

# Tea Sector's Contribution to the Sri Lankan Economy



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## Outline of the Presentation

- Tea Sector's contribution to various areas of the Economy
- Challenge
- How to meet the Challenge and Remain Competitive
- The Way Forward for a Better Contribution to the Economy

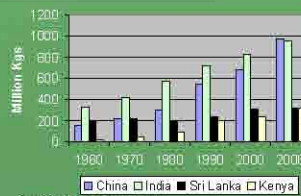


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## Tea Sector Contribution to GDP

- Tea accounts for 0.92% of GDP of the country. 30 years back the share was 2.6%
- It accounts for 5.6% of agricultural GDP
- Total production of tea in SL is over 300Mn kg per year
- SL is the third largest tea producer in the world
- Value Added (VA)/Bulk: 35:65

Tea Production in Major Tea Producing Countries



Source: Sri Lanka Tea Board



Source: Sri Lanka Tea Board

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## Tea Sector Contribution to the Plantation Sector

- Tea sector accommodates 80% of the total employment in the plantation sector
- Currently total tea extent in the country is 220,000 Hectares
- It is 1/3 of the total area under plantation sector
- During the last decade tea extent was increased as against the decreasing trend in the previous decades or so
- High grown tea extent has been reducing and low grown tea extent has been increasing



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## Structural Change in the Tea Sector's contribution to the Economy

- Majority of tea extent is with the Small Holders (60%)
- 74% of green leaf is provided by Small Holders
- Current mean productivity level of small holdings is 1853kg/ha as against 1459kg/ha in corporate sector
- One of the major reason for such a higher productivity is the extent of improved seedlings
- 87% of small holdings is improved clones but only 46.6% of corporate sector has improved clonal tea  
→ Lower overhead cost has resulted in higher profit for Small Holdings so massive replanting
- Lower cost of production in Small Holdings due to less overhead cost



Source: Sri Lanka Tea Board



Source: Sri Lanka Tea Board



## Tea Sector Contribution to Exports

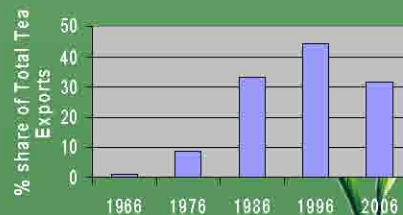
- In 2006, Sri Lanka regained its position as the top tea exporter in the world
- Sri Lanka accounts for 20% of global tea exports
- Currently total tea exports contribute to 12.79 per cent of total Sri Lanka's exports
- Earnings from tea exports has been increasing over the years though the export share of tea has been decreasing
- Russia is the main tea market for Sri Lanka followed by UAE and Iran
- Value added tea currently accounts for more than 1/3 of total tea exports (quantity wise) as against less than 4 per cent in 1960s

Value VS Share of Tea Exports



Source: Sri Lanka Tea Board

Value Added Tea Exports



Source: Sri Lanka Tea Board

## Tea Sector's Standing as a FOREX earner in the Economy

Foreign Exchange Earner	Amount US \$ Million (% GDP)
Textiles and Garment Exports	3071 (11 %)
Foreign Remittances	2330 (8.3 %)
Foreign Aid (includes commercial loans)	1200 (4.3 %)
Tea Exports	882 (3.2 %)
FDI	605 (2.2 %)
Rubber Products Exports	448 (1.6 %)
Gems/Diamond/Jewellery Exports	446 (1.6 %)
Tourism	410 (1.5 %)

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## Tea Sector's Contribution to the Capital Market

- There are 18 plantation companies listed in the CSE
- As at 20<sup>th</sup> August market capitalisation of plantation sector accounted for 1.64% of total market capitalisation
- Much higher contribution to the share market than Garments, Tourism and other FOREX earners to Sri Lanka

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### Tea Sector Contribution to Employment

- Tea sector provides direct employment for around 208,000 (estimated) workers. As a percentage of the labour force it is about 3%
- In 1991 total workforce was 390,000 and in 1994 the workforce reduced to 310,000
- Tea and related industry employs around 600,000 – 8 % of the labour force - which is significant in the context of the diminishing role of agriculture with economic development



### Tea Sector Contribution to Related Industries

- **Packaging industry**
  - Tea Packet
  - Tea Bags
  - Tetra Packs
- **Freight Forwarding**
- **Contribution to the paddy sector** → promote rice flour in plantations as an alternative to wheat flour
- **Handicrafts** (wooden boxes, reed packages etc.), **Local Fans**, may contribute to more **Mini-Hydro** and **Dendro** electric energy projects



## Challenge

- To sustain the tea sector in the coming years at a time when the agriculture sector is diminishing in the economy, tea sector support systems should be strengthened both by the government and the private sector.
- Aim should be to make the Tea Sector's Contribution to the Economy: US \$ 1 bn by 2010
- Let us look at these challenges

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## TRI's Contribution to Tea Sector needs further strengthening

- VA: Bulk ratio --- 65:35 in the near future: TRI has a major role to play
- Innovative products
  - Organic tea
  - Instant tea (1975 national patent)
  - Ready to drink tea (1988 national patent)
  - Fermented products
  - Tea scented essential oils
  - Tea flavoured yogurt
- Guidance on Controlling insect pests
- Guidance on controlling pesticide residues
- Guidance on factory modernisation
- Guidance on good agricultural practices



## Tea Exports Under Bilateral FTAs needs aggressive exploitation

- SL export very little of its tea to India and Pakistan (expressed as a % of total tea exports in the Table)
- India is a major tea producing country
- Pakistan is our competitor's (Kenya) main market
- SL tea has duty free access to Pakistan market (for 10,000 MT of tea) where as Kenya tea has to pay 10% - 20% tariff
- SL exports only 3.5 Mn kg of tea to Pakistan → 65% of the quota is not being used
- Kenya exports 98 Mn kg of tea to Pakistan.
- Kenya controls 80% of the Pakistan tea market

Year	ILBFTA	PSLBFTA
2000	0.56	1.13
2001	0.22	0.74
2002	0.17	0.82
2003	0.13	0.90
2004	0.17	0.86
2005	0.13	0.77
2006	0.16	0.91

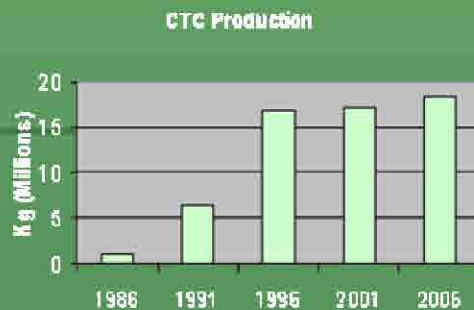
Source: Sri Lanka Tea Board

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## CTC Tea for Pakistan ?

Growth in CTC production in SL has been stagnated over the recent years

Currently CTC accounts 5-6 % of total tea production in the country as against 0.5% in 1986



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## Tea Cess needs to be channelled to the sector

- Tea industry is not a burden on the government budget → funded by Cess

- Current tea Cess is Rs. 4.00/kg

- Cess funds
  - SLTB
  - TRI
  - SHDA

- Currently Cess goes to the treasury → allocations come to the institutes

- Problems
  - Portion of funds are unavailable for tea sector development
  - Funds are not available at the time of need
  - Cess fund can be used for a fertilizer subsidy

Year	Total Tax (Rs. Million)	Year	Total Tax (Rs. Million)
1976	499.9	1998	680.4
1986	1314.6	1999	651.3
1990	2193.8	2000	676
1991	1082.1	2001	1066.5
1992	695.5	2002	767.5
1993	445.5	2003	739.6
1994	469.4	2004	753.9
1995	477.8	2005	771
1996	491.6	2006	755
1997	537.9		

Source: Sri Lanka Tea Board



## Labour Shortage needs attention

- There is a labour shortage in the sector at the moment
- This issue should be addressed by both the public and private sectors collectively in order to get a better contribution to the economy
- Increasing the worker welfare may be one solution
- Under Plantation Development Project (ADB/Japan Bank) funding was allocated for worker welfare development. However, only 20% of the allocated budget was disbursed
  - Project required 30% counter part funding from companies
  - Companies have been reluctant to do so
- Industry has also lost significant amount of planters or trained senior managers

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## Competitiveness of Tea Sector for a Better Contribution to the Economy

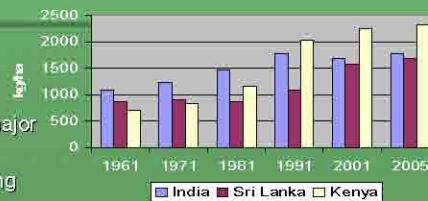
- Major forces driving industry competition

- Productivity
- Quality
- Price

### Productivity

- SL has the lowest tea productivity amongst the major tea producers
- Major reasons for less productivity are old seedling extent, lack of new technology usage, lack of soil fertility, inadequate implementation of good agricultural practices
- Despite the planned replanting rate of 2% per year (1959) currently replanting is done at 0.6%-0.7%
- Still 30% of total tea extent in SL has old seedling
- Of the total old seedling 75% is with the corporate sector (more than 80 years old)
- Of the improved seedling 70% is with Small Holders (most of them are young)
- TRI has recommended technical guidance on new technology usage, soil fertility and agricultural practices

Average Yield in Main Producing Countries



Source: Sri Lanka Tea Board

Old Seedling VS New Seedling (2005)



Source: Sri Lanka Tea Board



## Less Land Expansion Potential

- There is little potential for further increase in tea extent in the country
- Kenya (major competitor in international market) has large amount of abundant lands for potential use in the tea sector → Currently use only 21% of potential tea lands
- Productivity improvement thus has become crucial

## Competitiveness of Tea Sector for a Better Contribution to the Economy

### Quality

- Sri Lanka is known for its quality tea in many of the major markets
- SL tea is considered as the "cleanest tea" in the world in terms of pesticide residues
- Tea board is continuously monitoring the quality

### Price

- Cost of production is a determinant of profit
- Cost of production has been increasing over the years
  - Wage
  - Fertiliser cost
- Higher earnings can be gained from value added products and through direct marketing



## Many Studies on Increasing Tea Production & Exports

- Tea Commission Report: 1995 (GOSL)
- Sri Lanka' Tea Industry: 1995 (WB)
- Study on Liberalizing Imports of Foreign Orthodox Teas for Value Addition in Sri Lankan Tea Exports: 2001 (IPS)
- An Analysis of the Debate on Dollarising the Colombo Tea Auction: 2002 (IPS)
- A.T Kearney Report: 2003
- Tea Cluster Report: 2005 (TCI-USAID), etc.

## The Way Forward for a Better Contribution to the Economy...

### Opportunities

- World beverage industry is moving towards health drinks such as tea
- Increasing demand for value added tea in western countries
- Price trends in major markets like CIS and UAE are strong
- There is a good potential for Sri Lanka to be directly linked with overseas buyers with the information technology advancements
- Favourable exchange rate regime for future price competitiveness
- Innovative tea based products like fermented tea products, tea flavoured yogurt and tea scented essential oils
- There is room for a 'STARBUCKS' for tea

### Challenges

- Competing countries have a higher productivity than SL
- Implementation of innovative ideas has been low → loose the first mover advantage
- Cost of production is increasing
- Government control over labour market and politicised trade unions
- CTC production share has been low
- Availability of labour has been decreasing over the years



**Thank You**