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Targeted Policies For Production and Export Diversification
Sri Lankan Case Study

By

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Sri Lanka

10th Multi-year Expert Meeting on Commodities for Development
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Commodity Dependence and Diversification
Targeted Policies For Production and Export Diversification
Sri Lankan Case Study

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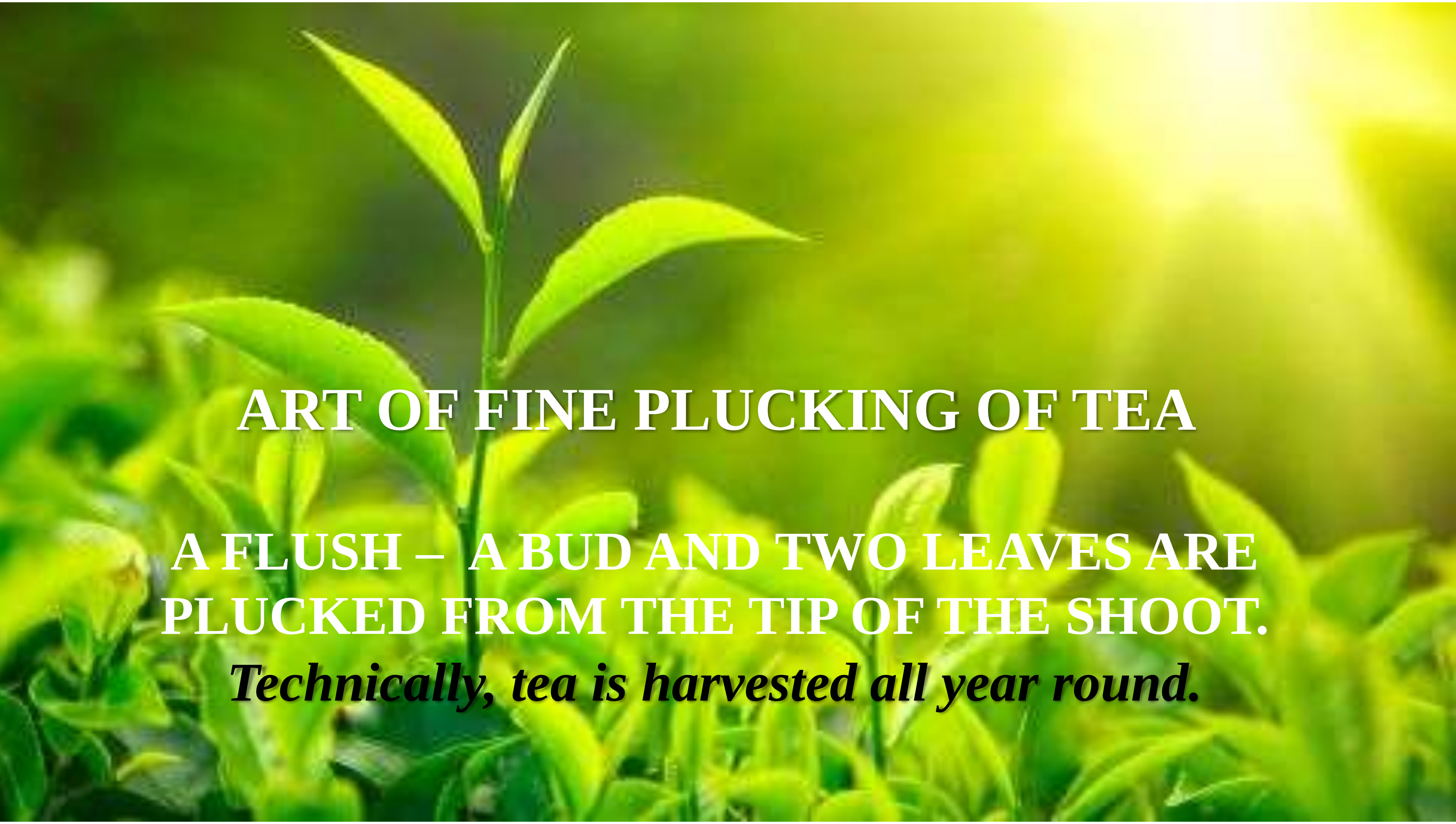
TEA INDUSTRY IN SRI LANKA

A 150 YEARS OF GREAT HISTORY

Approximately, the tea industry supports a population of over 2 million, which is about one tenth of the total population in Sri Lanka



ART OF FINE PLUCKING OF TEA

A FLUSH – A BUD AND TWO LEAVES ARE PLUCKED FROM THE TIP OF THE SHOOT.

Technically, tea is harvested all year round.

Global Tea Production Comparison in 2017/2016 (‘000 MTs)

PRODUCTION	Months	2017	2016	Growth
N. E. INDIA	11	992.58	1006.29	- 13.71
SOUTH INDIA	11	216.19	197.07	19.12
BANGLADESH	11	72.402	80.58	- 8.178
SRI LANKA	11	283.38	264.768	18.612
KENYA	11	392.351	427.908	- 35.557
MALAWI	11	39.932	37.551	2.381
TANZANIA	9	22.664	22.864	- 0.2
UGANDA	10	36.999	44.727	- 7.728
TOTAL		2,056.498	2,081.758	- 25.26

Source: International Tea Council

Comparison of Country Wise Tea Exports (2017-2016 - '000 MTs)

Country	Period of months	2017	2016	Growth	Change %
Kenya	Nov	388.875	445.664	-56.789	- 12.74
China	Nov	322.816	298.213	24.603	8.25
Sri Lanka	Dec	278.195	280.874	-2.679	- 0.95
Taiwan	Nov	7.646	5.107	2.539	49.72
Bangladesh	Nov	2.459	0.468	1.991	425.43
Indonesia	Jul	31.829	29.177	2.652	9.09
Malawi	Jul	22.053	18.615	3.438	18.47
Tanzania	Sep	20.794	21.434	-0.64	- 2.99
India	Sep	166.36	159.13	7.23	4.54
Uganda	Oct	33.306	40.712	-7.406	- 18.19
Total		1274.333	1299.394	-25.061	- 1.93

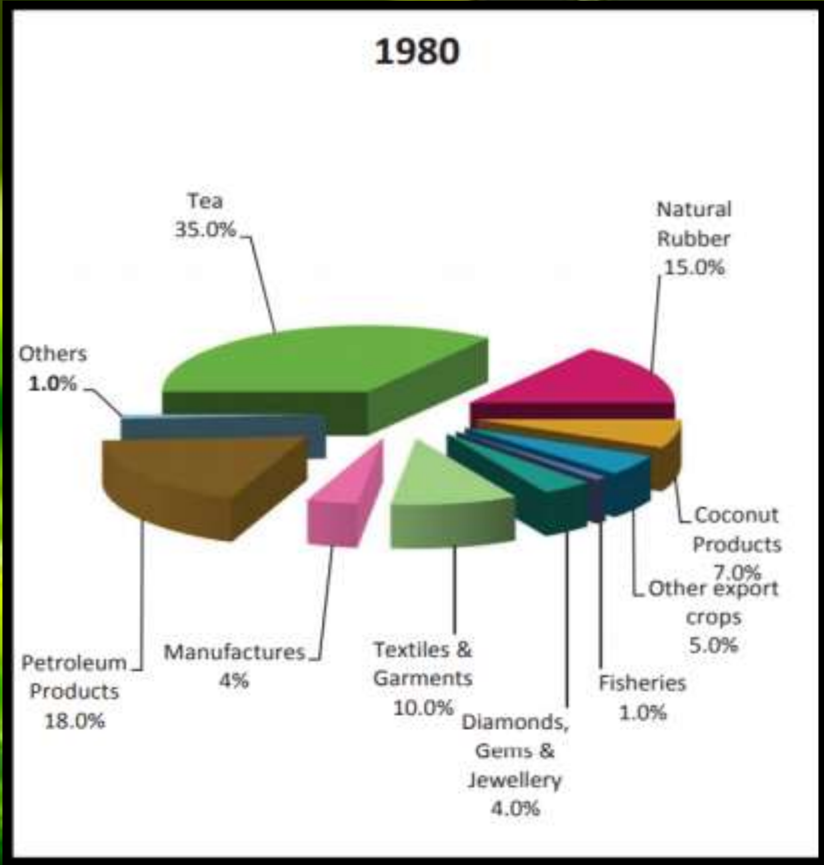
Source: International Tea Council

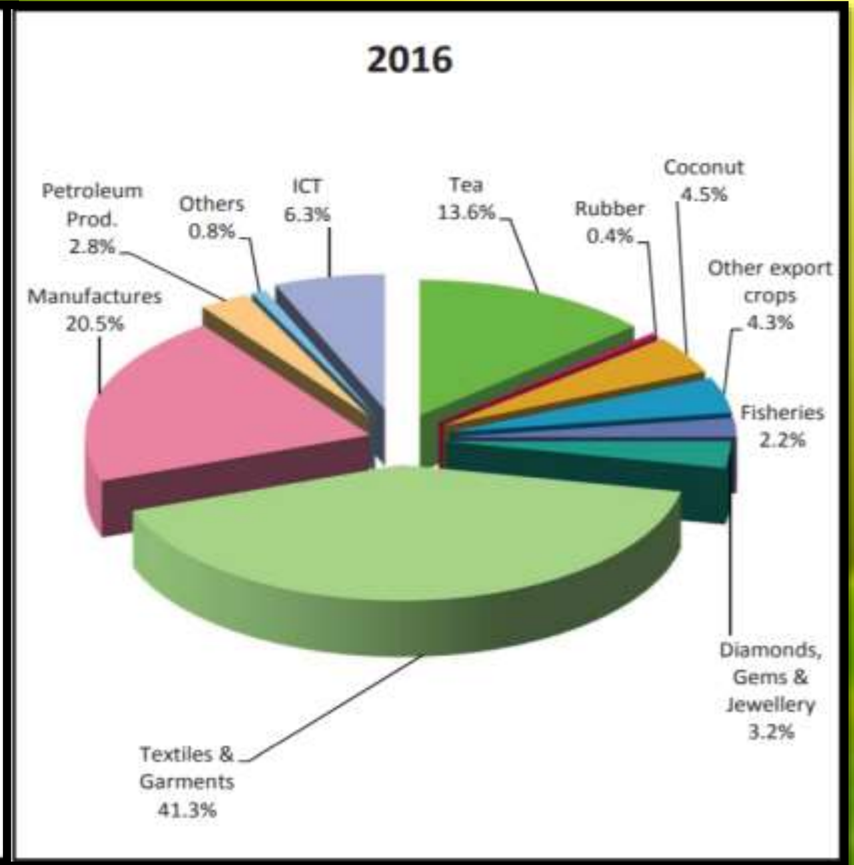
Average Prices in Major Auction Centers

Auction Centers	2017		2016		Change 2017 / 2016	
	Qty (MT)	US$/Kg	Qty (MT)	US$/Kg	Qty (MT)	US$/Kg
Kolkata	168,265	2.46	142,240	2.42	26,025	0.05
Cochin	49,107	1.81	46,748	1.74	2,359	0.07
Chittagong	79,579	2.45	72,021	2.55	7,558	- 0.1
Mombasa	397,694	2.81	400,924	2.29	-3,230	0.52
Jakarta	-	-	-	-	-	-
Colombo	295,875	4.07	277,059	3.23	18,816	0.84
Guwahati	165,551	2.16	138,649	2.05	26,902	0.11
Malawi	8,537	1.84	8,747	1.55	-210	0.29
World	1,164,608	2.91	1,086,388	2.5	78,220	0.41

Source: International Tea Council

COMPARISON OF SHARE OF EXPORTS - 1980 & 2016





Sources: Sri Lanka Customs / Central Bank of Sri Lanka / Sri Lanka Export Development Board

A Snapshot of the Tea Industry in Sri Lanka

❖ Tea Production	Private sector 59%
	Corporate Management sector 38%
	State sector (Tea extend by management) 3%
❖ Tea Production by Elevation (2017)	High 21%
	Medium 14%
	Low 64%
❖ 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	2015 307 M/kgs and 2016 289 M/kgs
	2017 307 M/kgs
❖ Tea Exports by Category (Volume)	Bulk 43%
	Packets 47%
	Tea Bags 7%
	Instant Tea 1%
	Green Tea 2%

SRI LANKA TEA IN GLOBAL PERSPECTIVE

- **Sri Lanka is placed as 3rd largest tea extend (188,323Ha) after China & India.**
- **4th biggest tea producer (after China, India and Kenya)**
- **3rd largest tea exporter (in volume) (after Kenya, China & India)**
- **1st higher tea export revenue earner.**
- **Largest orthodox tea producer and orthodox tea exporter.**
- **Largest value added tea exporter.**

CONTRIBUTION OF THE SMALL AND MEDIUM SECTION IN PRODUCTION

- Approximately 76 percent of tea in Sri Lanka is grown by over 400,000 tea smallholders (own less than 20 ha each), who are organized into Tea Smallholder Development Societies (TSDS), known as “Tea Shakth”;

- The tea smallholders are largely based in low grown areas, covering about 58% of the total extent of tea grown in Sri Lanka.

CONTRIBUTION OF WOMEN IN THE TEA SECTOR

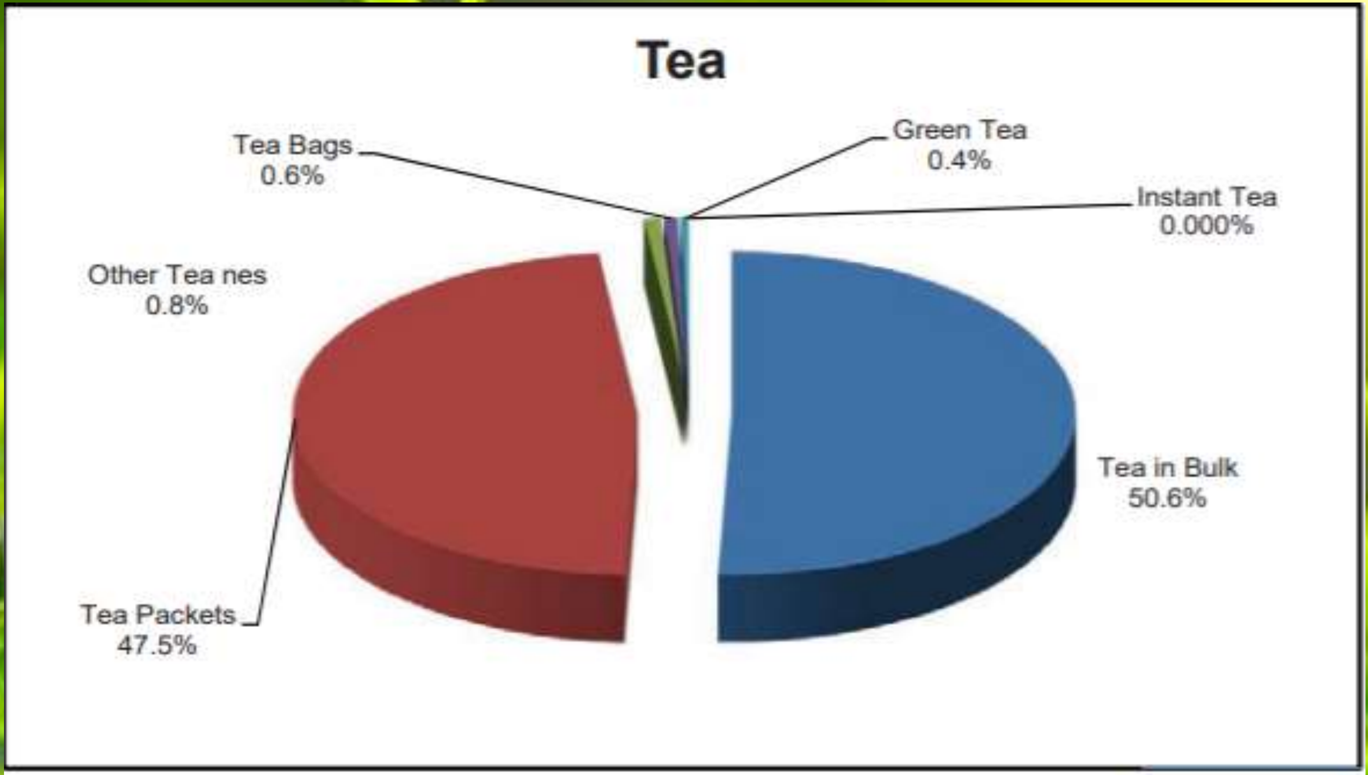
- ✓ In Sri Lanka, there are 250,000 workers in tea sector, and 60 percent of them are women
- ✓ The female tea plantation workers spend approximately 9-10 hours per day at work
- ✓ Mainly engaged in tea plucking

TEA SUPPLY VALUE CHAIN

MAIN PLAYER	SECONDARY PLAYERS	ROLE
PRODUCERS	GROWERS ▪ TEA SMALL HOLDERS (Farmers) ▪ TEA ESTATE OWNERS ▪ CORPORATE SECTOR PLANTATIONS ▪ GOVERNMENT SECTOR PLANTATIONS	Growing, new planting, re-planting, infilling, adherence to GAP
GREEN LEAF DEALERS	LICENSED GREEN LEAF DEALERS (LGLD)	Collect fresh green leaf from farmers and supply to tea factories
MANUFACTURERS	▪ 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	Converting Green Leaf into Made Tea, owned leaf/ Fresh leaf procured from SHs, LGLD, Tea estates
RECLAIMED TEA PROCESSORS	LICENSED REFUSE TEA PROCESSORS	Reclaim (extract) black tea from factory remnants
BROKERS	LICENSED PRODUCE BROKERS – AUCTIONEERS	Act as accredited Agents of all tea manufacturers (Sellers) for cataloguing of tea /quality assurance/ warehousing/ selling at the Auction/ remitting sales proceeds etc.
BUYERS	▪ REGISTERED EXPORTERS OF TEA ▪ REGISTERED PACKERS OF TEA ▪ LOCAL DEALERS	Storing, Blending, value adding, packing & exporting

PRODUCT DIVERSIFICATION

COMPOSITION OF SUB SECTORS IN TEA EXPORT SECTOR – 2016



Source: Sri Lanka Customs

PRODUCT DIVERSIFICATION

Disaggregated Export Performance of Sri Lanka's Tea Sector (During 2007-2016 - Value in Millions of US Dollars)

Product	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	% Contribution	2015 - 2016 % Growth	2007 - 2016 Av. Growth
Tea Packets	**254.49**	349.36	327.45	549.32	718.17	666.14	715.34	781.41	593.84	**594.86**	**47.50**	0.17	**9.95**
Tea Bags	145.81	174.98	183.79	131.46	9.66	4.19	6.99 1	5.28	9.98	7.97	0.64	-20.14	-41.38
Tea in Bulk	509.15	615.29	588.03	651.14	697.41	700.42	784.94	790.42	705.51	633.35	**50.58**	-10.23	**3.01**
Instant Tea	8.92	11.39	9.78	11.28	0.45	0.06	0.06	0.02	-	0.01	0.00	-	-99.98
Green Tea	**1.29**	1.84	2.56	3.40	4.02	4.09	4.61	6.82	5.46	**5.12**	0.41	-6.23	**15.67**
Other Tea NES (Flavoured tea)	105.45	118.19	73.81	92.55	46.47	23.01	14.81	15.76	9.73	10.93	0.87	12.33	-31.39
Total Tea sector	**1025.11**	**1271.05**	**1185.42**	**1439.15**	**1476.18**	**1397.91**	**1526.75**	**1609.71**	**1324.52**	**1252.24**	**100**	**-5.46**	**2.27**


MARKET DIVERSIFICATION

TOP TEN LARGEST BUYERS OF SRI LANKA TEA IN 2017

Country	2016	2017
Turkey	**27,069**	**37,816**
Iraq	32,557	35,032
Russia	34,433	33,380
Iran	33,929	27,419
UAE	18,381	15,785
Azerbaijan	10,557	12,271
Libya	12,645	11,609
China	7,604	9,903
Japan	7,764	7,924
Syria	12,107	7,400

Sources: Sri Lanka Customs

MARKET DIVERSIFICATION

Sri Lanka's Exports of Tea Packets by Markets (During 2012 – 2016 period - Value in Millions of US Dollar)

No.	Market	2012		2013		2014		2015		2016		% Av. Growth
		Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share	
7	United States	15.28	2.29	18.45	2.58	23.05	2.95	20.55	3.46	24.71	4.15	10.69
11	Netherlands	12.45	1.87	15.61	2.18	19.77	2.53	13.46	2.27	19.59	3.29	7.58
12	Saudi Arabia	12.45	1.87	11.07	1.55	16.04	2.05	18.67	3.14	16.78	2.82	11.20
13	Lebanon	10.51	1.58	14.75	2.06	20.22	2.59	12.33	2.08	16.75	2.82	7.52
15	Kuwait	7.34	1.10	12.40	1.73	14.27	1.83	12.16	2.05	12.64	2.12	10.68
16	Germany	9.97	1.50	10.63	1.49	11.25	1.44	10.51	1.77	12.31	2.07	4.10
19	Ukraine	27.10	4.07	29.26	4.09	19.48	2.49	7.39	1.24	7.99	1.34	-38.17
20	United Kingdom	5.43	0.82	6.06	0.85	7.03	0.90	7.82	1.32	7.77	1.31	9.71
22	Israel	5.90	0.89	6.11	0.85	9.46	1.21	6.85	1.15	6.73	1.13	3.78
23	China	4.11	0.62	6.06	0.85	5.40	0.69	6.25	1.05	5.93	1.00	7.64
24	Egypt	4.78	0.72	4.94	0.69	6.65	0.85	5.41	0.91	5.74	0.96	4.56
26	Chile	2.31	0.35	3.86	0.54	8.40	1.07	4.83	0.81	5.02	0.84	17.75
27	Senegal	0.39	0.06	0.15	0.02	3.40	0.44	3.80	0.64	4.59	0.77	81.66
33	Sweden	2.20	0.33	1.91	0.27	2.76	0.35	3.14	0.53	3.29	0.55	13.03
39	Guinea	1.55	0.23	1.78	0.25	2.46	0.31	2.09	0.35	2.47	0.42	10.94
40	Belarus	4.77	0.72	5.29	0.74	5.32	0.68	2.89	0.49	2.37	0.40	-19.97

MARKET & PRODUCT DIVERSIFICATION

Sri Lanka's Exports of Tea Bags by Markets
(During 2012 – 2016 period - Value in Value in Thousands of US Dollars)

No.	Market	2012		2013		2014		2015		2016		% Av. Growth
		Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share	
1	Iraq	**179.74**	4.29	605.03	8.66	696.33	4.56	1373.11	13.77	**2274.34**	28.53	**58.95**
2	Iran	**1194.94**	28.52	2300.43	32.92	5875.92	38.47	4193.59	42.04	**2118.56**	26.57	**17.46**
3	Hong Kong	**1216.90**	29.04	1866.12	26.71	1943.87	12.73	1605.76	16.10	**1736.10**	21.78	**5.60**
4	Turkey	737.46	17.60	1034.51	14.81	2594.82	16.99	1484.62	14.88	775.18	9.72	**4.61**
5	China	**140.33**	3.35	178.39	2.55	289.33	1.89	231.11	2.32	**373.41**	4.68	**22.16**

Sources: Sri Lanka Customs

MARKET & PRODUCT DIVERSIFICATION

Sri Lanka's Exports of Green Tea by Markets (During 2012 – 2016 period - Value in Millions of US Dollar)												
No.	Market	2012		2013		2014		2015		2016		% Av. Growth
		Value	% Share	Value	% Share	Value	% Share	Value	% Share	Value	% Share	
1	UAE	1,021.63	25.00	1,925.06	41.74	2,539.39	37.21	1,741.88	31.91	1,989.58	38.83	12.33
3	Germany	236.69	5.79	280.14	6.07	240.11	3.52	461.63	8.46	448.43	8.75	17.78
4	Ukraine	198.06	4.85	335.29	7.27	381.25	5.59	351.23	6.43	423.89	8.27	15.68
5	France	305.67	7.48	182.67	3.96	403.60	5.91	376.68	6.90	405.39	7.91	12.88
6	Taiwan	187.63	4.59	156.40	3.39	264.59	3.88	294.47	5.39	330.01	6.44	17.62
7	Malaysia	41.16	1.01	64.31	1.39	114.51	1.68	118.53	2.17	148.48	2.90	31.77
8	Switzerland	50.41	1.23	96.19	2.09	59.84	0.88	120.95	2.22	136.44	2.66	22.20
9	United Kingdom	83.56	2.04	32.11	0.70	162.06	2.37	175.57	3.22	109.80	2.14	22.45
10	United States	63.08	1.54	70.43	1.53	91.43	1.34	33.66	0.62	105.50	2.06	2.90
12	Egypt	48.05	1.18	13.54	0.29	7.79	0.11	81.58	1.49	57.33	1.12	21.49
14	Uruguay	19.12	0.47	5.62	0.12	14.36	0.21	6.08	0.11	30.19	0.59	9.92
18	Japan	1.53	0.04	4.38	0.09	9.01	0.13	24.70	0.45	26.23	0.51	74.08
20	Philippines	5.63	0.14	18.96	0.41	11.59	0.17	24.43	0.45	20.10	0.39	27.98
27	Austria	1.09	0.03	0.25	0.01	12.87	0.19	9.66	0.18	10.62	0.21	81.92
30	New Zealand	3.41	0.08	8.28	0.18	12.83	0.19	5.81	0.11	8.68	0.17	15.16
34	India	0.05	-	69.24	1.50	73.90	1.08	33.71	0.62	1.95	0.04	65.83

Sources: Sri Lanka Customs

TARGETED POLICIES FOR PRODUCTION AND EXPORT DIVERSIFICATION (1)

1. **Government identified the sector as the prime sector for economic development:**

- ✓ **Sri Lanka has relied heavily on plantation agricultural exports, especially tea exports, as a primary source of economic surplus to generate resources required for development programs.**
- ✓ **Thus, the growth of tea exports is a prime objective of the Sri Lankan government.**
- ✓ **The Sri Lanka Tea Board has been established in 1975 for the purpose of administering, controlling and regulating the tea industry in Sri Lanka.**

2. **Promotion of tea in value added form through an array of assistance programmes:**

- ✓ **In recent years an increasing proportion of tea exports has been in the form of value-added teas (*57% of Sri Lanka's total tea exports in 2016*), especially flavoured tea bags, which generate higher net returns for Sri Lankan tea exporters.**

TARGETED POLICIES (2)

3. Government Intervention:

Sector	Type of Intervention
Tea Small Holders	❖ Fertilizer Subsidy ❖ Assistance for Re-planting ❖ Assistance for New Planting ❖ Assistance for Infilling ❖ Guaranteed Minimum Price for Green Leaf ❖ Advisory services ❖ Awareness on Good Manufacturing Practices (GMP)
Registered Manufacturers of Tea (Private & Corporate)	❖ Assistance for factory modernization ❖ Assistance for Re-planting ❖ Quality Control- Green Leaf/Made Tea ❖ Advisory services ❖ Awareness on GMP and Good Agricultural Practices (GAP)

TARGETED POLICIES (3)

4. Income generated through Export tax is given back to the industry for market exploration programmes:

- ✓ **Export tax by way of a promotional levy of Rs.13.50 for bulk teas & Rs.7.50 for value added teas is levied on every per kilogram of tea exported.**

- ✓ **The funds generated through are utilised for trade fair assistance schemes, advertising schemes, public relations with regards to main tea importing countries, i.e. Japan, German, Italy, Russia, Iraq and Iran.**

TARGETED POLICIES (4)

5. working closely with the private sector, including business associations, cooperatives and other entities that help identify specific market failures hindering sector growth and diversification:

- ✓ **The Tea Exporters Association**
- ✓ **Sri Lanka Tea Exporters Association of Small Holders**
- ✓ **Colombo Tea Traders' Association of Sri Lanka**
- ✓ **The Tea Planters Association of Sri Lanka**

TARGETED POLICIES (5)

6. Efforts to stabilise the exchange rates through fiscal measures and market diversification:

- ✓ **Tea export earnings instability has been significantly affected by the geographical concentration of exports and exchange rate.**
- ✓ **The instability in export earnings were reduced by greater diversification of tea exports to more markets.**

7. Addressing the obstacles that hinder achieving high productivity in the sector:

- ✓ **The profitability and sustainability of the tea industry is largely determined by the level of productivity in each of sectors and tea prices.**
- ✓ **In this context, land and labour productivity takes high priority as tea cultivation is known to be highly labour intensive.**

TARGETED POLICIES (6)

8. In Skill development:

- ✓ **Tea Plucking:**
  - **This tradition goes from generations to generations, mainly by female workers.**
  - **Introduction of mechanised plucking has not yielded desired results.**

- ✓ **Tea Tasting and grading:**
  - **Tea tasting is a precise skill and one that can be performed only with a good natural palate and active olfactory nerve.**
  - **Apart from tasting and describing tea, the ability to value a tea calls for long experience and knowledge.**

TARGETED POLICIES (7)

9. Adopting strict measures on misuse of "Ceylon Tea" Trademark (Ceylon Tea Lion Logo) by foreign processors and measures being taken to product "Ceylon Tea" as a Protected Geographical Indication".

CEYLON TEA
SYMBOL OF QUALITY

The name '*Ceylon Tea*' and the famous Lion logo that goes with it indicates the tea grown, manufactured and packed entirely in Sri Lanka conforming to strict quality standards laid down and administered by the Sri Lanka Tea Board.

TARGETED POLICIES (8)

10. Adopting International Standards and Best Production practices, which enable addressing Food Safety aspects of tea:

- ✓ **Adopted strict measures to retain its position and reputation as the 'Best in Class' producer of Quality Tea and the Cleanest tea in the world, which are considered by the Technical Committee of the ISO**
- ✓ **Sri Lanka Tea Board Official Certification For Quality Assurance for Food Safety and Good Manufacturing Practices of Tea;**
- ✓ **Tea processing factories are continually improved and upgraded to maintain sufficient technical and hygienic standards through the implementation of ISO 22000, and HACCP.**
- ✓ **Buyers are thus assured that tea produced in Sri Lanka is not only synonymous with quality, but also conforms to internationally acceptable food safety regulations.**
- ✓

TARGETED POLICIES (9)

11. Adopting International Standards and Best Production practices - Sri Lanka Tea Board Official Certification for Quality Assurance for Food Safety and Good Manufacturing Practices of Tea:

✓ **Under this scheme, SLTB may take action on client's request and disperse expertise according to a pre-scheduled plan and audit using the applicable standards. Such standards includes:**

- **ISO 3720: 2011: Black tea- Definition and basic requirements;**
- **ISO 11287: 2011: Green tea - Definition and basic requirements;**
- **SLS 1315: Part 2: 2007 – Good Manufacturing Practices (GMP) for Processing of Black Tea;**
- **SLS 1315: Part 3: 2009 – Good Hygienic Practice (GHP) for Storage, Blending, Packaging and Transport of Tea;**
- **SLS 143:1999 - Code of practice for general principles of food hygiene;**
- **SLS ISO 22000: 2005: Food safety management systems – Requirements for any organization in the food chain**
- **Sri Lanka Tea Board Standards/ Guidelines for Tea: 2010**

TARGETED POLICIES – PROTECTION OF ENVIRONMENT (10)

9. Adopting strict measures to retain its position & Reputation as the 'Best in Class' producer of Quality Tea and the Cleanest tea in the world:

- ✓ **Sri Lankan tea is grown under the highest social and environmental standards and excellence in process and purity of product are reflected by world class certifications.**
- ✓ **Several plantations are Forest Stewardship Council (FSC) accredited and GLOBAL GAP compliant;**
- ✓ **Sri Lankan tea growers now follow the standards the Sustainable Agriculture Network, an international body that sets standards and recommends best practices for sustainability, Inspection and certification is undertaken through the Rainforest Alliance.**
- ✓ **All tea grown in Sri Lanka is now one hundred percent ozone-friendly. This is a distinction of which no other tea-producing nation can boast.**
- ✓ **Ceylon Tea, which is cultivated and manufactured without the use of Methyl Bromide (MEBR) or any other Ozone Depletion Substances, is the world's first to achieve the "Ozone Friendly Tea" recognition under the Montréal Protocol Treaty and is registered as a Certification Mark by Sri Lanka Tea Board.**

OZONE FRIENDLY
PURE CEYLON TEA

KEY CHALLENGES FACED BY THE TEA SECTOR

- ✓ **Sri Lanka's Plantation sector costs are set to rise fairly in 2018, pushed up by following factors:**
  - ❖ **Low productive aged bushes**
  - ❖ **Labour Scarcity - Number of registered labourers in large scale tea estates 1988 - 497,995; 1990 - 405,304 and 2011 - 207,235 - 58 percent decline in the last two decades.**
  - ❖ **Labour Wages**
  - ❖ **Access to fertilizer at subsidised rates**
  - ❖ **Access to energy at subsidised rates**
  - ❖ **Banned of Agrochemicals and high prices of recommended weedicides**
  - ❖ **Price Depression on Producers/Growers**
- ✓ **Delay of realizing the Sales Proceeds due to Economic Sanctions**
- ✓ **Inability to access markets due to ongoing internal conflicts, i.e. Iraq, Syria, Turkey.**


THANK YOU