sale. The VM disposes the produce assembled by him to a WSB once a week, depending on the need for cash.

TC and VM are solely dependent on the WSB as their principal outlet since they lack resources, mainly financial, to dispose their assembled produce directly to marketing agents in Colombo. It is also possible that they do not wish to upset the existing structure and may suffer if they try to do away with the wholesaler.

(IV) WHOLESALE BUYERS

The WSB purchases and assembles all produce brought to him by producers, TC and VM. He generally operates a shop in the closest town in a growing area. He purchases all produce brought to him irrespective of quantity or of quality. He may deal with the trade of other general merchandise or he may deal exclusively in the purchase and sale of spices and other related produce. WSB dispose their produce through Commission Agents (CA) or Auction Brokers (AB) in Colombo, or may even sell it directly to an exporter.

All three intermediaries in the assembly trade of the spice marketing system operate on their own account and risk buying and selling for personal gain. Transactions at these various levels are strictly on cash.

(v) BROKERS AND COMMISSION AGENTS

Brokers and Commission Agents perform the buying and selling functions on behalf of their clients who are generally large producers, WSB or Exporters. There are six established Broker Agencies in Colombo forming the Colombo Brokers Association. These Broker Agencies handle not only spices, but a variety of other agricultural produce. In addition, there is one private broker who handles only cardamoms and cloves. All brokers sell on behalf of their clients weekly at Public Auctions held in Colombo.

There are a large number of CA operating in Colombo mainly in the spice quarter of Pettah. CA buy and sell on behalf of their

clients on a commission basis. Large producers and WSB are those who seek the services of the CA.

(vi) EXPORTERS

The exporter is the last link in the spice marketing structure in Sri Lanka. There are a large number of exporters, with offices established in Colombo. They may buy produce directly from producers, or at the public auctions or in the open market, or they may buy directly through CA or brokers, so as not to cause any disturbances in the market. Most exporters buy on forward contract, with foreign firms for export.

Marketing Processes and Function

PROCESSING

Processing of spices is confined to simple sun drying in the whole form. The produce is sun dried in the spice gardens or farms for three to five days by spreading the produce on mats, gunnies or similar material. This form of processing is subject to vagaries of the weather and sometimes affects the keeping quality of the produce due to non-uniform drying. Cardamoms on the other hand may be properly cured under artificial conditions by those producers who own curing barns. This form of 'flue curing' gives a uniformly dried, green product which fetches a high price in the market. Producers who do not own curing barns sell their raw cardamoms to a barn owner at a very low price or may get it cured for a nominal fee of Rs. 5/50 per kilo. Sometimes the smaller producers simply sun dry the raw produce resulting in a non-uniformly dried, bleached product of very low quality which fetches a very poor price in the market. Flue curing of cardamoms costs between Rs. 3/75 and Rs. 4/50 per kilo of dry produce depending on the scale of operation.

Furthermore, sun drying of produce of farms exposes them to contamination by dust, dirt, animal excreta etc. further lowering the quality of the produce.

The importance of paying special attention to proper and hygienic processing in order to produce spices of high quality and purity to compete in the world market needs little or no emphasis.

It is sad to note that the various intermediaries in the marketing system do not resort to any specialised processing functions.

They merely assemble and pass on the produce to the next intermediary so as to minimise their operating costs. Sometimes an intermediary may reclean and sieve the produce if the necessity arises.

GRADING

About one third of the spice producers grade their produce into two or more grades. However, this grading does not conform to any standards, as there are no quality control checks at the producer level.

Marketing intermediaries do not attempt to strictly grade the produce they assemble. They simply bulk it into different lots according to what is bought, and dispose it the same way. Although business transactions are negotiated at the various levels on certain grades such as grade I, grade II etc, the standard of these grades are questionable. At the exporter level stricter grading measures are adopted and grades have to be certified by officers of the Bureau of Ceylon Standards, prior to export. Since this scheme came into effect in 1974, the quality of spices exported from Sri Lanka has improved considerably. It is encouraging to note that,

Table I — Number of consignments inspected by the Bureau and pre-export certificates issued

Year	Cloves	Cardamoms	Nutmeg	Mace	Cocoa Beans	Pepper	Sesame	Total
1974	66	86	35	10	31	28	—	256
1975	96	218	69	13	99	28	—	523
1976	185	202	137	37	136	6	191	894
1977	827	119	49	5	165	101	251	1,516

Source: Bureau of Ceylon Standards

whilst before the scheme was enforced there were numerous complaints from foreign buyers about the quality of spices imported from Sri Lanka (and most of her spice trade was on the basis of samples), since 1974 there have been only two complaints from foreign buyers. At present this scheme is enforced only on seven commodities; namely, cloves, cardamoms, nutmeg, mace, pepper, cocoa beans and sessame. Furthermore, it is of interest to note that some of the standards set for the above commodities are under revision and that the Bureau is in the process of formulating standards for other export commodities as well.

A further useful function which the Standards Bureau may perform would be to initiate a programme,

in collaboration with the Department of Minor Export Crops, to disseminate knowledge on grades and standards set by the Bureau to the various intermediaries in the spices market structure as well as to the producers. This would ensure better quality produce reaching the exporter and thus better returns to the producer and the country as a whole.

Table I shows the progressive increase in the number of consignments that were inspected and issued pre-export certificates by the Bureau from 1974 to 1977.

PACKING

Producers as well as marketing intermediaries pack their produce exclusively in thick gunny bags of capacity of forty to fifty kilos. Although gunny bag packing does not physically damage the produce during handling it is nevertheless prone to insect damage, contamination etc., which could lower the quality of the produce and also shorten its storage life. Only cardamoms are packed for export in tea chests lined with aluminium foil or thick black polythene lined gunny bags. This form of packing helps to preserve the quality of the

cardamoms until it reaches its destination.

TRANSPORT

Small scale producers who dispose their produce through WSB, transport the produce by public transport vehicles or sometimes they go on foot. Large producers and marketing intermediaries use private transport such as a car, van or lorry. While public transport costs less (around -/50 cts. to Rs. 1/50 per piece of luggage depending on quantity), private transport costs far more and averages about Rs. 2/50 to Rs. 3/- per 50 kilos.

Marketing Costs, Prices and Margins

The foregoing discussion shows that as the various intermediaries

do not perform any specialised marketing functions or processes, except merely assembling produce, their marketing costs are small. Table II below summarises the various costs incurred by producers, TC, VM and WSB.

From the table below it is clear that the marketing costs of producers are small and amount to -/10 to -/15 cts. per kilo of produce. The TC incurs little or no costs while the VM's costs too are minimal, mainly for packing and transport and average -/15 to -/20 cts. On the other hand the WSB's costs are slightly higher as he has to transport his produce to Colombo for disposal. As this entails additional handling costs the WSB's marketing costs amount to about -/25 cts per kilo of produce.

Furthermore, producers and wholesalers who transport their produce to Colombo for disposal through brokers and commission agents, incur an additional cost known as service charges, this being the amount levied by either brokers or agents for their services. In the case of the commission agent, this fee totals a commission of 2 percent and a brokerage charge of 1 percent of the final sales price, handling charges of -/75 cts. per bag of produce and sundry expenses. Brokers charge as their fee 1 percent of the final auction price,

Table II — Marketing costs of producers TC, VM and WSB

Intermediary	Qty.	Proc.	Grad.	Pack.	Trans.	Lab.	Tot. cost per 50 kilos	Av. cost per kilo.
Producer	50 kil.	—	—	4.90	1.80	—	6.70	0.13
TC	"	—	—	—	—	—	—	—
VM	"	—	—	5.00	2.50	1.00	8.50	0.17
WSB	"	—	—	5.00	4.50	2.25	11.75	0.24

— indicates that no costs are incurred.

-/4½ cts. per kilo of produce as warehouse charges, a public sales expense of -/25 cts. per lot and a business turnover tax of 1 percent.

Table III, above, shows the prices received by producers through the use of different marketing outlets.

From this table we see that the use of TC/VM as a sales outlet by producers fetches them a lower % of the Colombo market price, while the use of the WSB is more remunerative. Furthermore, TC enjoy a margin of over 10 per cent in the

TABLE III — Prices received by producers through different sales outlets (all prices in Rs. per kilo)

	TC			VM			WSB		
	AP	MP	%	AP	MP	%	AP	MP	%
Cloves	66.00	80.60	81.89	63.06	78.61	80.22	81.40	88.21	94.42
Pepper	21.27	30.34	70.11	—	—	—	23.54	29.16	80.37
Nutmeg	7.70	19.25	40.00	10.70	21.80	49.00	12.65	21.77	58.11
Cardamoms	1.33	180.75	28.40	—	—	—	85.80	193.72	44.29

AP: Average price received by producers from the different outlets.
 MP: Average price as determined by Colombo Auctions during the respective periods of sale.
 % Percentage of average price to market price.
 — Not available.

case of cloves and pepper, almost 20 percent in the case of nutmeg and more than 15 percent in cardamoms. WSB on the other hand enjoy a margin of 5 percent for cloves, 20 percent for pepper, 40 percent for nutmeg and more than 50 percent for cardamoms. The rather low % of market price received by producers for nutmeg and cardamoms is mainly due to immature harvesting and lack of grading in nutmeg and poor processing of cardamoms.

Although prices received by producers from TC and VM are much lower than those received from WSB, nevertheless the TC and VM performs the functions of handling and transport of the produce thus making it convenient for the producer. Thus for want of a

services of the TC or VM and thus the latter marketing agents play a dominant role in the villages.

Conclusions

From the above discussion it is clear that the existing market structure for spices consists of seven intermediaries, generally not performing any specialised marketing functions, but merely assembling the produce and passing it down the chain to the next link. Whilst the operation of these intermediaries results in exploiting of producers, their services cannot be dispensed with completely due to the lack of a proper market infrastructure. Three striking deficiencies in the existing market structure are:

- (i) Lack of knowledge in proper marketing techniques such as processing, grading, packing etc.
- (ii) Lack of communication between the smaller production units and the market, resulting in producer exploitation by intermediaries as evident from prices received by producers.
- (iii) Lack of extension staff. In 1977 there were only five extension officers covering the districts of Kandy and Nuwara Eliya.

Therefore, in view of the increasing demands that are likely to be placed on the marketing system of spices in the years ahead, it is of vital importance that the existing marketing system is reformed and better organised. The establishment of a state sponsored marketing institution could provide the necessary impetus and the much needed competition to the existing market structure and if efficiently

24
operated it could make a positive contribution towards the development of a fair market system for the producer.

The proposed marketing institution should have a network of "Rural Assembly Markets" with the following objectives in view.

- (i) To purchase and assemble spices and other related minor export crops such as coffee, cocoa etc., (as these are grown as a mixed crop in most spice gardens), thereby performing the function of the TC, VM, WSB. These rural assembly markets could also function as the major supply source to State sponsored exporting organisations such as the Consolexpo and Markfed.
- (ii) To disseminate 'market intelligence' to producers thereby making them aware of prices, market trends, existing as well as future potential and other relevant information.
- (iii) To disseminate knowledge with a view to educate producers on proper marketing functions and techniques to improve the quality of their marketable produce which will enable them to obtain higher prices in the market.
- (iv) To provide facilities and finances to small producers on an individual or on a co-operative basis to set up processing units, especially for processing of cardamoms which will help them to improve the quality of their produce, increase its value and bring greater foreign exchange returns to the country.

Along with the measures proposed above it is of utmost importance that priority be given to the recruitment of a greater number of extension officers by the Department of Minor Export Crops and that they be adequately trained and equipped with sufficient knowledge in modern cultivation techniques and practices and also in the various areas of marketing in order that they would be fully prepared to disseminate this information to producers for the benefit of both the producer and the nation as a whole.