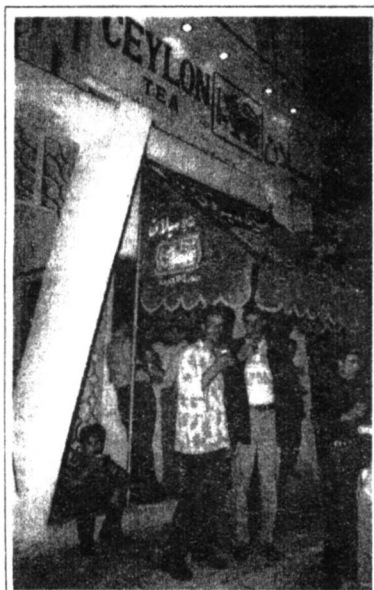


# Tea Sector Performance & Recent Trends: An Overview

A lean growth of 1.8 percent recorded in agricultural output in the year 2000 seem to be a far lower rate when compared to the 4.5% growth recorded during the year 1999. The major contribution of this growth was made by tea and coconut output.

On par with the open economic policy the measures taken by the Government have helped the industry in a big way continuing the upward trend since 1993, tea production recorded an output of 284.5 kg. At the end of 2000 the production further increased by 7.7 per cent surpassing



the 300 million kg. mark for the first time and reached a new peak output level of 306 million kg. In the meantime a 17.7 per cent increase recorded in the price level.

The agricultural policy of the government focussed on allowing greater participation of the private sector in production and marketing of tea while the government acted as a facilitator in the development of the sector.

Privatisation of the regional plantation companies, which began in 1995 is being progressed steadily throughout this period. Under the divestiture Plan 51 per cent of the stock of these Companies was sold to the management companies while 10 per cent of the stock in each company

was gifted to the employees of the estates and the balance 20 per cent was to be issued as an initial Public Offering (IPO) and the remaining 19 per cent was to be sold through the stock market. At end of 2000, the privatisation of 8 companies had been

## W.G.S. Waidyanatha

Senior Research Officer  
People's Bank

completed and all shares were fully sold. In another 8 companies, 19 per cent of the stock is still with the government, while in 4 companies 39 per cent of the stock in with the government.

During the year 2000 Malwatta Valley Plantation Ltd., sold 20% of its shares in an IPO and reduced the government stake further. Depending on market conditions the balance shares will be sold through the stock market in the future. According to the Central Bank, since tea prices remain favourable at present, the plantation companies should seriously think of building up a self-generated capital development fund for long-term investment in the sector. Such investment would make the companies resilient when the prices take downturn.

### Production in year 2000

The recorded high yield in tea production was mainly supported by the increased fertilizer application and favourable weather conditions prevailed during the year. This record performance in production was mainly reflected in a notable improvement in the production of low elevation teas whose output accounting for 54% of the total yield. This recorded by 12% in 2000 to 166 million kg. Production in high and medium elevations

with a share of 27% and 18% respectively increased by 3% and 5% respectively in 2000.

The tea small holder sector, accounting for 60% of the total output significantly improved its performance recording an increase of 12% in 2000 to 84 million kgs. Plantation companies, which accounted for the balance output recorded only a growth of 2 percent. The yield in the small holder sector improved by 2% over the preceding year to reach a new record of 2,216 kg per hectare in 2000. The average national yield of tea was 1,618 kg. per hectare. The yield in the estate sector is estimated to have improved by 6% to 1,151 kg. per hectare, mainly on account of improved management in estates under the privatised plantation companies. However, average yield in the estate sector plantations remained far below that of the small holder sector, as a large extent of tea in the estate sector is still under low yielding seeding tea, compared to the high yielding Vegetative Propagated (VP) tea of small holder.

The production of CTC (Cut tear and Curl) tea which enjoyed a good popularity, declined by 4% to 17.5 million in year 2000. The high cost of production of local CTC teas cannot compete with low priced varieties available in the global CTC markets. The import of CTC tea to Sri Lanka for blending and re-exporting purposes amounted to 2.8 million kg in 2000 recording 62% increase compared to 1999. However, the total quantity of tea imported for blending accounted below 1% of domestic production.

Table 1

SRI LANKA TEA EXPORTS - 2001

Description (Jan.-June 2001)	Quantity (Kgs)	Value (Rs Mn)	Approx.Av.Unit Value per kg (Rs cts)
Tea Bulk	87,701,175	15,694	178.94
Tea in Packets	43,037,946	8,814	204.79
Tea in Bags	6,652,694	3,074	461.99
Instant Tea	906,888	506	558.12
Green Tea	408,662	200	489.11
Other Tea	6,542,179	1,989	304.06
<b>Total</b>	<b>145,249,542</b>	<b>30,277</b>	<b>208.44</b>
Tea imported/Re Exported	3,096,681	1,222	394.45
<b>Grand Total</b>	<b>148,346,223</b>	<b>31,498</b>	<b>212.32</b>
January/June 2000			
Tea in Bulk	88,793,627	13,725	154.57
Tea in Packets	29,960,860	5,298	176.83
Tea in Bags	6,536,506	2,509	383.82
Instant Tea	670,510	330	491.85
Green Tea	306,241	114	373.53
Other Tea	4,237,726	1,106	260.88
<b>Total</b>	<b>130,505,470</b>	<b>23,082</b>	<b>176.86</b>
Tea imported/re-exported	3,884,581	981	252.42
<b>Grand Total</b>	<b>134,390,051</b>	<b>24,062</b>	<b>179.04</b>

Source: News Letter Forbes & Walker Tea Brokers (Pvt) Ltd. August 2001

## Major Importers of Sri Lanka Tea - January-June - 2000/2001 (In Kgs.)

Major Country	Bulk Tea	Packeted Tea	Tea Bags	Instant Tea	Other Tea	Total 2001	Total 2000
CIS	16,153,164	10,020,942	1,885,937		84,435(A) 1,839,928(B) 2,207,835(C)	32,192,233	26,110,318
UAE	13,927,857	4,610,313	204,166		22,381(A) 117,120(B) 1,455,870(C)	20,337,707	20,397,677
Syria	8,829,721	2,642,289	135,890	34,147	1,081(A) 33,852(B) 24,450(C)	11,701,430	8,177,609
Libya		10,885,429	71			10,885,500	1,681,596
Turkey	4,236,576	1,877,519	70,345		127,314(B) 2,034,580(C)	8,306,077	10,378,113
Iran	5,974,098	1,563,338	2,736		1,252(B) 24,897(C)	7,571,321	6,478,997
Saudi Arabia	2,993,095	1,198,495	331,892		28,405(A) 21,467(B) 34,085(C)	4,607,439	5,733,101
UK	7,765,712	49,230	30,939	32,715	20,858(A) 18,650(B) 31,234(C)	4,238,135	4,909,888
Jordan	1,637,492	1,997,046	378,078		17,040(A) 38(C) 837(C)	4,030,531	3,398,488
Iraq	2,649,692	1,041,875	3,038		23,000(C)	3,717,605	5,420,748
Japan	3,037,838	54,680	201,169	210,433	1,281(A) 14,420(B) 49,826(C)	3,569,677	3,212,650
Chile	3,055,004	22,062	5,786		110,400(B) 7(C)	3,193,259	2,871,281.00

(A) Green Tea

(B) Tea Imported/Re-exported

(C) Other Tea

In the year 2000 the annual average price at the Colombo tea auctions improved by 18% to Rs 135.53 per kg, continuing the upward trend that prevailed in the previous year. Production short fall in Kenya active participation of Russia at the Colombo auctions the rupee deterioration against US dollar and the healthy climate were the major contributory factors for this gain.

The quantity sold at the Colombo auctions increased by 6% to 277 million kg in 2000, while volume of export increased by 7% to 288 million kg. As such the export earning from tea was up by 22% to Rs 53,1333 million. Out of total exports Russia's purchase of Sri Lankan tea accounted to 16% of the total export. However, the value addition of the tea export still not much improved and remained at 37% since 1999. On the other hand 63% of the tea exports were still in bulk form. Share of tea in packs and tea bags were only 30% and 4% respectively. But the 63% bulk tea exports amounted to 183 million kg.

## Sri Lanka Tea Exports - Jan/June 2001

Exports of 148.3 million kgs for the period January/June 2001 shows an increase of 13.9 million kgs when compared with the 134.3 million kgs. exported during 2000. Exports to Libiya shows the largest growth of 9.2 million kgs when compared with the same period last year. However, total exports to all destinations show only an increase of 13.9 million kgs. The alarming factor in analysing the exports during this period is that out of the top twelve destinations five destinations recorded a decline in imports when compared to last year.

The average approx. unit FOB value of total exports inclusive of imports for re-export in US\$ terms for January/June 2001 of \$2.35 shows an increase against the \$2.28 of last year.

Export of tea in packets shows an increase of 13.07 million kgs when compared to last year. This form of exports has contributed the most towards the growth of exports for the first half of the year

2001. However, the approximate unit FOB value per kg has only appreciated marginally to \$2.27 this year from \$2.25 of last year. (Table 1)

Revenue generated for the first half of the year shows an increase of 30.9% when compared with last year.

## Contribution of Tea to GDP

Tea remains as the major single product that made the highest contribution to the Gross Domestic Product during the past several years (Table 3).

Table 2 shows the contribution to GDP by agricultural sector as a whole and the contribution of sub sectors including tea sector. Accordingly in rupee terms the tea sector contribution in the GDP remained around 15% -17% during the last 5 years. For decades tea sector has been the life line of Sri Lanka's economy through its contributions to foreign exchange earnings, em-

## WORLD EXPORTS (M Kg)

Country	Jan to	2001	2000	+/-	%
India	May	65.2	66.3	-1.1	-1.7
North India		27.8	23.7	4.1	17.3
South India		37.4	42.6	-5.2	-12.2
Kenya	March	74.1	69.9	4.2	6
Sri Lanka	May	119.3	109.9	9.4	8.6
Uganda	March	7	6.2	0.8	12.9
Zimbabwe	April	7.5	7.9	-0.4	-5.1

Source: Indian Tea Association

ployment, output and the general welfare of its peoples. This trend is most likely to continue in the future too, since there are no immediate signs for a major shift in this situation. In terms of sustainability, tea cultivation can be termed as a goldmine of Sri Lanka. The total investment in the tea sector could be identified as the largest investment so far made although a major portion of that investment was made during the latter part of the 19<sup>th</sup> century and early part of the twentieth century. Our ancestors had made a great sacrifice for tea cultivation, by leaving their native lands at the height of the tea boom during the latter part of the 19<sup>th</sup> century. As a result a grocery store in England in 1860 had a banner which read "Drink Ceylon Tea to improve your brain" (W.A. Wijewardene, at the tenth Annual General Meeting of the Private Tea Factory Owners Association) and that tea had a stimulated effect on the body.

However, it is argued that the tea sector faces good times and bad times. For instance the tea sector came under strain due to Sri Lanka's failure to correctly identify the changing consumption pattern of beverages in the world. **In an age of world trend for natural or organic food and drink the tea industry has a great opportunity as a chemical free drink.** But we have not been able to cater to this vacuum due to our traditional system of marketing of tea.

Sri Lanka has been producing and exporting traditional orthodox black tea from the day we

## WORLD TEA SCENARIO

## World Crop (M Kg)

Country	Jan to	2001	2002	+/-	%	Total 2000
India	May	204.2	206.9	-2.7	-1.3	846
Bangladesh	May	8.8	9.0	-0.2	-2.2	54
Indonesia	May	135.8	88.4	47.4	35	169
Kenya	May	135.6	91.4	44.2	48.4	236
Malawi	May	26.8	26.4	0.4	1.5	42
Sri Lanka	May	135.2	132.5	2.7	2.0	306
Uganda	March	6.5	6.5	0.0	0.0	29
Zimbabwe	April	10.6	10.4	0.2	1.9	22
		569.2	524.1	45.1	6.6	1728

## World Average Auction Prices (per kg.) January-May

Country	Currency	In Country's Currency				In INR (Approx.)			
		2001	2000	+/-	%	2001	2000	+/-	%
India	INR	65.68	59.45	6.23	10.48	65.68	59.45	6.23	10.48
North India		74.55	66.49	8.06	12.12	74.55	66.49	8.06	12.12
South India		50.37	47.51	2.86	6.02	50.37	47.51	2.86	6.02
Indonesia	US Cents	105.55	120.51	14.96	-12.41	49.24	52.62	-3.38	-6.42
Kenya	US Cents	164	200	-36	-18	78.49	87.31	-10.82	-12.39
Malawi	US Cents	54.23	53.66	0.57	1.06	20.22	20.22	0.00	0.00
Sri Lanka	SL Ra	147.65	131.05	16.6	12.67	79.31	77.76	1.55	1.97

began this industry, when there was a very high demand in the west for it. Since around 1960s specially western consumers shifted the pattern of tea consumption from the orthodox black tea to instant tea, thereby moving away from Sri Lankan tea products. Consequently Sri Lanka had to depend on other destinations such as Pakistan the Middle East and Russia to sell its tea. No serious efforts were taken to adjust its production to cater to this new consumer segment.

## Tea Development Project (TDP)

The TDP, which commenced operations in 1999 by the government as a follow up of the Small Holder Tea Development Project, completed its first year of operations in 2000. During the year, a good response was shown by tea smallholders and factory owners to obtain loans under the credit scheme. This was mainly due to the increase in prices for tea in world markets and the favourable weather conditions for planting tea. As a result, the Participating Financial Institutions (PFIs) were able to disburse loans surpassing the targets set for the year. The banks disbursed a total sum of Rs 337 million in 2000, which was 117 per cent above the target for disbursements during the year.

The activities eligible for financing under the project are replanting of tea, establishment of tea nurseries, rehabilitation and modernisation of tea factories, purchase of vehicles and construction of green leaf collection centres. As in the case of the previous credit scheme for smallholder tea development, a majority of the loans had been granted for factory rehabilitation, which was 50 per cent more than the amount targeted for it. A lower level of loans had been granted for establishment of tea nurseries due to the difficulties in providing collateral acceptable to PFIs, such as mortgage of properties, etc. by the Tea smallholders engaged in development of tea nurseries.

The performance of PFIs shows that DFCC Bank (DFCC) accounted for 41.7 per cent of total loan disbursements in 2000. Hatton National Bank (HNB) (16.4 per cent), Commercial Bank (16 per cent), National Development Bank (NDB) (10.7 per cent), Sampath Bank (8.9 per cent) and Bank of Ceylon (BOC) (6.3 per cent) accounted for the balance disbursements. Two new PFIs, Bank of Ceylon (BOC) and Kandurata Development Bank (KDB), having satisfied the eligibility criteria for admission as PFIs, were admitted under the scheme during the year.

Upto the end of 2000, PFIs together approved 568 loans amounting to Rs 506 million and disbursed 499 loans amounting to Rs 372 million. Of these, the Central Bank has refinanced 236 loans amounting to Rs 217 million.

## Reference

1. Weekly Tea Report Forbes & Walker
2. Annual Report Central Bank of Sri Lanka

Table 2 Contribution of Tea in GDP (RsMn)

Sector	1996	1997	1998	1999	2000
Agriculture, Forestry & Fishing	156,108 (22%)	160,753 (22%)	164,804 (21%)	172,238 (21%)	175,317 (20%)
Tea	122,594	126,107	128,337	133,952	136,212
Rubber	10,332	11,069	11,195	11,341	12,226
GDP	695,934	739,763	774,796	808,340	857,035
Contribution by tea for GDP %	17.61	17.04	16.56	16.57	15.89