

SL'S TEA INDUSTRY NEEDS MARKET DRIVEN POLICIES...

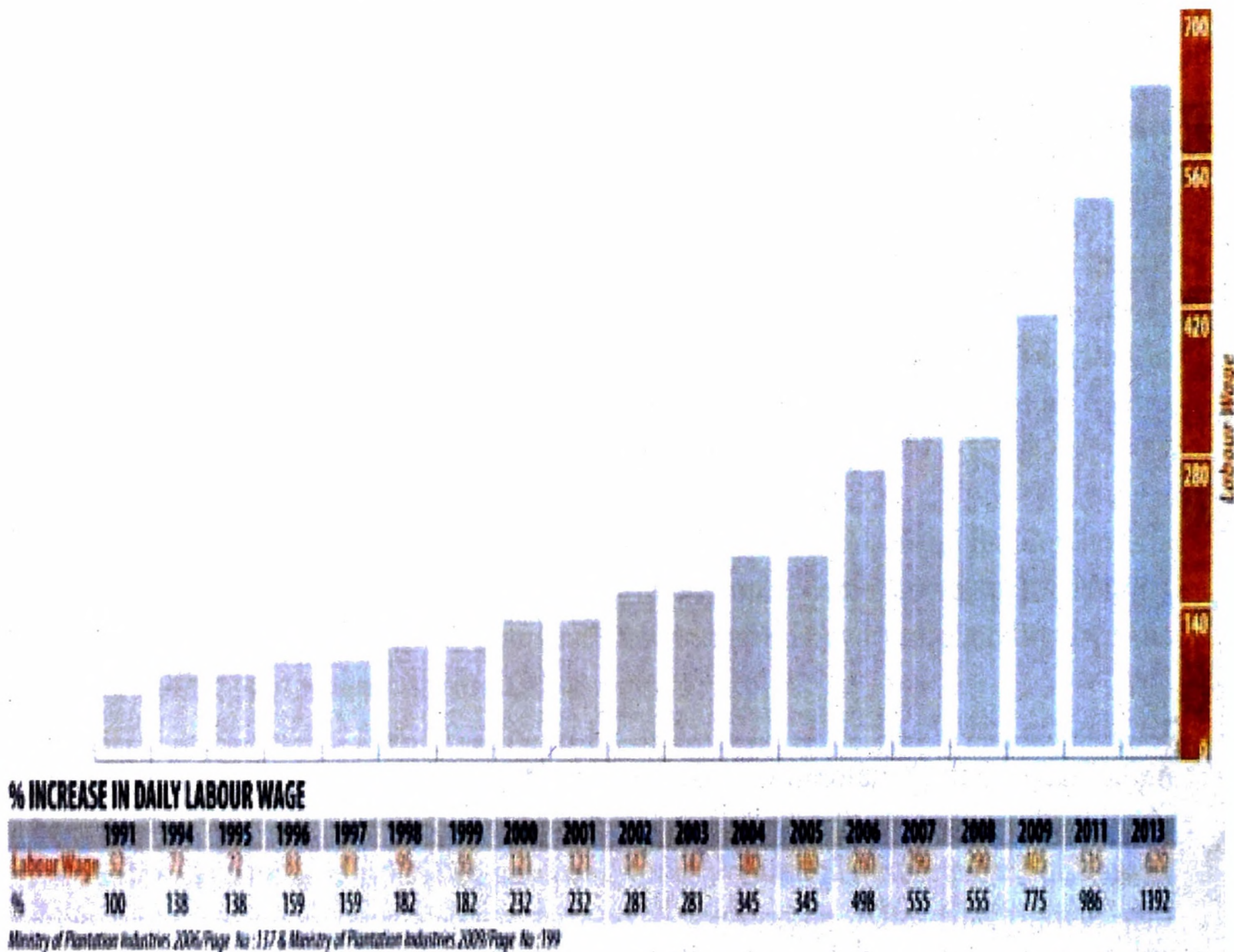
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Sri Lanka's Tea industry generates over a one and a half billion dollars in revenue to Sri Lanka, whilst provides almost a million jobs to the economy today. In my view, with some cutting edge decision making in the past, Sri Lanka has earned the respect to be a model to the world across the value chain.



From a grower of tea, to produce the best quality tea world-wide, then becoming the most admired tea auction system in the Globally. From a demand perspective, the initiative of Ceylon Tea securing the right to be the 1st tea beverage globally to be certified as being ozone friendly sure spruces the Industry be the benchmark of driving a complex industry in an economy. But the challenge is where do we go from here, given the policy decisions that have been taken recently which are against the grain of becoming a competitive industry.

Daily Wage Rate in Sri Lanka – Tea Industry



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Catch 22

From the weekend reports we saw in the media, it's very clear that the Industry is in a catch 22 situation with the recent wage increase. The wage rate has catapulted from Rs.290/- five years back to Rs. 620/- as at 2013 which is an increase of 114% but the net sales prices from the auctions reveal that in 2008 the average was at Rs.310/- per kg and today the prices are at around four hundred which reflects only a 29% increase. This indicates the Supply chain and Demand Generation tipping point that the industry has come to. It also reflects the poor quality policy making that is totally outside the grain of competitiveness of an industry.

Whilst some can say that the workers in a tea plantation must be remunerated as per the increasing quality of life just like other parts of the country a point that needs to be noted is that if the Cost of Production(COP) becomes greater than the Net sales average(NSA) the industry becomes non viable and this can lead to collapse of the total industry.

Why Privatisation

It's important to track back to history of the RPC's. In the 1970's large extents of plantation lands were acquired by the Government of Sri Lanka and vested under the state institutions the Janatha Estates Development Board (JEDB) and the Sri Lanka State Plantations Corporation (SLSPC) under the Land Reform Act No. 1 of 1972. However, with the increasing inefficiency of the two corporations that was government owned the JEDB and SLSPC sought for government assistance to offset the mounting operational losses that had increased to almost 1.5 billion rupees per annum for both corporations by 1992.

In the face of mounting financial losses suffered by the two corporations, the Government appointed a Task Force which recommended the entrustment of the management of the plantations to the Private Sector. In view of this, the government initiated the privatization of the sector in 1992 which led the Sri Lankan tea industry to witness one of the most significant structural changes in the history of its industry. Incidentally the tea industry was the first to undergo the privatization process in the country.

How it worked

In 1992 when the state opted to privatize the management of state plantations, 23 Regional Plantation Companies (RPCs) were set up, of which 20 RPCs were leased out to 12 management companies during the period 1992/1993, resulting in the conversion of 461 estates managed by the JEDB and SLSPC to 20 RPCs under the Companies Act No. 17 of 1982. In the administrative structure of the RPC's, 100% ownership was retained by The Government, whilst the respective RPCs were initially assigned lease-hold rights of between 12-29 estates for a period of 99 years for a

nominal lease rental and thereafter adjusted the same to 53 years. This was the birth of the new operating model of the corporate tea sector of Sri Lanka.

With the new management architecture in place, it resulted in the best tea plantation managers been absorbed by the private sector corporations, during the post-privatization period. The RPC's turned around the rupees 1.5 billion loss making venture in to profitability. In the financial year 2007/8 the RPC's recorded the best performance of an Rs.14.9 billion net profit with the addition of modern techniques of management, which provided structure to the agriculture driven colonial entity. But in 2013 we see that the hard work done by the private and public sector is coming apart from a Supply and Demand perspective.

Ramifications:

One key ramification of the situation at hand will be the lower/non existence of the organizations on replanting. Whilst for some it can be secondary a health checks, the reality is that on the total extent of Old Seedling Tea (OST) in Sri Lanka, 75 per cent of it belongs to the corporate sector as per the table below. We can see that only about 9% of this extent has bushes less than 60 years of age while the rest is well over 60 years. Hence it could be said that Senility of the Tea bushes is one of the main reasons for the declining productivity and correspondingly lower production volumes that Sri Lanka has witnessed.

A key remedial programme that can be implemented is a robust replanting programme in the RPC's. But with the current issue of where COP converging on NSA, this remains a statement on paper that cannot be implemented practically. One study by the Tea Research Institute state that the current volume of approximately a 126 million kilograms output from the corporate tea sector will decline to 98 million kilograms of tea within the next five years as the tea in this sector are at senile stage and yield is declining rapidly. If one quantifies the loss to the country in volume terms will be around 28 million kg of tea per annum and in value it will be 92 million dollars while in rupees it will be a colossal 9.9 billion rupees. I guess these are the points that needs to taken into account when wage rates are to be increased but sadly these aspects are not even on the agenda.

Corporate Tea sector - Tea in Bearing in the Age Categories

Age category	Old Seedling Tea(OST)		Vegetative Propogative Tea	
	Ha	%	Ha	%
> 60 Years	37,920	90.97	-	-
41 – 60 Years	3,428	8.22	-	-
< 40 Years	337	0.81	-	-
> 40 Years	-	-	2,037	5.58

31 – 40 Years	-	-	9,232	25.30
21 – 30 Years	-	-	10,353	28.37
11 – 20 Years	-	-	10,582	29.00
< 10 Years	-	-	4,291	11.75
Total	41,685	100	36,494	100

(Source: Tea Research Institute, 2003)

The TRI has outlined a scheme for a replanting programme to be implemented. The issue however is that for 1 hectare acre of Tea to be planted costs over Rs.3 million which cannot be justified financially given the escalating COP and the corresponding NSA value. This is why the replanting rate has been at a low ebb says some research reports. The Tea Research Institute (TRI) stipulates that the replanting rate must be around three percent in a healthy agricultural practice system. But once again this has been an echo on paper as financial viability is in question. Especially in the corporate that have conglomerates tourism, renewable energy and may be even education can be more attractive business ventures than investing on the Tea Sector. One can just imagine the pressure in the board room for the sector heads for Agriculture.

What next?

Hence it is clear that unless some serious policy decisions are taken based on market dynamics Sri Lanka's Tea Corporate Tea Sector will be heading towards very rough waters. One key recommendation is for the Global Ceylon Tea campaign to be launched given that from October 2010 moneys have been collected on the private sector exports out of the country. But once again this has become a non starter which is tragic for the industry that is under pressure on the supply chain end and when in virtually every market the market shares are declining.

We must keep in mind that the Tea Industry is the 1st privatized entity in Sri Lanka and it has been kept alive with some smart and sharp working models given that in the last twenty years amidst a war situation the industry held the country together. Now that peace has returned, the need of the hour is a strong and structured decision making in a balanced manner between the private and public sector based on facts and data. The challenge is who has the power to drive this thinking in a political economy is the million dollar question.