

# The Backbone Of Ceylon Tea



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**Since the surge in demand for low grown Sri Lankan teas, the tea smallholders and private tea factories have been crucial to the industry's production. Anil Perera, a Committee Member of the Colombo Tea Traders' Association and a Past Chairman of the Sri Lanka Tea Factory Owners' Association, elaborates on their contribution to the economy.**

**By** Keshini de Silva. Assisted by Yomal Senarath-Yapa  
**Photography** Vishwathan Tharmakulasingham

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## **Who are the tea smallholders and private factories of Sri Lanka?**

There are two major stakeholders in production. The Regional Plantation Companies (RPC) who grow and process teas and the other, the manufacturing sector comprising of tea smallholders and the private factories. There is a symbiotic relationship between the tea smallholders and the factories. The tea smallholders grow and supply green leaf to the factories. The factories purchase green leaf, convert to black tea which is then sold through the Colombo Tea Auctions. The average size of a smallholding is less than 0.33 hectares.

Tea is grown in three elevations namely high, medium and low. The contribution

by the high grown sector to the national production was 23 per cent in 2015; medium grows had a market share of 15 per cent, and low grows 62 per cent. You see that a majority of the production comes from the low grown elevation. Meanwhile, the high grown elevation is dominated by the RPCs, who have a market share of 90 per cent. However, the low grown sector is dominated by the smallholders, with a contribution of over 80 per cent to the production of low grows.

**Overall, The Contribution By The Tea Smallholders To The National Production Is 71 Per Cent. The Tea Smallholders Are A Major Contributor To The Rural Economy.**

If you look at last year's tea production of 328 million kilograms, the state sector contributed 5.6 million kilograms. The RPCs contributed 117.97 million kilograms. The private factories, which process the smallholders' green leaf contributed nearly 205 million kilograms, which is equivalent to 62 per cent of the national production.

There are approximately 400,000 tea smallholders with approximately 1.6 million dependents. They operate in 14 administrative districts, namely Ratnapura, Galle, Matara, and Kalutara. There is also a concentration in the Kandy, Badulla, Kegalle and Nuwara Eliya regions. Overall, the contribution by the tea smallholders to the national production is 71 per cent. The tea smallholders are a major contributor to the rural economy.

**How did the tea smallholders become such a crucial part of the tea industry?**

If you look at the national tea production over a period of 45 years, in the 1960s and the 1970s you find that the high grown production contributed to a higher percentage of the national production, followed by the mid grown elevation.

With the formation of the Organisation of the Petroleum Exporting Countries (OPEC) in 1960 and the preference for low grown type of teas, such teas recorded an increase in prices. In the late 1960s more and more smallholders began extending the planted hectareage. At the time, the Government encouraged planting and subsidised a significant part of the cost. In 1964, the low grown sector accounted for 25 per cent of the national production, which has surged to

62 per cent currently. With this increase in production by the smallholder sector, more and more tea factories came into operation to process the green leaf.

### **What is the relationship between private factory owners and tea smallholders?**

The manufacturing sector of the industry does not grow tea but focuses on manufacturing. There are approximately 718 tea manufacturing factories. RPCs manage approximately 259 factories with private factories totaling to around 429 plus. The relationship between the factory owners and the tea smallholders can be described as a 'hand in glove' operation. One cannot do without the other. Factory owners provide extension services to the smallholders towards improving the productivity of their lands. They also provide cash advances and soft loans to tea smallholders. Factory owners facilitate the sourcing of fertiliser to be distributed to the leaf suppliers. Apart from paying for the green leaf based on the reasonable price formula which is a statute, these are some of the services that the factory gives the smallholder.

Referring to the extension services, the transfer of knowledge to the smallholders on how to grow, harvest and the proper usage of fertiliser is sine qua non to maintain tea fields at optimum level. Most importantly, Good Agricultural Practices (GAPs), which are recommended by the Tea Research Institute (TRI) are conveyed to the farmers through seminars and field demonstrations. One of the key areas of knowledge transfer focused on, is soil conservation which is a big issue.

For example, the TRI has introduced specific GAPs in terms of increasing productivity. With fertiliser there are a series of recommendations, including the types of fertiliser that should be used, how it should be broadcasted and the quantities that should be administered. In addition, there are techniques in harvesting the leaf that are passed on to the smallholders. You don't just pick anything and everything on the tea bush. There is a methodology to do it, and there is also a principle called 'generation plucking' where only the pluckable shoots are harvested whilst leaving the immature shoots for the next round. Nurturing the bush following time proven GAPs assist to increase productivity of the land.

As the factories don't grow tea, they don't have raw material. Therefore, unless

we nurture and educate the smallholders to increase productivity, it affects our supply of raw material. So one cannot do without the other. Smallholders need the factories to ensure that their green leaf is processed and sold and the factories need the small holders to source their raw material.

**Could you elaborate on the role the smallholders play in the industry and the economy as a whole?**

As I said before, 71 per cent of the national tea production comes from the smallholders where private factories almost exclusively cater to them. 90 per cent of the produced tea is exported, whilst roughly 10 per cent is consumed locally. Although, the smallholders and manufacturers are not directly involved in export, if you relate the statistics to export earnings, over 70 per cent of earnings from exports are from the manufacturing sector. However, our direct involvement culminates after the sale of teas at the auction.

**What is your opinion on Sri Lanka's export market at the moment?**

From the year 2014, the tea market has been declining. This has been as a result of the issues in the Middle East and the devaluation of the Russian rouble. The fall in crude oil prices also impacted the overall tea prices. Over 65 per cent of our exports is destined to the Middle East and the CIS. Interestingly, a relationship could be mapped on the falling prices of low grown teas based on the facts elaborated. Historically the industry has faced 'ups and downs' as far as tea prices are concerned. The difference this time is that tea prices have kept low for a longer period of time affecting both the smallholders as well as the factory owners.

**The Entry Of Iran Actively To The Market Is Most Welcome. In Fact, In May Of This Year Iran...Was The No 1 Destination.**

If one looks at the export destinations for Ceylon Teas as at end June 2016, Iraq, Russia and Iran are the top three. The entry of Iran actively to the market is most welcome. In fact, in May of this year Iran absorbed approximately 3.5 million kilograms and was the No 1 destination. However there is a need to look at new markets as Ceylon Teas cannot rely solely on the Middle East to unload a greater weight of teas due to the political and economic unrest. The Sri Lanka Tea Board is actively working on this initiative of finding new markets particularly in the regions where there is good buying power at the retail level.

## **In keeping with trends of the market, are there other teas that smallholders produce in addition to black tea?**

Sri Lanka as a whole produces only around 2 per cent of green and organic teas. There is a demand for these teas.

In producing organic teas, you do not use any artificial fertiliser at all. There are estates, particularly in the mid grown elevations and a few in the high grown resorting to the production of organic teas. Majority of the green tea processing factories are concentrated in the high and mid grown. In the manufacturing sector comprising of the smallholders and the factories, there are hardly any organic / green tea production units.

## **What is the future outlook for Sri Lankan smallholders?**

If you look at the tea smallholder sector, that is the manufacturing sector, the tea smallholders have been the backbone of the industry. There is no doubt about this. It is proven by the numbers and the smallholder contribution to the national production. Today, there is a need to assist them in replanting. It is said that the national replanting percentage should be at least 2 or 3 per cent. I must emphasise that the smallholder sector should be supported to replant / infill their tea lands. Currently, the Government does provide a subsidy for replanting. However, the percentage of costs subsidised is minimal compared with the past as elaborated previously. It is important to state that supporting the smallholders is directly supporting the rural economy.

There is no doubt that the quality of life of the smallholders have improved over the years. If this is to be sustained, state intervention in terms of subsidising replanting is essential. A development subsidy rather than a consumption subsidy should be the way forward.

## **Mr Perera, what has been your journey in the industry?**

I started in 1979 at the Janatha Estates Development Board, where I was involved in quality control, serving in the regions of Hatton, Nawalapitiya, Kegalle and Avissawella. After 11 years, I joined the John Keells Group in the tea broking company. Since 1994, I have been with Tea Smallholder Factories PLC, with a break of two years, where I was the Operations Director of Namunukula Plantations when it was being managed by the Group.

I have also held the position of Deputy Chairman, Colombo Tea Traders'

Association and I am a Past Chairman of the Sri Lanka Tea Factory Owners' Association. I also represented the Sri Lanka Tea Factory Owners' Association on the Directorate of the Sri Lanka Tea Board.

**To commemorate the 150th anniversary of Ceylon Tea, is there anything being planned by the smallholders and private tea factory owners?**

The Colombo Tea Traders' Association (CTTA) has planned quite a few events, especially to increase awareness on production and marketing of Ceylon Tea. So we will be supporting the activities in educating school children and rural communities on the industry and its opportunities.

The Federation of Tea Small Holder Societies too will be involved in organising this milestone in the industry which is spearheaded by the Sri Lanka Tea Board and the Colombo Tea Traders' Association.

**Your thoughts on the future of the tea industry?**

In 2014, the Sri Lankan Tea Industry experienced a remarkable year with the highest ever earnings from tea exports, which was registered at 1.63 billion US dollars. Of course in 2015, this declined to 1.34 billion US dollars, due to the drop in tea prices. This year the production is lagging behind that of last year due to inclement weather and the reduction in the application of fertiliser.

**The Manufacturing Sector With The Smallholders Will Continue To Dominate The Industry Contributing Substantially To The National Production.**

The manufacturing sector with the smallholders will continue to dominate the industry contributing substantially to the national production. The manufacturers need to mitigate rising costs by introducing technology and automation wherever possible. The smallholders need assistance to replace some of the ageing tea lands so that productivity could be improved with a corresponding reduction in costs. Whilst the Government does provide a subsidy to the smallholders on account of fertiliser by way of a cash payment, there is an urgent need to evaluate the success of the scheme, as the core issue is, is the fertiliser being applied to the tea fields that would increase the productivity of the tea lands? A quick assessment of the pros and cons of this scheme has to be made for the future of

the smallholder lands.

The Sri Lanka Tea Board is finalising the launching of a campaign to promote Ceylon Tea. This is important as other tea producing countries are beginning to make inroads to our export destinations. The industry has contributed funds to make this programme a success. The marketing aspect of Ceylon Teas must be given top priority.

Finally, the tea industry has peaks and troughs. The resilience of the industry has helped to ride the peaks and manage the troughs. The industry has overcome many changes in management since the British Era. It will bounce back!

