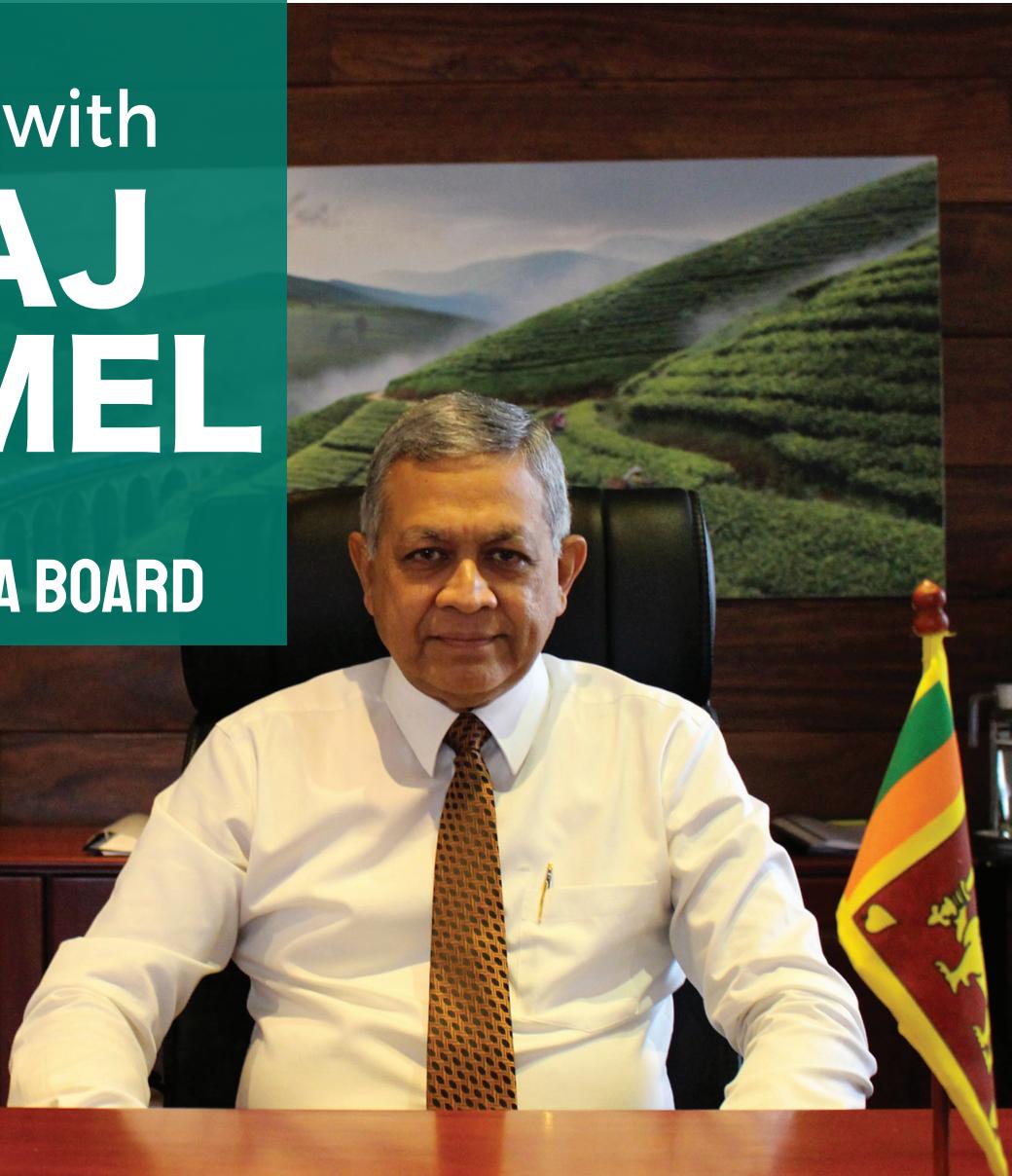


Interview with

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What is the state of the play of the tea sector in the prevailing environment?

This should be looked at from TWO perspectives, one the quantity wise (availability) and the other price wise (Revenue) and the activity of the tea export fraternity which accounts for 90% of Sri Lanka's tea exports. Therefore, it's a three-way path that interconnects with each other.

The tea auction system plays a major role in the exportation of tea into the global space apart from other channels where tea could be sold to the buyers. In this case, exports hold for 90& of the buyers and the balance 10% is bought for the internal market. Which sums up Sri Lanka's total production of tea in a

given year. Exports are directly linked to how much tea is produced. And the price is what keeps the sustainability of the producer. If the price that is fetched at the auction in turn that is filtered down to them is above their cost of production, would be favorable to the exporter. The auction actually determines the price of demand and supply. This is the way in which it is operated interannly.

Today, we are sitting at a spot where Sri Lanka has come down in its production by almost 80-20% compared to last year. Last year, in the recent 5-6 years was one of the good years in terms of production. The country fell short by about a million kilos from 300 million kilos. In other words, the average good crop in the last 5-7 years has been about 300 Million kilos. But, we have done a highest of

340 million kilos in 2013. Somehow, after 2015 the country has been on a decline in contrast to the previous year to the recent past.

The peaky 2013 was reached with very little tea exports and later a larger amount of tea exports in the year 2014, 2015 was a good crop year where prices were down, and 2016 the quantity started gradually coming down. And we are now talking about an average of around 300 million kilos on what you could call a good crop year. Now, in that the Covid years were a disaster. Not only because of Covid19. The start of the year, the first 3 months there was a severe drought in the country which affected all crops across the country. It is also determined that the first quarter of the year would determine the rest of the

year and sadly the years of Covid saw a decline in crop and also exports both locally and internationally.

However, this year will affect certain decisions taken last year which were detrimental to the industry, in terms of agriculture. And as a result of that, we are now in a situation where we are today. 50-60% down on crop and exports thankfully is about 9% down compared to last year. That is because we had a heavy carry over from last year of a good quantity of tea. Then of course we had this issue with regards to the exchange rate. The first 3 months were regulated, pegged and kept at a level and other external factors as a result of that, then it suddenly floated. With the floating, it suddenly saw the prices going through the roof which was good for the producer. Where a high income was attained. On the other side, the front end, rupee wise a good income is attained. But, the dollar price and the foreign currency price has not shown much of a change. It has only gone by a cent or two. The tea exports had an annual US dollar FOB rate of \$4.71 last year and this year it has seen a cent increase of \$4.72. Therefore, the front end has not shown a difference. Which creates the want for ceylon tea as the ceylon tea itself has a great demand around the globe.

Even with great competition with China and India as global flyers in the tea sector, ceylon tea has its unique and recognized markets. In that context, the demand for ceylon tea has always been there. But, the availability of the needed stock was challenging in the last 1-2 years.

The process of getting back to where we are has only begun. What is necessary to rejuvenate the bush has commenced and adequate policy and other initiatives have been taken into consideration and in the process of being implemented. The tea board has also started a soft interest rate loan, to encourage the farmers in the regional plantation estates, to start local fertilization processes and other matters. There are more agricultural inputs that need to be implemented to attain the bigger picture. The fertilizer available was distributed amongst the tea plantations for agricultural purposes. And the Indian credit line has also played a large role in this, in which a large quantity was distributed to the paddy farmers and a smaller quantity was assigned to the tea exporting firms. That recovery process might take some time. We may see some sort of mitigation in the crop decline in the months of October and November due to the monsoon season. The heavy cropping period is seen between mid April which goes on till about June. The crops produced during this period is what is carried through the year.

But, the rain season actually would help through a decent crop. The full positive impact in the tea sector could be seen sometime next year. This year we might touch 270 -272 million kilos. With a 10% drop.

What is the role of smallholders in facilitating the growth of the Sri Lankan tea industry?

Since the mid 70's to late 70's and significantly more in the 80's the smallholder contribution to the Sri Lanka tea production has been large. They account for 75% of green leaf for the tea production process. That's how important they are to the tea industry. They have largely grown and predominantly in the low grown sector in mostly the Ruhuna-, Sabaragamuwa areas. Kultura, Ingiriya towards down south towards Galle, Matara, Deniyaya and then eheliyagoda, Ratnapura areas. And now they have spread towards the Eastern province towards the Badulla, Bandarawela, and in and around Matale, Pilimatalawwe and areas as such.

By them starting predominantly from the southern and sabaragamuwa areas which constitutes the low grown area in Sri Lanka. Basically, the Sri Lankan tea industry is broken into High grown, Medium grown and Low grown sectors. It's on an elevation basis from sea level. Low-grown is any tea grown up to 2,000 feet from sea level or 600 meters or more from sea level. Anything For 2,000-4,000 is known as medium grown. Above 4,000 is high grown tea, which is how Sri Lanka became popular.

James Taylor, started in the medium grown area in an estate just outside Kandy in Galahara, called Uduphuhana estate. From there onwards it started gradually increasing in terms of plantation going towards the Nuwara Eliya areas. Recently, the Low growth sector emerged. There were tea estates in Kalutara, Bulathsinha and Kaluthara areas. At that time, Rubber plantations were bought by people and converted into tea plantations creating an incline in the production of tea. A smallholder is someone who owns a land which is 4 hectares and under . But, today we have about 500,000 small holders in which 90% of whom have their tea grown only in an area which is 1 hectare or less. Them starting off in the low grows area, which became a popular type of tea in the middle east and Russia has really strengthened the Sri Lankan revenue capability of ceylon tea. We became popular with high and medium grows in the western countries, and now these have taken over and produce around 625 of Sri Lanka's production.

In general, you would need almost 4.65 kilos of green leaf to make 1kg of black tea. So, the black tea production is what

has fallen today. By almost 19% and around 65% of that production comes for the low grown/small holders sector.

What are the main obstacles to growing exports amidst the ongoing economic crisis?

The way in which exports are structured now, the exporters are usually linked with supermarket chains, with big time packers which require a large volume of tea imported from time to time. The value added tea to supermarkets has regular orders, as the contracts are signed annually. Therefore, you would have to ensure that tea is supplied on a regular basis depending on the schedule that is given. It is a continuous operation, large volume buying. Therefore, if the production is low it affects the exporter's ability to continue to satisfy their requirements of their imports. Rights now with the crops being down, the desired availability of tea is not acquired to carry out the export operations smoothly. The moment the production improves, prices can come down to a stable level. If not sometimes even, unsustainable levels. It all depends on the spike of the global market.

For example, Ukraine imports around 4% of ceylon tea. But, that percentage is sizable for us because they are predominantly into our high grown and also quite a bit of the low grown. Now, that market is virtually shut. Which has caused disruption in our export operations as well which would not hamper the Sri Lankan tea export on a larger scale. Tea exporters also get a lot of foreign inputs coming in. For instance, the herbal that is used in tea blends, tea bag tags, the packaging. Even the tea sack is imported in the country. As a result of that there are disruptions. And the fuel crisis also contributed to the logistical process. However, since they deal with dollars it was not too much of an issue for them. But, the producers faced a lot of issues from obtaining fuel from the nearby CTB depo or petrol sheds. And the power cuts also played a major role for the processing of the tea leaves and other requirements.

Nevertheless, Sri Lanka has never postponed or canceled a tea auction even during the lockdown period. There are usually around 50 odd auctions in a year, some 51. The 2 weeks that an auction is not held is during the Sinhala & Tamil New Year week and between Christmas and the 1st week of January. This also proves that amidst all the ongoing crisis and challenges, we are keeping our head above water and trying to overcome all the challenges.