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TIME TO PONDER AND RE-EVALUATE PLANTATION INDUSTRY AS A WHOLE ON THEIR SUSTAINABILITY AND PROFITABILITY.

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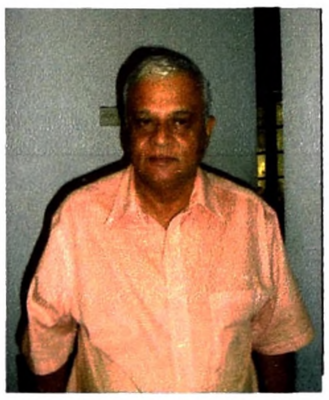

Sri Lanka has alleviated itself to a middle income generating nation having a per capita income of US$ 1932 per annum expected to reach US$ 4000 per annum by 2016. Therefore the plantation industry has to be evaluated with a trajectory of 2 decades to establish the most sustainable and profitable plantations to invest and develop. No doubt it is eminent there will be the immergence of new business models, based on some key factors, influencing plantation sustainability and profitability. New business models should emerge in different geographies, through different sales channels as well as through investment in research and development. What new business could emerge in the plantation industry of Sri Lanka? How will these impact the overall market? What will happen to the present incumbents? What will be the future market immerging for tea, rubber, coconut, palm oil, agro forestry and spices with changing markets? Survival and viability of any plantation industry will depend on:-

1. International demand for the product.
2. Climate change and it's impact.
3. Cost of inputs, energy, and efficiency of energy utilization.
4. Labour wages and available human resources.
5. Availability of land mass, it's sustainability, productivity, and food security of the nations.

Based on above factors, business models would evolve, traditions and nostalgia would have no place.

Tea industry of Sri lanka.

Historically, tea was a sorted out beverage for the aristocratic Chinese identifying it's medicinal and aphrodisiac value. The British wanted it, and as their climatic conditions were not unsuited they had to use the land they colonised. With the emergence of coffee blight the colonials embarked in tea. 200 years ago, less than 500 grams, was fetching 100 sterling pounds. It was a privilege drink of the Lords and Barrons who kept it under lock and key. But now it is a noble drink as well a health promoting anti-oxidant supplement, and is the cheapest beverage apart from water At present 35 countries have come into the supply stream creating a global over production. Further the FAO are promoting and encouraging the poorest nations in the world to start tea plantation so that the demand will not surpass, the world production of tea. Based on supply and demand theory, excess production globally has given rise to low prices. Since nineteen eighties the real price of tea in the world market has

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fallen by more than 15%. Multinational tea companies, benefit from the stable low raw material prices, which are not passed on to the consumers and the current scenario, has to be structurally changed.

With falling tea prices and rising input costs, pressure to limit labour wages, increase productivity, the growers are pushed to the wall with no sanity from the multinationals. They not only exploit the international market, with exorbitant profit margins, but also the local market by aggressive advertising campaigns. While the so called gurus and the planners are in deep sleep, the multinationals are having a gala time. Due to low budget management systems and recent labour wage increases the tea small holders are barely surviving. 34 state owned plantations are running at colossal losses, by the auspices of tax payers. The regional plantations are either at break even or covering the loss from the rubber and oil plantation. Unfortunately, 8% of the country's population sustainability is in the tea industry. The (TEA) – Tea Exporters Association, believes in blending and re-exporting, imported cheap tea as the answer. The Tea Board believes, value addition from present 40% export quantum to 60% or more is the answer. Due to climate changes, average temperature of 28° C in nineteen eighties has risen to 34° C in 2013. Every drought a substantial amount of the shallow rooted VP tea plants, succumb to death. The average national yield has hit a very low ebb, of 400 kg/ acre / month. If the growers of the world put brakes for production, and the supply reduces there would be more demand for the product.

China today consumes 60 % of it's production locally and India, 70 %– 75 %. Bangaladesh has renegaded to a net importer, while Indonesia is converting their tea land at the rate of 30,000 hectares annually, into oil palm and rubber. In Sri Lanka the government is encouraging even new planting through government subsidies, which is an unwarranted move.

Most of the small holders believe there are too many stake holders in the value chain of tea, from brokers, blenders, buyers, shippers, and international middle men, making a good living from the tea business, at the cost of growers. Growers also believe, that tea industry is too conservative, and resists change. This should change.

The younger farmers of tea are contemplating converting their land to less labour intensive low input cultivations. Time is right for tea to come out from tea auctions and commodity markets. Tea is not traded on the "futures market." It is a complete opaque scenario with no idea of price. Hence commodities like tea, are un attractive to pension and hedge funds. It immediately turns off investors of these funds. Sale of tea must be with the negotiation of the producer and the buyer directly, somewhat similar to the practise to the garment and clothing trade. The policy planners and the government should intervene and find solutions probably by joining the multinationals as stake holders, if they cannot be beaten, similar to the global tata beverages, intervening by buying over Tetly's Tea. If the policy planners, do not get their act right. now, Sri Lanka would not have a sustainable tea industry by 2030. Sooner or later, we have to decide, if tea is a beverage of value, or a traditional commodity of developing countries for ever and a cheap source of raw material suppliers to the developed countries. In the short term, it is more conducive to consume more of our own tea, rather than international brands of fizzy drinks which are loaded with artificial chemicals and sugar making the population a sick society.

Rubber plantations.

Natural rubber plantations seems to be offering the best potential for Sri Lanka in the long term scenario. Though at present there seems to be some price fluctuation, the long term sustainability prevails. The alternative to natural rubber seems to be synthetic rubber based on fossil fuels. It is a forgone conclusion, world available oil resources will run out dry within the next 40 years, leaving coal and gas to be synthesised using new and expensive technology, to convert into synthetics rubber. . The world's natural rubber cannot supply the world demand, and it does not have required properties for certain products such as automotive tyres. Sri Lanka has a growing rubber manufacturing industry based on solid tyres for slow moving gear, such as gantry trains, folk lifts etc. Similarly, there is a demand for rubber based protective gloves, safety boots, automotive parts and many other value added rubber based products. The Sri Lanka RRI is carrying a yeoman service providing new high yielding rubber clones and expanding growing areas. Sri Lanka should not export, a single kilo of unprocessed, non value added rubber to the world market. Alternatively they should also come out from the rubber auctions and the commodity market. The rubber growing area must be expanded, mitigating the green house gasses, and help make Sri Lanka a green country. At present a hectare of rubber can earn a net profit margin of Rs. 56,000/= per month against Rs. 38,000/= profit for a hectare of tea per month, at small holder level. At the end of 35 year life span of rubber, a tree of rubber would fetch Rs.35,000 which is sufficient to replant same extent by the sale of timber.

Oil palm industry

Oil palm plantation in Sri lanka is a relatively new industry. When the rubber prices were very low in early nineteen seventies, the rubber estates in Galle and Kalutara districts were converted to oil palm by entrepreneur Upali Wijewardena, who owned Nakiadeniya Estate. His connections with Malaysia brought oil palm to Sri Lanka. Now Agalawatte, Elpitiya and Namunukula plantations combined have 3550 hectares and Watawala plantation has 2680 hectares. Since year 2000 Kotagala plantation has embarked on oil palm plantation in around 800 hectares. There are two oil palm factories, one in the Galle district and the other in Kalutara district.

As at present a ton of palm oil fetches around Rs. 169,000 and the AEN plant pays Rs; 27.00 -Rs31.00 per kilo for oil palm fruits to the grower. One hectare of oil palm can generate Rs.68,000 as net profit per month. Unlike rubber and tea, labour cost is marginal. Lately the small holders of tea have embarked on oil palm plantation in their boundaries as an income generator and also to secure their boundaries. With the tea small holders embarking into oil palm plantation, the present plantation level will increase to 20,000 hectares within the next two decades. The multinationals involving commodities of tea, rubber and coconut, will have to evolve a new strategy for their survival. The sweet talk of rainforest alliance, carbon foot prints, etc. will have to realise these come at a price and if no compensation is paid for growers, they will not adhere to these policies. There is an extremely good price for oil palm, as they are used in production of margarine, and other bakery products. Further oil palm gives 4.5 times oil compared to coconut weight by weight basis. In time the small holders, could produce bio diesel for their livelihood for transport if there is excess oil palm available.