The Western Tea Market

Notes Towards a Strategy

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Tea has controlled the country's economic life for nearly a century. This control has been on the whole detrimental to the country's well-being specially to its less privileged sections.

With statements by several government ministers indicating an imminent nationalisation of foreign owned tea plantations nationalistic interest in the industry now turns to its marketing aspects. In this article Paul Caspersz who is researching at the moment at the Institute of Development Studies, University of Sussex sketches some of the possible strategies.

TEA is one on a list of agricultural commodities which are vital to the economies of developing countries. Developing countries (here distinguished not only from developed countries but also from centrally planned countries, some of which, according to socio-economic indicators, would be developing countries) accounted in 1972 for more than half the world production of tea, rice, bananas, pepper, coffee, cocoa, jute and kenaf and allied fibres, hard fibres and natural rubber. In 1972 developing countries accounted for more than half the world exports of these commodities as well as for more than half the world exports of sugar, tobacco and cotton (Cf. FAO Commodity Review and Outlook 1973 - 1974).

These commodities are vital, actual and potential foreign exchange earners for the developing countries.

Primary commodities comprised as much as 88 per cent of the total export earnings of the developing countries as a group during 1963 - 65. A large number of these countries are dependent on just two or three commodities for most of their incomes.

Fluctuations in foreign exchange earnings arising from instability in commodity prices, invariably pose various problems to developing countries by de-stabilising the economies of these countries through their influence on savings and consumer spending and by adversely affecting economic growth through their disruptive effects.

Fluctuations in commodity prices have the effect of weakening the competitive position of natural products vis-a-vis synthetics and substitutes supplied at more stable prices.

In this respect one should examine current efforts of UNCTAD, ITC and FAO to set up a multi-dimensional international agreement for tea.

It was decided that the first stage—in response to the demands of the new mood of the Third World—was to obtain a report on the feasibility of a minimum export price for tea. The Report was entrusted to a British firm of development analysts.

The export price of tea is a function of four chief variables: the characteristics of the product, the composition and nature of world supply (taken to include considerations of cost of production) and demand, the price of imports (both those needed for the tea gardens and for product development research and those needed for national economic development) and the international marketing system.

What does the Report fundamentally do? It pegs the minimum export price of tea on the first two variables and neglects the last two. It suggests that the minimum export price (for which in any case it envisages a thousand difficulties) be fixed in relation to recently achieved actual prices but says nothing of the tremendous inflation of recent years and months of import prices (while it is elementary economics that exports must pay for imports) and barely mentions "the existence of concentrated buying power in the hands of a few large multinational concerns, with interests as producers, packers and distributors in the major producing countries".

In not a single analysis of supply of tea undertaken in UN studies, indeed, so far as the present writer is aware, in no analysis so far of the economics of tea production has there been a systematic and detailed analysis of the wages of tea workers. Are their wages in any way commensurate with their share of labour time per unit value of output? One has also to determine at some stage if the supply price of tea is what it is because wages are so low in the two major producing countries, namely, India and Sri Lanka. It is taken as an axiom in the beverage trade that tea must be the cheapest beverage. Why?

The phrase "demand-inelasticity" often occurs in the documents. But if this implies that when there is an excess of supply over demand, price must decrease disproportionately in order to absorb supply, surely it must also imply that the quantity that is equal to or less than equilibrium demand can, in a situation of perfect inelasticity, be sold at an infinitely high price, and, in real life situations of less than perfect inelasticity, be sold along a price line that shows a definitely rising trend. This second aspect of demand-inelasticity has never even been mentioned in existing documents.

Incidentally, why the minimum-price report (and others like it) should have been assigned to a group of analysts in the affluent world is difficult (or easy) to justify.

The instruments and the data of research, no doubt, are now more than proportionately located in the affluent world, but this is precisely where international organisations like UNCTAD and FAO can be expected to strain every political and financial nerve to see that the instruments and data of research are placed in the hands of Third World researchers for subjects of vital significance to the Third World. These researchers are neither scarce nor incompetent. There must only be a will to find and fund them.

By this it is by no means implied that affluent world researchers can never have their hearts, (and so their minds) in the right place. For instance, the December 1974 UNCTAD report on Bananas and to some extent the April 1975 Commonwealth Secretariat Report on Tropical Commodity Trade (though not so much the 1975 UNCTAD Report on Cocoa) are steps in the right direction.

EEC Fund

In a sense EEC is an organisation in the West explicitly set up in the interests of an economically strong Europe. In the EEC reports on primary commodities there is a clear demarcation of the divergent interests of the *pays consommateurs* and the *pays producteurs* and a recognition that concessions have to be made to the latter in the interests of the former.

The Convention of Lome signed in February this year by the nine members of the European Economic Community (EEC) and 46 African, Caribbean and Pacific (ACP) countries is of special interest because of its scheme for the Stabilization of Export Earnings (Stabex) of less developed countries.

Briefly, the Scheme is as follows: To qualify for financial aid under Stabex a particular specified export product must have earned at least 7.5% of all export earnings (or only 2.5% for 35 "least developed, land-locked or island" States) in the year preceding the year of application for aid. Such applications can be made if actual export earnings—due to a fall in prices—in a particular year are at least 7.5% (or 2.5% for the 34 countries) below a reference level calculated for each ACP State and for each product.

For tea will qualify for Stabex: Kenya (over 7.5% of exports), Uganda, Malawi and Rwanda (over 2.5%), probably Tanzania and Burundi, while Cameroon and Zaire are far below the threshold.

There is a certain pride of achievement in Brussels about the Convention of Lome. But at least one serious economist interviewed there (an expert on Stabex) admitted that Lome is in fact much more modest than it was somewhat prematurely made out to be. A Stabilization Fund of 375 million U.A. for 29 products for 46 ACP countries for five years is not a big sum. Yet Lome has within it the seeds of future development of an international trading system that could give the developing countries the best possible deal, though still within the confines of the existing free enterprise structure.

Denmark

Denmark is a small but important market for Sri Lanka. Per capita consumption of tea is high for Europe. U. Meinert Jorgensen, head of the recently closed Ceylon Tea Centre in Copenhagen and Consul for Sri Lanka in Denmark, has estimated that Sri Lanka's share of the Danish tea market is about 55% but only 20% comes from direct purchase in bulk of packeted form from Sri Lanka and the rest from the UK or from Danish blenders who buy abroad. Tea sales in Denmark are in three chief forms: tea bags, scented teas and orthodox teas, in 1975 roughly accounting for 20, 30 and 50 per cent of the market respectively.

Sri Lanka accounts for 85-90 per cent of the orthodox teas but only for 18-20 per cent of tea bags and scented teas. Jorgensen and others in the trade are convinced that expansion of Sri Lanka's share of the Danish market now depends on Sri Lanka and whether she will produce high quality tea bags and scented teas. The Tea Research Institute of Sri Lanka has worked on the technique for scented tea. What progress on development in this field?

Tea bags, scented teas, even the packeting or canning of tea raise the question whether Sri Lanka has or will be able to import the equipment. All these processes are highly sophisticated and automated in existing U. K. factories such as those of Brooke Bond, Twining and Lyons Tetley. Whether and to what extent manual labour can substitute for machines needs to be investigated. However, so long as Sri Lanka wants to have a place in the international tea arena, she can forget only to her peril that the consumer abroad wants a product that is convenient and very attractive. The capitalistic consumer is as exacting as the capitalist.

Product Development

The processing and marketing of tea in the U.K. and the rest of Europe, in the U.S.A. and Japan, point to the importance of product development: new methods of presenting tea to the consumer (so long as it has to be sold to a consumer society in need of continued excitement and powerfully wooed by competitive beverages) and new uses for tea. Is a vitaminized tea possible? Can tea be used for the manufacture of dyes and staining materials of various kinds? Can the tea dregs be saved for fertilizer? Product development must be linked to market research and needs laboratory experimental research, but here again the odds are against developing countries both for new development and for research.

Fundamentally, the developing countries will have to fall back on their own resources. The ambiguities of foreign "aid" are evident in institutions like the (Danish) Industrialisation Fund for Developing Countries (Industrialiseringsfonden for Udviklingslandene). The resources of IFU are supplied by the Danish Government from the revenue of the excise duty imposed on coffee. IFU joins Danish firms with equity capital for investment in developing countries; it also extends loan capital to joint ventures with Danish firms. After only six years of existence the earnings of the Fund have now made expendable Danish Coffee funds. The whole experiment is an interesting commentary on the cost of Foreign "Aid" and on the "Aid, not Trade" ("because we know better what you need") thesis. What foreigners have been able to achieve for themselves in developing countries, we must be able to achieve for ourselves in our own country—with tea or with anything else that is ours.