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The role of tea producers in tea value chains

By

Mr. HD Hemaratne, Sri Lanka Tea Board, Colombo Tea Traders' Association

The views expressed are those of the author and do not necessarily reflect the views of UNCTAD.

The Role of the Sri Lankan Tea Producers in Tea Value Chain

PRESENTATION 21 April 26, 2016

OF

H.D.HEMARATNE

COLOMBO TEA TRADERS' ASSOCIATION

SRI LANKA

AT

8TH MULTI-YEAR EXPERT MEETING ON COMMODITIES & DEVELOPMENT

GENERAL VIEW ON SUPPLY CHAIN

- Tea comes from an evergreen bush ***" CAMELLIA SINENSIS"*** that grows best at a fairly high altitude. It can take 5 – 7 years after being planted for the tea bush to become for commercial exploitation, after which it can productive for over 100 years.
- All types of tea – black tea, green tea, white tea, oolong tea etc.- are produced from the buds and leaves of the same plant; the difference is in the processing.
- Technically, tea is harvested all year round

SRI LANKA TEA IN GLOBAL PERSPECTIVE

- Sri Lanka placed as 3rd largest tea extend (188,323Ha) after China & India.
- 4th biggest tea producer (after China, India and Kenya)
- 3rd largest tea exporter (volume) (after Kenya, China & India)
- 1st higher tea export revenue earner.
- Largest orthodox tea producer and orthodox tea exporter.
- Largest value added tea exporter.
- Sri Lanka main markets- CIS, ME, NA, Turkey, Ukraine, Japan & China

SRI LANKA’S TEA SECTOR

- Tea Production: 59 % private sector, 38% Corporate Management sector, 3 % State sector (Tea extend by management)
- Tea production by elevation – High - 18.5%, Medium - 32%, Low – 49.5%
- Tea Production by categories – Black Tea – Orthodox - 91.8%, CTC-6.0% Green/Instant & other teas 2.2%
- Modes of tea marketing- Colombo Tea Auction 98%, Private Treaty/ Direct Sale/Forward Contracts 2.0%
- Total Tea Exports Volume - 327.3M/kgs in 2014 & 306.9M/kgs in 2015.
- Tea Exports by Category (Volume)- Bulk43%,Packets 47%,Tea Bags 7%,Inatant Tea 1% & Green Tea 2%

PRODUCER SECTOR

- **Small holders Sector (less than 4.4ha.- 80% are less than 1/8 ha. All Farmers supported by the state through Tea Small Holdings Development Authority.**
- **Private Tea Estates – Only Growers.**
- **Corporate Sector – Large estates with Tea Manufacturing Units (Sellers).**
- **Private Tea factories – Only operators of Tea manufacturing Plants (Sellers).**
- **Green Leaf Dealers – Intermediate between Small Holders and Tea Factories.**
- **Brokers – Intermediate between Producers and Buyers.**
- **Registered Exporters of tea (Buyers).**

SUPPLY CHAIN-PRODUCERS

- **GROWERS**

Role- Growing-new planting-re-planting-infilling- GAP

- **TEA SMALL HOLDERS (Farmers) –Below 4.4ha. 80% of them are LESS THAN 1/8 ha.-over 400,000 units- Main players- own & hired workers.**
- **TEA ESTATE OWNERS – over 10 ha.-hired labours**
- **CORPORATE SECTOR PLANTATIONS (Regional Plantation Companies)- Large estates - over 100ha- 22 RPCs- resident work force**
- **GOVERNMENT SECTOR PLANTATIONS – TRI/JEDB/SLSPC- resident work force**

Adding value through GAP

SUPPLY CHAIN – GREEN LEAF DEALERS

❑ **LICENSED GREEN LEAF DEALERS (LGLD)**

Role-Collect fresh green leaf from farmers and supply to tea factories.

Legally LGLD should pay reasonable price based on the factory Net Sale Average (NSA)

LGLD allow to keep 1% commission & transport cost approved.

- **Monitoring under the Regulations. (Tea Control Act No 51 of 1957) – Mode of transport/ quality of leaf/distance/ time duration/payment etc.**

Adding value through transport undamaged leaf within minimum time duration.

SUPPLY CHAIN - MANUFACTURERS

Role-Converting Green Leaf into Made Tea, owned leaf/ Fresh leaf procured from SHs, LGLD, Tea estates

- **PRIVATE SECTOR TEA FACTORIES – BOUGHT LEAF PROCESSORS-450**
- **CORPERATE SECTOR TEA FACTORIES – OWN LEAF PROCESSORS -250**
- **STATE SECTOR TEA FACTORIES - OWN LEAF AND BOUGHT LEAF PROCESSORS -10**

Adding value through GAP/GMP/selected leaf quality

SUPPLY CHAIN – RECLAIMED TEA PROCESSORS

- **LICENSED REFUSE TEA PROCESSORS**

Role- Reclaim(extract) black tea from factory remnants.

- **Monitoring under the regulation (Tea Control Act No 51 of 1957)**
- **Procumbent of factory remnants/ transport/ process/dispose of reclaimed teas closely monitored by the authorities.(SLTB/Food Inspectors)**

Value adding through hygienic standards

SUPPLY CHAIN - BROKERS

Role – Act as accredited Agents of all tea manufacturers (Sellers) for cataloguing of tea /quality assurance/ warehousing/ selling at the Auction/ remitting sales proceeds etc.

❑ LICENSED PRODUCE BROKERS – AUCTIONEERS

- Regulated under the Licensing of Produce brokers Act No 9 of 1979, Auctioneers Ordinance & Bye-laws and conditions for sale of tea at the Auction.
- 8 selling brokers- 8 different catalogues.
- 51 auctions per year- 2 days.
- 12,500 lots sold per week covered 6 to 7 Million kgs
- 5-7 lots per minute
- Largest auction in the world (Single origin)

Value adding through quality control.

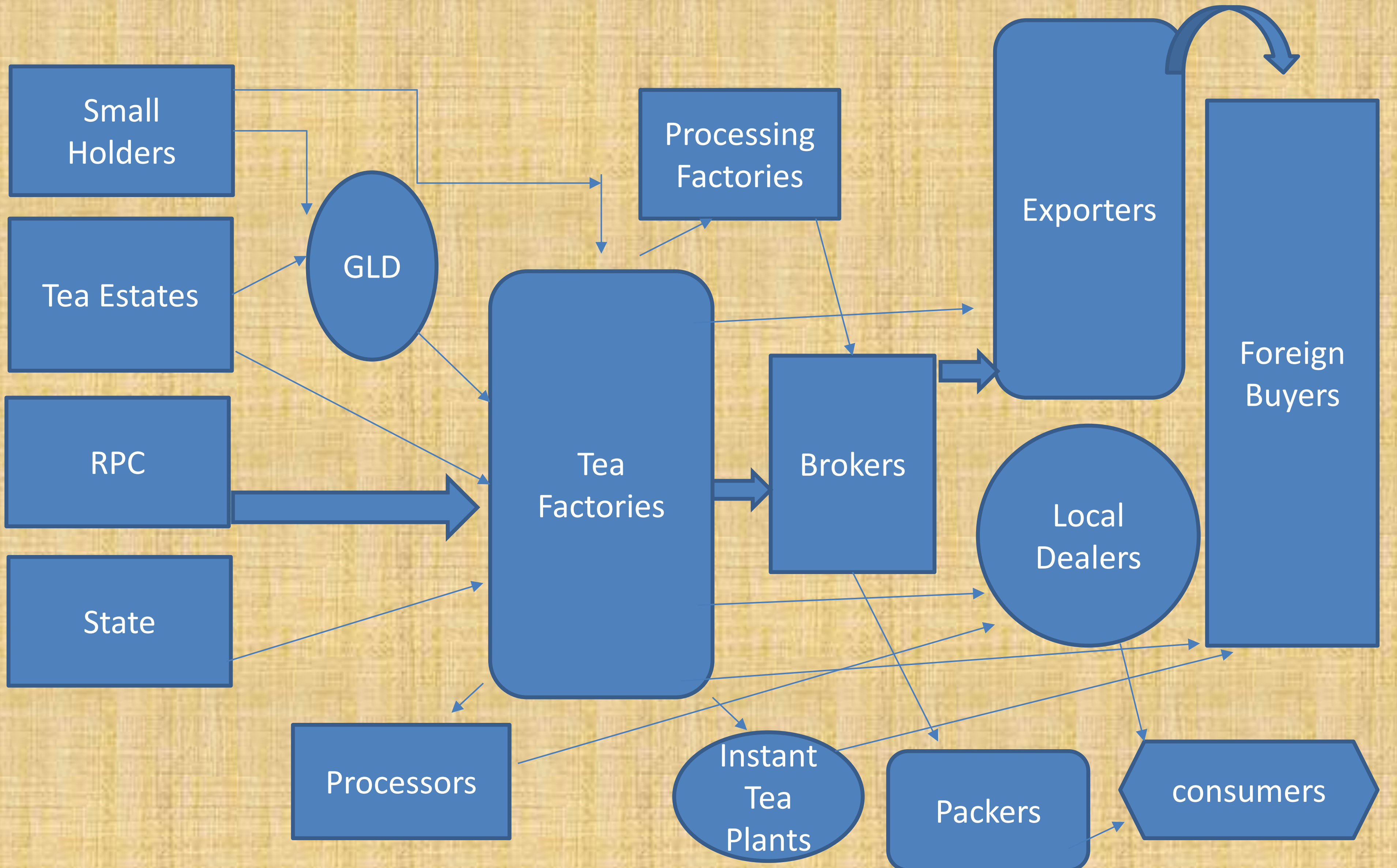
SUPPLY CHAIN - BUYERS

Role – Storing, Blending, value adding, packing & export

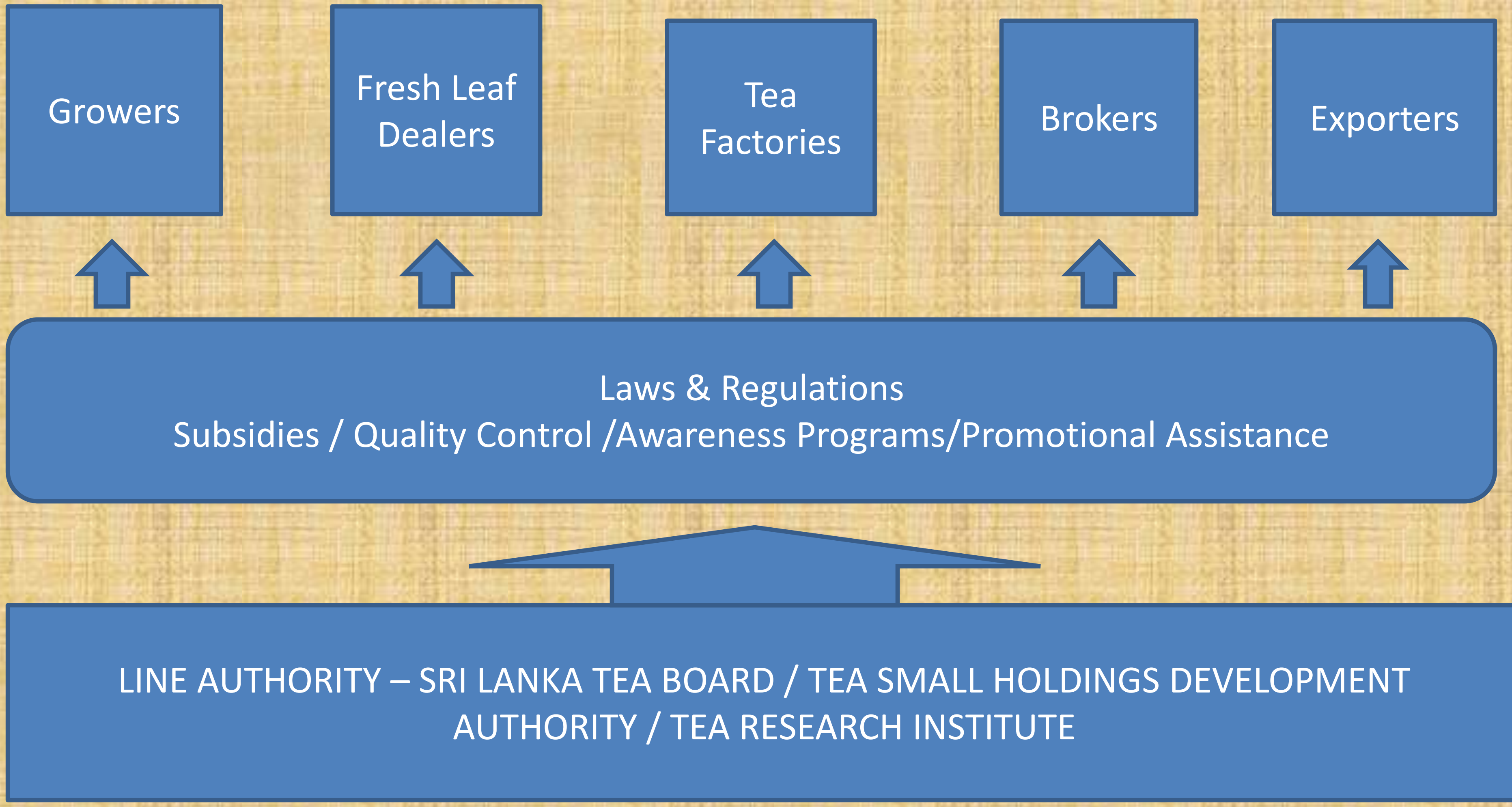
- REGISTERED EXPORTERS OF TEA- (Large/Medium/Small by Volume)
  - Regulated under the Tea (Tax & Control of Exports) Act No 16 of 1959
  - Subject to quality control at the points of pre-auction , Pre Shipment, pre and post import.
- REGISTERED PACKERS OF TEA- Export & Local
  - Regulate under the SLTB(Registration of Packers) Regulation 1986/ Labeling Law under the Foods Act No 26 of 1980
- LOCAL DEALERS- 100% local whole sale and retail

Value adding through product diversification with quality teas.

TEA VALUE CHAIN in SRI LANKA



GOVERNMENT INVENTION TO THE TEA VALUE CHAIN



GOVERNMENT INVENTION TO THE TEA VALUE CHAIN

❑ Tea Small Holders

- Fertilizer Subsidy
- Re-planting
- New Planting
- Infilling
- Guaranteed Minimum Price for Green Leaf
- Advisory services
- GAP awareness

GOVERNMENT INVENTION TO THE TEA VALUE CHAIN

- Registered Manufacturers of Tea(Private & Corporate)
- Subsidy for factory modernization
- Subsidy for Re-planting
- Quality Control- Green Leaf/Made Tea
- Advisory services
- GAP/GMP awareness.

GOVERNMENT INVENTION TO THE TEA VALUE CHAIN

- **Registered Exporters of tea**

- Quality Control- Pre Auction/Post Auction/Pre Shipment
- Promotional Assistance- Brand Promotion/ Trade Fair participation
- Assist to fulfil market force requirements through authorities.
- Facilitate to re-export multi origin teas.

COST & PROFIT OF TEA SMALL HOLDERS

- COP of Small Holders Rs.45/- to 55/-
- Green Leaf Selling Price (Avg.) 68% of the Factory Net Sale Average (NSA)

e.g.
NSA=Rs.450X68%=Rs.306/4.65kg=Rs.65.00p/kg

- Depression of Colombo Tea Auction prices having adverse effect to the Green leaf prices.
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COST & PROFIT OF TEA MANUFACTURERS

- COP OF MADE TEA (Avg.) Rs.422.00p/kg
- Factory Net Sale Avg.(2014/15) High Rs.420.00p/kg

  Medium Rs.410.00p/kg

  Low Rs.488.00p/kg
- Colombo Auction totally depend on the Demand & Supply- Market forces.
- Price depression directly effect factory margin.
- 2014,2015 up to now shows downward trend.
- If NSA is lower than the COP enterprises are not viable.

COST & PROFIT OF TEA BROKERS

- Cost of tasting, cataloguing, sampling/sample delivering, withdrawing, re-cataloguing, handling of quality claims,
- Brokerage – 1%
- Lot money
- Storage charges.
- Interest on advances.

COST & PROFIT OF TEA EXPORTERS

- Cost of Export;

  Cost of Tea

  PMRC

  Overheads

  Promotion & Marketing cost

  Cost of market force requirements

  Finance cost

FOB

- Tariff & non-tariff barriers are affected.

KEY ISSUES FACED BY MAJOR PLAYERS OF TEA VALUE CHAIN

- LABOUR SCARCITY- Producers
- LABOUR WAGES -Producers
- BANED OF AGROCHEMICALS.- Producers
- PRICE DEPRESSION.- Producers/Growers
- DELAY OF REALIZING THE SALES PROCEEDS DUE TO ECONOMIC SACTIONS.- Exporters

THANK YOU