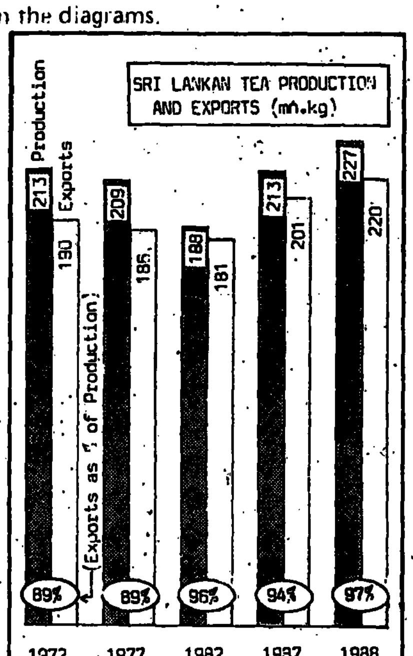
COMMODITIES

TEA

Increased Production to Diversified Markets

Sri Lanka's tea exports went up to 219.9 million kgs in 1988, exceeding previous year's exports by nearly 19 million kgs and surpassing the 1975 figure of 212.7 million kgs. Average FOB prices also reached a high of Rs.55.95 per kg as against Rs.52.97 per kg the previous year. The end result was that foreign exchange receipts from sales of tea went up to Rs.12.3 billion in 1988 as against Rs. 10.6 billion the previous year. Although real earnings from tea exports may not be as big as they appear the upward movement in unit FOB value is significant.

A noteworthy feature is that production last year was 1.36 million kgs in excess of the previous year's production, despite serious disruptions on many tea estates in the latter part of 1988. From a production of 213,003 million kgs in 1987 production went up to 213,900 million kgs in 1988 and nearly 97 percent of the total crop was successfully shipped out. This also enabled Sri Lanka to emerge as the most significant exporter of tea in the world with about 21 percent of a total market share. While over 95 percent of Sri Lanka's crop is for export markets, in India only about 30 percent was exported. The comparative proportions of exports to production for Sri Lanka and India are shown in the diagrams.



There was no great difficulty in shipping the increased production in 1988 because, unlike most other producer countries, Sri Lanka has broadbased its export markets and also has a comparatively large number of shippers to handle these exports to over 50 different countries.

35.4 million kgs by 1988. This takes up almost 60 percent of Egypt's market over 16 percent of Sri Lanka's export volume and greater demand still exists for Sri Lankan tea according to market analysts. Egypt remains the largest buyer of Sri Lanka tea both in bulk and in value added form.

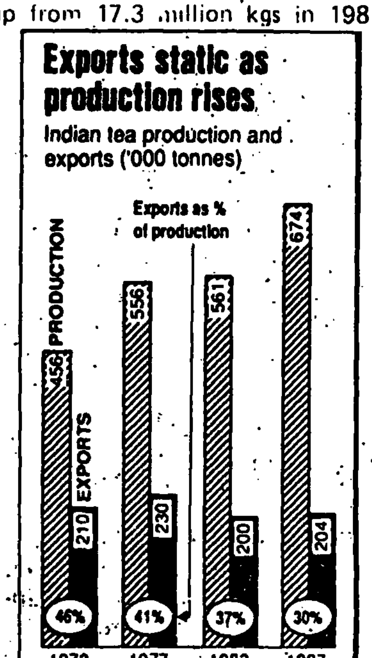
SHARES OF MAJOR PRODUCING COUNTRIES IN WORLD TEA EXPORTS

	1975	1980	1983	1984	1985
Sri Lanka	28.3	21.4	18.1	22.1	20.3
India	29.2	26.0	23.9	23.4	22.9
Bangladesh	3.2	3.6	3.4	2.5	3.1
Indonesia	6.1	7.9	7.9	9.2	9.3
China	8.2	12.5	14.3	13.8	14.4
Kenya	7.0	8.7	11.5	9.8	13.0
Malawi	3.2	3.6	1.1	4.0	3.8
Others	14.8	16.3	16.8	15.2	13.2
	100.0	100.0	100.0	100.0	100.0
Total Exports from Producing Countries (MT)	751,420	858,970	871,598	925,833	973,017

Source: *International Tea Committee, Annual Bulletin of Statistics 1985.*

Egypt

Egypt once again emerged as Sri Lanka's largest buyer of tea and this leading position was maintained for the 4th consecutive year. Only 10 years earlier the Egyptian market was dominated by Indian teas; but preference for Sri Lankan teas strengthened from the early 1980's, while Egyptian imports moved up from 17.3 million kgs in 1981 to



Iraq

Iraq has for the past two decades been one of the main consumers of Sri Lankan tea and in 1988 its imports reached 33.9 million kgs, taking as much as 15.4 percent of total exports. Iraq has remained at the top, among the first three major buyers of Sri Lankan tea, for several decades. In 1984 Iraq was Sri Lanka's largest buyer and in 1988 took 15.4 percent of total exports. Sri Lanka held 70.8 percent of the Iraqi market in 1987.

Pakistan

Pakistan took as much as 19.6 million kgs of Sri Lanka's exports last year and was the third largest buyer of Sri Lanka teas in 1988. In the mid 1970's, when purchases from India were restricted, Pakistan emerged as the leading buyer of Sri Lankan teas. This position changed considerably from around 1978. Pakistan was the second largest purchaser of Sri Lankan tea in bulk form, but continued success in this market depends on the extent to which purchases of goods and services are made by Sri Lanka from Pakistan.

Saudi Arabia

In 1988 too Saudi Arabia continued to be the fourth largest importer of Sri Lankan teas. About 70 percent of the Saudi tea market is supplied with Sri

Lankan teas, which takes large quantities of Sri Lanka's packeted teas and tea bags. This has continued to be an import market for Sri Lanka from the early 1970's and around 6 percent of total exports have been shipped to this destination over the last two decades.

UK

UK. has dropped to position of fifth largest buyer of Sri Lanka's teas, and has remained in this position over the last two years. A major portion of these teas are exported in bulk form. Sri Lanka's share of the UK market has dwindled consistently from after the 1960's when over 30 percent of the share of this market was taken by Sri Lanka's tea. By 1974 this share was down to 15.2 percent and by 1988 to 6.8 percent. India's share of the UK market had also come down from 33 percent in 1974 to 16 percent in 1988. Meanwhile, Kenya's share of the UK market moved up from 10.7 percent in 1974 to 47.3 percent in 1988. Kenya's exports of 90.6 million kgs are more than doubled its exports to UK ten years earlier. Disturbed at loss of its share to Kenya, India has now decided on a major promotion campaign in this traditional market. There are possibilities for Sri Lanka too to regain part of this market.

By the end of February 1988 Kenya with a production of 30.7 million kgs was for the first time leading Sri Lanka as a producer, with local production down to 26.4 million kgs in January and February this year. The pact at which Kenya and China have captured a larger share of the world market is seen clearly in the Table. Other major markets for Sri Lankan teas in 1988 were Iran (12.2 million), USA (6.2 million) and China (5.5 million). Together these first eight importers were responsible for about 65 percent of Sri Lanka's export market; with the five largest importers purchasing 116.7 million kgs or 47 percent of total exports. As a leading broker has pointed out "In a situation such as this any inactivity on the part of a single buyer cannot totally alter the market structure in the long run, and all efforts must be made to maintain the system as it exists today. Similarly no single buyer is large enough in Colombo to be in a position to manoeuvre the market to his advantage as the largest shippers for last year were only responsible for 9.3 percent of our total exports. Under these circumstances, the credibility of the Colombo auction centre is well established".

HEAVY SHORTFALL PREDICTED IN TEA CROP

Sri Lanka's tea crop which came close to a new production record in 1988 appeared to be heading for a substantial shortfall in 1989. By the end of April this year the production shortfall, over that of the same period in 1988, was as much as 22.3 million kgs (Jan- April 1988 being 79.7mn kgs as against a Jan-April 1989 crop of 57.4mn kgs). The shortfall was expected to widen over the second quarter of the year although generally these are the heaviest cropping months for the year. More details will be carried in our next issue.

RUBBER Declining trends in rubber prices

Rubber prices which showed a decline in the first three months of this year compared with those of 1988, continued to fall in the second quarter of 1989 as well.

In 1988 the average price of RSS 1 at the Colombo auctions increased by 23 percent to Rs. 24.40 per kg over the 1987 price of Rs. 19.87 per kg. Latex crepe IX also rose by more than 50 percent to Rs. 32.80 per kg. from Rs. 16.30 per kg. in the previous year.

The situation has changed in 1989 with RSS 1 dropping to Rs. 22.56 per kg in the first six months of 1989. Meanwhile, Latex crepe also recorded a drop in the 1989 period to RS. 25.08 per kg. Scrap crepe too had fallen from around Rs. 24.35 per kg in 1988 to Rs. 19.87 per kg in 1898, comparing the first and second quarters of 1989.

As seen in the table below there has been a decline of 20 percent for RSS 1, 31 percent for Latex crepe, and 16 percent for Scrap Crepe. This decline, however, has set in from as far back as June last year when Latex crepe averaged Rs. 53.44 per kg, RSS No. 1 Rs. 33 per kg and Scrap crepe Rs. 31.22 per kg.

The main contributory factors for the declining price were the fall in demand in the international market, while world rubber supplies increased. Sri Lanka's prices were determined by the Singapore market price which recorded similar trends. Another factor for the downward trend in local prices was that trading activities were hampered by the distributed civil conditions and buyers were reluctnat to make their usual purchases resulting in a price decline with weakening demand.

Aggravating the falling prices of rubber situation were the rising costs of production. The result ws that the cost of rubber production increased over current average market prices. While the estimated cost of production was Rs. 29 - 30 per kg. market prices were around Rs. 26 - 28 per kg. By June this year the average price of sc rap crepe (IX BR) had reached Rs. 20.17 per kg. A major contributory factor was that of rising input prices, particularly imported chemicals and fertilizer, following athe declining value of the rupee. Brokers indicated that there was a drop in rubber production, particularly in the latex and scrap categories, due to the high production costs.

Colombo Market Price
(Rs. per kilogram)

Period	RSS No. 1	Latex Crepe IX	Scrap Crepe LX BR
1988			
1st Quarter	21.94	42.45	26.91
2nd Quarter	28.06	37.34	23.96
1989			
1st Quarter	22.73	24.56	19.50
2nd quarter	22.39	25.60	20.23