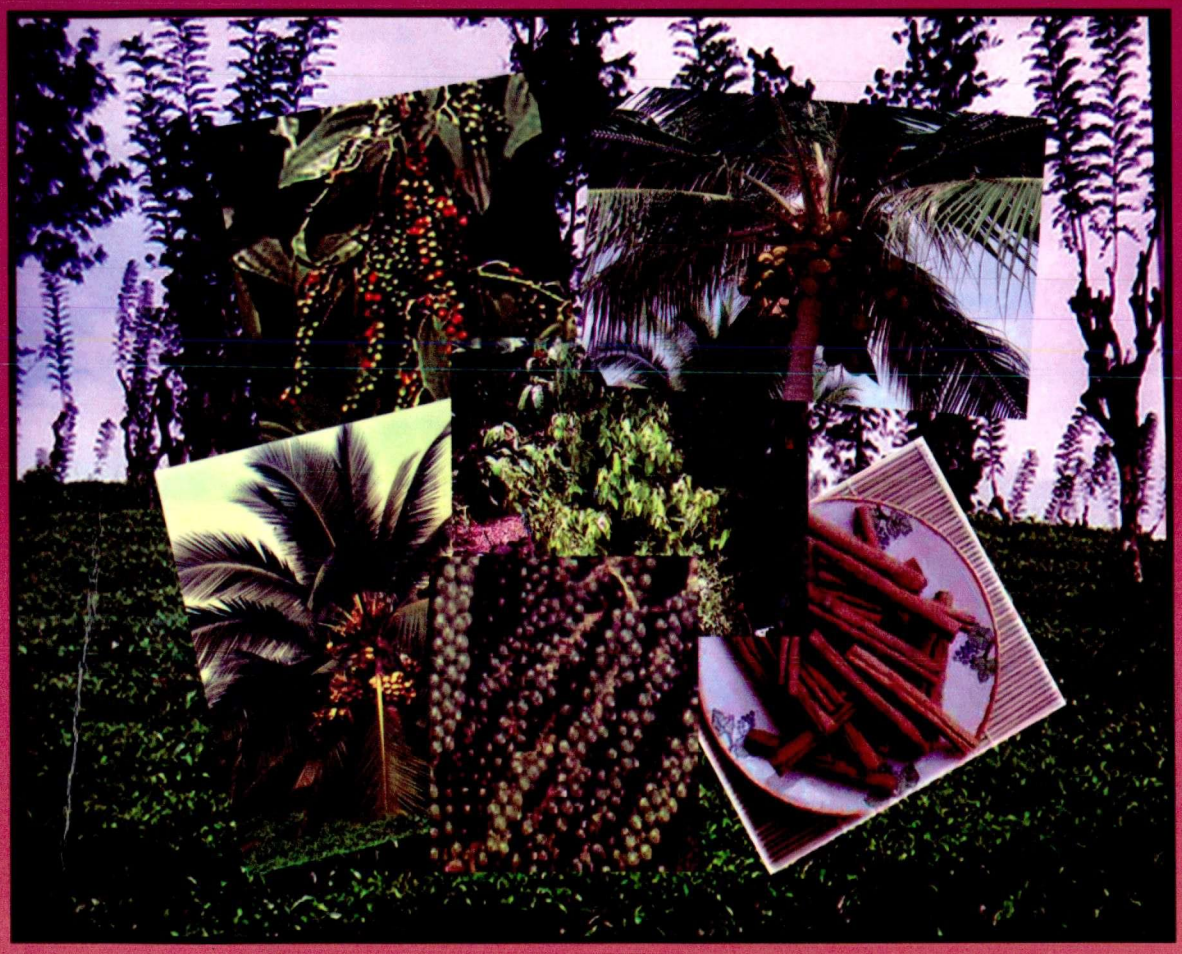
STRUCTURE, CONDUCT AND PERFORMANCE ANALYSIS OF CINNAMON, PEPPER, COCONUT AND TEA MARKET



By

L.P. Rupasena
Bandara Rathnayake
T. Ravichandran

Hector Kobbekaduwa Agrarian Research and Training Institute
114, Wijerama Mawatha, Colombo 7,
Sri Lanka

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Hector Kobbekaduwa Agrarian Research and Training Institute
114, Wijerama Mawatha,
Colombo 7,
Sri Lanka.

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FOREWORD

With the process of elimination of market protection in the open economic policy environment, the export sector has become important for the economic progress in many developing countries including Sri Lanka. Importance of export promotion for transformation of agriculture is stressed in the present government policy document of Mahinda Chintana: Vision for a New Sri lanka. Nevertheless, the growth performance of agricultural exports has been poor. UNCTAD/WTO has identified low external trade among the developing countries and the need for South-South co-operation in export development. As a part of a strategy of promoting South-South trade UNCTAD/WTO organized a buyers and sellers meeting on Agro-products and Processed Foods in November 2001 in Singapore. At a request from the Export Development Board, the HARTI carried out a study to provide the industry situation of the identified crops to the participants at the meeting.

The study found that cinnamon and pepper industries are characterized by small-scale production, traditional technology, low productivity and unorganized marketing system which adversely affect exports. Therefore, attention needs to be placed on production improvement, product development and market promotion for cinnamon and pepper. As found in the study, inadequate and irregular supply pattern has adversly affected the coconut exports. It was further found that many industries operate under capacity due to inadequate fresh nuts. Shrinking their market shares due to heavy export competition and declining tea consumption in some importing countries is a problem faced by the exporters. Market promotion activities and market research to find new markets are necessary to enhance tea exports.

I hope that the findings of this study would help in formulating programmes for promoting agricultural exports.

Our thanks are due to the Export Development Board for inviting us to undertake this study and to the research team for conducting this study.

V.K. Nanayakkara
Director.

ACKNOWLEDGMENT

Many personnel helped us to carry out this study in very short time period. We thank officers of the Export Agricultural Division of the Export Development Board who assisted us in selecting a sample and conducting interviews. The relationship between exporters and EDB officials facilitated much in getting information from businessmen which is not an easy task. We also thank the participated companies for providing information.

Much credit should be given to Mr. Upul Arunashantha and Mr. K.A. Ranjith Padmasiri for their work on tabulation and analyzing data. We were able to finish the report in time due to the untiring support extended by them.

We are extremely grateful to Mr. K.A. Dayananda, the former Head of Publication Unit and Mr. S. Rameswaran, present Acting Head of Publication Unit for editorial work and Mr. Palitha Gunarathne for typesetting. Support from the HARTI printing staff is greatly acknowledged.

We greatly appreciate the support and encouragement given by Dr. S.G. Samarasinghe, the former Director of HARTI. Thanks are also due to Mr. V.K. Nanayakkara, the present Director and Dr. W.G. Jayasena, the Deputy Director for making arrangements to publish this report.

L.P. Rupasena
Bandara Rathnayaka
T. Ravichandran

EXECUTIVE SUMMARY

This study commissioned by the Export Development Board (EDB) aimed at conducting an overall analysis of the cinnamon, pepper, coconut and tea industries. EDB identified these commodities for promotion of regional trading. Analysis includes product structure, conduct and performance of the commodity market. Both primary and secondary data were gathered for the analysis. Secondary data were mainly collected from the Department of Customs, Department of Census and Statistics, Export Development Board and Chamber of Commerce, while the primary data were obtained from exporters selected by EDB for each commodity concerned, through formal and informal interviews.

Both cinnamon and pepper industries are still characterized by small scale production, traditional technology, low productivity, and unorganized marketing system. As a result, these two industries operate with high cost of production, low quality and lack of product and market diversification. Although Sri Lankan government has implemented policies and incentives for exporters, the role of the government as a facilitator is inadequate which is important in the context of small and medium scale exporters who adopt sales orientation instead of market orientation. Consequently, lack of market information, lack of trade contacts, lack of market demand, cumbersome export procedures and high quality requirements are major impediments in export promotion. In case of cinnamon, opportunities for expansion of regional trade are extraordinary genetic features, and being the largest producer in the world. Not only cinnamon, Sri Lankan pepper is considered as a genetically superior product in the world market and hence the prices remain above that of other exporters. Recommendations were made in the area of production improvement, product development and market development.

Main products of the coconut are kernel products. Value-added products consist of a major portion of the structure of coconut exports. Exports of coconut products accounted for more than 11 percent of value in agricultural exports and around 2.5 percent of overall exports. From the registered 626 coconut manufacturers and exporters, 12.8 percent are brokers and coconut manufacturers and other 87.2 percent are coconut product exporters. The coconut industry is under utilized due to lack of fresh coconuts. Irregular supply situation of the coconut is a major constraint to the coconut industry in the country. As coconut is domestically grown, more than 98 percent of raw materials are indigenous in the coconut industry. However, there is no special quality control system for fresh coconut, coconut cream, coconut milk and coconut powder. Coconut Research Institute (CRI) and Coconut Cultivation Board (CCB) are engaged in improving the quality of fresh nuts and increasing the coconut production in the country.

Around 65 to 80 percent of local coconut production is consumed in Sri Lanka. Hence, export share is 20 to 35 percent of the annual production. Thirty to 47 percent of coconut products are exported to countries such as Japan, Netherlands, UK and Germany. Share of Pakistan in the export of coconut was 14 percent. However, there are no special problems on export demand for coconut due to high potential of the strong European market. Government has not provided special export incentives for coconut export. Three major channels are employed for exporting coconut products. a) Coconut producers b) Shippers and c) Millers. However, many companies which are engaged in coconut export have no positive ideas on group marketing activities. No problems were reported on shipping activities of coconut products. Mainly these products are exported by ship. Packing materials of coconut products are locally available. Export credit system or finance facilities are not available for the coconut export sector. Therefore, the coconut exporters expect low interest export credit system from the respective agencies for their activities.

At present, the export of tea in bulk is accounted for major portion of tea exports. Hence, the prime focus should be to switched to promotion of value added tea products because of higher profit. And also promotion of local tea brands is very important as well. Moreover incentives and financial support have to be expanded for value addition, brand promotion and new product development.

The capacities of all companies interviewed are under utilized. Thus, there are possibilities for further expansion. Yet the problem is export market access to additionally produced stocks. The promotion of market contacts, market information and demand are very essential to further expand the production and export. All the companies interviewed are interested in joint venture agreements in marketing and technology. The major constraints affecting their exports are lack of market information, lack of market demand and lack of market contacts. Hence, greater attention should be placed on the market side, especially in providing market information, establishing trade contacts, assisting them to penetrate new markets and improving performance in existing market.

It is recommended to hold trade fairs and organize buyers and sellers meetings as these activities are most effective in promoting exports. Special attention should be given to hold trade fairs in the areas of non-traditional markets such as South East Asia, Far East, North America, etc. The available facilities for quality control and standards have to be further improved to provide services to a wider range of users at low cost. The role of institutions like Sri Lanka Tea Board (SLTB) and Sri Lanka Standards Institution (SLSI) has to be enhanced in assisting exporters to achieve ISO standard. Most of the exporters are in need of credit facilities for export packing, machinery and additional operational capital. Most of the companies are interested in soliciting technical assistance in market promotion, export management training, selling missions, and also technological know-how to improve the quality. The patterns of consumer behaviour are subject to constant changes. Besides, consumption of tea is on the decline in some countries. Hence, a strong market promotion for tea is to be forged. The findings of research studies regarding positive nutritional and medicinal values of tea should be used in campaigns for promotion of world-wide tea consumption. Moreover, the efforts should be directed to predict future trends in beverage consumption and develop new tea products that suit to the emerging food habits.

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CHAPTER ONE

INTRODUCTION

1.1 Background

At present international trade is gathering momentum with speedy process of implementation of open market economic policies all over the world. With the process of elimination of various market protections at local level in most of the countries, the export sector has become one of the potential and vital factors for the economic progress in many developing countries. Therefore most of the developing countries are keen to develop export sector. As a result, most of the developing countries including Sri Lanka have been given utmost importance to rapid promotion of exports. Nevertheless, the International Trade Center (ITC) UNCTAD/WTO has identified low external trade among the developing countries. Hence, UNCTAD has pursuing South-South co-operation in export development.

As part of strategy of promotion of South-South trade, UNCTAD/WTO (ITC) has organized a buyers and sellers meeting on agro-products and processed foods in November 2001, in Singapore among some of the Asian countries. The purpose of this meeting is to facilitate import/export opportunities among them. In preparation for the meeting, the participating countries were requested to carry out two surveys; the supply survey and demand survey. Export Development Board (EDB) commissioned Hector Kobbekaduwa Agrarian Research and Training Institute (HARTI) in September 2001 to carry out the supply survey and submit a draft report within a month's time. The aim of the supply survey is to measure the export potential of the products identified. The commodity coverage for the survey was food ingredients and fragrance, fruit and vegetable juices, cereal products, oil seed products, agricultural products, spices, confectionery and speciality food products. As identified by the EDB, tea, coconut, cinnamon and pepper were selected for supply survey in Sri Lanka.

1.2 Objectives of the Study

The broad objective of the study is to provide information required for potential buyers of the products concerned. Information includes technical specification, packaging, export availability, prices and commercial and regulatory conditions.

The study also aims at:

a. To examine the characteristics and structure of the industry,
b. To ascertain impediments affecting the exports,
c. To identify technical assistance requirements in the areas of product development, packaging, market promotion, joint export marketing, export financing, costing and pricing, training in export marketing, etc.

1.3 Methodology

Both primary and secondary information were gathered. Macro information regarding the industry collected through secondary source of information such as Department of Customs, Department of Census and Statistics, EDB and Chamber of Commerce.

A sample survey was conducted among few exporters selected by the EDB for each commodity. Based on the experience the EDB had with exporters, five most suitable companies with interest and capability in promoting regional trade were selected for the

survey. The questionnaire developed by ITC was used to collect information. The first part of the questionnaire comprised information on the company and the product it exports, while the second part was designed to assess the needs of the business community on the problems they encounter in their business development efforts. In addition, informal interviews were conducted with leading personnel in the industry, personnel from various exporters association and related government officials to collect information on the industry, especially on structure, conduct and performance. Question guides were prepared for this purpose.

The research team consisting of three Senior Researchers specialized in agricultural marketing, international trade and agricultural policy analysis and two Research Assistants experienced in collecting, processing and analyzing data conducted this study. As the sample was small, Researchers themselves conducted the field survey, while Research Assistants collected and processed secondary data such as production and export statistics. Researchers visited the respective organizations with prior appointment. Prior to this, the EDB sent a letter to all the companies selected explaining the objectives and implementation procedures of the survey.

This study commenced on 1st of September 2001 and the first draft report was submitted on 25th of October 2001. Field survey was completed during the period of 15 September – 15 October 2001. When problems arose about the accuracy, re-checking was done. For analysis data, descriptive statistics such as average and percentages were calculated.

1.4 Limitations of the Study

Though we wanted to complete the field survey during the first week of October 2001, it continued to the second week due to postponement of appointments. All the respondents were unable to provide full information for the product profile at the time we visited and kept it to be sent later. This took more time than we anticipated and several reminders had to be made. Some were incomplete. Also the government imposed power cuts for long hours, which reduced the working capacity. Time limit was the major constraint faced by the Researchers in conducting this study.

Another limitation was inability to get certain information such sales figures, capital and export promotions from some companies.

1.5 Organization of the Report

This report is divided into five chapters. The first chapter is introduction to the study. It includes reasons for undertaking the study, purpose of the study, how the study was conducted and limitations of the study. The second and third chapters deal with cinnamon and pepper. The fourth and fifth chapters elaborate the situation in coconut and tea industries respectively. Annex 1 contains the export statistics of cinnamon. In annex 2, fiscal incentives available for Sri Lankan Exporters (non-BOI) are given. Annex 3 consists export of statistics of pepper.

CHAPTER TWO

CINNAMON

2.1 Product Description

Cinnamon (*Cinnamon Verum*) belongs to the family of *lauraciae*, which is indigenous to Sri Lanka. The bark and leaves are used to produce a variety of products mainly for export (Table 2.1). About 90 percent of the exports are in the form of quills, which constitute a primary product. However, there is a growing interest for value added products such as cinnamon powder, oil and tablets. It is estimated that Hispanic people the world over, mainly in Mexico and other Latin American countries consume 55 percent of the total world consumption mainly as a beverage. The balance 45 percent is mixed with cassia, which is an inferior substitute and is used in the meat industry, bakery trade, catering industry, pharmaceutical industry and for domestic purposes such as making beverages and food preparation.

Table 2.1: Product Description

Item	HS code
Quills cut pieces	09061001
Quills other	09061002
Quislings	09061003
Feathering	09061004
Chips	09061005
Others	09061009
Crushed	09062001
Ground	09062002
Leaf Oil	33010993
Bark Oil	33019004

Source: Dept. of Customs

Though cinnamon accounts for less than one percent of GDP, it is the most important crop among spices generating SLR 3,000 million worth of foreign exchange annually, which represents one percent of the total export earnings and 5 percent of agricultural exports. Furthermore, it remains the third most important agricultural export commodity next to tea and coconut. Sri Lanka is the largest producer of cinnamon in the world accounting for about two thirds of world production.

2.2 Structure of the Industry

The average production for the period 1996-2000 was about 12,000 mt. and the area under cultivation was around 25,000 ha. (Table 2.2) Production is on the increase due both to the favourable prices in the world market during the last three years and the government subsidy for planting and fertilizer application. Some 80 percent of the crop is grown in home gardens on a small scale. However, the crop is also grown on large holdings due to the attractive prices fetched.

Table 2.2: Extent and Production of Cinnamon, 1996-2000

Year	Extent (Ha)	Production (Mt)
1996	24,320	11,969
1997	24,358	12,166
1998	24,513	11,739
1999	24,574	12,218
2000	24,671	12,322

Source: Dept. of Census and Statistics

The number of companies registered in the export directory in 2000 was 65. Interviews held with key personnel during the survey period revealed that the active companies are less than 40, of which the majority (80%) are small and medium scale companies. Participants in the industry could be grouped into five: 1) producer, 2) resident trader, 3) town-trader, 4) manufacturer and 5) exporter. Some 80 percent of the cinnamon holdings are less than two hectares. Resident traders live in the village itself and purchase processed cinnamon (quills) directly from the producers in the area and sell them to the town traders who in turn supply to manufactures and exporters. Manufactures are those who produce value added products such as cinnamon oils, powder and tablets and export directly. They are a very few, less than five per cent who own large cinnamon cultivations. Exporters who have own farms are limited.

2.2.1 Capacity and Production

Manufactures reported that they were working at less than full capacity due to lack of working capital, shortage of raw materials (cinnamon), insufficient regional demand and the lack of an organized sector in the trade. In the case of shortage of raw materials, problems also arise due to inferior quality and limited storage facilities. Exporters reported that they have adequate quantities to meet export demand. The problem is that demand is low due to the availability of cassia at a low price, which is an inferior substitute. The usual trading practice is to mix cassia with cinnamon.

2.2.2 Production Inputs

In the cultivation of cinnamon, the farmers apply imported chemical fertilizers and agro-chemicals. None of the farmers complained about the availability of fertilizers and agro chemicals, but claimed that prices were too high. In the mean time, the cultivation of organic cinnamon has been increasing over the years. Processing cinnamon into quills is carried out manually and requires skilled labour, which is limited at present. Similarly, processing costs account for over 50 percent of the total cost of production. In manufacturing value added cinnamon products, the major raw material is cinnamon, which costs 80 percent of the ex-factory value. Irregular supplies, fluctuating prices and the quality of cinnamon that does not conform to specifications are complains made by the manufacturers. Only packing materials are imported. High prices, import procedures/regulations and import restrictions to protect the local products are the three problems cited by the manufacturers. The technology is indigenous and has been developed by the Industrial Technology Institute (ITI), formerly know as the Ceylon Institute of Science and Industrial Research (CISIR).

2.2.3 Quality Standards

At present the quality of cinnamon is assessed on the basis of standards set by the Sri Lanka Standards Institution (SLSI) in February 2001, which are identical with international standards. Both physical and technical requirements have been taken into account as shown in Tables 2.3 and 2.4. In addition, odour/flavour, colour, presence of foreign material and moulds are also included in the quality parameters. The odour and flavour needs to be fresh and characteristic of cinnamon authentic. It should be free of foreign flavours

including mustiness. Also ground cinnamon should be yellowish to reddish-brown in colour. There is no provision for pre-shipment inspection of quality control certification. SLSI function as a focal point for information. During the course of the survey the exporters emphasized that they have to meet the buyer's requirements as regards to quality. Depending on the buyer' need, supplier gets the quality control certificate from the Industrial Technology Institute (ITI), which has the necessary equipment and facilities to undertake testing. In most cases, the exporters have to re-process and re-grade to upgrade the quality to meet market requirements. This adds a cost to the exporters.

2.2.4 Research and Development

The Department of Export Agriculture (DEA) and the Industrial Technology Institute (ITI) are the two public sector organizations responsible for research and development. The DEA concentrates mainly on technology development related to the pre-harvest activities, while ITI focuses on post harvest activities. The DEA has a cinnamon research institute, but lacks funds to undertake research. The industry still operates with traditional technology though the trading environment has changed in the face of the globalization process. Exporters complained about the lack of demand driven research and stressed the need for research on product development. Dissemination of research findings among stake holders in the industry is also lacking.

Table 2.3 Standard Specification for Cinnamon Quills

A. Physical Characteristics

Grade	Diameter of quills (max mm)	Number of whole quills (1050 mm per kg. min	Extent of foxing max %	Minimum length of quills in a bale mm	Pieces of tube and broken pieces of the same quality per bale max % (m/m)
Alba	6	45	Nil	200	1
C 00000 Special	6	35	10		1
C 00000	10	31	10	200	1
C 0000	13	24	10	200	1
C 000	16	22	15	200	1
C 00	17	20	20	200	1
C 0	19	18	25	200	1
M 00000 Special	16	22	50	200	2
M 00000	16	22	60	200	2
M 0000	19	18	60	200	2
H1	23	11	25	150	3
H2	25	9	40	150	3
H3	38	7	65	150	3

B. Chemical Requirements

Characteristics	Requirements		Test method
	Cinnamon Sri Lankan	Cinnamon - Seychells and Madgascan types	
Moisture content, % (m/m)			
- whole cinnamon	14	15	ISO 939
- ground cinnamon	12	14	
Total ash, % (m/m) on dry basis, max	5	7	ISO 928
Acid-insoluble ash, % (m/m) on dry basis, max	1	2	ISO 930
volatile oils, ml/100g, on dry basis, min			ISO 6571
- whole cinnamon	1.0	0.7	
- ground cinnamon	0.7	0.3	

Table 2.4: Standard Specification for Cinnamon Oil

A. Cinnamon Bark

Physical Properties	
1. Refractive index	1.555 – 1.580
2. Specific gravity	1.010 – 1.030
3. Solubility	1.5 Volumes of 70 percent (V/V) ethanol at 28 °C
4. Odour and flavour	Subject to agreement between the interested parties
Chemical Constituents	
5. Cinnamic aldehyde	Superior grade – not less than 60 percent m/m, Special grade - 55%-60%, Average grade – 45%-55%l, Ordinary grade - 30% - 45%
6. Total phenols	Not greater than 18 percent for superior, special and average grade.

B. Cinnamon Leaf

Physical Properties	
1. Refractive index	1.530 – 1.540
2. Specific gravity	1.034 – 1.050
3. Solubility	1.5 Volumes of 70 percent (V./V) ethanol at 28 °C
4. Odour and flavour	Subject to agreement between the interested parties
Chemical Constituents	
5. Total phenols	Not less than 75 percent

Source: Specification for oil of cinnamon leaf e.s. 184:1972,
Sri Lanka Standards Institution

Table 2.5: Quantity and Values of Cinnamon Exports, 1996-2000
Quantity in mt. and Value in Rs. million

Item	1996		1997		1998		1999		2000	
	Qty	Value	Qty	Value	Qty	Value	Qty	Value	Qty	Value
Quils Cut Pieces	1140	247	1408	428	1880	721	2772	1052	1372	566
Quils Other	7113	1473	7335	2077	6062	2311	6224	2287	7518	2693
Quilings	885	118	991	178	861	173	771	135	701	127
Featherings	87	5	82	6	59	4	73	5	63	5
Chips	489	16	537	16	304	11	373	5	260	12
Other	362	64	162	36	75	26	28	13	65	117
Crushed	-	-	-	1	*	16	4	90	6	134
Ground	-	-	144	16	143	17	155	19	111	18
Leaf Oil	-	-	95	46	143	81	128	77	178	113
Bark Oil	*	-	61	3	65	4	91	77	101	-
Export Quantity	10077	1923	10760	2862	9548	3413	10619	3698	10287	3756

* Insignificant
Source: Dept. of Customs

2.2.5. Domestic Demand

Domestic demand is limited to less than 5 percent of the production. Cinnamon is used as a spice in food preparation and a small quantity of value added products is used in the soap industry and in the preparation of indigenous medicine.

2.3 Export Profile of the Sector

2.3.1 Volume and Direction of Exports

The average quantity exported per year for the last five years was about 10,000 mt., which generated SLR 3,000 million annually (Table 2.5). As shown in the table, exports during the last five years remained stable. Of the total exports, during the period, over 90 percent consisted of quills, showing the exports of value added products was less than 10 percent. The USA and Mexico are the two main importers of Sri Lankan cinnamon quills (Table 2.6). Less than one percent is exported to Malaysia and Singapore, but not regularly (Annex 1).

Table 2.6: Major Markets by Product Types

Item	HS code	Major markets
Quills cut pieces	09061001	Mexico (32).Colombia (9), Peru (8)
Quills other	09061002	Mexico (59), Colombia (8), Peru (7), USA (6)
Quillings	09061003	Mexico (33). Spain (17), Germany (13), USA (6) , Italy (6)
Featherings	09061004	Argent (84), Switzerland (10)
Chips	09061005	Canada (39), Australia (16), UK (12), USA (11)
Other	09061009	Mexico (18), Guatemala (17), USA (11) Colombia (10)
Crushed	09062001	No specific market
Ground	09062002	Australia (46), Peru (25), New Zeland (15)

Note: Parentheses give the average percentage values of total export, 1996-2000

Export prices are increasing with a sharp increase in 1997 (Table 2.7). The price of cinnamon quills which consists of over 75 percent of the total exports, increased from SLR 207 per kg in 1996 to SLR 358 per kg in 2000, an increase of over 70 percent within four years.

Table 2.7: Export Prices of Cinnamon (FOB), Rs/Kg

Commodities	1996	1997	1998	1999	2000
Quillscut pieces	216.83	304.06	383.55	379.30	412.47
Quills other	207.07	283.11	381.18	367.45	358.19
Quillings	132.93	178.30	201.00	201.00	181.52
Featherings	56.44	71.74	62.17	72.81	83.03
Chips	31.73	29.20	36.87	40.16	46.70
Other	177.63	221.78	348.65	451.31	475.30
Crushed	-	660.49	255.66	676.86	276.24
Ground	-	109.71	116.97	121.20	165.04

Source: Dept. of Customs

2.3.2 Export Policies and Incentives

The Export Development Board (EDB), coming under the Purview of Ministry of Trade is responsible for formulating export policies for goods including cinnamon, which comes under the category of spices. Since the Sri Lankan government has been implementing a

strategy of export led growth policy since 1977, a number of policies have been formulated to support the export. Among them are the relaxation of the use of foreign exchange, removal of quantitative import restrictions and simplifying tariff policy with three bands. In addition, the government introduced an incentive package including a five-year tax holiday, import duty exemption on capital goods and raw materials, and the provision of state lands on a lease basis. Details are given in Annex 2. In case of trade promotion the EDB conducts trade fairs regularly and provides exporters air tickets and stall charges at subsidized rates often at 50 percent of the cost. All these apply to the cinnamon exporters as well.

Inquires made with cinnamon exporters during the survey period revealed that the following problems yet remaine:

1. Lack of market information
2. Lack of trade contacts
3. Lack of market demand
4. Length of export procedures
5. High quality requirement

2.3.3 Export Channels

The marketing channel for primary products (quills) is producer → town trader → exporter. Direct exporters are less than 5 percent due to small-scale production. Merchant exporters hold stocks to meet export orders regularly. In case of value added products, the manufacturers export directly and over 50 percent of their requirements are met from their own production. Many exporters interviewed reported that setting up of marketing groups bringing small companies together would not be possible due to individual competition among them. They support small producer groups which would improve quality and reduce costs. See Annex 2 for additional details of fiscal incentives available for Sri Lankan exporters.

2.3.4 Shipping

Products are exported by ships. None of the exporters interviewed reported problems of availability, suitability and cost of cargo space.

2.3.5 Packaging

Jute hessian and poly-propelene are used for packing of quills and ceramic and red clay container and aluminum cans/bottles are used for packing of value added products. Imported packing materials are widely used due to better quality. No complaints have been made on the availability and cost of packing materials.

2.3.6 Export Credits and Finance

Almost all the exporters interviewed complained about high interest rate of 21-24% per annum charged by the commercial banks. With this interest rate, they are not in a position to compete with others. Credit accessibility is also a problem because banks look for property especially lands as collateral. Many reported that 60 percent of the lands belong to the government and another 20 percent have already been mortgaged. Some exporters have suggested that bankers also become partners of the business.

2.3.7 Trade Promotion

Trade promotion activity is totally inadequate. The EDB is the only government organization conducting trade promotion activities, but due to financial limitation, its activities have been curtailed considerably. Individual exporters too have limited capacities in doing trade promotion due to financial problems.

2.4 Conclusions and Recommendations

Major Conclusions

1. Sri Lanka is the largest producer of cinnamon in the world accounting for 65 percent of the total world production. However, its market share has declined from 74 percent in the late 1950s to 65 percent today. The Seychelles islands and the Malagasy Republic are Sri Lanka's highest competitors in the international cinnamon trade. The demand for cassia, an inferior substitute for cinnamon, however, is growing due to its low price, which is one third that of cinnamon.

2. The domestic demand is limited to less than five percent of total production and is mainly used in food preparation in small quantities as a spice.

3. The cinnamon industry is still characterized by small-holdings, traditional technology, low productivity, high cost of production and an unplanned marketing system, adversely affecting on export promotion. The quantity exported has not shown any growth in the last five years and remains stable around 10,000 mt.

4. Both product and market diversification has not occurred and over 90 percent of exports still consists of the primary product, quills. Value added-products remain in the infant stage. The markets are still concentrated around Latin American countries and regional trading is totally absent.

5. At present the quality of cinnamon is assessed on the basis of standards set by the Sri Lanka Standards Institution, according to international standards. However the quality finally depends on the buyer's requirements. There is no system of pre-shipment inspection or quality control certification.

6. Since the Sri Lankan government has been implementing policy of export led growth supportive measures such as the relaxation of foreign exchange use, removal of quantitative restrictions and the simplifying of tariff policy. An incentive such as tax holidays, duty free imports and the provision of state land on a lease hold are being provided. However, the role of government as a facilitator in trade promotion is inadequate which results in the problems faced by exporters such as lack of market information, lack of trade contacts, lack of market demand, length of export procedures and high quality requirements.

   Sri Lanka has a great opportunity to expand the export of cinnamon for two reasons. First, Sri Lanka is the largest producer as well as the leading exporter of cinnamon. Second, Sri Lankan cinnamon has extraordinary high NPV and IRR. Likewise, comparative economic analysis shows that cinnamon has the competitive edge in economic and financial, because it can be grown in marginal areas where many crops do not perform well. In the following section recommendations to develop the cinnamon industry are made based on the findings of the survey.

2.4.1 Supply Development

1. A substantial improvement in productivity of the existing lands is vital to reduce the unit cost. In this regard, the introduction of high yielding varieties and improvement of farming system through a better extension system are needed.

2. Cultivation needs to be extended to new areas to ensure steady supplies. Possibilities should be explored for cultivation in un-economic tea and rubber lands.

2.4.2 Product Development

1. It is necessary to introduce improved technology mostly with mechanization in processing to upgrade quality and reduce costs. Today one of the major constrains is the scarcity of labour for peeling of cinnamon and hence the cost of peeling represents over 50 percent of the cost of production.

2. Quality improvements are necessary to meet new challenges emerging with the new trade agreement like WTO, GATT, etc. as high sanitary and phytosanitary standards are being imposed by importers and importing countries.

3. Development of value added products is required to expand the market. Mainly five important products are made from cinnamon plant, namely quills, featherings, chips, bark oil and leaf oil. Quills, which is the primary product constitutes over 90 percent of the total exports. As highlighted by the exporters during the survey, the major constrains in product development are the lack of technology and market promotion. One exporter has produced cinnamon tablet but he lacks market promotion, which is costly. It may be worthwhile to set up value adding industries by inviting multi-nationals who would bring in new technology rather than generating it in the country who undertake and market promotion at a low cost.

2.4.3 Market Development

1. Market research/studies should be conducted to identify consumer preferences, new markets and demand promotion strategies. Special attention should be given to develop trading within the region that is totally lacking today.

2. Market promotion strategies such as trade fairs, buyers/sellers meetings, trade mission, etc. should be strengthened.

3. A special credit scheme should be established to enhance the availability and accessibility of credit for exporters because working capital has been a problem for exporters. Exporters are reluctant to invest money borrowed at 21-23 percent interest per annum.

4. Market information system should be established for collection and dissemination of information on demand, supply and prices in the domestic and international markets. Modern communication techniques should be applied to speed up data collection, transmission, processing and dissemination activities. Since information today plays a key role in business promotion, a market intelligence unit should be established at the EDB.

CHAPTER THREE

PEPPER

3.1 Product Description

Pepper is next in importance to cinnamon in the spice group. Some 80 percent of the pepper production is exported either dried, crushed, ground or as pepper oil. Table 3.1 gives the product description. Over 90 percent of total exports consist of dried pepper, which is a semi-processed product. In case of dried pepper, Sri Lanka mainly produces black pepper (80%). The amount of processed products such as pepper oil and oleoresin is minimal.

Table 3.1: Product Description

Type	HS code
Pepper of the *Genus Piper*, Dried	090411
Crushed	09041201
Ground	09041202
Pepper Oil	33019011

Source: Dept. of Customs

Pepper export amounted to SLR 1,590 million in the year 2000 accounting for 2 percent of the total volume of agricultural exports. There are over 200,000 small-scale growers involved in cultivation of pepper. Women are mainly involved in looking after the crop.

3.2 Structure of the Industry

The average production for the five year period concerned was about 17,000 mt. and the area under cultivation was 29,000 hectares. Cultivation of pepper is on the increase due to higher farm gate prices of the recent past resulting in an increasing world market prices. Table 3.2 shows the area under cultivation and production of pepper. About 85 percent of the pepper holdings are small-scale of less than one hectare, mostly in home gardens with mixed cropping, which is called the agro-forestry type of farming system. This type of farming system is environmentally friendly because incidence of pest and disease is relatively low. Thus the usage of chemicals for control of disease is virtually non-existent. Moreover this type of cultivation uses minimal amount of chemical fertilizer.

Table 3.2 Extent and Production of Pepper, 1996-2000

Year	Extent (Ha)	Production (Mt)
1996	26988	17349
1997	27028	17273
1998	28054	17814
1999	28232	17265
2000	28438	16831

Source: Dept. of Census and Statistics

The number of companies registered in the export directory in 2000 was 66. Of this total, over 75 percent are merchant exporters. There are a few producers who have large extents under cultivation and do direct export. Those who manufacture valued added products undertake direct exports. Participants in the industry could be grouped into five: 1) the producer, 2) village trader, 3) town-trader 4) manufacturer 5) exporter. Some 80 percent of the producers are small-scale farmers with less than one hectare. Village traders who live in the production areas directly purchase dried pepper from the producers in the area and sell them to the town traders who in turn supply the manufactures and exporters. Manufacturers are those who produce valued added products such as pepper oil. They are less than five per cent and have own cultivation in large extents.

3.2.1 Capacity and Production

Manufacturers reported that production could be higher but lack of working capital, shortage of raw materials (pepper), insufficient regional demand and lack of general organization in the trade. A shortage of raw materials was dull. Exporters reported that they have adequate quantities to meet the export demand but was sluggish in demand due to increased competition from other pepper producing countries especially Malaysia and Thailand where production is well organized.

3.2.2 Production Inputs

Production inputs are limited. Pepper cultivation takes place in home gardens with mixed cropping. Farmers often do not apply chemical fertilizer or agro chemicals. Pepper is harvested manually, dried in the sun and packed in jute and poly-sacks. In manufacturing value-added products, locally developed pepper threshers, graders and blanchers are the machinery used in industry. Packing materials used for value added products are made of wooden and ceramic containers. They are locally manufactured using exclusively local raw materials.

3.2.3 Quality Standards

There is no ISO standard for pepper. At present the quality of pepper is assessed on the basis of standards set by Sri Lanka Standards Institution (SLSI). Table 3.3 presents the Sri Lanka standards for pepper. SLSI focuses mainly on the physical appearance of the products. Moisture contents, presence of foreign material and mouldiness are also included in the quality parameters. However, the mandatory levels of these quality parameters are lower than the international requirements. There is no system of pre-shipment inspection and quality control certification. The SLSI functions as a focal point for the information, but the online linkages of SLSI and international standard setting organizations are very poor. During the course of the survey, the exporters reported that they had to meet buyer's requirements as regards to quality. In most cases, exporters had to reprocess and re-grade the quality to meet market requirements, adding a further cost to the exporters.

Table 3.3: Sri Lanka Standard Specification for Pepper

Characteristic	Requirement for grades				
	Grade I	Grade 2 (GAQ)	Grade 3	Grade 4	Pinheads
1. Extraneous matter, percent by mass, max.	1	1.5	2	4	09
2. Mouldy berries, percent by mass, max.	1	2	-	-	-
3. Light berries, broken pepper corns and skins, percent by mass	4 max	10 max	35 max	35 min	-
4. Pin heads, percent by mass, max.	0.5	1	2	4	75 min
5. Moisture percent by mass, max.	12	14	14	14	14

Source: Sri Lanka Standards Institution

3.2.4 Research and Development

Department of Export Agriculture (DEA) and the Industrial Technology Institute (ITI) are two public sector organizations responsible for research and development. DEA mainly concentrates on technology development related to the pre-harvest activities, while ITI focuses on post-harvest activities. Interviews held with research staff revealed that funds were lacking to undertake research. Exporters reported that the industry still operates with traditional technology though the trading environment has changed in the face of globalization. They complained about lack of demand driven research and stressed the need for research on product development. Dissemination of research findings among stake holders in the industry is also lacking.

3.2.5 Domestic Demand

Domestic demand accounts for about 20 percent of the production. Pepper is used as a spice in food preparation and a small quantity of value added products are used in the soap industry and in the preparation of indigenous medicine.

3.3 Export Profile of the Sector

3.3.1 Volume and Direction of Exports

The average quantity exported for the period 1996-2000 was about 4,100 mt., which earned SLR 1,200 million (Table 3.4). As shown in the table, the quantity exported during the period concerned fluctuated. During the period 1996-1998, exports increased sharply from 2,899 to 5,517 mt. and declined to 3,756 mt. in 1999 and again increased to 4,858 mt. in 2000 but did not reach the 1998 level. This was due to variations in domestic production as a result of the weather. Of the total exports, over 95 percent consisted of primary products for this period showing that exports of value added products were insignificant. Quantity exports by countries with percentage of the total during 1996-2000 are given in Annex 3. India is the main importer of the primary products accounting for nearly 40 percent of the market share on average during the period concerned. During the recent past the market share increased significantly, 52 percent in 1990 and 45 percent in 2000. The major reason for increased exports to India is due to higher export of light berries of pepper. Light berries are picked while shell immature. This reduces the potential production of mature berries by about 50 percent. Sri Lanka loses a substantial quantity of exports in the form of mature black pepper. The light berry export trade affects the final production level adversely and is disadvantageous to the national economy. However, the farmer sells light berries mainly to meet their immediate cash requirement and to protect the harvest from thieves.

Table 3.4: Quantity and Values of Pepper Exports, 1996-2000
Quantity in mt. and Values in Rs.million

Item	1996		1997		1998		1999		2000	
	Qty	Value	Qty	Value	Qty	Value	Qty	Value	Qty	Value
Quils Cut Pieces	1,140	247	1,408	428	1,880	721	2,772	1,052	1,372	566
Pepper										
Genus Piper, Dried	2,899	377	3,371	783	5,373	1,678	3,639	1,266	4,759	1,557
Crushed	-	-	35	5	15	5	37	13	48	17
Ground	-	-	79	20	106	35	77	27	49	14
Pepper Oil	-	-	38	59	24	118	3	24	3	13
Total	2,899	377	3,523	867	5,517	1,836	3,757	1,330	4,858	1,600

Source: Dept. of Sri Lanka Customs

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Table 3.5: Major Markets by Product Types

Item	HS Code	Major markets
Pepper	090411	India (38), UK (9), USA (8), Egypt (6)
Crushed	09041201	No specific markets
Ground	09041202	UK (14), Germany (10), USA (7)
Pepper oil	33019011	Canada (17), USA (10), France (9)

Note: Parentheses give the average percentage values of total export, 1996-2000 for pepper and the rest for 1998-2000

Export prices have been increasing with a sharp increase in 1998 (Table 3.6). Price of pepper dried etc, which consists of over 95 percent of the total exports, increased from SLR 130 in 1996 to SLR 327 per kg in 2000, a 166 percent increase within four years.

Table 3.6: Export Prices of Pepper (FOB), Rs/Kg

Item	1996	1997	1998	1999	2000
Pepper of the *Genus Piper*, Dried	129.92	232.36	312.36	347.90	327.15
Crushed	-	134.36	308.35	335.08	349.91
Ground	-	254.00	334.50	351.55	284.13
Pepper Oil	-	1,550.41	4,914.20	-	4,213.82

Source: Department of Customs

3.3.2 Export Policies and Incentives

The Export Development Board (EDB), coming under the Ministry of Trade is responsible for formulating export policies for tradable goods including pepper, which comes under the category of spices. Since the Sri Lankan government has been implementing a strategy of export led growth policy since 1977, a number of policies have been formulated to support export.

Relaxation of foreign exchange use, removal of quantitative import restriction and simplifying tariff policy with three bands are among them. In addition, the government introduced an incentive package including five-year tax holiday, import duty exemption on capital goods and raw materials, and the provision of state lands on lease basis. Details are given in Annex 2. In case of trade promotion, the EDB conducts trade fairs regularly and provides exporters air tickets and stall charges at subsidized rates often at 50 percent of the cost. All these are applicable to the pepper exporters.

Inquires made with the pepper exporters during the survey period revealed that a number of problems still remain. All these problems are related to market development where government should play a major role as a facilitator.

1. Lack of market information
2. Lack of trade contacts
3. Lack of market demand
4. Lengthy export procedures, and
5. High quality requirements

3.3.3 Export channels

Major marketing channel for primary products is producer → village trader → town trader → exporter. Direct exporters are less than 5 percent due to small-scale production. Merchant exporters hold stocks to meet export orders regularly. In case of value added products, the manufactures export directly and over 50 percent of their requirements are met from their own production. Many exporters interviewed reported that setting up of marketing groups bringing small companies together would be a problem due to individual competition among them. They support grouping small producers whereby quality improvement and reduction of cost would be possible.

3.3.4 Shipping

Products are exported by ships. None of the exporters interviewed reported problems of availability, suitability and cost of cargo space.

3.3.5 Packaging

Poly-sacks are used for packing of primary products and wooden container and ceramic containers are used for packing of value added products. Local packing materials are widely used. No complains have been made on the availability or cost of packing materials.

3.3.6 Export Credits and Finance

Almost all exporters interviewed complained about high interest rate of 21-24% per annum charged by the commercial banks, which makes competition with others difficult. Obtaining credit is also a problem because banks look for security especially lands as collateral. Many said 60 percent of the lands belong to the government and while another 20 per cent had already mortgaged. Some exporters suggested bankers be also made partners in the business.

3.3.7 Trade Promotion

Trade promotion is totally inadequate. The EDB is the only government organization conducting trade promotion activities but due to financial limitations its activities have been curtailed considerably. Individual exporters could do little in doing trade promotion activities due to financial problem.

3.4 Conclusions and Recommendations

1. The pepper industry is still characterized by small-holdings, traditional technology, low productivity, high cost of production and an unorganized marketing system. This situation has adverse impact on export promotion. The quantity exported showed fluctuation during last five years.

2. Domestic demand is limited to 20 percent of the production, is used mainly in food preparation as a spice and in small quantities that do not affect exports.

3. Both product and market diversification are lacking. Over 95 percent of exports still consists of primary products, and production of value added products is insignificant. India is the main market and exports to other countries in the region are insignificant.

4. At present the quality of pepper is assessed on the basis of standards set by the Sri Lanka Standards Institution. Standards have been fixed based mainly on the physical appearance of the products and they are lower than the international requirements. There is no system for pre-shipment inspection and quality control certification.

5. Since the Sri Lankan government has been implementing a strategy of export led growth policy, conducive policies such as relaxation of foreign exchange use, removal of quantitative restrictions and simplifying tariff policy have been formulated and an incentive package including tax holiday, duty free imports and provision of state land on a lease basis have been introduced. However, the role of government as a facilitator in trade promotion is inadequate which clearly indicates the problems of exporters. Market information, trade contacts, and market demand are all needed, while export procedures are lengthy and high quality of the products is expected.

The following recommendations were made for supply, product and market development.

3.4.1 Supply Development

1. A substantial improvement in productivity from existing lands is vital to reduce the unit cost. In this regard, introduction of high yielding varieties and an improvement of farming system through a better extension system are needed.

2. Cultivation should be extended to non-traditional area to ensure sufficient supplies. Since coconut cultivation mainly takes place as a mono crop, pepper could be grown as an inter-crop in many coconut holdings. Similarly, establishment of commercial level plantations in the plantation sector is suggested.

3.4.2 Product Development

1. It is necessary to introduce improved and better post harvest methods and product development in order to reduce the cost, to improve the quality and to diversify the product.

2. Quality improvements are necessary to meet the new challenges emerging with the new trade agreement like WTO, GATT etc. High sanitary and phytosanitary standards will be imposed by importers and importing countries.

3. Development of value added products is required to expand the market. Over 95 percent of the total exports are primary products. As highlighted by the exporters during the survey period, major constrains in product development are lack of technology and market promotion. It may be worthwhile to set up value adding industries by inviting multi-nationals who would bring in new technologies rather than trying to generate them and also market promotion at a low cost.

3.4.3 Market Development

1. Market research/studies should be conducted to identify consumer preferences, new markets and demand promotion strategies. Special attention should be given to develop regional trading that is totally lacking today.

2. Market promotion strategies such as trade fairs, buyers sellers meetings, trade missions, etc. should be strengthened.

3. A special credit scheme should be established to enhance the availability and accessibility of credit to the exporters because working capital has been a problem for exporters. Exporters are reluctant to invest money borrowed at 21-33 percent interest per annum.

4. Market Information System should be established for collection and dissemination of information on demand, supply and the prices in the domestic and international markets. Modern communication techniques should be applied to speed up data collection, transmission, processing and dissemination activities. Since information today plays a key role in business promotion, a market intelligence unit should be established at the EDB.

CHAPTER FOUR

COCONUT

4.1 Product Description

The coconut (*Cocos Nucifera*) palm is indigenous to Sri Lanka as well as many Asian countries. All parts of the coconut tree are used to produce a variety of products for export and local use. The most useful part of the coconut is the kernel products. However, most of the coconut products exported are value-added products.

The main products exported consist of desiccated coconut, copra and oil. Sri Lanka also exports coconut products derived from coir fiber such a twine, mats and matting. One of the latest fiber products that are exported is geo-textiles. Brickettes made out of coir dust and even coir dust in bulk also are exported (Table 4.1). The main markets for these products are the Western European Countries, Pakistan, Bangladesh and some of the Middle-East countries.

The main raw materials for kernel products is the kernel of the coconut and for fiber products the raw material is the fiber extracted from the husk. As more and more coconut kernel is used for human consumption and as more and more coconut lands are used for real estate development, it is expected that coconut supplies will gradually dwindle, unless yields are increased and/or the acreage is increased.

Coconut exports earned annually US$ 94 million to US$ 129 million during the period 1996-2000 (Table 4.2) and account for more than 11 percent of the value from agricultural exports and around 2.5 percent of the total value of Sri Lankan exports.

Table 4.1: Coconut Products Description

Item	HS Code	Item	HS Code
Desiccated	80111	Coir yarn	530810
Copra	1203	Coir twine	56079002
Coconut Milk Powder	11063001	Coir rope	56079003
Bristol fiber twisted	53051101	Coir carpets and rugs	57019001
Bristol fiber not twisted	53051102	Coconut (crude oil) in bulk	1513101
Bristol fibre bleached	53051103	Other	15131109
Bristol fibre dyed	53051104	Coconut oil other in bulk	15131901
Mattress fibre not twisted	53051105	Coconut oil other (other)	15131909
Mattress fibre twisted	53051106	Coconut ekels	14039001
Mixed coir bibres twisted	53051107	Coconut shell pieces	14049003
Mixed coid gibre twisted	53051108	Coconut shell powder	14049004
Other	53051109	Coconut husk ships	14049005
Omat fibre not twisted	53051110	Mattings	57022002
Coir fibre pith (raw format)	53051111	Other	57022009
Other twisted fibre	53051112	Coconut shell charcoal	44020002
Other	53051119	Coir pads of a thickness less	94042901
Moulded coir product for use in	53051901	Coir pads or mattress for bedding of AT	94042902
Other	53051909		

Source: Department of Customs

Table 4.2: Composition of Value of Coconut Exports in Sri Lanka During 1996-2000 (US$ Million)

Exports	1996	1997	1998	1999	2000
Kernel Products	81	82	56	84	77
Other products	29	35	38	45	45
Total Coconut Exports	110	118	94	129	121
Agricultural Exports	961	1060	1088	947	1005
% of Coconut Exports from Agricultural Exports	11.45	11.13	8.64	13.62	12.04
% of Coconut Exports from Total Exports	2.69	2.54	1.96	2.80	2.19

Source: Central Bank of Sri Lanka

Coconut is the second most important agricultural export commodity next to tea. According to the records of the Food and Agriculture Organizarion, Sri Lanka coconut production occupies the 4th place in the world after Indonesia, India and the Philippines. Sri Lanka's contribution to the world production of coconut is around 4.2 percent during the year 2000 (Table 4.3).

Table 4.3: Coconut Production of Major Producing Countries in 2000

Country	Production (mt)
Indonesia	16,235,000
India	11,100,000
Philippines	5,761,000
Sri lanka	1,950,000
Brazil	1,822,479
Thailand	1,373,162
Mexico	1,373,400
World	46,481,619

Source: Food and Agriculture Organization

Table 4.4: Contribution of Coconut Sector for the Gross National Product at Current Factors Cost Prices During 1996-2000 (Rs. Million)

Year	1996	1997	1998	1999	2000
Coconut	12838	14960	15573	17675	13249
Agricultural Products					
Gross Domestic Product (GDP)	695934	803698	912839	994730	1125259
Gross National Product (GNP)	184676	794289	901283	976899	1102292
% of Coconut from Agri. Product	10.47	10.76	10.16	10.81	07.71
% of Coconut from GDP	01.84	01.83	01.71	01.78	01.18
% of Coconut GNP	01.86	01.88	01.73	01.81	01.20

Source: Central Bank of Sri Lanka

Table 4.4 shows the contribution of the coconut sector to the GNP. Contribution of the coconut sector to the GNP has gradually decreased during the period concerned, (1.86 percent in 1996 and 1.2 percent in 2000). However, coconut production in 2000, estimated at 3,005 million nuts, was Sri Lanka's best output ever recorded.

4.2 Structure of the Industry

Coconut production has contributed significantly to the national economy over a long period. Average production for the period 1996-2000 is about 2,700 million nuts and ranged between 2,522 million nuts in 1998 and 3,005 million nuts in 2000. The extent of cultivation is around 442,402 Ha. And the number of holdings are around 704,408. Some 75 percent of the crop belong to small holders, while 25 percent belong to the estates sector. According to the statistics of the Coconut Development Authority (CDA), around hundred thousand people are employed in the coconut plantation sector and some thirty five thousand are engaged in the coconut processing industries.

Coconut production in 2000 was 3,005 million nuts. This was an improvement of 8 percent over the output in 1999. The increase in output was attributed to the well-distributed rainfall in 2000, as well as the lagged effect of favourable rainfall in 1999. Higher fertilizer application in 1999 also contributed to the improvement in output. However, the increased supply resulted in a steep drop in the price of nuts.

In line with the increased nut production, the three major coconut based products also showed improvements. Desiccated coconut (DC), which reported a 50 percent increase in the previous year, improved further by 32 per cent and recorded the highest quantity of DC ever produced. Almost all DC mills ran at full capacity and the industry nearly reached the full installed capacity of 90,000 metric tons. DC exports also reported a new high level of 83,000 metric tons, which indicated a 30 percent increase over the previous year. Other kernel products also improved significantly. Coconut oil production increased by 27 percent. Exports of copra, fresh nuts, coconut cream and milk powder also increased by 30 percent, 26 percent and 20 percent respectively.

The number of companies registered in the export directory in 2000 was 439. But, according to the CDA the number of registered coconut product manufactures and exporters in 1999 was 626 (See Table 4.5). Of the 626 manufacturers and exporters, 12.8 percent are brokers and coconut manufacturers and other 87.2 percent are registered coconut product exporters. However, those invested in coconut related industries could be divided into five groups. 1) DC: Two large companies, around 35 medium and 25 small companies, 2) Coconut powder: One large company, 3) Coconut Milk: three medium companies, 4) Activated carbon: Four large and medium companies and 5) Fiber: Five large and medium companies. All of them produce value added products such as DC, coconut oil, copra, coconut cream, coconut milk, coconut powder, fiber, husk, and coir based products. Some manufactures have their own large cultivations and many of them are DC producers. However, the number of exporters who have their own plantations are limited.

Table 4.5: Number of Registered Coconut Products Manufacturers and Exporters in 1999

Items/Manufacturers	Number
Auctioneers/Brokers	18
Desiccated Coconut Manufacturers	62
Exporters of/desiccated Coconut	68
Exporters of Copra	16
Exporters of Coconut Oil	39
Exporters of Defatted Coconut	30
Exporters of Coconut Milk Powder, Coconut Cream and Coconut Milk	47
Exporters of Coir Fiber Products	38
Exporters Coir Fiber Processed Products	162
Exporters of Minor Kernel Products	146
Total	626

Source: Coconut Development Authority

4.2.1 Capacity and Production

Manufactures were of the opinion that the coconut industry is under utilized due to lack of fresh coconuts. However, the Central Bank in its Annual report released for 2000 reported that almost all DC mills ran at full capacity and that the industry had nearly reached the full installed capacity in 2000. The irregular supply situation is the major constraint to the development of the coconut industry in Sri Lanka.

Although some manufactures lacked facilities for the storage of fresh nuts, this was not the main reason for under utilization of the industry. Government policy on importation of raw material (fresh coconut) discouraged entrepreneurs. In Sri Lanka, most of the coconut lands are mono cropped, while in the Philippines and Indonesia more than 60 percent of coconut cultivation is multi cropped, which gives a higher productivity and income. More attention is needed for the improvement of coconut production in the country, especially as healthier conditions have an adverse effect in productivity.

4.2.2 Production Inputs

As coconut is domestically grown, more than 98 percent of raw materials are indigenous to the coconut industry. The kernel of the coconut is a major raw material in the industry. However, some packing material such as cans for coconut milk are imported from other countries. The cost structure as reported by the key personnel indicates that around 70 percent is spent for fresh coconuts, 7 percent for labour, 8 percent for power generation and machine oils and 15 percent for other industrial activities.

No problem, however, was reported with regard to the availability of imported raw materials, but the main problem faced by the industry is the fluctuation of coconut production in the country. This situation influences the prices of local raw materials (fresh coconut prices), ex-factory value of the products and quantity available for the export market.

Coconut Cultivation Board launched various subsidy schemes devised to improve the coconut cultivation and to raise the economic status of the coconut cultivator. Some of these subsidy schemes have been in operation since 1974.

However, the weather and particularly periods of drought severely affect local coconut production. Also coconut lands are annually lost due to urbanization and housing schemes. These are the main factors affecting the supply of local raw materials for the industry. However, if coconut yields and productivity could be increased, the industry would benefit immensely.

Local coconut production accounted for between 2,000 million nuts and 3,000 million nuts annually in the last two decades. Around 20-35 percent of the local coconut production is used by the industry and the balance goes for local consumption (Local consumption is around 65-80 percent of the production). Although local coconut production fluctuates from year to year it does not effect local consumption but effect the industry and the quantity available for exports. Although the quality of the raw material is satisfactory, the supply fluctuates during the year. The main supply season is from June to September and the off-season from November to March. Seasonal production pattern affects the local market prices of coconut. However wholesale prices of coconut in 2000 is around Rs.8000 per 1000 nuts (US$ 9.00 per 1000 nuts).

Indigenous technology as well as imported technologies are available and are used by the industry. But, EDB reported that in some factory, metal particles get mixed with DC products, due to improper maintenance of the machinery. This situation badly affects the quality of DC production.

However most of the factories do not use new improved technologies for their activities, due to financial reasons. Local packing materials are used for many products of the

industry. These materials are freely available in the local markets. Small cans (400 ML and 210 ML) used for packing of coconut milk are imported.

Power generation for the industry is not a problem although the energy situation in the country could affect he industry as well. Although skilled labourers are available in the industry, ratcheting, peeling and plucking coconuts present problem. Therefore it should be the right time for introducing machinery or technology for hatchering, peeling and plucking coconuts.

Except for fresh coconut, the other production of the coconut industry are all exportable, but the fluctuation of the supply situation in the country affects the stability of the export market. Also, the greater domestic consumption of coconut also affects the quantity available for export.

4.2.3 Quality Standards

Sri Lankan Standards (98-1988, UDC 634-616) is used for DC production. Apart from this, two coconut mills obtained ISO 9002 quality standards for their DC products. All the DC producers maintained mini labs in their DC factories under the guidance of the Coconut Development Authority (CDA) and the CDA officers visit factories and test the DC production process to certify the quality.

The SLS 32 quality standard is maintained for export of coconut oil. But, the coconut oil that is released to the local market does not have any kind of quality control system. One of the major coconut oil producers (BCC) has the SLS quality control certificate.

However, there is no special quality control system introduced for fresh coconut, coconut cream, coconut milk and coconut powder. But, the producers of these products keep their own quality control systems due to competition of the export market. Although there is no quality control system for copra production, its quality should be up to the standard as the quality coconut oil cannot be produced from inferior copra.

There are no pre-shipment inspections or quality control systems for many coconut products, except for DC production. However, the exporters are compelled to maintain their own quality control system for their products due to heavy competition in the export market. According to the survey, the problem of the prevailing quality control system and availability of packing material used for coconut products were not mentioned as problems.

If however, a buyer needed a quality control report on coconut products, another government or private agency was asked to prepare it.

4.2.4 Research and Development

In Sri Lanka, indigenous technology as well as imported technology are used for coconut industry. For coconut plucking, coconut husking, hatcheting and peeling indigenous technology is used. For DC, coconut milk, coconut cream and coconut powder machinery and imported technology were used. Both indigenous and imported technologies are used for copra and coconut oil production. However, exporters experienced some problems with the prevailing labour oriented indigenous technology.

There is, therefore, the need to introduce some low cost modern technology for coconut plucking, coconut husking, hatcheting, peeling, copra and oil production.

A large quantity of coconut-water is wasted in the DC process. This water has some sugar content and could be used to make a by-product like a Nata de coco in the Philippines. Also if the sugar content could be separated from coconut water, it could be utilized as a by-product.

Coconut Research Institute (CRI) and the Coconut Cultivation Board (CCB) are engaged in improving the quality of fresh nuts and increasing coconut production in the country. But, the contribution by the government or the private sector to export oriented research and development in the coconut sector, is minimal.

Although there are no agencies for testing of standards and quality, the processors have their own standards and quality testing. The Coconut Development Authority, however, engages in some quality control and testing activities in the sector.

The packing of export coconut products mainly depends on the requirements of buyers. There are no research and development activities in this area of work.

4.2.5 Domestic Demand

Around 65 to 80 percent of local coconut production are consumed in Sri Lanka. Hence, export share is 20 to 35 percent of the annual production. Table 4.6 shows the pattern of utilization of coconut in 1996/99.

Normally coconut production tends to fluctuate. When a higher yield is reported, the export share increases correspondingly. Normally the quantity of coconut consumed domestically is not subjected to change, based on annual production, which of course, affects the export market.

There are no government regulations regarding local requirements of the export supplies of coconut products. However, a tax on import of farm oil has a bearing on prices of coconut oil and its local demand.

Table 4.6: Coconuts: Pattern of Utilization 1996-1999

Product Category	1996		1997		1998		1999	
	Nut Eqvt (Mln Nuts)	As % of total nut production	Nut Eqvt (Mln Nuts)	As % of total nut production	Nut. Eqvt (Mln Nuts)	As % of total nut production	Nut Eqvt (Mln Nuts)	As % of total nut production
Coconut Oil Production	328.00	12.89	289.48	11.00	304.00	12.05	309.10	10.93
Desiccated Coconut Production	452.22	16.70	524.22	19.29	360.50	14.29	540.67	19.11
Net Copra Exports	38.63	1.52	42.09	1.60	44.29	1.76	59.15	2.09
Fresh Nut Export	17.45	0.68	17.71	0.67	17.54	0.70	22.99	0.81
Coconut Cream Export	5.00	0.20	5.65	0.21	6.16	0.24	8.35	0.30
Fresh Nut for local Consumption	1720.20	67.55	1743.88	66.29	1779.00	70.54	1818.99	64.31
Coconut milk Powder	11.76	0.46	7.96	0.31	10.58	0.42	16.46	0.58
Adjustment for year End stock	-	-	-	-	-	-	53.00	1.87
Total Nut Production	2546.26	100.00	2630.99	100	2522.07	100	2828.71	100

Source: Coconut Development Authority

Table 4.7: Export of Coconut Products During 1996-2000 (Volume Mt. and Value US$'000)

Product Category	1996		1997		1998		1999		2000	
	Volume	Value	Volume	Value	Volume	Value	Volume	Value	Volume	Value
Coconut Oil	2812	2590	3702	3270	2667	3088	3622	3499	4656	3338
Desiccated Coconut	60769	72220	63739	72491	45235	46184	62949	72201	82735	66431
Copra	7843	5897	8547	6809	8992	7106	11212	8942	14563	7876
Fresh Nuts (Nos. '000)	17451	4236	17717	4564	17535	4543	22999	5739	29025	6446
Poonac	44	03	9	9	-	-	17	16	7337	708
Coconut cream	736	1096	832	1284	841	1202	1044	1520	1249	1639
Milk Powder										
Defatted Coconut	865	751	755	704	1119	822	1437	1298	1746	1088
Total	-	92284	-	93326	-	68251	-	99900	-	94714

Source: Coconut Development Authority

4.3 Export Profile of the Sector

4.3.1 Volume and Direction of Export

Exports of coconut products during 1996-2000 are shown in Table 4.7. During the period studied, the highest volume of coconut products was exported in 2000, the highest reported in the past. However, the highest export value was reported in 1999 (US$ 99,900 thousands).

As seen in this table, the quantity and value of exported coconut products fluctuated from year to year. The main reasons for this fluctuation were the annual coconut production and local consumption. Local coconut production depends to a large extent on the prevailing weather conditions.

Table 4.8 shows the quantity exported and value of coconut and coconut products on a country basis. During three years, 30 percent to 47 percent of coconut products were exported to European countries like Japan, Netherlands, UK and Germany. However, except Pakistan, export to other Asian and SAARC countries is negligible. 15 percent, 10 percent and 16 percent were exported to Pakistan in 1998, 1999 and 2000 respectively.

FOB prices of coconut products in Sri Lanka are shown in Table 4.9. Prices of selected coconut products have increased during 1996 to 1999. However, there was a decrease by 28%, 20%, 33% and 10% in 2000 in the case of copra, coconut oil, desiccated coconut and milk powder respectively, due to low domestic prices as a result of high production of the country.

Table 4.8: Export Quantity and Value of Coconut Products in Country Basis During 1998-2000 (Volume Mt. and Value Rs. ML)

Country	1998				1999				2000			
	Qu.	Qu.%	Va.	Va.%	Qu.	Qu.%	Va.	Va.%	Qu.	Qu.%	Va.	Va.%
Indian	179	0.12	4.66	0.80	61	0.03	2.44	0.03	187	0.12	1.59	0.28
Pakistan	17866	12.05	615.00	10.82	19013	8.15	840.64	9.50	22768	14.04	729.73	17.46
Nepal	-	-	-	-	280	0.12	14.13	0.16	252	0.16	10.17	0.24
Bangladesh	303	0.20	12.22	0.21	193	0.08	13.32	0.15	317	0.20	17.43	0.42
Hong Kong	949	0.64	20.22	0.36	94	0.04	7.01	0.08	168	0.10	12.93	0.31
Thailand	143	0.10	5.23	0.09	189	0.08	8.71	0.10	142	0.09	6.92	0.17
Cambodia	8	0.01	0.58	0.01	24	0.01	2.11	0.02	24	0.10	0.65	0.02
LAO-PDR	-	-	-	-	-	-	-	-	-	-	-	-
Vietnam		-	-	-	-	-	-	-	0.11	0.00	0.02	0.00
Malaysia	620	0.42	21.43	0.38	776	0.33	30.41	0.34	868	0.54	24.70	0.59
Singapore	818	0.55	58.58	1.03	1167	0.50	96.22	1.09	44	0.03	8.56	0.20
Indonesia	513	0.35	5.77	0.10	83	0.04	1.08	0.01	40	0.02	0.58	0.01
Brunei		-	-	-	-	-	-	-	-	-	-	-
Philippines	22	0.01	1.63	0.03	22	0.01	1.00	0.01	16	0.01	0.92	0.02
China	192	0.13	4.35	0.08	471	0.20	10.52	0.12	403	0.25	9.55	0.23
Japan	23526	15.87	409.90	7.21	24765	10.62	449.64	5.08	26699	16.46	520.13	12.45
Netherlands	18104	12.21	407.13	7.16	46982	20.15	574.91	6.50	14223	8.77	323.54	7.74
UK	14507	9.79	319.99	5.63	12987	5.57	446.54	5.04	8865	5.47	200.63	4.80
Germany	13864	9.35	432.79	7.61	21473	9.21	817.48	9.24	14192	8.75	309.14	7.40
Other Country	38758	38.20	2751.97	59.22	85603	44.86	4694.56	62.54	50194	44.99	1261.52	47.65
Total	148236	100	5686.46	100	233197	100	8851.38	100	162169	100	4178.44	100

Source : Department of Customs

Table 4.9: FOB Prices of Selected Coconut Production (1996-2000) Rs/Kg

Item	1996	1997	1998	1999	2000
Copra	41.63	46.93	50.9	56.28	40.08
Coconut oil	50.98	52.06	74.57	68.19	54.57
Desiccated	65.78	67	65.77	80.94	59.99
Milk Powder	175.74	142.66	219.32	228.84	206.41

Source: Central Bank of Sri Lanka

The quantity and value of exported coconut products are set out in table 4.8. With the exception of Pakistan, 3,750 mt, 3,358 mt and 2,465 mt of coconut products were exported to other countries in 1998, 1999 and 2000 respectively, amounting to only around 1.5 percent to 2.5 percent of total exports. However, Pakistan imported sufficient quantities of coconut products during the last three years (17,866 mt. in 1998, 19,031 mt, in 1999 and 22,763 mt. in 2000. Its share of total coconut exports was 2%, 8% and 14% in 1998, 1999 and 2000 respectively.

Most of the countries using coconut have their local production, and the major producing countries like Indonesia, India and Philippines are all in this region. Therefore the export potential to these Asian and SAARC countries is low. However, there is a strong demand for coconut products in the European markets.

The Export Development Board has carried out some export promotional activities such as organizing buyers/sellers meeting, trade fairs, seminars and training. On the other hand CDA is also engaged in some quality control activities by the government, especially for

coconut products. Some manufacturers have their own programmes for export promotion. The Coconut Producers' Co-operative Societies Union Ltd had a programme for the promotion and development of export activities in 2000.

4.3.2 Export Policies and Incentives

No special export incentives have been provided by the government for coconut exports. Some subsidies were given by the CDA to DC producers in Feb-June 2000 due to the low prices that prevailed in the market (the subsidiary given was Rs.5.00 for one kilogram of exported DC). However, present export policies, regulations and procedures affect the export of coconut products are given in Annex 2.

The domestic coconut oil industry was seriously affected by the surge in the import of edible oils into the country during the last few years, as a result of the concessionary rate of duty granted in June 1998. This measure was taken to support DC millers who would benefit from the reduction in nut prices that would result from a decline in competition for nuts from the oil industry. The duty on edible oil, other than coconut oil was reduced from 35 percent to 5 percent. This resulted in the import of large stocks of cheap edible oil against which coconut oil could not compete. Consequently a large number of oil mills had to be closed down. The number of oil mills, which stood at 980 in 1987, came down to 156 by 1999. Of this, only 25 percent or 38 mills were in regular operation. With sharply reduced capacity in the coconut oil milling industry, the excess nut production could not be absorbed, and there was a downward pressure on nut prices during 2000. This situation prompted the government to revise its tariff policy on edible oils. The duty waiver granted to edible oil was removed and the duty was fixed at 25 percent in April 2000. Ultimately, to arrest the fall in nut prices further, the government decided to impose a 25 percent surcharge in addition to the revised tariff on all edible oil imports. Many exporters and manufacturers have reported that major constraints affecting their exports are lack of market information, lack of trade contacts and low prices in the world market. They further mentioned that they expected assistance from relevant agencies especially for market information, trade contacts and management training relating to the export market. All those interviewed had positive ideas on venture agreements in marketing and felt that export activities be extended especially to European and Middle East countries.

4.3.3 Export Channels

Channels for exporting coconut products are given in Chart 4.1 of which the three major channels are a) Coconut producers directly engaged with export; who have their own mills and after processing export directly b) Shippers: They collect coconut products from millers and export, but do not have their own mills or own production. c) Millers: They collect and process coconut, but they do not engage in the export activities.

No problems are reported on channels employed for coconut export by the companies. Many manufacturers are engaged in direct export. Except this, Sri Lanka Coconut Producers' Co-operative Societies Union Ltd. also engaged in coconut export activities.They have been engaged in the export of coconut products mainly DC and coconut oil.This coconut union has 15% share to the country's coconut exports.

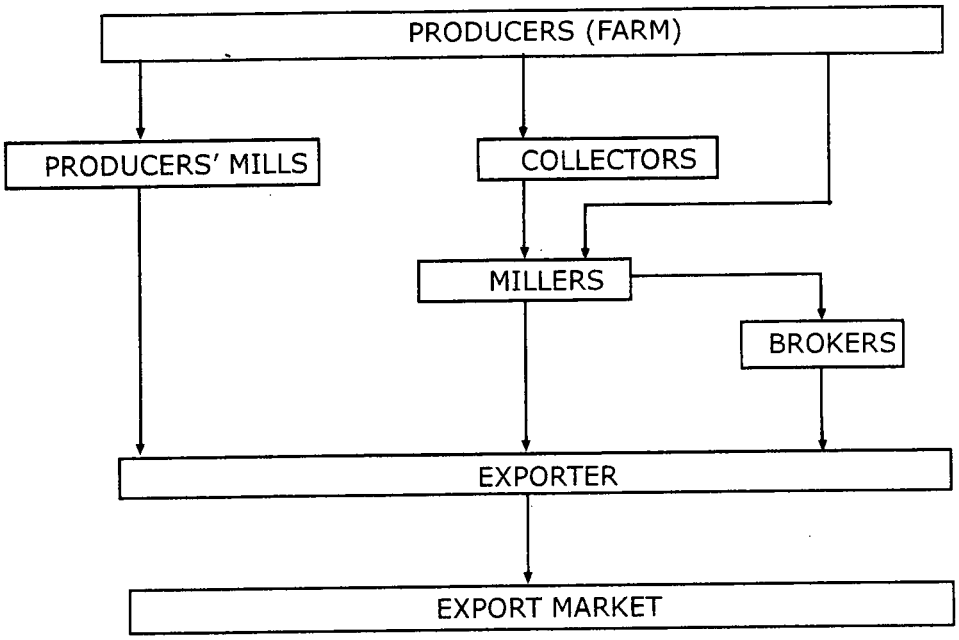
However, many companies which are engaged in coconut exports have no experience in group marketing systems, except Sri Lanka Coconut Producers' Co-operative Societies Union Ltd. This Union consists of 8 Coconut Producers' Co-operative Societies, all of which are located in the North Western and Western Provinces. Group marketing systems could be arranged for small companies engaged in coconut exports.

4.3.4 Shipping

No problems were reported on shipping activities of coconut products as well. Mainly these products are exported by ship. Exporters reported that cargo space and cargo costs

are not problems for them. But, according to the interviews current situation of Sri Lanka (over risk) is not suitable for export activities.

Chart 4.1 Export Channels of Coconut Products



4.3.5. Packaging

Paper bags lined with polythine are used for DC packing. Normally, the net weight of a bag is less than 50 kg (Normal standard is 50 kg or 25 kg).

Coconut oils is stored in large cans for export purpose (the capacity of one can is 45 gallons). Gunny bags lined with polythine are used for packing copra, weighing around 50 per bag.

For packing of coconut cream and coconut powder, a paper box is normally used. Before being packed in the box, the coconut cream is rapped with oil paper (normally net weight of one box is 2500 grams) and coconut powder in aluminum foil (normally net weight of one pack is 400 grams). Coconut milk is stored in cans. For export purpose the semi husked fresh coconuts are packed in coir net bag or polythine bag. A bag normally contains 50 fresh nuts.

Materials for packing coconut products are locally available. The cost is low and the quality is also suitable for international trade. The packing systems, materials and cost for packing do not present any problem for exporters of coconut products.

4.3.6 Export Credit and Finance

A system of export credit or finance facilities are not available for the coconut export sector. Some credit facilities, however, were given by the commercial banks at high interest rates, but many exporters could not make use of them annual interest rate of credit ranged from 20% to 24%). Many exporters reported financial problems due to delayed payment by the buyers. Therefore, coconut exporters expect low interest export credit system from the respective agencies for their activities. Fifty percent of interviewees mentioned the needs for credit at low interest rates for buying raw materials as well as buying and maintaining of machinery.

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4.3.7 Trade Promotion

According to the Central Bank Annual Report of 2000, exporters continued to receive institutional support from the Ministry of Plantations Industry (MPI), EDB and the Sri Lanka Export Credit Insurance Corporation (SLECIC) and other related ministries and government institutions. The MPI provided support for the development of traditional exports, while EDB played the major role in the development and promotion of non-traditional exports. SLECIC provided credit insurance and guarantee services.

The EDB conducted 93 programmes under its technical and skills development programme. It organized the participation of Sri Lankan exporters in 35 product specific and general international trade fairs. The total value of initial export orders received at these fairs was Rs.385 million. The EDB continued to provide advice and assistance to exporters to resolve various operational problems. In collaboration with the Department of Customs and Ministry of Internal and International Trade and Commerce, meetings were held to solve problems of entrepot traders and to prepare a manual for them. Awareness programs and seminars were conducted to help develop small and medium scale enterprises. Such enterprises were assisted by way of providing information and advisory services.

During 2000, the Chamber of Commerce held a number of seminars and discussions on various issues. The Chamber also participated in monthly meetings with the Treasury, exporters and the Department of Customs and resolved several problems faced by their members.

However, many were of the opinion that trade promotion provided by the Government and other trade promotion agencies are inadequate. Except the EDB and the CDA, other agencies did not even organize seminars or training courses in coconut exports. The commercial sections of Sri Lanka embassies have not performed very well in promoting local exports. Trade promotion agencies like EDB do less work compared to other countries, according to those in the export trade.

4.4 Conclusions and Recommendations

- All parts of the coconut tree are used to produce a variety of products for export and local use. Main products of the coconut are kernel products. However most of the coconut products exported are value-added products. The main markets for these products are the Western European countries, Pakistan, Bangladesh and some of the Middle-East countries. Exports of coconut products account for more than 11 percent of the value of the agricultural exports and around 2.5 percent of the value of the total country exports. Contribution of the coconut sector to the GNP has gradually decreased during last five years. Sri Lanka's contribution to the world production of coconut was around 4.2 percent during year 2000.

- Coconut production has contributed significantly to the national economy over a long period. In 2000 it was 3,005 million nuts, and improvement of 8 percent over the output in 1999. The number of companies registered in the export directory in 2000 was 439. But, according to the CDA, the number of registered coconut products manufacturers and exporters in 1999 was 626. Out of this amount 12.8 percent were brokers and coconut manufacturers and others while 87.2 percent were registered coconut product exporters.

- The Central Bank Annual Report released for 2000 reported that almost all DC mills had run at full capacity and that the industry nearly reached the full installed capacity in year 2000. Irregular supply situation of fresh coconut, however, is the major constraint to the coconut industry in the country. In Sri Lanka most of the coconut lands are mono cropped. But, in the Philippines and Indonesia, more than

60 percent of coconut cultivation is multi cropped, which provide a better income and higher productivity.

- As coconut is domestically grown, more than 98 percent of raw materials are indigenous in coconut industry.The main problem that faces the industry is the fluctuation of coconut production in the country, which affects the prices of local raw material (fresh coconut prices), the ex-factory value of the products and quantity available for export. Weather conditions especially rain affects coconut yields. Around 20-35 percent of local coconut production is used for the industry and balance go for local consumption (Local consumption is around 65-80 percent of the production). Although the local coconut production fluctuates from year to year, it does not effect the local consumption, but have a direct bearing on the industry and the quantity available for the export market.

- Most of the factories do not use new improved technologies, because of financial problems. Local packing materials are used for the many products of the industry. These materials are freely available in the local market. Although skill labour is available to the industry, there are some problems regarding hatchering, peeling and plucking coconuts, which could be overcome by the use of machinery or new technologies.

- Sri Lankan Standards (98-1988, UDC 634-616) is used for DC production. There are also two coconut mills which obtained ISO 9002 quality standards for their DC products. CDA officers visit the factories to test the DC production process to certify quality. However, there is no special quality control system for fresh coconut, coconut cream, coconut milk and coconut powder, but competition in the export market ensures quality.

- The Coconut Research Institute (CRI) and the Coconut Cultivation Board (CCB) engaged in improving the quality of fresh nuts and increasing coconut production in the country. But, the contribution of government and private sector companies to export oriented research and development in the coconut sector is inadequate. There are some problems reported by the exporters on prevailing labour oriented indigenous technology. There is, therefore a need for low cost modern technology for the coconut plucking, coconut husking, hatcheting, peeling and copra and oil production. A large quantity of coconut water is wasted in the DC process. This water has some sugar contents and could be used to produce a by-product like a Nata de coco as is done in the Philippines.

- Around 65 to 80 percent of local coconut production is consumed in Sri Lanka, with 20 to 35 percent of the annual production being exported.

- During the last five years, the highest volume of coconut products was exported in the year 2000, which is also the highest reported production in the past. However the highest export value reported was in 1999, US$ 99,000 thousands. Thirty percent to 47 percent of coconut products were exported to countries like Japan, Netherlands, UK and Germany. However, except for Pakistan which imported about 14 percent, exports to other Asian and SAARC countries were negligible. However there is a good demand for coconut in the European market. Export Development Board has some export promotional activities such as organizing buyers/sellers meeting, trade fairs, seminars and training. On the other hand, CDA is also engaged in some quality control activities of DC. Some manufacturers had their own programme for export promotion.

- There are, however, no special export incentives provided by the government for coconut exports. Some subsidy was given by CDA. The duty on edible oil other than

coconut oil was reduced from 35 percent to 5 percent. This resulted in the import of large stocks of cheap edible oil against which coconut oil could not compete. Consequently, a large number of oil mills had to be closed down. The number of oil mills, which stood at 989 in 1987, declined to 156 by 1999. Of this, only 25 percent of 38 mills were in regular operation. This situation prompted the government to revise its tariff policy on edible oils in 2000. Many exporters and manufacturers have reported that major constraints affecting their exports and lack of market information, lack of trade contacts and low price of the world market. They further mentioned that they expect assistance from relevant agencies especially for market information, trade contacts and management training related to the export market. All of interviewees had positive ideas on venture agreements in marketing and to further expand their export activities especially to European countries and Middle-Eastern countries.

- Three major channels are employed for exporting coconut products. a) Coconut producers directly engaged in exports, who have own mills and engaged in direct export. b) Shippers: who collect coconut products from millers and export. But, they do not own mills or own production system. c) Millers: who collect and process coconut, but do not engaged in export activities. There are no problems reported on channels employed for coconut export by the companies. However, many companies which are engaged in coconut exports have no positive ideas on group marketing activities. Therefore, group marketing systems could be started for small companies that engage in coconut export.

- No problem was reported with regard to shipping.

- Packing materials of coconut products are locally available. They are not high cost items and the quality is also suitable for international trade activities. Therefore, packing systems, materials and cost for packing do not pose a problem for the coconut product exporters.

- Export credit system or finance facilities are not available for the coconut export sector. Although some credit facilities were given by the commercial banks with high interest rates, many exporters could not make use of them. Coconut exporters expect a low interest export credit system from the respective agencies for their activities.

- As reported by the interviewees trade promotion provides by the Government and other trade promotion agencies are inadequate. Except the EDB and CDA, other agencies do not engage in organizing seminars or training for the coconut export sector. The commercial sections of Sri Lanka embassies have not performed very well in promoting local exports. Agencies like the EDB do limited trade promotion work compared to other countries.

CHAPTER FIVE

TEA

5.1 Product Description

The tea is not indigenous to Sri Lanka but was introduced to the island about 150 years ago when under British rule. Tea has since become an economically important commodity in Sri Lanka, as it has a climate and topography to produce a wide variety of teas to suit connoisseurs of the world over. Sri Lanka has been the world's largest exporter of the tea for a long time ago and still maintains that position.

Tea has contributed more than three fourth of export earning of the country during the early post independence years, but its position as the country's largest net foreign exchange earner has changed during the last ten years. Textiles and garments have come to occupy this leading position since 1992 and continue to be so. However, the textile and garment industries are heavily dependent on imported raw materials, whereas tea is produced mostly with local inputs.

The tea sector's value added contribution to Gross Domestic Product was nearly 2.6% in 2000 and ranged between 2.2-2.7% during 1996-2000 (Table 5.1). Besides, the tea industry employs a considerable amount of labour giving direct employment to around 600,000.

Table 5.1 : Contribution of Tea Production to GDP

Years	Tea Production as % GDP
1996	2.2
1997	2.3
1998	2.7
1999	2.2
2000	2.6

Source: Central Bank Reports.

The tea is classified under HS code 9, which includes coffee, tea, mate and spices. The export related tea products and relevant HS codes are presented in Table 5.2.

5.2 Structure of the Industry

5.2.1 Capacity and Production

The structure of the tea industry has undergone several changes during the last ten years. The tea plantation sector which was dominated by state owned corporations as a mater of government policy has faced fundamental structural changes. The privatization of state owned Regional Plantation Companies (RPC's) that began in 1995 went on steadily through 2000 and at present a number of companies are fully privatized.

Besides there are some 250,000 small holders operating mostly in Ratnapura, Galle, Matara, Kalutara, Kandy, Badulla and Kegalle. The average extent is one acre and most of the

holdings are less than two acres. Most of them sell the tea leaves to local collectors or directly to tea factories. Few producers operate small-scale factories. Some of the small-scale producers export tea as well.

Tea is grown at three elevations, low, medium and high. More than half of the total output is from low elevational areas, while the production in the high and mid elevations accounted for nearly 30% and 20% of total production respectively (Tabale 5.3).

Table 5.2: Tea Products & HS Codes

Commodities	HS Codes	Commodities	HS Codes
Green tea packets Not exceeding 1/kg	9021001	Black tea packets exceeding 1/kg	9023002
Green tea packets Exceeding 1/kg	9021002	Black tea bags (4 grams)	9023003
Green tea bags (4 grams)	9021003	Black tea (other)	9023009
Green tea (other)	9021009	Wholly of Sri Lanka Origin blended	9024001
Other green tea (not fermented)	90220	Foreign tea blended with Sri Lankan tea	9024002
Black tea packets Not exceeding 1/kg	9023001	Foreign tea in bulk	9024003
Tea whether or not Flavored	0902	Other black tea in bulk	9024009

Source: Dept. of Customs

Table 5.3: Black Tea Production by Elevation ('000 Mt)

Year	High Grown		Medium Grown		Low Grown		Total
	Mt	%	Mt	%	Mt	%	Mt
1960	79	40.4	69	35.2	48	24.2	197
1970	81	38.2	72	34.0	58	27.8	212
1980	72	37.9	55	29.0	63	33.0	191
1990	76	32.6	51	23.3	105	45.1	233
2000	83	27.3	56	18.3	166	54.3	305

Source: Plantation Sector Statistical Pocket Book

High quality tea is mainly produced in Sri Lanka. Cut, tear and curl (CTC) tea are produced in small quantities. The local CTC teas cannot compete with low priced competitors in the global CTC tea markets due to high cost of production. Sri Lanka imports CTC tea for blending purpose. The import of CTC tea was 3.6 million kg, equal to 1 percent of domestic production.

The total tea production has increased by 8 percent over the peak production in 1999, continuing the upward trend experienced since 1993, reaching a record level of 306 million kgs and surpassing the 300 million kg level for the first time in 2000 (Table 5.4). The extent of cultivation was 194 thousand hectares in 1998 and it has declined to 180 thousand

hectares in 1999 and 2000. However, the favourable tea prices, increased fertilizer applications and favourable weather conditions were the major contributory factors for the increase in production. Moreover the privatization of the tea industry also contributed to an improvement of the management practices and stable growth in production, to a certain extent.

Table 5.4: Extent, Production and Average Yield of Tea in Sri Lanka

Year	Extent (Hectares)	Production (Mn. Kgs)	Average Yield (Kg/Hec)
1994	187,426.00	242.20	1,092.00
1995	188,970.00	245.90	1,313.00
1996	189,354.00	258.40	1,380.00
1997	193,676.00	276.90	1,465.00
1998	194,736.00	280.10	1,495.00
1999	180,000.00	284.10	1,544.00
2000	180,000.00	306.20	1,618.00

Source: Plantation Sector Statistical Pocket Book

The small holder sector has contributed 60% of the total production, showing a rise of 12% in 2000 to 184 thousand kg. The large-scale newly privatized companies that account for the balance of the production registered a growth of only 2%. The average yield was 2,216 kg/hectare in the small holder sector in 2000, whereas the average national yield of tea was 1,618 kg/hectare, mainly because a large extent of tea in the estate sector is still under low yielding seeding tea, compared to the high yielding vegetatively propagated (VP) tea that widespreadly used by small holders.

Most of the companies interviewed indicated that their production capacity is under utilized. It was not production but the market that was the problem. The exporters said production could be expanded further, if sufficient orders were received to absorb additional tea produced. More than half of them plan to expand production with the expectation of new orders. Some of them are concentrating on value addition.

Most of the tea, 63 percent in 2000, is exported in bulk. The rest consists of value added products such as tea in packets, tea in bags, gift tea, flavored tea, organic tea etc.

5.2.2 Production Inputs

More than 95 percent of raw materials are indigenous, although CTC tea is imported for blending purpose. The packing materials are either locally purchased or imported. The substance for flavouring the tea is imported mainly from Germany. According to the exporters, no problems were reported regarding availability, quality or prices or inputs.

The government exempted the importation of products/raw materials for re-export from a payment of the Goods and Service Tax (GST). However raw materials are subject to the payment of NSL of 7.5%.

The other inputs such as machinery, equipment, technologies and know-how for processing, packaging materials were either locally purchased or imported. Producers and exporters said there was no any problem regarding availability or quality but expressed their dissatisfaction over the cost of imported items and of the import procedures and regulations. All of them said that sufficient locally qualified staff is available.

5.2.3 Quality Standards

The ISO standard is an internationally recognized quality control measure, which deals with aspects of moisture content, ash contents and chemical content in tea. These contents should be within limits to obtain the ISO standard. Several export companies possess ISO status. The minimum expected quality standard is ISO 3720. According to National Export Development Plan (NEDP), many companies face difficulties in conforming to ISO standards. In addition, it is reported that conforming to ISO standard is expensive (NEDP). Therefore it is recommended that Sri Lanka Tea Board (SLTB) and Export Development Board (EDB) should assist the private sector to confirm the ISO standards.

The Sri Lanka Standards Institution (SLSI) is another organization promoting standardization and quality control. SLSI is involving in research, training, and dissemination of information on standards and standardization. The SLSI provides services such as dissemination of tea standards and analyzing tea samples. According to SLSI officials, there is a proposal to issue certificates and SLS status to local producers and exporters.

In the case of organic tea independent international bodies check the quality standard and issue certificates. The institutions like the Institute for Marketogy in Switzerland and the National Association of Sustainable Agriculture, Australia are involved in checking the quality and standard of some organic tea producers. They directly visit the production site and conduct experiments and issue certificates. And also, when orders are placed samples are sent to the Sri Lanka Tea Board and certificates obtained before the shipment.

Most of the producers and export companies have their own quality control facilities. All companies check for taste during the purchase. Usually they send tea samples to buyers. These samples are tested for taste, colour infuse, etc. by the buyers.

According to the exporters, immediately after purchase from the auction or tea factories, the tea is purified and get rid of dust, stones, and other substance. According to most of exporters, there are no any problems or constraints experienced with regard to quality control. However, some of them stated lack of laboratory facilities at affordable rates.

The Sri Lanka Tea Board (SLTB) checks quality at different points in the marketing channel. The samples of all stocks brought to the auction must be submitted to SLTB. The SLTB checks the taste and the quality of these samples. If any sample fails to meet the minimum quality requirement, the particular stocks will be removed from the auction. Besides, the SLTB checks the samples before shipment, especially the low fob stocks, for taste and quality.

5.2.4 Research and Development

The Tea Research Institute (TRI) is the prime organization for tea research in Sri Lanka, and provides research, advisory and extension services. TRI officials pay regular visits to tea producing sites and advise on problems.

The tea industry is facing a severe shortage of labour, especially in the low elevational areas. With a view to overcoming this difficulty, the TRI recently introduced a harvesting sheer which has become popular, especially in the areas of severe labour shortages. The TRI has also introduced pruning machines for tea.

The Industrial Technology Institute (ITI) is another research organization involved in research on food processing and product development. However, the role of the ITI is limited to analytical work in the tea sector. SLSI is involved in research, training, and dissemination of information on standards and standardization. However, the role of the SLSI in the tea sector is to be enhanced to suit present requirements.

Although the latest machinery, equipment, technology and know-how are used to a certain extent in the tea industry, in most cases tea production and processing depend on traditional practices.

Consumer preference is subject to constant change. With income levels of most of the traditional tea drinkers on a steady increase, there is always the possibility that their life-styles could influence their tastes and turn increasingly to other beverages, such as cola type drinks. There is always a distant possibility of such a change. To promote future sales, tea should be made more convenient and popular.

According to most of the producers and exporters, research and development should be market oriented, and concentrate on product development, value addition, packing, promotion of quality and a lower cost of production to match the future market requirement. The market research is another important area to be given due attention in order to explore new markets and improve export performance in existing markets. Furthermore, there should be more communication between tea experts and producers/exporters.

5.2.5 Domestic Demand

The domestic consumption was 23.4 million kgs in 1995 and increased to 27.2 million kgs in 2000 (Table 5.5). The average domestic consumption in the six years was 8.8 percent of total production. At present, the level of domestic demand for tea does not affect the availability of tea for export, as nearly 90 percent of the production is available for exports. There are no special reasons to expect a sudden rise in the domestic consumption in the coming years, and most of the exporters and producers said that in increase in production would result in an increase in stocks available for the export.

Table 5.5: Production, Domestic Consumption and Export of Tea in Sri Lanka During 1995-2000 (in Thousand Mt)

Year	Production	Domestic Consumption	Export as % of Production
1995	245.90	23.39	91.58
1996	258.30	25.70	89.04
1997	276.90	26.04	92.01
1998	280.10	26.35	91.46
1999	283.50	26.73	91.98
2000	305.60	27.17	90.65

Source: HARTI

5.3. Export Profile of the Sector

5.3.1 Volume and Direction of Exports

The export figure of 288 million kg registered for the 2000 is an all time record, surpassing the 1999 figure by 20 million kg (Table 5.6). The entire excess crop amounting to 7% were exported, and exports increased by a similar margin. During the study period, the export of tea has increased steadily from 244 million kg. in 1996 to 288 in 2000. The same pattern of growth was observed in export earnings which rose from Rs.34,608 million in 1996 to Rs.53,133 million in 2000.

The upward trend in tea prices that started from the later part of 1995 continued until August 1998. Thereafter, the prices declined from an average of Rs.136.52.kg in August to Rs.117.47/kg in December due largely to economic problems in Russia, the recovery of the tea market in Kenya by nearly 30 percent after the set back due to the drought in 1997. Production in India also increased, contributing to a downward pressure on tea

world prices. The recovery of the market that commenced from July 1999, continued well into 2000, with dizzy height been reached in October 2000. This was mainly due to the economic recovery in Russia that helped them to repay their debts to local traders, and place fresh orders. With world oil prices improving, the economies of the Middle East Countries too improved during this period which helped to boost their purchase, thus stabilizing tea prices. The annual average export price improved by 17% to reach a record price level of Rs.184.94/kg in year 2000.

Table 5.6: Tea Export by Type of Products 1999-2000

Category	Quantity Exported		Value of Exported		FOB	
	2000 (Kg)	1999 (Kg)	2000 (Mn. Rs.)	1999 (Mn Rs.)	1999 (Rs.)	2000 (Rs.)
Tea in Bulk	182,927,487	171,510,341	29,104.8	24,391.6	159.1	142.21
Tea in Pkts	74,901,441	73,199,223	30,404.5	11,416.4	181.5	155.96
Tea Bags	12,133,846	11,249,878	4,850.4	4,280.4	399.7	380.49
Instant Tea	1,208,161	992,474	530.9	496.6	435.9	500.36
Green Tea	432,352	539,965	262.8	213.9	408.7	396.23
Other Tea	9,551,525	6,270,413	2,635.2	1,631.5	275.8	260.18
Total	281,393,327	263,762,294	50,988.7	42,430.5	181.2	160.86
Re-exported	6,577,676	5,341,194	2,047	1,654.9	311.2	311.36
Grand Total	287,971,003	269,076,488	53,035.7	44,085.2	184.1	163.83

Source: Plantation Sectors Statistical Pocket Book

Generally value-added tea such as tea in packets, tea in bags, and instant tea fetch higher prices than tea in bulk. In the year 2000, fob price was Rs.159.10 per kg for tea in bulk, Rs.181.58 per kg for tea in packets, Rs.399.74 per kg for tea in bags and Rs.435.90 per kg for instant tea, etc.

Tea is traded at the auction in Colombo. The prices of tea at the auction are determined by the demand and supply situation. Global supply and demand situations and other market sentiments could influence the process of price formation. There are 180 buyers at the auction. Of them 25-30 are big buyers who purchase over half a million kg and others purchase smaller quantities.

There are a number of companies involved in the export of tea (Table 5.7). According to Sri Lanka Export Development Board, nearly 300 companies are involved in the tea exports, half of them being involved in the export of black tea in bulk. Black tea in packets is exported by 82 companies, 79 of them are involved in export of black tea in bags/cartons, 36 in flavoured tea exports, 21 in green tea exports, 11 in gift packets and 7 companies in organic tea/bio tea.

Table 5.7: Tea Exporters by Type of Products

Products	Number of Companies	%
Bags/Cartons	79	26.3
Black Bulk	148	49.3
Flavoured tea	36	12.0
Gift packs	11	3.7
Green tea	21	7.0
Instant tea/foreign tea	02	0.7
Organic tea/bio tea	07	2.3
Packets	82	27.3

Source: Sri Lanka Directory of Exporters, 2000-2001, EDB

In 1999, about 63 percent of the export had been in bulk, which generated 54.7 percent of total revenue, while nearly 25.6 percent was derived from the export of tea in packets and 9 percent from the export of tea bags.

Table 5.8: Direction of Exports – 2000

Country	2000 (Kg)	1999 (Kg)	+NC/-DEC (Mln.Kg)
CIS	56,646,923	47,735,037	+8.9
UAE	40,145,613	41,272,473	-1.1
Syria	21,145,701	19,354,709	+2.1
Turkey	20,324,965	24,958,031	-4.6
Iran	12,480,391	9,674,319	+2.8
Saudi Arabia	11,416,596	9,806,072	+1.6
Iraq	11,080,329	8,773,011	+2.3
U.K.	10,169,035	10,604,732	-0.4
Egypt	10,140,645	7,595,369	+2.5
Libya	9,984,016	5,844,834	+4.1
Japan	8,278,038	5,854,530	+2.4
Jordan	7,336,702	6,288,916	+2.0
Tunisia	6,906,196	6,183,375	+0.7
Chile	6,026,521	5,700,077	+0.3
Gr.Fed.Reb.	4,992,323	6,103,085	-1.1
Other Countries	56,646,923	53,456,126	-2.8
Total	288,034,422	268,204,696	+19.8

Source: Dept. of Customs Report

For the third successive year, countries like the Commonwealth of Independent States (CIS) continued to be the leading buyer of Sri Lanka tea and accounted for 16% of the total share of exports (Table 5.8). The leading buyers such as CIS, UAE, and Turkey purchased nearly 40 percent of total exports. Syria accounted for 7.4% in the total tea export, followed by 4.3% (Iran), 4.2% (Saudi Arabia), 4% (Iraq), 3.5% (U.K. and Egypt), 3.4% (Libya) and 2.8% (Japan).

The CIS continued to remain the major buyer of Sri Lankan tea. Over past decade their purchases have increased form 14.1 million kg in 1990 to 56.6 million kg in 2000, recording a 300 percent increase. The CIS has long been a nation of tea drinkers, and in the old days, a constantly bubbling "samovar" in their homes was perhaps almost as essential as domestic furniture. In 2000, 42 percent of CIC purchases had been in bulk, 41 percent in packets and the balance in other forms.

The UAE tea market is constantly expanding. Their geographical position and the availability of convertible currency prompt them to take up direct trading in tea. Their bulk purchases are converted into value added consumer products and exported to adjoining countries. A possibility exists where some bordering countries would turn to UAE for their requirement of value added tea. Moreover the strict prohibition of the consumption of alcoholic beverages, has made tea a popular beverage in Islamic countries.

Syria is land of contrasts, with scorched deserts, coastal greenery, snow capped mountain and warm Mediterranean seas, the Syrians are a national of tea drinkers, and although they mostly buy of black tea in bulk (65%), they buy value-added items as well.

Turkey offers a great potential for the development of trade in that region because of its strategic position and because the offers facilities like transhipment points to her neighbours. Bulk tea is mostly preferred. Iran is another tea drinking nation where demand is likely to increase in the future. Japan is another prestigious market for Sri Lanka tea, and the Japanese are known buyers of best quality tea.

Tea export to regional countries (all SAARC & ASIAN countries, excluding Maldives, Bhutan and including China) has not been impressive with only 4-5 percent of total tea export being shipped to these countries. Pakistan accounted for 1.4 percent of the total volume of tea exports and 1.1 percent of total value of exports in the year 2000 which remained more or less the same over the years (Table 5.11). The export to Hong Kong accounted for 1.3 percent of total export value and volume in 2000 over the period 1995-2000.The other countries contributed a negligible share of the total tea export. Besides, no exports have been reported to Nepal, Bangladesh, Cambodia and Laos during the period concerned.

Table 5.9: Annual Imports of Tea in Selected Countries (in Mt)

Countries	1999	2000
Russian Federation	152,719	150,500
Other CIS	37,000	42,000
United Kingdom	137,314	134,077
Pakistan	107,708	111,426
USA	92,865	88,267
Egypt	73,247	63,355
Japan	49,269	57,773
Iran	31,000	36,000
Iraq	43,000	42,000
Morocco	35,402	42,268
Poland	28,000	30,000
World Total	**1,207,513**	**1,222,173**

Source : International Tea Committee
Annual Production and Imports and Exports of Tea

Pakistan's tea imports have steadily risen to 111.56 million kg. in 1998, thus becoming one of the top three importers with 11 percent of the total world tea imports. The share of Sri Lanka teas in Pakistan's total import, which used to be as high as 67 percent in 1975, declined to one percent in 2000.This steady decline in imports from Sri Lanka is partly attributed to the shift in tasks and preferences of Pakistani tea consumers from orthodox to CTC tea. Kenya has gradually emerged as a most important source of Pakistan's imports, contributing over 60 percent in 1998 as against a meagre 11 percent shown in 1975. Besides Pakistan exports rice to Kenya and imports tea in return. However, this arrangement may not last long as under the common market for Eastern and South African (COMESA) trade agreement. Egypt is now supplying Kenya with its rice requirement in exchange for tea. The other reason is that some multi national corporations who dominated tea marketing in Pakistan are specially interested in marketing Kenyan tea, as they are huge stakeholders in the Kenya tea gardens.

The export of tea to India has gone up because of the Indo-Sri Lankan free trade accord (Tabale 5.10). This accord allows for 50 percent margin of preference for tea up to 15 million kg for import from Sri Lanka. This means that import duty on tea from Sri Lanka is 7.5 percent. However, the import of tea from Sri Lanka generated a very strong protest, particularly in South India as imports from Sri Lanka believed to be the main reason for price declines in the South Indian auctions.The recent devaluation of Sri Lankan rupee has added to apprehension, especially in South India. The United Planters Association of Southern India (UPASI) has demanded the restriction of tea imports from Sri Lanka, under Article VIII sub clause (1) of safeguard measures. Therefore, this problem should be solved to further expand tea export to India.

Table 5.10: Tea Exports to Participating Countries 1996-2000 (Quantity in 000' Mt/Value in Mn Rs)

Country	1996		1997		1998		1999		2000	
	Quan.	Value	Quan.	Value	Quan.	Value	Quan.	Value	Quan.	Value
India	83.3	10.92	611.69	77.97	682.39	86.84	1607.44	151.73	1907.20	282.12
Pakistan	4367.37	414.17	5190.33	665.57	3195.77	457.23	97.34	523.30	4088.59	601.60
B. desh	0.50		0.03	0.01					10.94	1.67
Nepal									1.14	0.52
Cambodia										
Laos										
Vietnam	44.06	14.47			7.56	4.62	5.04	5.53	10.67	5.52
Malaysia	188.96	24.52	169.48	24.08	62.31	10.75	47.29	9.74	166.23	31.22
Singapore	1059.44	171.36	751.56	126.72	715.07	127.37	805.90	157.54	1194.37	236.01
Indonesia	54.46	5.35	55.68	7.04	1.50	0.26	18.05	2.91	81.98	14.63
Brunei	9.44	2.58	7.40	2.77	8.72	3.34	6.74	3.03	3.28	2.35
Philippine	30.53	19.47	34.56	5.86	23.29	4.51	23.73	6.16	51.00	9.97
H.Kong	3032.28	461.25	3177.88	533.76	6068.65	1154.47	6509.66	1189.55	3606.62	700.23
China	61.94	15.26	144.89	21.58	121.76	26.01	351.60	71.39	172.69	34.98

Source: Department of Customs

Table 5.11: Percentage Share of Tea Export to Participating Countries as a Total of Tea Export of Sri Lanka

Country	1996		1997		1998		1999		2000	
	Quan.	Value	Quan.	Value	Quan.	Value	Quan.	Value	Quan.	Value
India	0.03	0.03	0.23	0.18	0.25	0.17	0.62	0.35	0.66	0.53
Pakistan	1.79	1.22	1.93	1.56	1.18	0.91	0.04	1.20	1.42	1.13
B. desh										
Nepal										
Cambodia										
Laos										
Vietnam	0.02	0.04				0.01	0.01		0.01	
Malaysia	0.08	0.07	0.06	0.06	0.02	0.02	0.02	0.02	0.06	0.06
Singapore	0.43	0.50	0.28	0.30	0.26	0.25	0.30	0.36	0.41	0.44
Indonesia	0.02	0.02	0.02	0.02	0.00	0.00	0.01	0.01	0.03	0.03
Brunei	0.00	0.01	0.00	0.01	0.00	0.01	0.00	0.01	0.00	0.00
Philippine	0.01	0.06	0.01	0.01	0.01	0.01	0.01	0.01	0.02	0.02
H.Kong	1.24	1.35	1.18	1.25	2.23	2.30	2.42	2.72	1.25	1.32
China	0.03	0.04	0.05	0.05	0.04	0.05	0.13	0.16	0.06	0.07

Source: Department of Customs

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Table 5.12: Total Tea Production of World and Participating Countries for 2000

Countries	Quantity (Thousand Mt)
World	2,990.7
China	721.1
Bangladesh	56.0
India	749.4
Indonesia	167.9
Laos	0.4
Malaysia	5.0
Myanmar	18.4
Nepal	3.0
Sri Lanka	285.0
Thailand	5.5
Vietnam	67.7

Source: FAO

Hong Kong, Vietnam, Thailand and Singapore are listed as important tea export destinations and potential areas for further expansion. Hong Kong and Singapore import not only for domestic consumption, but also for re-export.

However, the exports to other participating countries are low. Perhaps some of these countries themselves are tea producers and exporters (Table 5.12). China produces nearly one fourth of the world's tea production and the share of India production is almost the same. Indonesia's, contribution to world production is nearly 5.6 percent of 167,000 mt in 1999. While Japan, Vietnam and Bangladesh contributed to 2.9%, 2.3% and 1.7% respectively. The other countries such as Myanmar, Nepal, Malaysia, Laos and Thailand produce small quantities. In the year 2000, 227.6 thousand mt were exported by China, 201 thousand mt by India, 105 thousand mt by Indonesia, 42 thousand mt by Vietnam, and 18 thousand mt by Bangladesh (Table 5.13). Coffee is the main drink in the Philippines. However, most of the exporters are of the view that trade fairs should be held in the South East Asian region to promote trade ties with these countries. Because, so far, Sri Lankan tea has had very little exposure to these markets.

Table 5.13: Annual Production & Export of Tea for Selected Countries

Countries	Production (Mt)		Export (Mt)	
	1999	2000	1999	2000
India	805,612	823,399	210,338	201,090
Bangladesh	47,421	53,950	15,177	18,100
Sri Lanka	284,149	306,794	262,952	280,133
Indonesia	161,003	159,346	97,847	105,000
China	675,871	680,000	199,608	227,653
Japan	88,512	90,000	828	704
Turkey	170,563	170,000	4,522	13,000
Vietnam	49,000	59,000	30,000	42,000
Kenya	248,818	236,286	241,739	208,154
Malawi	38,469	42,114	42,734	38,436
Uganda	24,730	29,282	22,100	26,389
Argentina	50,000	47,000	52,030	47,000
World Total	**2,848,061**	**2,894,865**	**1,271,714**	**1,309,287**

Source: International Tea Committee

Although the value addition in tea in Sri Lanka is relatively high compared to other major tea producing countries, exports still continue to be mainly in bulk form. The export of tea in bulk from during 1999 contributed for nearly 63 percent of the total quantity of tea exported. The rest was in higher value added forms such as tea bags, tea blended with foreign teas and instant tea and green tea.

Although Sri Lanka has been producing and exporting tea for over 125 years, sufficient attention has not been paid to marketing aspects. This is evident from the fact that there are only a very few internationally popular local brands of tea. Hence, it is very important to pay greater attention to the promotion of brand names, especially to penetrate and establish a special market for "Ceylon tea" in an internationally competitive environment.

According to most of the exporters, the main thrust of the export strategy is to switch from bulk to value added tea products. Value added exports of tea products generate higher foreign exchange earning and tends to create additional employment opportunities down the line. A study conducted by the European Economic Commission, shows that the cost of bulk tea (C.I.F) is hardly 14 percent of retail price of tea bags. This indicate that value added tea should occupy a prime position in tea exports.

According to exporters, exports are largely hampered by lack of market information, lack of demand and lack of trade contacts. Some of them expressed their concern over export procedures and urged that they be further simplified. Some exporters recommended that all export related activities be under one roof. That would help the exporters to carry out export related activities at one place instead of at several places.

5.3.2 Export Policies and Incentives

Trade and tariff policies are intended to facilitate export led economic growth by creating an environment conducive to enhancing the competitiveness of the export sector, while promoting a simple, broad based and transparent tariff system with lower tariff rates. The simplicity and transparency of the trade and tariff policy were ensured further by minimizing quantitative restriction, and removing specific duties, surcharges, hidden duty margins, cesses, *ad hoc* duty waivers and exemption (Central Bank Report, 1999). In accordance with trade policy, the government offered various incentives to exporters.

- The exporters who set up their industries are granted BOI incentive package. Under this package exporters were granted Tax holidays, import duty exemption on capital goods and raw materials, and will also exempted from the provision of the exchange control act.

- An exemption of fiscal levies on the import of capital and intermediate goods for export was granted to exporters. According to this scheme, a 100 percent exemption of duty and taxes was granted on imports of capital and intermediate goods by exporters who exported over 50 percent of their products, and 50 percent for who exported 25-50 percent of their total products.

- Incentive for value addition

- Duty free import of packing materials for exports

- Zero rate of tax profit drive form tea export

- Exception of NSL for local purchase for export purpose from local parties

- Acceptance of Company's own guarantee in the place of bank guarantee

The Tea Board provides

- Monetary support for brand promotion
- Simplified export procedure and harmonization of documentations
- Trade fairs opportunities and payment for space at international trade fairs
- Quality control facilities

A cess for tea export is Rs.2.50/kg which is expected to be used for research and development and other promotional activities. The cess collection was Rs. 537.9 million in 1997. The cess payers are not involved in the allocation of funds. Hence it has been recommended that the private sector be consulted with regard to the imposition of cess and in the allocation of proceeds.

According to exporters, they need assistance in market information, trade contact, market missions, export incentives and export finance. All of them are interested in joint venture agreements in the aspect of marketing and technology. All of them are planning to expand their export to USA, West Europe, East Europe, Scandinavian countries, Middle East and Australia. See Annex 2 for additional information regarding fiscal incentives available to Sri Lankan Exporters.

5.3.3 Export Channel

Tea is usually marketed through auctions which provides a relatively convenient method of bringing buyers and sellers together, to determine the price through interactive competitive bidding on the basis of prior assessment quality.

Tea is traded in the Colombo auction which has been functioning for the last 125 years. There are 7 brokers in the Auction, who carry out the transactions. More than 95 per cent of tea trading is carried out through the auctions.

There are various channels employed by companies for exports. Tea producing companies export directly or through trading companies. However this channel accounted for a negligible share of the total exports. Most of the tea producers sell to brokers at auctions. Either the export companies purchase tea from auction and export directly or through trading companies. Direct export contributes to a major part of the total exports.

The London Tea Auction, that has been in operation for the last 300 years, ceased to operate from 29 June 1998 due to direct trading in between producers and importers by using modern technology, such as internet and other facilities to convey and offers and confirmation of contracts. At present Colombo is the biggest tea auction center in the world and has the potential to become the world's biggest tea trade center.

5.3.4 Shipping

According to most of the exporters transport by air or sea does not pose any problems, as there is sufficient cargo space, and suitable cargo facilities available.

5.3.5 Packing

Tea is exported in various forms, in bulk, in packets, tea as gifts, and tea as bags. Hence, different packing materials are used for different purposes. Packing should not only serve to preserve the quality of the product but also should be very attractive to consumers hence the importance of packing. Local and imported packing materials are used for packing purposes such as bulk packing in plywood chests, paper sack, printed cartons, tin cadies, softwood and thread, presentation containers in metal ceramic, clay, cane, paper board, wooden boxes and box board. Some of the export packing materials are imported duty freely.

The graphic design and printing of packing materials are mostly done locally, but these could be improved further. The new technologies are to be introduced to further improve the packing of tea. The exporters said local packing materials are sometime do not match specifications and quality and are inferior to imported materials, and urged some form of quality control. Furthermore, they said the cost of imported packing materials was high and import procedure and regulations too involved.

5.3.6 Export Credit and Finance

The Central Bank permits Commercial Banks to grant foreign currency loans, from funds available in foreign currency banking units to meet their working capital and fixed capital requirement.

There is a credit facility available for packing. The amount is determinated by the company's performance. Application for this credit is made when the company receives the order.

Exporters rely mostly on commercial banks for their loans but however, according to exporters the banking rates are very high. Hence, it would be useful to provide loans for export purposes at subsidized rates like other countries. All of the exporters said they needed credit and finance assistance or facilities for promotion of their export business. Most of the exporters are given first preference as regards credit for export. Second and third preferences are given for machinery and for additional operating capital respectively.

The Sri Lanka Export Credit Insurance Corporation (SLECIC) issues insurance policies to exporters and guarantees to bank and financial institutions for the development of Sri Lanka exports. For the year 2000, the number of policies and guarantees in force was 269 amounting to Rs.1,032 million. A special insurance cover for tea exports to Iraq was launched by SLECIC in 2000. Sri Lankan private sector tea exporters under the 6th phase of the UN oil for Food Programme were granted different payment credit facilities.

5.3.7 Trade Promotion

The Ministry of Plantation Industry (MPI), Export Development Board (EDB), and SLECIC provide various services to exporters. The Ministry of Foreign Affairs and the Ministry of Internal and International Trade and Commerce keep exporters informed of facilities available through Bi-lateral, regional and multilateral organizations and help to establish contact between Sri Lankan exporters and foreign counterparts. The Chamber of Commerce, a private sector institution, provides exporters with institutional support.

Generally EDB conducts technical and skill development programmes, organizes general and product specific trade fairs, and also awareness programmes and seminars to help develop small and medium scale enterprises.

However, according to most of the exporters the meeting of buyers and sellers and local and international trade fairs are most effective. The EDB has funded for private sector officials to attend buyers and sellers meetings abroad. But, due to financial difficulties, the EDB has not funded any visits during latter parts of 1995.. Also the EDB provides a considerable portion of expenses for buying space in trade fairs.

According to the National Export Development Plan, the existing tea trade promotion is inadequate. Intensifying the promotion of tea, setting up promotion centres where necessary and developing brand names are accordingly recommended.

According to available statistics, it was in the United kingdom that the highest average tea consumption per person per day among those aged 10 and over was reported (Table 5.14). However it has steadily declined during the 1994-1999. The same pattern is observed for coffee as well. On contrary, the share of alcohol and soft drinks have shown an increase.

Perhaps common trend may have in most of the developed countries. Hence, a strong tea campaign is called for. Moreover, tea is healthy drink. Hence, the positive nutritional and medicinal values of tea and the findings of present and past research studies should be used to promote world wide tea consumption.

Table 5.14: Average Consumption per Person per Day in United Kingdom Drinks: Units (Cups) Population Aged 10 and Over

Products	1994	1995	1996	1997	1998	1999
Tea	3.41	3.43	3.38	3.39	3.07	2.95
Coffee	1.74	1.65	1.69	1.69	1.62	1.51
Alcohol	1.17	1.27	1.41	1.38	1.30	1.18
Soft Drinks	1.49	1.65	1.60	1.51	1.59	1.58
Others	0.35	0.33	0.31	0.30	0.31	0.29
Total	8.15	8.33	8.39	8.23	7.77	7.43

Source: National Drinks Survey, UK

Table 5.15: The Percentage of Various Drinks Consumed Daily in the United Kingdom by those 10 Years and Over

Products	1994	1995	1996	1997	1998	1999
Tea	77.10	77.00	76.20	75.50	74.30	68.30
Coffee	55.90	53.70	54.40	52.60	54.60	51.70
Alcohol	25.90	31.80	32.80	31.60	33.20	31.70
Soft Drinks	55.70	57.70	57.10	55.40	58.40	59.20
Total	99.90	99.80	99.80	99.70	99.80	100.00

Source: National Drinks Survey, UK

5.4 Conclusion and Recommendations

At present, tea in bulk accounts for the major portion of tea exports. Hence, the prime focus should be to switch to value added tea products. The promotion of local tea brands is also very important. Local and foreign investors need to be induced to invest in these areas.

The pattern of consumer preferences is subject to constant changes, with consumers option for more convenient beverages, like cola types or readymade drinks. Therefore, the convenience factor together with other aspects of the drink to promote the future sale of tea needs to be considered. All these aspects need to be researched.

The consumption of tea is on the decline in some countries. The tea is a healthy drink. The positive nutritional and medicinal values of tea and the findings of present and past studies should be used for campaign to promote the world wide consumption of tea.

All of the companies interviewed could expand their production capacity. The problem is the export market. Promoting market contacts are essential if exports are to be increased. Local inputs contribute more than 95% of total inputs. Since the latest machinery and technologies are very expensive, a credit line with easy terms of re-payment should be made available. The quality of packing materials, graphic design for packing, and printing facilities should be further improved to be competitive. Some quality control measures

need to be introduced for local packing materials and, the procedures for the importation of inputs for the tea industry should be simplified.

According to all of the exporters interviewed, trade fairs both within the country and abroad and buyers and sellers meetings are more useful in getting new orders. Hence, there should be more trade fairs and buyers and sellers meeting. The trade fairs should be held in new market areas as well.

The performances of quality control and standards have to be improved. At present quality control and analytical facilities are available in Sri Lanka. However, there should be more training and dissemination of information regarding the standards. It is reported that conforming to ISO standard is expensive. It is also very important to assist small and new exporters to achieve acceptable standard. For this purpose the role of institutions like the Sri Lanka Tea Board (SLTB) and the Sri Lanka Standard Institution (SLSI) becomes vital.

All companies interviewed were interested in joint venture agreements regarding marketing and technology. They mentioned that the major constraints affecting their exports are lack of market information, lack of market demand, and lack of market contacts. Hence a greater attention should be given to the marketing side, especially in providing market information, establishing trade contacts, assisting them to penetrate new markets and improving performance in the existing markets. Emphasis has also to be given to free trade agreement with other countries to promote exports.

According to most of the exporters the available incentives can be further improved. Most of them are in need of finance and credit facilities for export packing, financing for machinery and additional operation capital. The trade promotion and propaganda has to be conducted through government institutions, and foreign embassies in other countries.

Moreover incentives and financial support have to be expanded for value addition, brand promotion and new product development. The present bank interest rates are very high. Exporters urged the government to provide bank loans and subsidized rates for export related activities.

Some of the exporters referred to the need to simplify export procedures. Some exporters recommended that the officers of export related activities should be brought under one roof. That would help exporters to carry out export related activities at one place.

Most of the companies are interested in getting technical assistance in market promotion, export management training, selling mission and also technological know-how to improve the quality. The export companies stressed the importance of market surveys for new product development.

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Annex I: Export Statistics of Cinnamon

Table No. 01: Quantity of Cinnamon Export (Quills Cut Pieces I)

Country	1996 Qty.		1997 Qty.		1998 Qty.		1999 Qty.		2000 Qty.		5 Year Ave. Qty.	
	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%
Nepal	-	-	-	-	1,500	0.1	-	-	-	-	1,500	0.1
Bangladesh	-	-	-	-	-	-	-	-	-	-	-	
Hong Kong	2	*	-	-	-	-	-	-	-	2	*	
Cambodia	-	-	-	-	-	-	-	-	-	-	-	
LAO-PDR	-	-	-	-	-	-	-	-	-	-	-	
Vietnam		-	-	-	-	-	-	-	-	-	-	-
Malaysia	15,670	1.4	-	-	-	-	-	-	-		15,670	0.9
Singapore	45	*	25	*	-	-	-	-	2	*	24	*
Indonesia	-	-	-	-	-	-	-	-	-	-	-	
Brunei		-	-	-	-	-	-	-	-	-	-	-
Philippines	-	-	-	-	-	-	-	-	-	-	-	
China	-	-	-	-	3.0	*	-	-	-	-	3.0	*
USA	275,322	24.1	310,583	22.1	400,273	21.3	422,882	15.3	374,356	27.3	356,683	20.6
Mexico	266,505	23.4	502,228	35.7	399,680	21.3	1,060,751	38.3	555,959	40.5	557,025	32.2
Peru	75,237	6.6	102,053	7.2	252,047	13.4	161,384	5.8	63,504	4.6	130,845	7.6
Colombia	131,829	11.6	131,276	9.3	187,381	10.0	244,712	8.8	47,628	3.5	148,565	8.6
Spain	36,540	3.2	36,395	2.6	77,380	4.1	88,744	3.2	48,754	3.6	57,563	3.3
Oth.Countries	339,260	29.7	325,578	23.1	562,213	29.9	793,880	28.6	281,535	20.5	460,493	26.6
Total	1,140,410	100.0	1,408,138	100.0	1,880,477	100.0	2,772,353	100.0	1,371,738	100.0	1,728,373	100.0

* Insignificant

Table No. 02: Quantity of Cinnamon Export (Quills Cut Other)

Country	1996 Qty.		1997 Qty.		1998 Qty.		1999 Qty.		2000 Qty.		5 Year Ave. Qty.	
	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%
India	2,000	*	-	-	-	-	12,800	0.2	17,500	0.2	10,767	0.2
Pakistan	-	-	5,000	0.1	-	-	-	-	8,000	0.1	6,500	0.1
Nepal	-	-	-	-	-	-	-	-	-	-	-	-
Bangladesh	-	-	-	-	-	-	-	-	-	-	-	
Hong Kong	17,016	0.2	-	-	-	-	14,062	0.2	-	-	15,539	0.2
Thailand	-	-	-	-	-	-	-	-	-	-	-	-
Cambodia	-	-	-	-	-	-	-	-	-	-	-	-
LAO-PDR	-	-	-	-	-	-	-	-	-	-	-	-
Vietnam		-	-	-	-	-	-	-	-	-	-	-
Malaysia	1,000	*	-	-	37,647	0.6	-	-	13,506	0.2	17,384	0.3
Singapore	17,239	0.2	6,804	0.1	-	-	24,360	0.4	-	-	16,134	0.2
Indonesia	-	-	-	-	-	-	-	-	-	-	-	
Brunei		-	-	-	-	-	-	-	-	-	-	-
Philippines	-	-	-	-	-	-	-	-	-	-	-	
China	2	*	-	-	6,929	0.1	5,000	0.1	209	*	3,035	*
USA	417,502	5.9	389,617	5.3	427,309	7.0	290,436	4.7	446,228	5.9	394,218	5.7
Mexico	3,989,945	56.1	3,861,858	52.6	3,454,235	57.0	3,853,450	61.9	4,294,881	57.1	3,890,874	56.5
Peru	451,764	6.4	680,584	9.3	326,140	5.4	525,279	8.4	523,564	7.0	501,466	7.3
Colombia	566,313	8.0	741,462	10.1	456,513	7.5	340,617	5.5	535,270	7.1	528,035	7.7
Spain	144,342	2.0	210,768	2.9	205,600	3.4	157,650	2.5	145,300	1.9	172,732	2.5
Other Countries	1,506,296	21.2	1,439,320	19.6	1,147,661	18.9	1,000,383	16.1	1,533,516	20.4	1,325,435	19.3
Total	7,113,419	100.0	7,335,413	100.0	6,062,034	100.0	6,224,037	100.0	7,517,974	100.0	6,882,120	100.0

Table No. 03: Quantity of Cinnamon Export (Quilling)

Country	1996 Qty.		1997 Qty.		1998 Qty.		1999 Qty.		2000 Qty.		5 Year Ave. Qty.	
	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%
India	-	-	-	-	1,000	0.1	805	0.1	324	0.0	710	0.1
Pakistan	-	-	4,100	0.4	8,500	1.0	-	-	8,000	1.1	6,867	0.8
Nepal	-	-	1,750	0.2	-	-	-	-	-	-	1,750	0.2
Bangladesh	-	-	-	-	-	-	-	-	-	-	-	
Hong Kong		-	-	-	-	-	-	-	-	-	-	-
Thailand		-	-	-	-	-	-	-	-	-	-	-
Cambodia	-	-	-	-	-	-	-	-	-	-	-	
LAO-PDR	-	-	-	-	-	-	-	-	-	-	-	
Vietnam		-	-	-	-	-	-	-	-	-	-	-
Malaysia	-	-	-	-	19,500	2.3	3,000	0.4	-	-	11,250	1.3
Singapore	-	-	-	-	-	-	6,500	0.8	-	-	6,500	0.8
Indonesia	-	-	-	-	-	-	-	-	-	-	-	
Brunei		-	-	-	-	-	-	-	-	-	-	-
Philippines	-	-	-	-	-	-	-	-	-	-	-	
China	-	-	-	-	-	-	1,500	0.2	-	-	1,500	0.2
Mexico	287,040	32.4	260,240	26.2	272,768	31.7	323,541	42.0	242,471	34.6	277,212	32.2
Spain	153,746	17.4	169,168	17.1	132,221	15.4	120,200	15.6	121,721	17.4	139,411	16.2
Germany	124,974	14.1	154,752	15.6	101,612	11.8	105,615	13.7	69,709	9.9	111,332	13.0
USA	78,370	8.9	67,646	6.8	53,446	6.2	22,728	2.9	30,939	4.4	50,626	5.9
Italy	50,870	5.7	55,679	5.6	48,100	5.6	47,000	6.1	36,500	5.2	47,630	5.5
Oth. Countries	190,476	21.5	278,065	28.0	223,880	26.0	139,833	18.1	191,680	27.3	204,787	23.8
Total	885,476	100.0	991,400	100,0	861,027	100.0	770,722	100.0	701,344	100.0	859,574	100.0

Table No. 04: Quantity of Cinnamon Export (Featherings)

Country	1996 Qty.		1997 Qty.		1998 Qty.		1999 Qty.		2000 Qty.		5 Year Ave. Qty.	
	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%
Argentina	65,750	75.7	64,500	79.0	58,000	98.0	61,450	84.1	54,600	87.0	60,860	81.7
Switzerland	10,160	11.7	13,614	16.7	1,000	1.7	-	-	5,080	8.1	7,464	10.0
Italy	-	-	-	-	200	0.3	-	-	600	1.0	400	0.5
Oth. Countries	11,000	12.7	3,520	4.3	-	-	11,660	15.9	2,500	4.0	5,736	7.7
Total	86,910	100.0	81,634	100.0	59,200	100.0	73,110	100.0	62,780	100.0	74,460	100.0

Table No. 05: Quantity of Cinnamon Export (Chips)

Country	1996 Qty.		1997 Qty.		1998 Qty.		1999 Qty.		2000 Qty.		5 Year Ave. Qty.	
	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%
China	-	-	-	-	28,008	9.2	-	-	-	-	28,008	6.7
Australia	79,500	16.3	62,885	11.7	87,930	28.9	50,090	13.4	56,085	21.5	67,298	16.1
U.Kingdom	54,950	11.2	59,150	11.0	76,200	25.0	31,470	8.4	22,920	8.8	48,938	11.7
Canada	218,380	44.7	257,695	47.9	51,500	16.9	177,730	47.7	99,500	38.2	160,961	38.6
USA	68,260	14.0	107,500	20.0	21,950	7.2	16,000	4.3	21,360	8.2	47,014	11.3
S. Africa	3,000	0.6	-	-	17,000	5.6	14,186	3.8	11,000	4.2	11,297	2.7
Oth. Countries	64,635	13.2	50,261	9.4	21,656	7.1	83,345	22.4	49,584	19.0	53,896	12.9
Total	488,725	100.0	537,491	100.0	304,244	100.0	372,821	100.0	260,449	100.0	417,412	100.0

Table No. 06: Quantity of Cinnamon Export (Other)

Country	1996 Qty.		1997 Qty.		1998 Qty.		1999 Qty.		2000 Qty.		5 Year Ave. Qty.	
	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%
India	-	-	-	-	-	-	-	-	-	-	-	-
Pakistan	-	-	12,600	7.8	-	-	7,075	25.4	16,000	24.8	11,892	7.1
Malaysia	-	-	50	0.0	-	-	-	-	-	-	50	0.0
Singapore	-	-	30	0.0	-	-	-	-	-	-	30	0.0
Indonesia	-	-	-	-	-	-	-	-	-	-	-	-
Brunei	-	-	-	-	-	-	-	-	-	-	-	-
Philippines	-	-	-	-	-	-	-	-	-	-	-	-
China	-	-	-	-	-	-	342	1.2	-	-	342	0.2
Guatemala	27,216	7.5	27,216	16.8	15,876	21.2	-	-	-		23,436	14.0
Mexico	68,540	19.0	14,792	9.1	15,742	21.0	18,885	67.9	6,804	10.5	24,953	14.9
Colombia	-	-	-	-	13,608	18.1	-	-	-	-	13,608	8.1
Germany	610	0.2	5,100	3.1	7,057	9.4	28	0.1	-	-	3,199	1.9
USA	33,654	9.3	17,126	10.5	2,000	2.7	-	-	9,500	14.7	15,570	9.3
Oth. Countries	231,640	64.0	85,456	52.6	20,777	27.7	1,500	5.4	32,266	50.0	74,328	44.4
Total	361,660	100.0	162,370	100.0	75,060	100.0	27,830	100.0	64,570	100.0	167,407	100.0

Table No. 07: Quantity of Cinnamon Export (Crushed))

Country	1996 Qty.		1997 Qty.		1998 Qty.		1999 Qty.		2000 Qty.		5 Year Ave. Qty.	
	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%
India	-	-	-	-	-	-	60,000	66.8	-	-	60,000	79.5
Australia	-	-	-	-	-	-	-	-	-	-	-	-
Italy	-	-	120	21.5	-	-	-	-	-	-	120	0.2
Germany	-	-	305	54.8	-	-	-	-	-	-	305	0.4
Austria	-	-	132	23.7	-	-	-	-	-	-	132	0.2
Oth. Countries	-	-	-	-	16,454	100.0	29,880	33.2	13,342	100.0	14,919	19.8
Total	-	-	557	100.0	16,454	100.0	89,880	100.0	13,342	100.0	75,476	100.0

Table No. 08: Quantity of Cinnamon Export (Ground)

Country	1996 Qty.		1997 Qty.		1998 Qty.		1999 Qty.		2000 Qty.		5 Year Ave. Qty.	
	Kgs	%	Kgs	%	Kgs		%	Kgs	%	Kgs	%	Kgs
Australia	-	-	55,807	38.6	64,862		45.4	89,540	57.6	47,030	64,310	46.4
Peru	-	-	38,400	26.6	40,200		28.2	35,000	22.5	23,400	34,250	24.7
Newzeland	-	-	-	-	30,500		21.4	10,000	6.4	-	20,250	14.6
Spain	-	-	-	-	3,500		2.5	6,000	3.9	21	3,174	2.3
Italy	-	-	5,769	4.0	2,500		1.8	13,560	8.7	2,000	5,597	4.3
Oth.Countries	-	-	44,419	30.8	1,244		0.9	1,350	0.9	38,753	21,442	15.5
Total	-	-	144,395	100.0	142,806		100.0	155,450	100.0	111,204	100.0	100.0

Annex 2

FISCAL INCENTIVES AVAILABLE FOR SRI LANKAN EXPORTER (NON-BOI)

1) Introduction

The Sri Lankan economy needs to grow and develop further through a diversification of exports. The promotion and development of exports have been accepted by the government of Sri Lanka as a guiding principle. In its effort to promote exports the government has provided a range of fiscal and other incentives to exporters and has introduced a number of programmes designed to support and expand exports. The purpose of this paper is to present a brief note on fiscal incentives available to Sri Lankan exporters outside the Board of Investment (BOI) regime.

2) Fiscal Incentives Available to Exporters

In order to enhance the competitiveness of the export sector, a package of fiscal incentives has been offered to exporters. These include concessionary rate of income tax, Goods and Services Tax (GST) concessions, exemption from National Security Levy (NSL) and duty free import of inputs.

3) Income Tax Concessions

3.1 Concessionary Tax Rate for Non-Traditional Products and Services

Enterprises engaged in the manufacture and export of non-traditional products or the exports of specified services are eligible for a concessionary rate of tax for 20 years commencing from April 1, 1994.The concessionary rate is a uniform 15% if the enterprise is carried out by a company.The rate does not exceed 15% if the enterprise is carried out by any person, other than a company. For the purpose of this tax concession, non-traditional products are defined all products other than tea (black tea in bulk), rubber (crepe, sheet or scrap) and coconuts (fresh coconut, coconut oil, desiccated coconut, copra and coconut fibre).

In the case of services, the concessionary tax rate is confined to profits earned by any enterprise from payments received in foreign currency for ship repairing and services, repair or refurbishment of marine cargo containers and provision of computer software and computer related services.

3.2 Concessionary Tax Rate on Dividends

Where an enterprise is entitled to a concessionary rate of income tax, all shareholders' dividends declared by that enterprise are taxed at the same concessionary rate of 15%.

3.3 Income Tax Concession for Exporters of Fruits and vegetables

Existing and new export companies engaged in the export of fresh and processed fruits and vegetables are eligible for a 10-year tax holiday provided a minimum area of 5 ha. is cultivated.

3.4 Tax Exemption for Entrepot Trade

Profits arising from entrepot trade in specific products approved by the Ministry of Finance are exempted from income tax both in the hands of consignee and the consignor.

4) Zero Rate of GST for Exports

The turnover arising from exports is zero rated. This implies that GST is not payable at the point of exports. The exporter is also eligible to obtain import credit in GST incurred on imports and local purchases of inputs. Subject to cretin conditions, a deferment facility is available for exporters in connection with the GST payable on imported inputs.

5) National Security Levy (NSL) Exemption on Exports

NSL is not payable in respect of the turnover arising from export. A concessionary rate of NSL of 0.5% is levied on import of capital goods to encourage specially export-oriented investment.

6) Exemption of Fiscal Levies on Imported Inputs

Exporters are eligible to import raw materials, intermediate goods and capital goods required for export processing under specified customs operated schemes given below.

6.1 Exemption of Fiscal Levies on Imported Inputs

This scheme permits whole or partial exemption of import duties on capital goods used for the manufacturer of products or services for exports. This scheme will apply to capital and intermediate goods imported by exporters who are registered with the Dept. of Customs, who export 25% or more of the total exports. Exporters who export more than 50% of their production will be eligible for 100% duty exemption while those who export more than 25% and less than 50% of their production will be eligible for 100% duty exemption, while those who export more than 25% and less than 50% of their production will be granted a 50% duty exemption.

6.2 Duty Free Import of Raw Materials and Consumable Inputs

The exporter has the option of following three optional schemes to import raw materials and other consumable inputs for processing and export.

Inward Processing Scheme
Customs Duty Rebate Scheme
Manufacture-in-Bond Scheme

7) Incentives of Gems and Jewellery Sector

Exporters of this sector are granted duty free, import of rough gemstones, gold, silver and accessories required for the manufacture of jewellery for exports. Duty free import of tools, machinery and equipment for cutting and processing of gems are also permitted.

8) Incentives for Garment Industry

Yarn, fabrics and all related intermediate and capital goods required by the garment industry are exempted from the payment of customs duty.

9) Incentives for Handicraft Exports

A 3 year tax holiday for handicraft exporters has been introduced in the Budget 2001.

10) Incentives for IT Industry

A five year tax holiday is available for export oriented software development companies. This has been extended to 8 years for these companies provided their minimum turnover level reached Rs.40 mn. per annum.

Tax concessions such as exemption form NSL and GST as well as a 5 year tax holiday on export profits, are offered by the 2001 budget for export of IT enabling services i.e. medical transcriptions, web farming, insurance claim processing, etc.

11) Incentives for Advanced Technology

A special package of incentives has been introduced for companies utilizing advanced technology and recommended by the Fiscal Incentive Committee of the Ministry of Industrial Development.

- New companies with a minimum employment of 50 persons and minimum investment of Rs. 4 mn on machinery and equipment and approved by the Minister of Finance are eligible for a five year tax holiday and 15% concessionary tax rate thereafter, tax exemption on dividends and import duty waiver on machinery and equipment imported for this purpose.

- Existing enterprises with a minimum investment of Rs.1.0 mn in machinery and equipment are eligible for import duty waiver.

- Existing enterprises with a minimum additional employment of 50 persons and minimum investment of Rs. 4 mn on machinery and equipment and approved by the Minister of Finance are eligible for a five year tax holiday and import duty waiver on machinery and equipment imported for the purpose.

12) Conclusion

The Sri Lankan government offers a range of fiscal incentives for non-BOI exporters with a view to enhance the competitiveness of the export sector. In addition, a wide range of fiscal incentives has been offered under the BOI regime to attract more investment to this sector. Comparisons have shown that Sri Lanka offers one of the most generous incentive packages for exporters in Asia.

Annex 3: Export Statistics of Pepper

Table 3.1: Exported Quantity of Pepper Oil Export : Sri Lanka

Country	1997 Qty.		1998 Qty.		1999 Qty.		2000 Qty.		5 Year Ave. Qty.	
	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%
Pakistan	12,600	7.8	-	-	7,075	25.4	16,000	24.8	11,892.00	7.1
India	21,410	56.17	-	-	650	21.15	-	-	11,030.00	48.09
Indonesia	-	-	-	-	-	14.64	200	6.50	325.00	1.42
Spain	-	-	1,190	4.94	829	26.98	15	0.49	678.00	2.96
USA	582	1.53	1,157	4.80	454	14.77	140	4.55	583.25	2.54
Canada	200	0.52	600	2.49	300	9.76	900	29.24	500.00	2.18
France	440	1.15	200	0.83	160	5.21	411	13.35	302.75	1.32
Germany	1,855	4.87	55	0.23	180	5.86	105	3.41	548.75	2.39
Oth. Countries	-	35.76	20,891	86.71	50	1.63	1,307	42.46	8,969.50	39.10
Total	38,117	100.00	24,093	100.00	3,073	100.00	3,078	100.00	22,937.25	100.00

Table 3.2: Exported Quantity of Pepper Crushed Export : Sri Lanka

Country	1997 Qty.		1998 Qty.		1999 Qty.		2000 Qty.		5 Year Ave. Qty.	
	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%
India	-	-	43,200	40.9	10,000	13.0	-	-	26,600	27.0
Hong Kong	-	-	17,000	16.1	12,060	15.6	-	-	14,530	14.7
Malaysia	-	-	-	-	-	-	250	0.5	250	0.3
Germany	2,000	2.5	10,800	10.2	6,592	8.5	5,545	11.3	6,234	6.3
USA	3,050	3.8	3,362	3.2	6,850	8.9	4,132	8.5	4,349	4.4
Switzerland	-	-	1,347	1.3	59	0.1	1,090	2.2	832	0.8
Moldive	4,130	5.2	887	0.8	1,412	1.8	458	0.9	1,722	1.7
U. Kingdom	500	0.6	660	0.6	23,435	30.4	5,297	10.8	7,473	7.6
Oth. Countries	69,700	87.8	28,256	26.8	16,694	21.7	32,096	65.7	36,687	37.2
Total	79,380	100.0	105,512	100.0	77,102	100.0	48,868	100.0	98,676	100.0

Table 3.3: Exported Quantity of Pepper Crushed Export: Sri Lanka

Country	1997 Qty.		1998 Qty.		1999 Qty.		2000 Qty.		5 Year Ave. Qty.	
	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%
India	-	-	-	-	10,000	26.8	29,000	60.8	19,500	36.6
Pakistan	-	-	-	-	-	-	13,200	27.7	13,200	24.8
China	-	-	-	-	18	0.0	-	-	18	0.0
Italy	15,184	44.0	254	1.7	114	0.3	185	0.4	3,934	7.4
Australia	86	0.2	231	1.6	481	1.3	181	0.4	245	0.5
Germany	443	1.3	165	1.1	711	1.9	25	0.1	336	0.6
Maldive	1,823	5.3	129	0.9	763	2.0	57	0.1	693	1.3
Austria	-	-	57	0.4	265	0.7	390	0.8	237	0.4
Oth. Country	-	49.2	13,876	94.3	25,03	67.0	4,640	9.7	15,135	28.4
Total	34,529	100.0	14,712	100.0	37,383	100.0	47,678	100.0	53,298	100.0

Table 3.4 Exported Quantity of Pepper of the Genus Piper, Dried Neither Crushed Ground Export : Sri Lanka

Country	Quantity		Quantity		Quantity		Quantity		Quantity		Quantity	
	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%	Kgs	%
India	772,260	26.6	1,226,250	36.4	1,605,365	29.9	1,902,760	52.3	2,125,331	44.7	1,526,393	37.9
Pakistan	408,780	14.1	273,500	8.1	264,455	4.9	72,000	2.0	175,830	3.7	238,913	5.9
Bangladesh	1,000	0.0	600	0.0	2,000	0.0	-	-	-	-	1,200	0.0
HG. Kong	-	-	-	-	12,500	0.2	12,000	0.3	37,500	0.8	20,667	0.5
Malaysia	60	0.0	-	-	-	-	-	-	-	30	0.0	
Singapore	853	0.0	45,095	1.3	231,500	4.3	130,000	3.6	40,002	0.8	89,490	2.2
China	18,000	0.6	-	-	-	-	1,500	0.0	-	-	9,750	0.2
U.Kingdom	404,116	13.9	626,903	8.6	570,277	10.6	110,171	3.0	82,250	1.7	358,743	8.9