FEATURES

PACKETED TEA

Problems associated with its marketing abroad

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Tea is Sri Lanka's principal export product and with the nationalisation of tea estates as part of the country's land reform programme, the emphasis in our strategy now turns towards marketing of tea. This, the second such article in the "Review" is by A. S. Nadarajah who is Deputy Director of the Department of Commerce.

The developing countries are now endeavouring to increase their export earnings by exporting their products in processed forms. For decades historical circumstances compelled the developing countries to export their primary products in their raw form. These were processed in the developed countries and sold at prices many times higher than the actual costs at which they were purchased from the developing countries. The continuous decline in the prices of primary products exported by the developing countries, as against the steady increase in the prices of the manufactures exported by the developed countries, has left the developing countries with no alternative but to maximise their export earnings by processing their products in order to increase the unit prices of their exports. However, in their endeavour the developing countries will have to face various trade barriers, both tariff and non-tariff, in the markets of the developed countries.

It is the policy in Sri Lanka to encourage and assist the export of processed products, using indigenous raw materials, in order to increase the unit price of exports and so benefit from the added value. In the case of packeted tea too, as with tea in any other processed forms, such as tea bags and instant tea, the criterion governing such assistance is the increased net gain in foreign exchange earnings, *vis-a-vis*, export of tea in bulk.

Some of the reasons that can be adduced for the export of tea in packets are:—

(1) higher net foreign exchange earnings as against the export of tea in bulk;

(2) the development of a packaging industry for the processing of readily available raw material, thereby generating employment and ancillary benefits;

(3) the establishment of a brand consciousness for quality Pure Ceylon Tea among consumers abroad;

(4) the creation of a greater demand for Ceylon tea in overseas markets and consequently better prices at the auctions.

The Government, in May 1968, considering the higher net foreign exchange earnings that would accrue to the country by the export of tea in processed form, granted a duty reduction of 15 cents per pound on the export of tea in packeted form. Although there has been an appreciable increase in the export of packeted tea—from under 2 million pounds in 1968 to over 30 million pounds in 1973—this still constitutes only a very small proportion of the tea exported in bulk form.

Considering the market distribution of packeted tea exports, since the duty concession was granted, it will be seen that over 85% of our packeted tea exports has been to the Middle Eastern countries, of which Libya has accounted for about 70% of the exports. In fact, Libya has been the biggest single outlet for Ceylon packeted tea for some years. Exports to all other sources combined have averaged about 6 million pounds per annum from the annual average of about 3.4 million pounds per annum prior to 1968.

This shows that the Middle East has been the biggest market for Ceylon packeted tea. Tea markets in the Middle East could be divided into three broad categories:—

(i) **Free Markets**

These are countries without any foreign exchange problems and where there are no restrictions on tea imports. Markets in the oil rich Gulf area—Kuwait, Dubai, Bahrein, Quatar, Oman, Saudi Arabia and North Yemen come under this category.

(ii) **Controlled Markets**

Countries with foreign exchange problems, where imports are controlled by the State, e.g. Arab Republic of Egypt, Syria, Jordan, South Yemen and Sudan.

(iii) **State Imports**

Countries without foreign exchange problems, where imports of all essential commodities are controlled by the State through State Purchasing Organisations, e.g. Iraq and Libya.

Iran does not fall into any of the above categories, but the smooth flow of tea into this market is restricted on account of the regulations relating to the mixing of tea designed to protect the local tea industry. However, Ceylon tea is very popular in this country and there is a great demand for it.

Sri Lanka being aware of the potential that exists in these markets has adopted various strategies, depending on the nature of the market, to promote Ceylon tea, especially Pure Ceylon Tea in the form of packets, in these markets. For example, in the Free Markets, Sri Lanka expends the bulk of its promotional funds with the objective of:—

(i) increasing Sri Lanka's market share;

(ii) creating an awareness of the 'Lion' Mark as a symbol of quality Ceylon tea;

(iii) launching a strong promotional campaign to support specific brands of packeted Ceylon tea;

(iv) attracting the younger generation towards tea.

In recent years some of these countries, viz. A.R.E., Iraq and Libya, have set up their own blending plants, and it is very likely that teas from different sources will be used in their blends, although Ceylon tea may form the bulk, because of its quality.

While granting the export duty reduction in May 1968, Sri Lanka considered that it would not be advisable to move into her traditional markets (U.K., U.S.A., Australia, New Zealand etc.) with packeted tea in a determined manner, as such a move would antagonise the national packers in these countries. As such, the most constructive method, as far as these markets were concerned, would be to seek the co-operation of the national packers in these countries regarding the Ceylon tea content in their packets. Further, many of these countries levy a special duty on tea in packets to protect their own packing industry. They thus discourage the import of tea in packeted form.

Sri Lanka provided further incentives on 1st January, 1973 for the export of tea in processed form by extending the Convertible Rupee Account Scheme to cover tea in packets. With the eligibility for convertible rupee payments, there was an appreciable increase in the export of tea in packets, again largely to the Middle Eastern markets. However, it was found that although some of the exports conformed to the Gazette definitions (Notification of 31-8-71, published in the Government Gazette Extraordinary No. 14,974/8 of 8-9-71) of tea in packets, they were of minimal wrappings and very poor by any standards. As stated earlier the object of export of tea in packets being granted concessions was to encourage direct display and sale abroad of Pure Ceylon Tea without admixture and blending to masquerade as Pure Ceylon Tea. It was also intended that the foreign exchange earnings for a pound of tea exported in packeted form should be more than for a pound of tea exported in bulk. As such, there was reason to believe that once the teas in such inferior packets reached their destination, the minimal wrappings were done away with and the tea bulked to be blended with teas from other sources and probably sold as Pure Ceylon Tea to the detriment of the country's image as the home of good tea. This necessitated the withdrawal of the earlier definition of tea in packets and the introduction of revised definitions and new standards for compliance by exporters of tea in packets if they were to qualify for concessionary rates of duty and Convertible Rupee benefits. (The Government Gazette Extraordinary No. 157/8 of 1st April 1975).

The table above shows the comparative annual average f.o.b. prices fetched by tea in packets and tea in bulk. On a comparison of these figures it is debatable whether Sri Lanka has benefitted by the export of tea in packets.

Year		Packeted tea	Bulk tea (f.o.b. Rs/lb)	Difference in price
1968	...	3.13	2.51	0.62
1969	...	2.46	2.38	0.08
1970	...	2.44	2.43	0.01
1971	...	2.67	2.55	0.12
1972	...	3.16	2.73	0.43
1973	...	3.04	2.77	0.27
1974	...	3.54	3.50	0.04

(*Source*: Sri Lanka Customs)

However, arguments may be adduced by the proponents and opponents of packeted tea exports for the small price differential, viz.

(1) since the largest proportion of the exports of tea in packets has been to the Middle Eastern countries, these teas are mostly of plainer grades for which the average price is low, while the tea in bulk consists of approximately 35% high quality;

(2) the shipper passes the export duty reduction, and possibly a portion of the CRA also, to the importers with the consequent loss of foreign exchange to the country.

Statistics of exports of packeted tea show that Sri Lanka has not made much headway in her traditional markets, thus confirming what has been the view of the Government when it granted the export duty concession. It therefore appears that Sri Lanka cannot make any notable impact in the strongly entrenched position of the established monopolies in these markets with their proprietory brands. If Sri Lanka is to export packeted tea in an organised manner to her traditional markets, who are importers of tea in bulk for their own packaging, the distribution in the importing country has to be through:—

(i) the establishment of exporters' own organisations;

(ii) the existing national packers' organisations in these countries.

Where (i) is concerned, there will be problems of running the establishments, distribution, promotion, transport etc., which needs substantial foreign exchange commitment. It could be that Sri Lanka when considering the foreign exchange outlay involved over many years in a project, which has to face stiff and one-sided competition from the already established giant packers in these countries, may be averse to approve such a proposal, however feasible it may seem on paper.

With regard to (ii), the existing organisations in these countries will resist any move by Sri Lanka to intrude into their line of business for the following, among other, reasons:—

(1) their own equipment will be idle, causing unemployment etc.,

(2) there will be no guarantee regarding the quality the consumer requires;

(3) consumer preference for Ceylon tea is limited.

As such, it is generally conceded that there will be problems in marketing Ceylon packeted tea on a commercial scale in any of the sophisticated markets. One example may suffice to show the degree of opposition that Sri Lanka could expect in any attempt to market packeted tea in sophisticated markets. Recently, a request was made to the Government of Australia to remove the Import Duty payable on packeted tea into Australia in order to assist developing countries, particularly Sri Lanka. When the Department of Customs and Excise, Canberra, made enquiries from the Australian Tea and Coffee Traders Association whether the Association would have any objection to the removal of the Import Duty on packeted tea, it strongly objected to this, and in fact suggested that the Import Duty should be increased to prevent the "dumping" of tea in Australia! It was also mentioned that if Australia permitted the unrestricted import of tea in packets for sale into this country, the market would be eroded causing unemployment etc.

The packers in the developed countries also claim that consumer preference for Pure Ceylon Tea as such is limited. In the case of the U.K., the packers claim that the greater bulk of the tea sold is blended with teas from Ceylon, India, Africa and others. A very small proportion is represented by Pure Ceylon, Pure Indian, or blends from only one producing country. Further, the major proprietory brands representing some 80% of all packaged tea sales in the U.K., to some extent in the other countries too, are heavily discounted to the powerful national retail outlets and consistently price cut. This has resulted in a demand for "price reducers" in the blends, which are readily obtainable from sources other than Sri Lanka, thus leading to a steady decline in the percentage of Ceylon leaf used.

These show some of the problems that Sri Lanka will have to face in her attempts to sell her packeted tea in these markets. It is therefore evident that if Sri Lanka is to export her tea in packeted form to these countries, she will have to seek the co-operation of the tea trade in these countries. Such co-operation, through joint ventures, could take three possible forms:—

(i) Sri Lanka partner packaging the tea (in Sri Lanka) and using the distribution network of the importing partner;

(ii) packaging done in the importing country and using the distribution network as in (i);

(iii) arrangement with the Super Market chains to retail Ceylon tea through them.

Any joint venture by Sri Lanka would involve a proper assessment of the market potential, market share of the partner and satisfactory arrangement for an equitable sharing of the risks and benefits involved in such a project. In the case of arrangement for sale through the Super Market chains, unless this is backed by adequate sales promotion, it may not yield the expected dividend.

The local packeted tea trade has made representations to the Director of Commerce that since the import of packing materials is subject to FEECs, the export of packeted tea should therefore be eligible for FEECs in order to enable these packs to be competitive in the international markets. It is not possible to grant FEECs on the export of packeted tea for the reason that the issue of 65% FEECs on the full f.o.b. value could lead to a loss of foreign exchange for the country. This can be illustrated by the following example. Suppose the f.o.b. price of a pound of packeted tea is Rs. 2.50. If the FEECs of 65% is granted on this price of Rs. 2.50, the exporter could now sell this tea at a low price of Rs. 1.52 per pound and yet receive the full value of Rs. 2.50, in rupee terms, as earlier. The result would be that as far as the exporter is concerned he will recover his full value in rupee terms, while the country will lose substantial foreign exchange.

However, this does not mean that exports of packeted tea will not be granted some relief in the form of refunds on the FEECs and import duty paid on the packing materials used when they are exported in the form of packeted tea. Refunds of the import duty and the FEECs paid on the import of packing materials used in the export of tea bags and tin plates for tea canisters have already been granted by the Government. There is a case for granting the refund of the import duty and FEECs on the packing materials used in the export of packeted tea. However, the manner in which this refund could be worked out satisfactorily and practically for implementation has created a problem, because tea in packets is exported in many different types and degrees of packing to various markets and sometimes even to the same market. Generally, any packing for the Middle Eastern market is minimal, whereas packing for sophisticated markets is very refined. The Department of Commerce is working on a method which would effect refund of FEECs and import duty payments in an equitable manner based on the value of the packing materials used in the packets.

For the record

Packeted Tea Exports—the situation in 1975

Packeted Tea Exports from Sri Lanka have shown a continuous upward trend over the past 10 years. From a total packeted tea exports value of Rs. 10.3 million in 1966, they had reached a record figure of Rs. 181.3 m. by the end of last year. The increase in value of Packeted Tea Exports in 1975 was unprecedented in that it went up for the first time by over 150 per cent of the previous year's export value. The number of countries taking Sri Lanka's Packeted Tea in 1975 was as much as 73. Of them 15 countries were taking nearly 97 per cent of our total packeted tea exports, of which two countries Libya and Saudi Arabia accounted for 73 per cent of all packeted tea exports.

THE 15 LEADING MARKETS FOR SRI LANKA'S PACKETED TEA IN 1975

	Country	*Value in Rs.*
1.	Libya	103,570,774
2.	Saudi Arabia	36,777,884
3.	Kuwait	10,423,882
4.	Tunisia	4,196,964
5.	Pakistan	3,806,203
6.	Hong Kong	2,655,045
7.	Jordan	2,525,744
8.	Lebanon	2,085,216
9.	Sweden	1,962,639
10.	Iraq	1,794,411
11.	Denmark	1,495,246
12.	UAR	1,437,066
13.	Australia	1,317,958
14.	USA	811,517
15.	Syria	617,981
	Total for above 15 countries	173,478,530
	Total for all 73 countries	181,321,988

PACKETED TEA EXPORTS 1966 - 1975

Year	*Value (m. lbs.)*	*Value (Rs. m.)*	*FOB prices (Rs. per lb.)*
1966	3.7	10.3	2.78
1967	4.7	12.0	2.53
1968	9.4	29.4	3.13
1969	15.2	37.3	2.46
1970	17.0	41.6	2.44
1971	22.7	60.6	2.67
1972	32.4	102.4	3.16
1973	30.4	92.4	3.04
1974	20.3	71.9	3.54
1975*	38.0	181.3	4.77

* Provisional