

MARKETING AND PRODUCTION ISSUES

A paper by Prathap Ramanujam of the Ministry of Plan Implementation, in 1983, shows how despite the almost doubling of world tea export levels, in 30 years the rate of export growth of 3.7 per cent per annum has lagged behind the production growth rate of 6.3 per cent annum over the period 1953 to 1981; and this has been caused mainly by the slower growth of import demand. In the case of Sri Lanka there has been a remarkable change in the pattern of its tea exports with a decline in the traditional markets and a shift to Middle East and Arab countries. Furthermore, the per capita consumption of all teas in the traditional tea drinking countries had declined.

The total black tea imports by the countries classified as traditionally tea-drinking nations declined from an average of 79.5 per cent of the total world tea imports in 1953-60 to 53.1 per cent in 1967-81.

With the threat of nationalisation of foreign-owned estates in Sri Lanka from the early sixties, some of the foreign companies gradually transferred their capital to East Africa. Due to the vertical integration between primary production and secondary blending process of these companies, African tea captured the major share in the traditional markets. Sri Lanka's share of the total imports to these countries fell from an annual average of 33.9 per cent in 1953-60 to 18.5 per cent in 1976-81.

In the meantime, while the imports of black tea into the rest of the world increased from 20.5 per cent in 1953-60 to 46.9 per cent in 1976-81, with major increases in the Middle East and Arab countries, Sri Lanka's share declined from 47 per cent to 36 per cent during the same period.

The price of Sri Lanka tea in all the demand equations was significant but the price elasticity of demand for Sri Lanka tea is extremely small. In the traditional tea-drinking areas Sri Lanka tea faced competition from African teas and in other areas Indian tea was its closest competitor. But all price elasticities were small indicating that tea prices have very little real effect on the demand.

The major reason attributed to both the decline in demand for Sri Lanka tea in the traditional tea-drinking countries

and the inability of the supply of Sri Lanka tea to keep pace with the increase in demand for tea in other regions are the institutional factors.

Although through nationalisation, Sri Lanka had taken control over the production and management of estates, it still has no control over the price it receives; nor over the blending and distribution of its tea among the tea-drinking nations.

The situation with regard to Indian tea exports is also similar to that of Sri Lanka, but India is able to sustain the loss of its share in the traditional tea-drinking countries with an increasing domestic consumption.

In the final analysis it is the institutional factors that play the most important role in both demand and supply of Sri Lanka tea. Until the producing nations like Sri Lanka and India are jointly able to find some means of taking part in the blending process and controlling the distribution of their produce, there can be no improvement in the present situation in the demand for Sri Lanka tea.

Former Secretary of the Ministry of Plantation Industries and Chairman Tea Board I.O.K.G.Fernando, in a paper in June 1984 made a strong case for the need to encourage new planting of tea on suitable land. In Sri Lanka a definite policy was followed of not encouraging an increase in the extent of tea, and one result was that production of tea in Sri Lanka has continued to fall throughout the 1970's and 1980's; while most other producing countries have shown substantial increases in total production over the same period. A comparison of 1971 and 1982 figures for the major world tea producers shows that the biggest drop in the share of world production has occurred in the case of Sri Lanka. A similar decline for Sri Lanka is shown in respect of the share of world tea exports. In this situation it is essential that we take immediate steps to expand the acreage under all tea in Sri Lanka. The immediate targets should be to recover, depending on availability of land, as much as possible of the approximately 100,000 acres that had been lost to tea since the early 1970's. The subsidies allowed by Government for tea re-planting have been revised from time to time in the face of sharply increasing costs. However, in keeping with the view that new

planting should not be encouraged, the subsidy for new planting was held down to the level determined in 1979.

The lands cultivated in V.P. varieties are capable of easily achieving average yields of over 1,000 kgs per acre. At current prices even after allowing for all costs of hired labour etc., the average small-holder of such holding, particularly in the low grown area, can achieve a clear nett profit of over Rs 3.00 per Kg. of green leaf. Since one Kg. of made tea is obtained from approximately 4.5 kg. of green leaf, the net profit realisable from an acre of land yielding 1,000 Kgs of made tea per acre will be approximately Rs.13,500. Even if rising costs and falling prices reduce the margin to the producer of green leaf to Rs 2 per Kg., the nett profit to a small-holder from an acre of well-managed V.P. tea will be Rs 9,000 per annum. This is in addition to the benefit of providing himself with self-employment.

A Kg. of made tea would obtain well over Rs 70 in foreign exchange per annum. It will also yield approximately Rs 15.00 in advalorem duties and Rs 9.00 in export duty to the government and a further Rs 1.25 in the form of cess to the Tea Board. The Government benefit from an acre of land yielding 1,000 Kg. would be as follows:

- Foreign Exchange earnings- Rs 70,000 per annum
- Revenue to Treasury on average Rs 24,000 per annum
- Cess to Tea Board Rs 1,250 per annum

The newly planted tea land comes into bearing in the 3rd/4th year and will be achieving optimum yield by about the 6th/7th year. If proper agricultural practices are followed, the land will continue to yield at optimum levels for at least 25 years.

It is very much in the national interest, that we should immediately embark on a programme to increase the acreage of tea by at least 5,000 - 10,000 acres per annum. The Tea Board has over 50 million rupees in reserves, and at current levels of production and exports, the Tea Board will receive approximately Rs.225million per annum as revenue from the tea cess. There is hence no financial reason for not encouraging immediately the new cultivation of at least 5,000 acres per annum. It has also to be borne in mind that the subsidy is payable over a period of 3-5 years which will make it easier to finance a bold programme for the expansion of the tea industry.