

# The Tea Trade 2000 in Retrospect

The last year of the old millenium or the first year of the new millenium depending on how you look at it can be considered satisfactory for the Sri Lankan Tea Industry in every sense of the word.

Summarised below are some of the key features of the year gone by:

## PRODUCTION

- Another all time record,
- Milestone of 300million kgs surpassed for the first time,
- Low Grown once again the main contributor accounting for over 50% of total production.

previous all time record achieved in 1999.

CTC production which accounted for 5.7% of the total tea crop has fallen from 18.3 million kgs in 1999 to 17.5 million kgs in 2000, a decline of 4.3%. The decline has essentially occurred in the High & Mid grown whilst the Low Grown CTC production has increased by 13.5%.

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On a global scene most producer countries recorded increases in production

except for Kenya which reflected a drop of 11.9 million kgs compared to 1999. It

Year	High	Qty. %	Med	Qty. %	Low	Qty. %	Total (m/kg)	+/- on Pr. Yr	%+/- on Pr. Yr
2000	83.48	27.30	56.21	18.40	166.10	54.30	305.84	+22.08	+7.78%
1999	81.30	28.65	53.53	19.07	148.93	52.48	283.76	+3.70	+1.32%
1998	77.39	27.63	52.36	18.70	150.31	53.67	280.06	+3.20	+1.16%
1997	83.77	30.26	57.08	20.62	136.00	49.12	276.86	+18.43	+7.13%
1996	72.23	27.95	48.05	18.59	138.15	53.46	258.43	+12.47	+5.07%

Tea production which reached a record total of 242.2 million kgs in 1994 improved each subsequent year and recorded 305.8 million kgs in the year 2000. Primarily the improvement could be attributed to conducive weather patterns, better agricultural practices and a more effective private sector management. The private smallholdings have once again lived up to expectations and contributed in a significant manner to boost the national production figures. Principally, it is of significance that Sri Lanka achieved the seventh consecutive record crop during the calendar year 2000 and the milestone of surpassing 300 million kgs for the first time. Continued growth in the Low Grown sector accounted for 54.3% of the country's production. Year on year Low Grown grew 11.56% followed by Medium Grown 5% and High Grown by 2.65%. The total tea production has gained 7.8% on the

would also be significant to note that the year 1999 too was a bad year for Kenya in terms of production. Based on the figures available at the time of compiling this report we anticipate the global tea production in the year 2000 to record an increase of around 50 million kgs compared with the corresponding figure in 1999.

## PRICES

- Bouyant prices in Colombo following better demand from the CIS and Middle

East in particular,

- Rupee auction averages in 2000 highest barring mediums,
- Dollar increases more moderate due to the sharply depreciating Rupee vis-a-vis the US Dollar.

The percentage increases in Rupee averages could be misleading without relating to the corresponding values in US Dollar terms as will be noted from the above table. Based on an average conversion rate, we give below the elevation and total averages in rupee per kg and the approximate US Dollar equivalent over the past two years.

Globally, prices in a common denominator of US Dollars have been a mixed bag at the different auction centers. Kenya probably due to the lower production and Sri Lanka following the stronger demand from the CIS and Middle East in particular have reflected a firmer trend compared with 1999. India especially South India has reflected much lower values not only compared with 1999 but in comparison with the general international market as well. Fortunately, as we closed the year the Indian prices were moving up and this augurs well for the major producer countries in general. Bangladesh and Indonesia have had its ups and downs but in the final analysis have been reasonably stable. Unfortunately there are significant unknown factors such as China, Vietnam and Argentina to name a few which does not permit us to review the entire global scene accurately.

## EXPORTS

- All time high export volume of 287.9 million kgs assured,
- Rs. 53 billion earnings the highest ever,
- CIS and UAE significantly the top two.

Year	High Rs./kg	Medium Rs./kg	Low Rs./kg	Total Rs./kg	Rs.% +/- Pr.Yr	Approx. US\$ Equivalent	US\$% +/- Pr.Yr
2000	128.46	119.08	144.79	135.53	+17.53	1.76	+7.3
1999	106.17	100.68	125.74	115.31	-14.17	1.64	-21.1
1998	127.60	121.45	141.88	134.35	+12.52	2.08	+3.5
1997	109.43	107.94	129.47	119.40	+14.92	2.01	+8.1
1996	93.38	89.70	114.35	103.90	+43.89	1.86	+31.9

ELEVATION	2000 RS/KG	1999 RS/KG	% INCREASE US\$	2000 APPROX. US\$	1999 APPROX. US\$	% INCREASE
HIGH	128.46	106.17	21.0%	1/66	1/51	10.0%
MEDIUM	119.08	100.68	18.3%	1/54	1/43	7.7%
LOW	144.79	125.74	15.1%	1/88	1/79	5.0%
TOTAL	135.53	115.31	17.5%	1/76	1/64	7.3%

Annual Sri Lanka Tea Exports in M/Kgs. Excluding and Including Imported Tea (over the past five years)					
	1996	1997	1998	1999	2000
Exp.excl.imp.tea	234.32	257.68	265.32	262.96	281.40
Exp.incl.imp.tea	244.12	268.54	271.89	268.20	287.90

Sri Lanka continues to be the prime supplier of black tea to the world market. The export volume which declined to 268.2 million kgs in 1999 from the preceding years figure of 271.89 million kgs has once again bounced back and established an all time high of 287.9 million kgs in the year 2000. Kenya ranked No. 2 in the year 2000 with a total export volume of 207.2 million kgs which is substantially behind the "Ceylon Tea" quantity of 281.4 million kgs exported from Sri Lanka (ie. Excluding the content of imported tea/re-exported)

The ultimate bottom line of export volume and value completes the encouraging scenario of production and prices. Exports for the year 2000 including imported tea re-exported amounts to 287.9 million kgs as against 269 million kgs during the same period in 1999 (effective increase 7%). Following the higher volume of exports and the increased average unit FOB values per kg, total export earnings during the year 2000 have risen to an all time high of Rs. 53 billion (approx. US\$ 687 million) from Rs. 44 billion (approx. US\$ 626) in 1999. Therefore, whilst the rupee earnings show a significant increase of around 20%, the Dollar increase is only 9.7%. Rupee FOB values for different categories of exports have shown significant increases except in the case of instant teas where a negative variance is reflected compared with the corresponding figures of 1999.

Average FOB value of total tea exports for the period January/December 2000 have increased to Rs. 184.17 per kg from Rs. 163.83 per kg during the same period 1999 (effective increase 12%). However, it would be relevant to note that the average FOB value in 1998 of Rs. 185.66 per kg is still the highest ever and the deficit in 2000 would be even

more dramatic in dollar terms. Furthermore, although the Rupee earnings of 53 billion in the year 2000 is the highest ever against the previous best of Rs.50.5 billion recorded in 1998 the approx. equivalent in US Dollar values amounts to US Dollar 687 million in 2000 significantly lower than US Dollar 781 million in 1998.

#### MARKETS

In analysing the destination breakdown of exports for the year 2000 the CIS continues leading the way as the largest importer of Sri Lanka teas with a total of 56.6 million kgs as against 47.7 million kg during the same period in 1999

(effective increase 18.6%). It is heartening to note that most of the major importers have increased their intake from Sri Lanka during this period. Tea exports to Jordan recorded a growth of 38.7% followed by U.A.E. 33.5%, Japan 30.5%, Iran 28.7%, Iraq 26.3% and Saudi Arabia 15%. The U.A.E, which is developing as an international hub for tea trading, remains the second largest export outlet with 40.1 million kgs although marginally lower than the corresponding figure in 1999. As constantly highlighted a feature causing much concern in analysing Sri Lanka export figures, is the declining component in value added exports.

## WORLD TEA AUCTION REVIEW

What has been happening at the various tea auction centers around the world in the past six months? Tea International's correspondents sent these reports -

#### London - U.K.

The tea market continued to rise at the beginning of 1998, as forecast in the January edition of *Tea International*, and by the end of February, prices were considerably dearer. However, from March, prices have declined. Nevertheless, the strength of the first two months is shown in Figure 2:

Most markets have eased through April and continue to do so, particularly Mombasa, which has declined sharply, due to the Kenya crop, which has greatly increased and outstripping demand for the moment. The crop for the first three months was 86,400 million kg., compared to 69,947 million kg. in 1996 and 44,048 million kg. in 1997. So the 1998 figure is ahead by 16 million kg. of 1996, and virtually double the very low crop of 1997.

Crops from the major producing countries show an increase of 79 million kg for the first three months of 1998 compared to the previous year.

As is generally the case when prices collapse as they have done, most buyers remain extremely selective, or completely withdrawn, until such time as the decline is their own stocks force their re-emergence. However, it is again noticeable that

bright, well made teas are still being sought after, albeit at lower levels. The greater weight of plain, poorly made sorts are at present virtually unsaleable, and will remain so until crop levels fall back considerably.

The picture remains bleak until the onset of cooler drier weather in East Africa results in a decline of crop, which should also coincide with a corresponding improvement in quality. There seems little likelihood of prices moving in producers' favour until June of July.

#### Calcutta, India

1997-1998 will be remembered as one of the best years for Indian teas in the recent past. The last six months from November to April were particularly good. Performance records were broken on all fronts and the image of a slowly aging industry beset with problems was replaced by that of a healthy, vibrant one. Production registered a record 810.6 million kg during the calendar year, improving upon last year's performance by more than 30 million kg. Exports, which had turned in indifferent results for the last five years, surged ahead to cross the 200 million kg mark, totalling 203 million kg for the period January to December 1997.

Perhaps the most significant gain of all made by the industry was on the price front. Price levels crested all previous bests to reach new heights.

**Figure 1**  
**Monthly Average Prices of Tea per kg. Sold at Auctions November 1997 - March 1998**

	Nov '97	Dec '97	Jan '98	Feb '98	Mar '98
Calcutta (Indian Rs)	85.55	95.75	98.28	92.34	81.95
Colombo (SL Rs)	134.27	137.95	146.17	148.91	145.67
Jakarta (US cents)	207.41	214.20	13.10	220.13	204.04
Limbe (US cents)	166.73	165.23	157.46	162.52	145.14
London (sig/pence)	145.50	149.48	189.74	176.42	138.12
Mombasa (US cents)	238.25	239.75	255.00	280.75	224.00

The all India seasonal auction average stood at Rs. 75.26 kg. -an increase of over 50% compared to the previous year. As a result, the yawning gap between actual tea prices and real value' for the last two decades narrowed substantially - giving producers considerable respite from the specter of diminishing returns.

Auctions spearheaded the rise in prices. The Calcutta auctions registered a progressive rise in prices during the months of November and December. Price levels were substantially improved over the previous year, often reaching levels higher than those for top quality second flush production, which has traditionally commanded the best prices in any given year.

The factors behind this welcome but unusual phenomenon were all too clear. Despite a bumper all Indian crop, CTC production in North India was marginally lower than the previous year, due in part to a shift towards more Orthodox production. In addition, vastly improved and sustained operations by the CIS throughout the year coupled with growing domestic consumption led to a shortage. As a result, CTC availability in North India was less than comfortable as the year progressed.

International CTC availability was also put under severe pressure following crop failures in both Kenya and Indonesia. Buyers both at auction centers and destinations were faced with rapidly depleting stocks, which resulted in considerable pressure on prices from November onwards.

Price levels for CTCs peaked towards the end of December until the beginning of January, and markets remained buoyant through the month of January. The price concertina between plain and medium quality teas prevailed, although premiums were still available for good quality teas. Price levels for all categories, however, were substantially higher than last year.

Favourable weather conditions had led to the production of a large weight of end season CTC teas. The quality of these was much inferior to 'rains' production. The bulk of these teas we on offer during the months of February and

March. As a result, despite strong demand, CTC prices showed a progressive slackening in the closing months of the seasonal year. Overall price levels, however, remained well above those of last year.

The Orthodox market, which had witnessed a substantial rise in prices earlier in the year, continued to remain buoyant through the months of November and December. The larger

weight of Orthodox produced by both North Indian and Sri Lanka during the year, however, had led to a well stocked supply pipeline. Consequently, in spite of heavy offtake by both CIS and Middle East markets. Orthodox price levels from the month of December onwards did not register as sharp for rise as with CIC price, in fact the sharp rise in CIC prices from November onwards eroded the premia on Orthodox. Overall Orthodox prices, however, continued to remain much higher than the previous year.

All in all, 1997-98 proved an extremely fruitful year for the Indian tea industry. A year when words such as 'healthy', 'strong', and 'buoyant' we often used to describe not only the market scenarios but also the state of the industry at large.

#### Colombo - Sri Lanka

Market conditions in Colombo have been quite buoyant, with prices continuing the strong trend that prevailed throughout 1997. That year turned out to be a record one in many aspects. Auction prices were the highest ever. The total National Average at Rs. 119.40 was 15% higher than the Rs. 103.47 recorded in 1996. The Rupee price gains were inflated to some extent by depreciation of the currency. But by around mid year, the market strengthened significantly with price gains in dollar terms becoming increasingly evident. Sri Lanka was lucky to avoid the worst of the El Nino weather changes which severely curtailed production in many producer countries. The global shortfall caused international traders to pay up for Ceylon. Producers in Sri Lanka obliged by achieving a record harvest of 276.8 million kg. which was a substantial 7% gain on the 1996 record harvest of 258.4 million kg. In keeping with this trend, Sri Lanka exported a highest ever quantity of 268 million kg. easily regaining its position as the prime supplier of tea to the world.

**Figure 2**  
**Average Prices per kg. Sold at Auctions**

	Jan-March '97	Jan-Dec. '97	Jan-March '97
Calcutta (Indian Rs)	58.05	82.98	93.90
Colombo (SL Rs)	102.79	119.36	146.68
Jakarta (US cents)	136.01	164.64	213.71
Mombasa (US cents)	164.00	200.00	248.00
Limbe (US cents)	100.30	124.79	156.13
London (sig/pence)	122.80	135.06	175.43

1998 saw prices continue in the same upward trend. The onset of the Western quality season further strengthened the market, and prices moved up sharply in both Rupee and Dollar terms. By April prices began to ease, but were still higher than the previous year's Dollar values. Rupee prices, however, will be comparatively higher reflecting depreciation of the currency.

A feature of the period under review is the strong buyer preference for Orthodox Low Country teas. These leafy teas have received strong support from their traditional Middle East buyers, together with additional interest from the CIS and Turkey. In fact, these two markets emerged as the prime destinations for Sri Lanka's tea exports. Low Grown prices have consistently been higher than corresponding Small Leaf liquoring teas. However, the first quarter of 1998 saw prices move up for the seasonal quality teas which attracted strong support. Flavoury Nuwara Eliyas, west-erns, and some bright teas from the Eastern slopes of the island attracted special interest not seen in the past three quality seasons.

#### Jakarta - Indonesia

The last quarter of 1997 witnessed increasingly higher tea prices at the Jakarta auctions, contrary to the expectations of most participants mid year. Quality continued much as it had been - 1997 was not one of the vintage years as far as quality was concerned. The E1 Nino drought in Eastern Africa and Indonesia itself were the major adverse factors vis-a-vis supply, and on the demand side, the leading factor was the added activity of the Iraqi buyers, contributing toward stronger competition in the weekly auctions.

The beginning of 1998 saw a continuation of these market conditions, but finally the more crop-conducive weather in the new year saw larger availabilities in Africa and Indonesia. Kenyan crops in the first quarter of 1998 were about double those for the same period in 1997, and by April, sentiment was reversing direction. Indonesian prices began falling in March, CTC types at first and the Orthodox types too. Given crop levels from January to April 1998, the weather conditions prevailing at the beginning of May, and the apparent general decline in short term demand, it would seem that prices may wallow at their current levels for a while.

One factor that is growing in importance in the Indonesian tea market is the problem of physically shipping exports out of Indonesia. The Asian contagion began to take serious effect in Indonesia at the very beginning of 1998. The Indonesian Rupiah had fallen to a quarter of its value compared to six months previously, and the domestic economy began to contract. A major trade imbalance soon came about, and one serious consequence for the Indonesian tea industry has been a growing lack of containers and also growing competition in the region for space on mother vessels, especially to Europe and North America. This trade imbalance is almost universal in the whole eastern Aisa region, thus further exacerbating the problem.