

PLANTATIONS

THE TEA MASTER PLAN

A Master Plan for the development of Sri Lanka's tea industry, which has just been drawn up advocates an aggressive policy for expanding tea production.

The draft Master Plan Report prepared by a team of Canadian consultants asserts that Tea is Sri Lanka's "most important single industry by almost every economic measure". The Tea Industry employed one sixth of the workforce, contributed 15 percent of the Gross Domestic Product, earned over half the country's foreign exchange and contributed to over one third of government revenue. Tea "generates the highest level of income and employment per hectare of any large scale crop anywhere in the world". Considering these factors the Report points out that it is difficult to understand "a general negative attitude of governments".

The aggressive strategy advocated by the Master Plan recommends increasing the density of tea bushes, replanting on new acreages, the modernization of tea factories, higher fertilization and the improvement of housing conditions.

Replanting

The draft Report views the emphasis on replanting and the consequent inability to maintain the density of tea bushes as a serious mistake. "The most important management failure in the past two decades "it emphasises "has been the neglect of stand maintenance". By concentrating on replanting 2 percent of tea lands per year—an objective which was in any case unrealized—there was a neglect of filling vacancies. The high vacancy rates result in a more severe stress than in a closed stand.

The government sector predominates the Tea Industry today. The state owned estate sector accounts for about 62 percent of tea lands and 80 percent of total tea production. About 20 percent of the remaining private tea lands are in small holdings of less than 4 hectares (10 acres) and 17 percent is between 4 to 20 hectares (10 to 50 acres).

The Report is critical of the Plantation Industries authorities which "at present does not give the corporations or the industry any specific instructions on what they are to do. There are for example no specific targets relating to output, replanting, infilling, investment, labour welfare or profits. There is a generally agreed and unwritten target that the corporations should be managed efficiently, but efficiency has not been defined in terms of profit or output".

Since the Tea Board was designed before the land reform and the creation of the Ministry of Plantation Industries, its powers are not related to present conditions. The powers of the Ministry and Tea Board overlap. The Report recommends that the Tea Board play a high level advisory role and not exercise any executive powers. Its powers could be restricted to the supervision of the Tea Research Institute (TRI) and the Tea Promotion Bureau (TPB).

It appears that decision making is on an ad hoc basis without any clearly stated set of objectives and without a basis of delegating authority. The Report is particularly critical of the lack of a system of "obtaining basic and pertinent management information" despite an "immense amount of data" being gathered. The data, the Report contends, often reaches managers too late to solve any problems and are often in an unusable form for decision makers.

Management

The Report highlights the political interference in the management of the tea industry in recent years. The Master Plan team received complaints from managers that they were forced to take detrimental operational decisions against their own judgement. "The proper domain of political concern" the Report maintains are, "issues of policy, industry targets, principles of operation and the general results; but it should not concern who to employ on individual estates nor other operational matters".

There is also the suggestion in the Report that the Minister of Plantation Industries and the Board of

Directors should protect managers from local political pressures and judge them on the basis of their ability to run their estates efficiently and attain agreed targets.

The Report is emphatic on maintaining the present two corporation institutional set up and improving and strengthening their internal organization and management. It states that "the predictable short run benefits to be obtained by helping the two corporations to operate more efficiently would far outweigh the doubtful benefits of a hasty merger or subdivision of the corporations".

It also contends that regional managers are comparable to Directors of Agency Houses but their location in the regions is a superior situation. Regional Managers being close to estates are available at short notice and could develop a highly specialised knowledge of the estates in their region.

Special Attention for Smallholders

The Report also advocates the development of the institutional organization which gives special attention to smallholders. Such organization, the Report points out, should service a gradually increasing number of smallholders and should be capable of transferring "without loss of efficiency, some estates from unified plantation management to smallholders' management or even ownership". The Plan contends: "Smallholders can successfully compete with estates to produce green leaf". This aspect of the report seems to be an ideological position because in the industry the higher efficiency of the larger estates over smallholdings was amply demonstrated during the time the estates were under private management. Also smallholders in Sri Lanka had, compared to the larger estates, less benevolent schemes for the welfare of workers.

The Master Plan studied the labour situation on 12 estates in the high, medium and low grown elevational categories. It found that in four of them they had lost about half the current labour force through repatriation but these losses had been made good by internal migration and natural growth of the labour force. However, had the repatriation proceeded as envisaged in

the Sirima-Shastri Pact, severe labour shortages would have arisen. Labour shortages are becoming apparent in the high country areas and in estates which have no nearby villages. It recommends increased employment of Sinhala labour, movement of Tamil labour from surplus to shortage areas and the raising of productivity and utilization levels of labour. The equalization of male and female wage rates, changes in the incentive plucking rates and the elimination of plucking quotas are ways by which labour output could be increased.

Taxation

The Master Plan contends that the taxation system for tea is inappropriate for a publicly owned industry. The export and ad valorem taxes, the Report points out, work against the producer as low priced teas bear a proportionately higher tax burden. This results in a distortion in prices which leads to a diminished demand for teas of lower quality.

The tax recommendations include the elimination of the export tax and its replacement by a Land Resource Tax. This tax is to be a fixed cost of production item varying with productivity between Rs. 4 and Rs. 6 per kilogram. The Corporate tax is to be eliminated and the ad valorem tax is to fulfil this role. The ad valorem tax will have as its lower limit the average cost of production of tea and the rate is to remain at 50 percent.

Given the high taxation component for tea, the Report recommends the criterion for evaluating the viability of a tea estate to be whether its FOB Colombo Sales Average price exceeds the unsubsidized average costs of production of its teas and maintenance costs.

The cost analysis done by the team indicates that "even the lowest yielding estates can provide positive economic returns to Sri Lanka even if they show financial losses". The main constraint it points out is the scarcity of investment resources rather than low economic returns on tea.

The Master Plan Report which is in 6 volumes was prepared by a Canadian firm, Hadlin Mengies and Associates under a CIDA agreement with the government of Sri Lanka.