INDUSTRY CAPABILITY REPORT

TEA SECTOR

Prepared by:
Sri Lanka Export Development Board (EDB)
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1. The Industry

Tea plantations started by the British were initially taken over by the government in 1960s, but have been privatized and managed by plantation companies. The total extent of land under tea cultivation has been assessed at approximately 187,309 hectares.

Ceylon tea from Sri Lanka, acclaimed as the best tea in the world has its inherent unique characteristics and reputation running through more than a century. The influence of climatic conditions of its plantation imparts to the product a variety of flavors and aromas, synonymous with quality.

Sri Lanka is renowned for its high quality tea and as the 3rd biggest tea producing country globally, has a production share of 9% in the international sphere, and one of the world's leading exporters with a share of around 23% of the global demand.

2. Production

Sri Lanka produces tea throughout the year and the total tea production is about 320 million kilograms per annum. The total export volume reached 100 million kilograms out of the total production in year 2012. The tea growing areas are mainly concentrated in the central highlands and southern inland areas of the island. They are broadly grouped under these headings according to their elevations, with high grown ranging from 1200 m upwards, medium grown covering between 600 m. to 1200 m. and low grown from sea level up to 600 m.

Sri Lanka is the world largest producer of orthodox tea. The pioneer planters in Sri Lanka had discovered the effect of the diverse climate on tea production. The discovery has resulted in manufacturing of an array of fine teas which like wine are unique to each agro climatic district in Sri Lanka. Ceylon tea flavour and quality, vary with agro climatic conditions and seasons. The prime regions are Nuwara Eliya, Dimbula, Uva, Uda Pussellawa, Kandy, Ruhuna and Sabaragamuwa.

3. Key Products and Varieties

Sri Lanka mainly produced orthodox teas. In the orthodox process of production, semi dried green shoots are ruptured and twisted by rolling achieved from a rotary movement. When tea leaves are crushed an oxidation process begins, which is followed by firing and commonly known black tea is produced.

Sri Lanka also produces tea by unorthodox method, namely Cut Tear and Curl (C.T.C). Green tea, Instant tea, Bio tea, and flavored tea are also produced in Sri Lanka

High grown teas from Sri Lanka are reputed for their taste and aroma. The two types of seasonal tea produced in these areas Dimbula and Nuwara Eliya are much sought after by blenders in tea importing countries.

Exports of tea are being also sent for many destinations in various forms such as Tea Packets, Tea Bags, Tea in Bulk, Instant Tea, Green Tea, Flavored Tea etc

4. Supply Chain

a. Commercial Cultivators
b. Individual Small Farmers
c. Cluster organizations
d. Central collecting centers
e. Processors
f. Exporters
g. Traders

5. Specialties Associated With Products

Sri Lankan tea recognized as Ceylon Tea in the world is renowned for its high quality, aroma, and taste. As the third largest tea producer and perhaps the second largest exporter in the world, Sri Lanka is in the forefront of tea exports to the world market. This is a position that Sri Lanka has maintained over the years.

There are three major geographical zones for tea cultivation in the country and the production of each cultivation has unique features in it.

High/Upcountry: Above 1,200 m.

- Nuwara Eliya - Delicately fragrant
- Udapussellawa - Exquisitely tangy
- Uva - Exotically aromatic
- Dimbula - Refreshingly mellow

Mid-Country: Between 600 m. - 1,200 m.

- Kandy - Intensely full-bodied

Low-Country: Below 600 m.

- Sabaragamuwa - Smooth & full-bodied
- Ruhuna - Distinctively unique

Uva teas from Eastern Highlands contain unique seasonal characters and are widely used in many quality blends particular in Germany and Japan.

The medium grown teas provide thick coloury varieties which are popular in Australia, Europe, Japan and North America.

The teas produced in low grown areas are mainly popular in Western Asia, Middle Eastern countries and CIS and BRICS countries. Most factories in these areas produced what are known as leafy grade of tea where the tea leaves are well twisted and can grade into long particles.

6. Quality Standards

Sri Lankan Tea industry maintains the highest quality in the world market and ISO 3720 is the minimum standard applies for the products. Sri Lanka has the capability to produce the cleanest tea in the world in terms of minimum pesticide residues. Methyl Bromide was removed from the production process in 2012. Sri Lanka also is adjusting well to the stringent ISO 22000 series and to the health & safety regulations stipulated by the European Community.

Growers are constantly educated to practice Good Agricultural Practices (GAP). The Processing/ Manufacturing facilities owned by the export companies comply with local standards (SLSI) and also with International Quality Standards such as ISO, HACCP, and EU Standards. Traceability throughout the supply chain is monitored in order to guarantee a safe product to the consumers.

7. The Tea Auction

The Colombo tea auction is the single largest tea auction in the world. Auctions are held every Tuesday and Wednesday, every week except during the national New Year and at Christmas. Around 6.5 million kilograms are sold weekly.

8. Value Addition

Sri Lanka exports more than 50% of tea in value added form. The Value added product range of Sri Lankan tea includes green tea, flavored tea, organic tea, instant tea, iced tea, and ready-to-drink tea. Tea based soap, bath gel, shampoo and cosmetic products have recently been added to this product range. Sri Lanka boasts the biggest Tea Research Institute in the world. Colombo also has the biggest concentration of tea bagging plants in the world.

9. Lion Logo

Ceylon Tea Lion Logo which appears on Ceylon tea packs denotes not only the country of origin but also the quality of Ceylon Tea. Sri Lanka Tea Board is the legitimate owner of the Ceylon Tea Lion logo which has been registered in many countries in the world. The usage of Lion Logo is subject to the following conditions:

(a) The Lion Logo can be used only on consumer packs of Ceylon tea.

(b) The packs should contain 100% pure Ceylon tea.

(c) The brands which use the Lion Logo should be packed in Sri Lanka. Overseas Importers/packers are not allowed to use the Lion Logo on their tea packs even if the packs contain pure Ceylon Tea.

(d) The brands which use the Lion Logo should conform to the quality standards set out by the Sri Lanka Tea Board.

10. Technology

Improved technologies on commercial cultivation especially application of fertilizer, crop management, irrigation systems, optimum input applications, pest and disease control, postharvest management, well equipped machinery for processing, quality packaging and improved transportation methods are practiced specially for export marketing.

11. Tea Production in Different Geographical Zones

The total tea cultivation area is about 200 hectares in the country. The major tea growing areas are Kandy and Nuwara Eliya in Central Province, Badulla, Bandarawela and Haputale in Uva Province, Galle, Matara and Mulkirigala in Southern Province, and Ratnapura and Kegalle in Sabaragamuwa Province.

There are main six principal regions planting tea - Nuwara Eliya, Dimbula, Kandy Uda Pussellawa, Uva Province and Southern Province.

12. Geographical Distribution Across the Country

Tea Production by Elevation (Kg. Mn)

Year	High Grown	(%)	Mid Grown	(%)	Low Grown	(%)	Total
2011	79.2	24	52.5	16	196.6	60	328.4

Source: Tea Board

Tea Production by Category (Kg. Mn)

Category	**2011**	**(%)**
Orthodox	303	92
CTC	22	7
Green Tea	3	1
Others	-	-
Total	**328**	**100**

Source: Tea Board

Area of Tea Planted in Sri Lanka

Elevation	Planted (Ha)	Share
High Grown	41,137	19%
Mid Grown	71,018	32%
Low Grown	109,814	49%
Total	221,969	100%

Source: Tea Board

13. Export Growth in the sector from 2010 to 2013 (US $ Mn.)

Description	2010		2011			2012			2013		
	World Total (Quantity - Kg)	World Total (Value)	World Total (Quantity - Kg)	World Total (Value)	% Growth to 2010	World Total (Quantity - Kg)	World Total (Value)	% Growth to 2011	World Total (Quantity - Kg)	World Total (Value)	% Growth to 2012
Tea Packets	115,298,737	549	131,617,734	718	30.74	127,616,453	666	-7.25	124,162,313	715	7.39
Tea Bags	18,743,078	131	1,939,805	10	-92.65	889,866	4	-56.6	1,381,252	7	66.74
Tea in Bulk	169,742,690	651	175,876,070	697	7.11	183,644,779	700	0.43	188,102,422	785	12.07
Instant Tea	1,612,220	11	48,965	...	-95.97	10,906	...	-85.86	5,266	...	-6.69
Green Tea	696,814	3	985,662	4	18.32	995,195	4	1.53	1,033,074	5	12.85
Other Tea nes	21,763,974	93	10,654,702	46	-49.79	5,258,332	23	-50.48	3,050,573	15	-35.65
Total	**327,857,513**	**1,439**	**321,122,938**	**1,476**	**2.57**	**318,415,531**	**1,398**	**-5.3**	**317,734,900**	**1,527**	**9.22**

Source: Sri Lanka Export Development Board

The export revenue has been fluctuated over the last three years due to the economic crisis in the world. However the value of exports has been increased by 3.37% in year 2013 compared to the total earnings from January to July in year 2012 and 2013. The tea exports account for about 14% percent for the total exports and about 62% contributes for the total agriculture exports in the country. The tea sector is expected to achieve the export target of US $ 2,500 Million in year 2015.

14. Tea Imports to Sri Lanka

Description	2010		2011			2012			2013		
	World Total (Quantity - Kg)	World Total (Value)	World Total (Quantity - Kg)	World Total (Value)	% Growth to 2010	World Total (Quantity - Kg)	World Total (Value)	% Growth to 2011	World Total (Quantity - Kg)	World Total (Value)	% Growth to 2012
Tea Packets	418,515	1	117,384	1	-55.81	198,964	1	21.82	474,300	2	169.7
Tea Bags	39,468	...	7	...	-99.93	8,019	...	112,621.96			
Tea in Bulk	2,710,285	8	4,948,317	16	105.95	837,151	3	-83.78	516,019	2	-41.84
Instant Tea	3,000	...	598	...	984.32	25	...	-92.54	145	...	3.26
Green Tea	1,702,916	4	1,751,324	4	19.56	2,577,590	7	70.33	2,254,319	6	-14.69
Other Tea nes	6,257,548	17	4,891,128	15	-15.57	3,083,800	9	-39.09	1,858,620	5	-45.51
	11,131,732	**30**	**11,708,758**	**35**	**17.86**	**6,705,549**	**19**	**-44.96**	**5,103,403**	**15**	**-25.3**

Source: Sri Lanka Export Development Board

15. Re-Exports (Ceylon Tea Blended With Other Origins)

Year	Qty (MT)	Value (Rs. Mn)	Value (USD Mn)
2009	10,574	5,089	44.27
2010	18,607	11,567	102.30
2011	20,529	13,363	118.30

Source: Tea Board

16. Top Tea Exporting Countries (US $ '000)

Country	2010		2011		2012		2013	
	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Russian Federation	50,832,885 Kg	220	54,211,109 Kg	251	49,231,486 Kg	223	46,373,802 Kg	240
Iran (Islamic Republic of)	31,305,799 Kg	152	32,101,983 Kg	160	41,042,565 Kg	186	39,647,808 Kg	194
Turkey	19,585,917 Kg	77	19,278,640 Kg	78	23,163,115 Kg	89	32,234,508 Kg	140
Syrian Arab Republic	28,296,977 Kg	123	28,869,162 Kg	125	24,741,383 Kg	104	21,058,867 Kg	94
Iraq	13,908,640 Kg	51	23,319,036 Kg	84	23,488,487 Kg	83	22,517,811 Kg	87
United Arab Emirates	32,010,517 Kg	142	22,575,480 Kg	102	11,887,382 Kg	51	18,070,651 Kg	82
Ukraine	11,262,390 Kg	54	12,485,362 Kg	64	9,792,145 Kg	53	9,345,458 Kg	56
Kuwait	12,046,977 Kg	40	9,273,429 Kg	31	7,402,236 Kg	23	16,112,076 Kg	50
Azerbaijan	10,660,545 Kg	44	12,186,144 Kg	54	10,691,045 Kg	45	10,780,779 Kg	50
Japan	11,354,443 Kg	54	11,709,141 Kg	57	9,735,596 Kg	50	8,938,043 Kg	48
Jordan	17,719,310 Kg	64	7,312,885 Kg	32	9,434,040 Kg	35	7,664,113 Kg	36
Germany	6,307,121 Kg	26	6,430,251 Kg	32	5,922,983 Kg	26	6,668,385 Kg	32
Australia	3,205,444 Kg	32	2,837,625 Kg	32	2,905,370 Kg	31	2,822,648 Kg	31
Chile	6,522,234 Kg	22	6,667,965 Kg	24	6,581,803 Kg	22	6,859,083 Kg	25
United States	3,453,479 Kg	19	3,886,060 Kg	22	3,455,930 Kg	19	4,131,868 Kg	24
Others	69,384,835 Kg	319	67,978,666 Kg	330	78,939,965 Kg	358	64,509,000 Kg	337
Total :	**327,857,513**	**1,439**	**321,122,938**	**1,476**	**318,415,531**	**1,398**	**317,734,900**	**1,527**

Source: Sri Lanka Export Development Board

17. Key players in the sector (Top 20 Exporters)

- AKBAR BROTHERS PVT LTD
- JAFFERJEE BROTHERS EXPORTS PVT LTD
- EMPIRE TEAS PVT LTD
- GEORGE STEUART TEAS PVT LTD
- ANVERALLY AND SONS PVT LTD
- UNION COMMODITIES EXPORTS PVT LTD
- CEYLON TEA SERVICES PLC
- IMPERIAL TEA EXPORTS PVT LTD
- UNILEVER LIPTON CEYLON LTD
- EXPOLANKA TEAS PVT LTD
- SUNSHINE TEA PVT LTD
- RANFER TEAS PVT LTD
- CEYLON TEA MARKETING PVT LTD
- FINLAYS COLOMBO PLC
- QUICK TEA PVT LTD
- VAN REES CEYLON LTD
- REGENCY TEAS PVT LTD
- INTER TEA PVT LTD
- UNIWORLD TEAS PVT LTD
- STASSEN EXPORTS PVT LTD
- VINTAGE TEAS CEYLON PVT LTD
- HERITAGE TEAS PVT LTD
- J-CEY TEA PVT LTD
- U K BEVERAGES PVT LTD

Source: Sri Lanka Export Development Board

18. Government Policy and Support Available in the Sector

Ministry of Plantation and Sri Lanka Tea Board have introduced wide range of assistance and development programs for this sector since many years. The EDB also has initiated a number of assistance programmes to assist tea exporters in the country. Some of the assistance schemes implemented by the EDB to strengthen the sector are System certification scheme, Tea grading area capacity development scheme and Assistance programme for promotion and development of brand names and brand excellence. The EDB also has been facilitating tea exporters to expand their business opportunities at the international platforms such as trade fair participation, inward buying missions, product development programmes, Introduction of simplified trade policies, awareness programs, quality improvement programmes and market access requirements such as standards, quality certifications etc.

19. R & D and Product Development Facilities Available

Research and Development facilities are available in Sri Lanka to support the industry through Tea Research Institute and there are large numbers of Institutions involved in tea sector such as Plantation Ministry, Sri Lanka Tea Board, Tea Small Holder Association etc. in different regions in the country.

20. Infrastructure/logistics Required/ Available for the Sector

A well established road-rail network and high ways constantly developed to meet the demand of the modern age, facilitates production, for both local consumption and export trade. Within a few hours of motoring, produce can be delivered to the factories, warehouses and port. Modern communication systems are well established in the Island. Colombo port operates with number of leading ships regularly and it facilitates tea exporters to reach number of destinations world wide. Sri Lanka also is well served by major international airlines while the national carrier, Sri Lankan Air Lines, itself operates regular and charter services to major destinations in the world, for passengers and commercial cargo. Even private air charter services are available exclusively for cargo.

21. Availability of Technology and Skilled Labour

Improved techniques on tea plantations, plucking, input application, post harvest management, packaging, transport etc. are practiced specially for export marketing

Organic tea production is also coming up well and large number of players getting certified under planters' certification schemes for becoming export capable in organic produce of tea.

22. Strengths and Weaknesses of the Sector

Strengths

- Diverse Climatic conditions
- Skilled and effective labour
- Unique Characteristics in the production such as flavor, colour etc.
- Use of high technology for processing
- Value addition

- Traceability
- Quality Standards (SLSI, HACCP , GAP, GMP, EU Standards, Organic, ISO 22000)

Weaknesses

- Limited land area
- Whether patterns affect tea production
- Impurities in bulk tea when processing
- Lack of infrastructure specially in plantations
- High cost of production
- High Cost of labour, Packaging, Transport, Freight, Electricity ect.
- High cost of investments for new technology
- Inadequate researches
- High interest rates
- Labour issues (Less pluckers)

Prepared by:
Mr Darshana Perera - Deputy Director – Export Agriculture Division, EDB, Sri Lanka