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Abstract

The functioning of the tea industry forms the main source of revenue for Sri Lanka's budget, which is now ranked as the world's fourth largest tea producer and second largest exporter. About 20% of the world's tea products are sourced from Sri Lanka. The key objective of this study is to analyze the financial and economic aspects in the context of studying the peculiarities of sales of tea production enterprises. The research of this question in the article is carried out in the following logical sequence: the specifics of the process of making tea products are studied; the historical aspects of the formation and development of the tea industry in Sri Lanka; identified the main directions of state policy in terms of functioning of tea production enterprises; Key aspects of the pricing and marketing policy of the tea industry have been analyzed; features of implementation of export mechanisms are indicated. The article focuses on the system of taxation by the government of the tea industry, taxes in the context of which are designed to redistribute gross domestic revenue in accordance with priority directions of state social policy. The paper notes that the Government of Sri Lanka has now implemented subsidy mechanisms for tea companies: 1) subsidy for the modernization of production facilities in the long run; 2) subsidy for the development of the tea industry to improve the efficiency of tea processing and its transformation into other varieties; 3) short-term subsidy, which insures against falling tea prices or rising raw material costs; 4) marketing subsidies in the form of tea promotion grants, discounts on import duties and grants from the Export Development Board. The study made it possible for the authors to summarize the following: in 2019, there is a gradual fragmentation of land and a shortage of skilled labor in the Sri Lankan tea industry; state policy to support the tea sector will in the long run allow for appropriate reforms and mechanisms for regulating aspects of the tea industry (adjusting exports and imports, pricing systems, subsidy programs, state land redistribution programs).

Keywords: government policy, pricing, sales mechanisms, exports, income and losses, tea industry.

JEL Classification: G3, G39.

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Introduction

It is important study on the process of tea before it comes to the marketplace. First it is plucked, taking only the upper foliage or three tender leaves of a branch or a twig. The general method is to pluck top two leaves and the bud. This resembles three dots for tea plantation as a symbol according to geographical studies. According to tea grades and salient features there are special characteristics as well. Silver Tip, Orange Pekoe, flowery Orange Pekoe and Broken Orange Pekoe Fanning are some of them. Silver Tip is the latest processed tea, the delicate leaves are the fine white tips of unopened buds which brews a mellow light cup. Orange Pekoe is well twisted long leaf tea with a light cup. The well twisted leaf with a slight show of white tip that gives light liquoring flavor is known as Flowery Orange Pekoe. Broken Orange Pekoe Fanning tea is very special according to its colour. It has smaller particles of grainy nature. This is the leaf that is suitable for teabags which possesses a strong colour. The tea production is divided in to three fractions viz: Low country, Mid country and Up Country. The production that began as a diversification experiment spanning just 19 acres has expanded its cultivation to six principal Districts and a few other regions viz: from Nuwara Eliya, Badulla, Matale, Kandy, Rathnapura, Kegalle, Kalutara, Galle to Matara. The factors that laid foundation for this expansion were – high quality tea, consequent rise in price and demand at international market and steady Government policies. In order to develop tea plantation further, Tea Research Centre was established in 1925 at Thalawakele in Nuwara Eliya District. The purpose is to conduct researches into diseases affecting tea plantation as well as to determine ways and means of ensuring high yields at low cost. The physical features which have contributed for the cash crop of tea were – elevation above 610 metres to 6000 metres, annual rainfall of 1900 mm. to 5400 mm., temperature of 15 to 27 degree Celsius, loam and laterite soil found in Central Hills and other gentle slopes.

But after the emergence of first World War in 1914 there was a temporary decline in demand and price. However, the demand and price began to increase once again towards 1920 which led the opening of new lands for cash crop tea. The world economic depression of 1929 once again had a detrimental influence on tea exports as well as income from tea. In this manner, although the fortunes of tea fluctuated from time to time, by 1920 tea had come to occupy a major position among the

exports of Sri Lanka. With influence of Research Centre greater quality of tea is produced for export market and it is presented in diverse forms too. Sri Lanka is one of the countries that produces high quality tea in the world. This best tea has introduced in the name of "Ceylon Tea" under the Lion Logo and has succeeded in winning accolades of consumers all over the world. When calculating the National economy, Ceylon tea has earned through UAE, Iran, Russia, Turkey, Syria, Libya, Saudi Arabia, Jordan, UK, Japan, Australia and USA. In 1963 the production of instant teas was produced and in 1965 Sri Lanka became the world's largest tea exporter for the first time. By 1966 the first International Tea Convention was held to commemorate 100 years of tea industry in Sri Lanka (Ceylon). After implementing the first Republican Constitution of 1972 the government of Sri Lanka nationalized the tea estates owned by British companies. In 1976 Sri Lanka Tea Board was founded which followed by Janatha Estate Development Board (JEDB), Sri Lanka State Plantation Corporation (SLSPC) and Tea Small Holding Development Authority (TSHDA) to overlook the government acquired estates. It was also in 1976 that the exports of tea bags commenced. In 1980 Sri Lanka became the official supplier of tea at the 1980 Moscow Summer Olympic Games, in 1982 at the 12th Commonwealth Games in Brisbane and in 1987 at Expo 88 in Australia. In 1982 the production of green tea and export of green tea commenced in Sri Lanka. By 1992 the 125th anniversary of the industry was celebrated in an International Convention was held in Colombo. In 2001 the first on-line sales of tea commenced, sold by Forbes & Walkers Ltd., at the Colombo Tea Auctions and a tea museum was established in 2002 in Kandy. Reputed for its signature taste and aroma, Sri Lanka is currently ranked as the fourth largest tea producer in the world. Sri Lanka produced 280 Kg. million of black tea in 1998 which was about 10% of total world black tea production. Sri Lanka exports more than 90% of its production annually. According to Central Bank report of Sri Lanka 1998- its foreign export earning SLR. 42.5 billion or about 15% of total export earnings. The value of tea exported from Sri Lanka remains at a higher place compare to the other major producing countries a part of export goes to the market a value-added product. But the total production has increase until 1965 and thereafter tea production has not changed until 1980 while India, China and Kenya have increased output by many times. However, the production increased mainly came from low country/low grown small holders' contribution with 150 Kl. Million in 1998. Up country/high grow area has shown little improvement while mid country/mid grown area has decreased the production level. Slow growth of the industry output during 1970 – 1980 is mainly attributed to the poor performance of estate sector. The labour constitutes about 65% of the cost of production has greater impact on the profitability. In early years bringing in South Indian labourers making it possible to secure cheap labour conveniently. Certain Tamils in Sri Lanka are called Indian Tamils, because their ancestors were from Tamilnadu India, during British colonial period were forced and brought to Sri Lanka to work under British in tea estates. Also, they led a poor lifestyle with scarcity of food, health facilities, education, shelter and security. This situation has created many economics and social problems later in years. On analysis of all factors, Sri Lanka has gradually lost out on markets that once dominated. India seems to have gained the mentioned market and has superseded Sri Lanka in most of them. This indicates that protectionism would not boost the industry's competitiveness and globalization is an important factor to be considered with respect to the future of the tea industry. The Sri Lanka tea production inched its way over the mark in 2018. After a volatile end to 2018, the yea 2019 for the industry could be looked at on a positive note. With higher inflation and interest rates in 2018 the growth in global economy is set to ease off slightly in 2019. When it comes to the top national economies, although the order my shift from slightly from to the next, the key players are usually the same.

However, China has been gaining on United States followed by Japan, Germany, United Kingdom, India and France. This year the global economic growth should remain resilient, but escalating trade tension between United States and the rest of the world especially China represent the main down side risk to the global economic outlook.

Government Policies on Tea Industry

The Sri Lanka tea industry witnessed a moderate slowdown with decline in production, averages and exports in comparison to year 2017. The industry's revenue continues to witness static growth when compared to previous years. The fundamental challenge being the intrinsic volatility in the industry stemming from fluctuations in supply and demand, currencies, political climate in importing countries and policy decisions. Facing these uncertainties, the industry must develop a resilient strategy to mitigate these risks. The total tea production of Sri Lankan tea for the year 2018 recorder 303.84 million Kg. in comparison to 307.72 Million Kg. for 2017 (- 3.88 Million Kg.) This discusses government policies for the Sri Kankan tea industry within an economic and political framework. First an overview is provided of the tea industry of Sri Lanka. This includes the historical development, the structure of the industry, its role in the economy and the productivity of the resources used in production. Second an account is provided of government activities in the industry. This gives a picture of regulation and assistance for the industry. Third the discussion focus on market failure arguments, in order to explore the economic role of government in the Sri Lanka tea industry. This includes identifying the nature of government policies that have been employed for correcting failures. Fourth, an attempt is made to use the alternative political economy approach and assess the demand for the supply of government programmes for the tea industry. Like any other agricultural commodity, the government taxes tea industry directly and indirectly. Taxation on the tea industry was designed to reallocate gross revenue within the country on the basis of government social priorities. The tax scheme imposed on tea industry was developed prior to the nationalization when the tea lands were predominantly owned by a non-national private sector. High level of negative protection or taxation average more than 20% is reported for tea. Direct and indirect tax rate on tea has remained on very high till 1992. Indirect taxation which average 27% from 1953 – 1985 has increased markedly after 1960 reaching 39% during 1971 – 1977. Sri Lanka Board reports in 1994 that according to World Development report of 1986, tea export taxes abolished in 1992 to make Sri Lanka tea more competitive in the global market. Today the only remaining commodity tax on tea, a levy that producers pay for the government's financing of beneficial activities for the industry, reaches and develop tea promotions and subsidies. There are four categories of subsidies that are operating for the tea industry. First, field rehabilitation and development subsidy for long term upgrading of production facilities such as new planting, replacing and infilling. Second, factory development subsidy for increasing the efficiency of tea processing and converting to other varieties. Third, short-term production subsidy to meet: falls in tea price or rise in input cost. These include a tea fertilizer subsidy and one for green leaf supply. Fourth, marketing subsidies, in the form of tea promotion grants, import duty rebates and Export Development Board grants.

Year 2018 began with a lot of optimism in the backdrop of an excellent year – 2017. The first quarter commenced on a high, with the quarterly auction average being recorded as the highest ever. Consequent to banning of 'Glyphosate' by the government of Sri Lanka the tea growers were forced to use alternative products for the control of weed growth. As the year unfolded, purchases from Japan declined for chemical residual levels. After much deliberation, stakeholders were successful in negotiating with the government of Sri Lanka to remove the said ban through a special Gazette dated 11 July 2018.

Marketing and Pricing

According to Central Bank of Sri Lanka, the average prices at the Colombo Auction are projected to be SLR. 587/76 per KI for the year 2018, compares to SLR 620/44 in 2017 or 5.3 % down. The Central Bank also mentioned that highest decline was recorded for medium grown tea 5.5%, followed by high grown 2.9% and low grown 1.7%. In the year 2018 Sri Lanka's rupee has also fallen as an unstable soft peg came under pressure. A falling rupee tends to push up the price of all traded goods. According to John Keels tea brokers, there was a fall of 12% in the month of August, fall of 15.3% in the month of October in 2018. Therefore, Central Bank projected tea production to increase by 3.5% by November 2018. The inflation measured by the National Consumer Price index by the end of September 2018 was 4% which could affect the price, according Central Bank Department of Census and Statistics. High transactions of participating for auction is prohibitive for small buyers. Further few large multinationals control the competitive behavior of individual participants in the market is a necessary condition for achieving efficiency. Imperfect competition especially when it leads to monopoly power, is one of the common forms of failure. Due to failure of competition with the existing production and marketing system, the case for government intervention in the tea industry arises at two different levels. Government intervenes in the market due to failure in domestic market, intervenes to meet the challenges in the global tea market are the two levels as the economy of the country is much depended on tea export. The tea small holders are spread over the entire wet zone, but a limited number of green leaf processing factories are available due to high capital requirement. The small holders face imperfect market

for green leaf they produced. Thus, the government has taken steps to assure a fair price for small tea landholders. The green leaf price formula is one of the major controls that government has imposed on the green leaf processors to assure a fair price for small holders. Under this scheme a green leaf processor is legally bound to pay a certain percentage from the price realized for tea sold at the auction and the government has invested money to establish green tea factories. Any reduction in tea prices would worsen the country's terms of trade. Any government intervention targeting fair distribution divergences to the economy, leading to sub-optimal resources allocation. Thus, to enhance equity is at the cost of efficiency depending on policy process over industry, labour and small holders.

Tea Export & Income

Sri Lanka's tea production for the month of July 2019 totally 25.2 million kgs vis-à-vis 23.9 million kgs of 2018. It is relevant to note that High grown have shown the highest growth followed by medium grown whilst low grown show a marginal decrease of 2018. Total revenue too for the month July 2019 of SLR 19.5 billion shows a decrease of 0.4 billion vis-à-vis SLR 19.9 billion of July 2018. Consequently, the value for July 2019 of SLR 786.93 per kg is a decrease of SLR 4.47 when compared to SLR 791.40 per kg in July 2018. On a cumulative basis, all main categories of exports (ie: tea bags, packed tea, bulk tea) have shown a gain compared to the corresponding period of 2018. Meanwhile, Iraq continues to be the largest importer of Ceylon Tea closely followed by Turkey, Russia and Iran whilst Chile and UAE have shown a decrease in imports. Meanwhile Japanese authorities rejected several tea shipments during last four months amounting in value to approximately SLR 1 billion. The tea exports were rejected on grounds of exceeding the default residual level imposed by Japanese authorities, a widely used glyphosate. The total export revenue of SLR 231.7 billion realized during January – December 2018 records a deficit of SLR 1.6 billion when compared with SLR 233.3 billion achieved during the same period of 2017. However, it is noteworthy January – December 2018 of SLR 820.75 per kg has shown a growth of SLR 13.31. These factors would enable to predict an upward movement in prices, particularly for most varieties of teas. The market demand for teas, thereafter, would greatly depend on how the global tea industry would progress in future. It is also noticed the inflation as measured by the National Consumer Price Index was 0.9% in September 2018 and the 12-month annual average inflation as at end September was 4%. Referring to exchange rates SLR depreciated against the Turkish Lira and remained the same for the Iranian Riyal. Predicting the market outlook for the year 2019 at this juncture amidst much uncertainty seems hard task. Nonetheless, a logical approach would be analysed the supply-demand scenarios based on the most recent developments in importer countries. Viz: prediction value of the global tea market from 2017 to 2024 in billion US\$ be 49.46 to 73.13 respectively.

Conclusion

Reaching out to milestones and quick facts over tea industry Sri Lanka stands for her prestige and pride all times. And also helps boost the production and export of Ceylon Tea from its incentives. This year the Sri Lankan government and the Asian region (except Japan) will likely to feel the pinch from rising trade disputes cooling growth in China. The Dollar is expected to remain a dominant force in the currency market in 2019 and Sterling Pound will succumb uncertainty. Historically the Sri Lankan Rupee reached high of 182/80 in 2019. Tea cash crop was begun as large-scale plantation but with the gradual fragmentation of lands and scarcity of skilled labour are likely to change the economy contribution in future. But land re-distribution programmes implemented by the government will help to reform to increase the production and the contribution towards the national income.

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The Central Bank of Sri Lanka
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