

# Promoting Regional Value Chains in Tea in South Asia: Case of Sri Lankan Tea Sector

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## ***"South Asia is to the tea world what South America is to coffee"***

- 3 countries in SA account for 45% of global tea production and 32% of black tea exports
- Together with other SA countries (Pakistan especially), the region takes up 36% of world consumption
- Tea industry in SA provides round-the-year employment to over 1.5 million workers, mostly women
  - An equal number depends on tea-related ancillary activities for their livelihood
- However, CoP of SA tea remains higher than competitors
- SL and India have much lower yield per plucker than Kenya (18kg and 27kg, vs 46kg)

*Sivaram, B. (1999), Journal of Plantation Management, Vol. 15 (2)*



# Study on promoting RVCs in Tea

- Objectives of the study

- To identify the tea sector value chain within the region
- To identify constraints and challenges in promoting tea sector value chains in the region benefits and difficulties that the exporters receive from exporting to South Asia?
- Areas not covered (future research) – cooperation on technology/equipment?

- Methodology

- Face to face in-depth interviews with main exporters and importers from the South Asian region
- Face to face interviews with tea specialists, government officials, trade specialists, researchers in the field
- Used semi-structured questionnaire



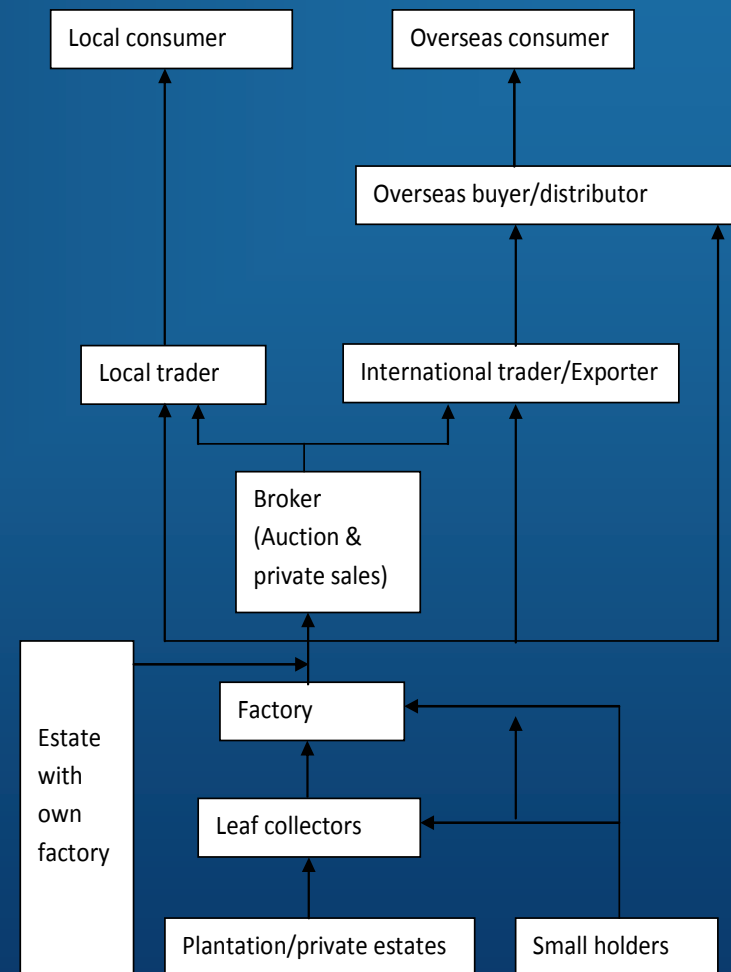
# Sri Lanka Tea in Global Perspective

- Sri Lanka placed as **3<sup>rd</sup> largest tea extent** (188,323 Ha) (after China, India)
- **4<sup>th</sup> biggest tea producer** (after China, India and Kenya)
- **3<sup>rd</sup> largest tea exporter (volume)** (after Kenya, China)
- **1st higher tea export revenue earner** (ahead of Kenya, China, India)
- Tea auction prices – **Highest unit price** – 27% above Kenya
- Sri Lanka's main markets – Russian Federation, Middle East (Iran, UAE, Syria, Jordan), Turkey, Ukraine, Japan...



# Sri Lanka's Tea Sector

- Tea production : 59.6% private sector, 36.8% Corporate management sector, 3.6 % State sector ( tea extend by management)
- Tea production by elevation (High- 18.5 %, Medium- 32%, Low - 49.5%)
- Tea production by categories ( Black tea – 49.6%, Orthodox tea – 46.9%, CTC manufactures- 2.7% , Green tea 0.4% , instant tea -0.2%)
- Public auction is the main mode of tea marketing (96% of total tea marketing)



# Sri Lanka's Tea Sector

- Total tea exports in 2010 ( 67.4% of total agri exports earnings) , 16.5% of total export earnings
- Tea exports by category (quantity)
  - Bulk tea - 57%
  - Tea packets – 26%
  - Tea bags – 6.4 %
  - Instant tea – 0.5%
  - Green tea – 1.3 %
  - Other tea – 6.5%



# Sri Lanka Tea and South Asia

- Exports – mainly to Pakistan, India and Maldives; small qty to B'desh.
- Imports - special varieties from India and Nepal
  
- SL to Pakistan: US\$ 3,099,000
- Pakistan to SL: 0
  - Pakistan tea imports – Kenya (58%), India(16%), Rwanda (5%)
  - Highly price conscious market, shifting preferences towards CTC tea
  
- SL to India: US\$ 1,388,000
- India to SL: US\$ 13,296,000
  
- SL to B'desh: US\$ 68,000
- B'desh to SL: 0
  
- SL to Maldives: US\$ 1,969,000 (mainly as value added products - 95.7 % as tea bags)
- Maldives to SL: 0



## SL Imports from the region

- Sri Lanka imports special varieties of tea mainly from India and Nepal

Country	Type of tea	Qty (Kgs)
India	CTC	3113417
	Decaf	225
	Green tea	11441
	Special	1583612
Nepal	Special	2001

Source: Sri Lanka Tea Board (SLTB)

- Import teas for blending and re-export

# Challenges in Strengthening the Tea Regional Value Chain (RVC)

**Findings from Stakeholder Interviews**  
*(Sri Lankan perspective)*



## Challenges...

### *Sri Lankan stakeholder perspectives*

- **Key Issues: Nature of the product, established markets**
  - Most South Asian countries are tea producing countries themselves
  - Each has established their markets for tea outside the region
  - Demand for tea is derived from consumer preference & consumer taste
  - High price of Ceylon tea

Unit Price of tea US\$ /Kg			
	2005	2006	2007
India	2.09	2.03	2.45
Sri Lanka	2.58	2.64	3.26
China	2.06	1.88	2.1
Kenya	1.59	2.07	1.99

- South Asian tea consumer markets are highly price conscious, unlike SL's primary markets of the West, Russia, Middle East
- Joint production is a challenge – product standards differ, production process standards differ (SL tea going for '*ozone-friendly, clean tea*', etc.)



# Challenges...

## *Sri Lankan stakeholder perspectives*

- **Key Issues: Government rules and regulations**

- Government has newly imposed a Cess on bulk tea exports
- Tea import for blending and re-export underwent several vital changes
  - **1994:** Ban on any orthodox tea imports under the scheme
  - **1994:** Release of all imported teas only on a Bank guarantee to the total value of the consignment
  - **2000:** Ban on the import of poor quality teas, off grades, filler type teas and teas that do not come under the specialty category
  - **2000:** All imports to be accompanied with Maximum Residue Limit (MRL) certificates
  - **2003:** Imposition of a 25% duty on any import of orthodox teas for blending
  - **2007:** All imported teas to be within the SLTB Minimum Quality Standard and to be accompanied with a MRL Certificate issued by an accredited Pesticide Analytical Laboratory
  - **2007:** Ban on any teas to be imported from Vietnam



# Challenges...

## *Sri Lankan stakeholder perspectives*

### Other issues:

- Most exporters are not fully aware of the concessions provided in trade agreements (ISFTA, PSFTA)
- Issues exporters face in general
  - Exporters have complained of state-level taxes in India
  - Various non-tariff barriers
- Due to some bad experiences in the past some tea exporters have lost interest in the Indian market
- Indian exporters too have to face para-tariffs/indirect border taxes in SL
- Lack of strong institutional support from SLTB



## Overall comment:

Most tea firms we interviewed showed little interest in discussing challenges and opportunities in promoting tea RVCs in S. Asia

Was challenging to engage them in drawing out ideas for way forward

Focus is on established markets in Europe, Russia, Middle East, etc



# Opportunities for Regional Cooperation



## Some key strengths of South Asian tea sector...

- South Asia is the only region with a fair blend of CTC and Orthodox teas
  - Other black tea producers concentrate on CTC (East Africa) or Orthodox (China, Indonesia, Turkey, Russia, Iran, etc.)
- Export of value-added tea is largely from this region, in sharp contrast to most of the other producing countries which still rely on the shipment of bulk tea



# Areas for Regional Cooperation...

- **Research**

- Collaborative approach to tea research in specific identified areas
- SA tea has a common objective of increasing productivity, improving quality, reducing CoP
- **Joint study for plant improvement, fertilizer responsiveness** to soil and tea bush management, mechanisation of operations, alternative packaging
- **Joint research on health attributes** of tea consumption

- **Cost saving**

- SA region has high CoP, rising labour costs in Sri Lanka, etc.
- Across the region, around 25-30% of CoP is accounted for by estate supplies
- Exploring **regional sourcing of supplies** - including factory machinery, transport vehicles, fertilizers, chemicals, pesticides, packing materials, etc.

- **Tea statistics:**

- With demise of the London auction centre, International Tea Committee (ITC) capacity also reduced. Possibility of **setting up a new body in this region, perhaps Colombo**



## Areas for Regional Cooperation...

- **Training of personnel**

- Training of plantation executives throughout the region still follows the on-the-job pattern. However, greater business and technical skills required to meet changing situation.
- National plantation management institutes (Sri Lanka, India) working more or less in isolation, **much scope of mutual exchange and interaction in terms of modules, curriculum, and staff training.**

- **Smallholder development**

- Tea sector has moved towards smallholder enterprise. In Sri Lanka, majority – approx. 60% - of leaf suppliers are smallholders
- Regional cooperation to **assist smallholders/share best practices in intermediate technology, mixed farming, small farm management, etc.**



# Opportunities for Promoting RVCs in the Region...

## *Some ideas for discussion...*

### Firm-led

- *Vertical integration via value-addition*
- **Joint ventures** in marketing, branding, etc.?
  - Product diversification - marketing 'variety packs' of South Asian tea
  - Joint ventures in blending, joint marketing strategies?
  - Establishing franchise '*Tea Cafes*' with South Asian teas
  - Longer term - joint-acquisition of well-established brands in major consuming countries?

### Gov't-led

- Greater liberalisation of tea imports to Sri Lanka, to spur blending and re-export?



# Thank You

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