

Tea Industry - Changes and Challenges

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HISTORICAL

The early British pioneers opened up the great tea planting industry back in the year 1836 in the wilds of North - East Assam, whilst their compatriots opened up the first coffee (now tea) plantations in Ceylon in 1825. In 1869 a leaf disease appeared on the coffee bushes throughout the estates in Ceylon and within a span of 20 years 250,000 acres of coffee had been uprooted and the land replanted with tea. During this period hundreds of coffee estates were abandoned and their owners left the country as bankrupt men. Others stayed on, the struggle and fight commenced yet again, and from the ashes of the burnt coffee bushes there arose the great tea industry of Ceylon. The name Ceylon (Sri Lanka) had become synonymous with the best quality tea for several decades, when "Ceylon Tea" reigned supreme and became a household name all over the tea-drinking world. By the mid 1960s, there were nearly 600,000 acres (242,000 ha) of tea in production.

THE CHANGES

The nationalization of all British - owned estates in Ceylon took place in 1975; today, after close on 150 years, the British planter has disappeared from the landscape of Ceylon. These well experienced planters opened up tea plantations in other countries, especially in East and Central Africa, the produce of which gained quick entry into the hitherto traditional markets of "Ceylon Tea". The multinationals who are themselves the producers (now elsewhere), the buyers and blenders and wholesale sellers, naturally have an aggressive buying strategy to promote the tea produced by them elsewhere and as a consequence, "Ceylon Teas" had to bear the crunch of being "edged out" from its once held unchallenged supreme position.

Since nationalization in the mid-1970s, the company-owned tea plantations came to be managed by the State, along with the granting of the much needed wage increases and associated welfare facilities. Nonetheless,

within the prevailing scenario of a static and unstable market situation, the granting of such significant concessions, in quick successions, led to a rapid cost escalation and the consequent erosion into profitability.

The changing scenario in production trends

The prevailing national productivity status (at around 1,200 kg/ha) needs to be viewed in the context of the highly varied production trends experienced in the three broad elevational categories ("High, Medium and Low grown"), as well as a consequence of the transitions that had taken place in respect of ownership and management of the larger plantations, which changes became very significant over the past two decades.

The variations in growth and decline in the three elevational categories is best illustrated by examining the production trends during the six-year periods, 1973 to 1978; 1979 to 1983; and 1984 to 1990 (Figure 1).

It is interesting to note that the rise in low-grown tea production has been such that it has steadily moved up from the bottom position it once held, to the highest position at present. On the other hand, there has been hardly any growth in the production of tea in the high elevations, which level has remained almost static through out this period, whilst at mid-elevations, the production had declined to the bottom position at present.

As mentioned above, it is due to such distinct variations in the production trends in the three elevational categories - which categories produce distinct types of teas that cater to specific markets - that the overall national productivity and the overall national production growth rate, is reflected as being poor.

The main cause for these variations in growth and decline rates is attributable to the prices realized and the profitability of tea cultivation in these respective elevational categories. The single motivating force behind any rising trend in production is the rising demand for a commodity and the profit generated per unit of land. The comparative low cost of production and the assured attractive Gulf markets, continue to motivate the low-country producer to increase production. This trend is comparable to the situation prevailing in our neighboring tea producing country, where the healthy production rate is motivated very largely as a consequence of the rapidly rising international demand, with assured profits.

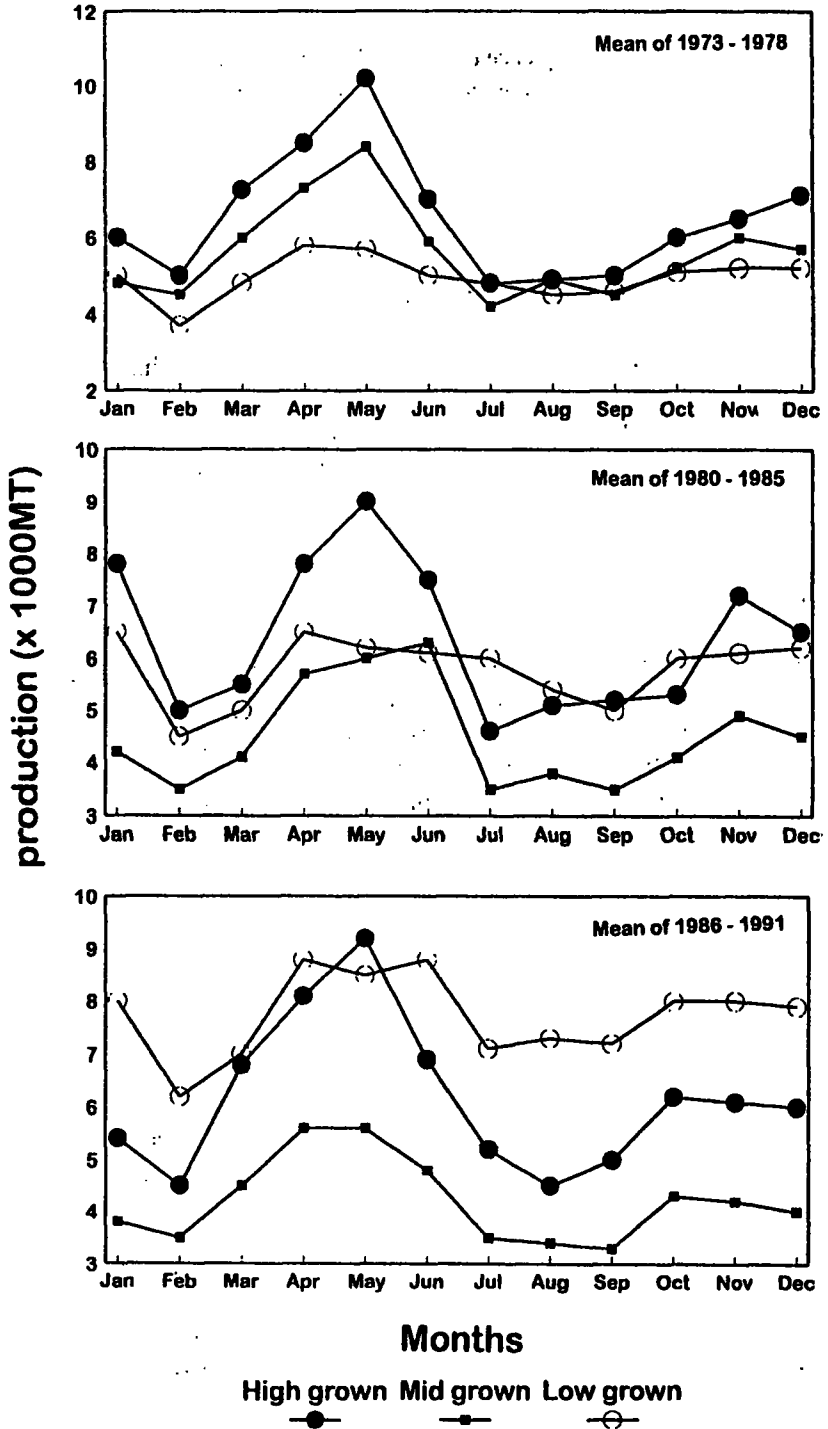


Figure 1. Tea production trends.

On the other hand, as a consequence of the continuing escalation in the cost of production that was further coupled to an uncertain stagnant and declining price situation, there had been hardly any motivation to enhance productivity further in these high and mid elevation tea areas. In view of such a prevailing scenario, the annual rate of replanting has also been far below expectations. As a result, there are significant extents of senile seedling tea areas, with poor stands of tea bushes per unit of land, the productivity level of which is far too low for economic sustenance.

The continued retention of significant extents of such poor seedling fields is undoubtedly stifling the productivity of tea in these elevational categories. At a very conservative estimate, the replanted young tea area in the high elevation would account for less than 35% to 40% of the total area presently in production. Hence, nearly 60% of the tea area is old, with an average bush population of just around 80 - 85% of the expected stand.

To cope with such a situation, the only means available for the very survival of the industry is to diversify uneconomic tea lands and to make the viable ones as highly efficient and profitable entities and an all out effort should, therefore, be made to enforce better financial discipline, enhance productivity, improve quality and seek better prices, through an aggressive marketing policy. Diversification of uneconomic tea lands that has a resident labour population would, however, pose an important social problem, unless an equally remunerative alternative employment is found for such displaced labour.

The recent re-structuring of management of plantations

The state plantations that were earlier managed by the two State Organizations, The Sri Lanka State Plantations Corporation (SLSPC) and the Janatha State Development Board (JEDB), are presently re-grouped into 22 Regional Companies, the management of which have been leased to private Management Companies, on specific terms and conditions and a limited contract period, with no stakes for themselves in the ownership.

Each of these companies have estates located in specific agro-climatic zones and consequently, the distribution of plantations are such that in certain companies, the majority are in desirable locations, both in terms of productivity and the types of teas that have a demand in current markets, whilst the reverse position holds in respect to certain other companies.

Apart from such different distribution in the location of properties, three companies have only tea properties, whilst others have an almost equal mix of both tea and rubber plantations, with seven having more rubber plantations. In this regard, direct comparisons with regard to the profit/loss situation may not necessarily give a true picture of management efficiency.

(The performance during the first half of 1994 (January to June, 1994) of the different companies is presented in table. The two important determinants for the equation of profit/loss situation are the Cost of Production (COP) and the Net Sale Average (NSA)).

Changing Market Demands and the Net Sale Average (NSA)

Besides the efforts of a good standard of harvest and manufacture to generate a good quality end-product, what seems more relevant to help fetch an attractive price, especially when catering to a highly competitive international export market, is to produce the right type of tea that is in demand at the given point in time. The latter depends to a large extent on the fortuitous location within a specific agro-climatic zone, which natural growing conditions help to generate the desirable sought-after characters. In this regard, modifications in the manufacturing parameters may help only up to a limit. On the other hand, there is no excuse for poor quality manufacturing standards amongst properties that are located in the fortuitous agro-climatic zone and have the capacity to generate the right type of tea that is in demand!

Factors Influencing the Cost of Production (COP)

The production costs in Sri Lanka are the highest in the world, with productivity norms that have been long practiced here being very low, if not the lowest in the tea producing world.

Proper attention to details with the correct and well-timed implementation of the various recommended field practices, with optimal productivity of both land and labour, as well as good factory regimentation, will undoubtedly effect good controls in the COP.

The retention of degraded, non-viable and uneconomic tea lands will obviously enhance the overall costs. Those properties that have

significant extents in such condition are in an unfortunate situation and will have to bear heavy losses.

On the other hand, in instances where such poor lands are minimal, but with significant extents of potentially high-yielding replanted clonal tea, the heavy expenses incurred may be due to excess labour (more than the acceptable land/labour ratio), poor financial controls, especially in regard to harvesting (plucking) costs - due to low labour output.

Factory (manufacturing) regimentation involving proper controls on fuel and power consumption, efficiency of output of available factory machinery, as well as factory labour, would influence manufacturing costs - which can range from as low as Rs 14 to as high as Rs 22/kg made tea, under prevailing terms.

Despite being located in the correct agro-climatic zone for generating the sought-after type of tea characters that fetches good prices, losses are sustained due to high COP on account of poor cost controls, coupled to excess labour population and the burden of having to retain significant extents of uneconomic tea fields.

Unacceptable very high expenditure on overheads, with " General Charges" accounting for a disproportionately high amount.

THE CHALLENGES

1. Cost Controls (Lowering COP)

Greater attention to details of production and manufacture

- Enhancing productivity at controlled costs

The current problems:

I. Excess labour

Correct land/labour ratio is about 2.0 to 2.5/ha

But some have as much as 3.0 to 3.5/ha

II. Marginal lands / Soils

Limiting productivity at very high costs

III. Specific type of tea as per agro-climatic zone

That may or may not be in demand.

Cost break-down

Cost of production

Under and optimal situation of Rs 65/kg

a). General charges (Overheads) - (ca 22%) = Rs.14.50

b). Field Operationsⁱ -

ⁱ Harvesting	ca 37% of total i.e	Rs 24.00
Fertilizer	ca 11% of total i.e	Rs 7.00
Weed control	ca 3% of total i.e	Rs 2.00
Others ⁱⁱ	ca 4% of total i.e	Rs 2.50

ⁱⁱ (crop protection and field maintenance)

Sub-total (ca 55%) = Rs 35.50

c). Manufacture - (ca 23%) = Rs 15.00

Total = Rs 65.00

Variations could occur in any one, two or all three of the above main items of expenditure (a, b and c), with the total ranging from as low as Rs 60 to as much as Rs 85/kg, which increase in cost is bound to proportionately erode into profitability.

2. Quality produce and new markets - Accent on quality standards and an aggressive marketing, to improve demand price.

3. Energy efficient manufacture

- Energy economizing machinery
- Recycling waste heat
- Use of Gasifiers, steam boilers, and harnessing solar energy
- Lowering costs

4. Human resources development

Measures to cope with:

- rising wages and related benefits, should be linked to productivity of crop and increased labour output, without affecting the labour unit cost of production. This is a challenge that is to be met.
- a demanding and assertive labour force, and emerging social problems - needing, better housing, improved medical facilities and more counselling by welfare by specially trained officials who could integrate with their thinking.
- a new generation which will not want to continue to work on plantations, and the consequent shortage of labour, requiring rationalization and mechanization of operations, particularly in respect to harvesting in the difficult terrains.

Call for a dynamic approach to the human factor, involving:

- training
- motivation
- productivity-linked reward systems, and
- rationalization and mechanization of operations in the long-term.

5. Small holders

The plantations system is no longer defined to reflect:

- the size of the holding, or
- the capital employed, but

is identified to cover both large estates and small holdings, based on:

- the type of crop, and
- the purpose of production, i.e. for the market and generally for exports.

Tea is an ideal crop for a small-holder system of production, offering cash earnings on a daily basis. The established corporate set-up is gradually giving way to small-holder set-up. Hence, the need for a greater focus on

small holdings and the challenges requires to provide them with appropriate technology, extension support and processing facilities and thereby integrate them into the overall plantation economy.

In respect of the tea industry in Sri Lanka in particular, the increasing contribution from small holdings is reflected by the fact that the production from this sector has almost doubled during the last 13 years, being now of the order of 54% of the national production, compared to 33% then.

Such a movement from a corporate set-up to a small-grower set-up is seen with several other commodities such as rubber, cocoa, coffee, oil palm, sugar-cane, *etc.*

6. Environment protection (on-site and off-site)

- Conserving soil and its fertility
- Genetic improvement for balance with environment
- Minimal chemical dependence
- Conserving biodiversity
- Improved watershed management
- Expanding on-site fuel-wood plantations

- Helps to sustain productivity at controlled costs

7. Product diversification towards value-addition and convenience

Moving away from commodity exports to product-exports

- Blended & packed teas, including tea bags,
- Green tea, Oolong tea, Brick tea, *etc.*
- Bio-tea (Organic tea)
- Instant teas
- Liquid teas

- Helps to improve demand and price

**8. Tea as a help drink - To help improve global demand and price
(Generic promotion)**

9. International cooperation - Price stabilization

This is important for price stabilization, exchange of informations, collaborative research *etc.* It is, therefore, most essential to establish an international agreement amongst producers, such as, for other commodities, including coffee, cocoa, sugar, rubber, *etc.*