

## TEA PLANTATIONS: NEED FOR A LONG-TERM STRATEGY

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"Thriving Plantations Sequel to Privatisation" is the title of a recent article in the local press claiming that privatisation has already transformed an ailing industry into a success story with a promising future. The writer attributes this success to the introduction of effective management practices by the companies with increased crop yields, improved productivity and enhanced quality contributing to better financial results. The article begins with the following optimistic note:

"With the advent of privatisation of tea estates in 1992, and the new management techniques introduced, Sri Lanka tea, presently, is on a crest of a wave and is likely to remain so in the foreseeable future"

(*Island* 17.09.97)

This optimism is unwarranted. Structural problems have not yet been adequately addressed by the private companies. Industry experts claim that buoyant tea prices, a wage freeze that has held for over an year, and favourable weather conditions are the main contributory factors for the present bright outlook of the tea industry. In this article, we comment on some of these assumptions which appear to be also shared by the companies and draw attention to major problems which still continue to haunt this industry.

One of the pre-requisites for solving the problems faced by the tea sector is the need for the three principle stake-holders - the state, the private companies and the labour unions - to cooperate in a joint endeavor to evolve a long-term strategy for the revitalization of this industry and effectively monitor its implementation.

### Problems Faced by the Tea Industry

We begin with a brief over-view of three major critical areas:

**Marketing:** It is still not fully recognized that tea is a beverage in the world market, competing with other well-known beverages such as Coke and Pepsi, not to mention coffee. Sales of beverages are dependent more on the effectiveness of product promotion than on any intrinsic value of the product. In to-day's context, enormous capital outlays and marketing expertise are needed for product promotion. Only through concerted efforts jointly undertaken by the private companies with assistance from the government can any effective programmes be launched and sustained for expanding Sri Lanka's share of the world market for tea.

**Cultivation and Processing :** The second area of concern is the cultivation and processing of tea and the management of the estates. That most tea estates had been run down prior to nationalisation and that their rehabilitation under state management left much to be desired is well documented. There is a wealth of data available on the degraded state of the soil, below optimum density of tea bushes per hectare, the disproportionately large percentage of old tea bushes long past their prime productive stage and an equally high percentage of low yielding varieties due to the failure to implement a vigorous replanting programme with high yielding varieties. There was also very little progress in the modernisation of tea manufacture with the installation of more state of the art machinery.

Most, if not all, of these problems could have been overcome if there had been adequate investment. However, over the years, the surplus from the tea estates was siphoned off by successive governments for meeting the needs of the welfare state and adequate investment was denied to improve and maintain the plantations. This was revealed very graphically by the late Ranjan Wijeratne in Parliament when he was provoked by some opposition MP on better housing for workers:

... the state over the years, has extracted enough, has milked the cow dry. It has taken all the funds from the plantation sectors, and most of it has been squandered by consecutive governments on subsidies to run a welfare state, while the labourers on the plantations have to live under leaking roofs with no facilities. They fail to think that they have taken the wealth off the plantations and fed the people on subsidised rice, subsidised flour, subsidised sugar, free education, free medical facilities...

(Hansard 23rd Oct.1990)

The main objective of privatisation is the revitalisation of the plantation sector. This will require large-scale capital investment and a high level of management competence. Unfortunately, very few of the private companies had the financial resources on the scale required for investment in both equity and capital works. As a result, they were forced to borrow heavily from the banks resulting in a major part of the surplus from the estates being diverted for meeting interest payments leaving very little for maintenance and capital works. The companies have also resorted to skimming off from the profits large sums as management fees. If not for the soft loans

negotiated by the government with the ADB and other sources, there would be practically no investment in rehabilitation of the estates, thus defeating the whole objective of privatization. Neither do the companies have experience in the management of a labour force of about 20,000 spread out over dozens of locations.

## Diversification

The companies need to develop long-term corporate strategies extending over a time span of at least 10 to 20 years, taking into account the wide range of factors affecting the industry - market trends, consumer preferences, cultivation and manufacturing practices, and cost of inputs especially labour and its opportunity costs. The focus of these strategies needs to be the optimum utilization of land and human resources available in this sector. If this exercise is pursued with an open mind without being pre-occupied with tea production only, the most attractive solution may point to diversification into other crops, forestry, livestock, agro-industries, tourism etc. Some more enlightened private companies are aware of this and are already taking some initiatives in this direction. Most estates have a well organised management infrastructure with its main focus on plantation agriculture; this valuable resource base could be fruitfully utilised to transform the extensive agriculture and livestock units located within the estates and more importantly in the villages surrounding them into a high production sector. The estates can use their expertise to provide extension services to modernise agriculture and livestock farming, to supply inputs - seed materials, fertilisers, agro chemicals, feeds and drugs and to market the produce.

## Production

Statistics have been presented to illustrate a dramatic increase in production from 179 m kg. in 1992, when the first phase of privatisation commenced, to 258.1 m kg. in 1996, a 44% increase over a 4 year period. However, this optimistic scenario is somewhat misleading when we compare the above statistics with the production figures for the two previous years: 233.2 m kg. in 1990 and 240.7 m kg. in 1991.

What is evident from the above figures is that the increases recorded for 1995 and 1996 are not spectacular but merely marginal, with increased production due to better weather conditions and more intensive plucking.

## Value addition

Another claim is that "Sri Lanka's tea production continues to thrive with value added teas too entering the local and international markets". Is the claim justified?

Tea drinking is no longer a leisurely ritual as in the past. Today's demand has shifted in favour of instant teas - spiced, scented, carbonated - available at retail outlets in bottles and cans competing with other popular beverages. Sri Lanka has still a long way to go to exploit to the full extent this lucrative high value market even

locally. Sri Lanka's continued over-dependence on the traditional bulk teas is best illustrated with reference to the export of different grades of teas.

### Value of Exports of Different Grades of Teas (Rs. Millions)

	1993	%	1994	%	1995	%	1996	%
Tea in bulk	129.0	59.1	152.1	66.2	132.1	54.9	129.7	53.1
Tea in packets	74.9	34.3	64.8	28.2	95.1	39.5	94.4	38.7
Tea in bags	5.1	2.3	6.8	3.0	7.5	3.1	9.2	3.8
Instant tea	0.7	0.3	0.9	0.4	0.7	0.3	0.7	0.3
Green tea	0.7	0.3	0.4	0.2	0.2	0.1	0.2	0.1
Other teas	8.0	3.7	4.6	2.0	5.1	2.1	9.8	4.0
TOTAL	218.4	100.0	229.6	100.0	240.8	100.0	244.1	100.0

(Source: Annual Reports, Central Bank)

The percentage of tea exported in bulk is still more than 50%. Packeted tea constitutes less than 40% of exports while tea bags account for less than 4% and instant tea at the highest price spectrum a mere 0.3%. Value addition in the case of packeted tea is less than 10%. The FOB prices for each of these grades in 1996 are tabulated below:

### FOB Prices of 1 kg. of various Grades of Teas (1996)

Tea in Bulk	- Rs.126/22
Tea in Packets	- Rs.136/67
Tea in Bags	- Rs.313/10
Instant Tea	- Rs.434/19

While there is a cost involved in value addition, it would still be more profitable overall to aim at this high value market. This will require capital investment and more sophisticated management expertise in the areas of production and marketing.

## Profitability

Most of the private companies have reported substantial increases in their operating profits in 1996. The sharp increase in export prices, as shown in the table below, and the wage freeze are the major contributory factors.

### Tea Exports and FOB Prices

Year	Quantity exported Mn kg	Value Rs. Mn.	Rs./kg	% increase over 1993 in FOB Price
1993	218.4	19,911	91.17	-
1994	229.6	20,964	91.31	0.15%
1995	240.8	24,638	102.3	12.23%
1996	244.1	34,068	139.5	53.09%

Unless some other reliable yardsticks of productivity are devised to measure performance, one would be justified in concluding that Sri Lanka's tea industry still depends on the vagaries of the weather and the mercy of the world market.

It is useful to bear in mind that published statistics of yield per hectare, cost of production etc., are averages which do not capture the actual performance which varies over a wide range from estate to estate and from one division to another within the same estate. It would therefore be most rewarding to carry out a productivity study on a representative sample of estates/divisions and ascertain the underlying reasons for variations in productivity.

Such a study might reveal that it is neglect on the part of the government and the companies, over the years, of proper maintenance that has led to the gradual deterioration in productivity. It might also reveal that it is not labour costs that have been primarily responsible for increased costs of production

### Plantation Labour

**T**he other critical area threatening the future viability of the tea plantations is that of labour. The ready supply of cheap and docile labour, the bedrock on which the tea industry was based, is a thing of the past. Plantation labour is beset with a number of problems, with a widespread longing, especially among the youth, to escape from the arduous work of plantation agriculture which was the lot of their parents for generations.

There is one set of problems that concern their status as workers: their claim for higher wages on a par with general wages for rural labour; a guaranteed minimum number of days work for a month. Another set demands better living and working conditions, ownership rights to land to build their homes and employment opportunities outside the plantations for those entering the labour market. The first set of issues is a matter for trade union negotiation. The second set demands other forms of intervention.

Estates no longer provide employment at attractive wages for the children of workers on their entry into the labour market. More and more of these children are getting educated and are losing any motive to continue as plantation labour; neither are there opportunities for other employment within the sector. Positions in the supervisory, clerical and middle management grades within the plantation itself have been largely denied to this community. For instance, over 80% of creche attendants for Tamil children in the plantations are from the majority community.

While this discrimination continues, many unemployed estate youth, who secured employment as shop assistants and domestic servants in urban areas, have returned to the estates due to the harassment of frequent arrests and detention by the security forces. In the context of ethnic relations in the country and their marginalisation, the plantation community today suffers from a profound sense of insecurity and alienation. Drawing attention to these developments, Dr. Shanmugaratnam in his essay on "Privatisation of Tea Plantations" concludes:

"Nothing less than a comprehensive policy to integrate these people into the national educational and health systems and to extend to them the right to own land and live as free citizens can satisfy their needs. Thus the workers' entitlement question is a major political one and cannot be reduced to a 'labour problem' for the plantation companies. For it involves a major discontinuity with the past as the workers need to be freed from the institution and culture of the estate line rooms which persist as a powerful symbol of their captivity and segregation"

There are many examples to justify this mood of frustration and resentment among plantation workers. The recent sharp increase in the price of flour has affected plantation labour with their frozen wages more than other sectors. Flour is virtually their staple diet, especially in the estates at higher elevations. It has been calculated that the average family is now forced to spend about 35% of daily earnings on flour when compared with about 16% before the price increase. This is seriously affecting their nutritional standards; no concrete steps have been taken either by the government or the employers to mitigate this hardship.

The style of personnel management practiced by the private companies is reported to vary widely. There are some companies whose enlightened management have already taken some steps for the welfare of their workers. At the other end of the scale, there are also managers who still appear to be burdened with a feudal outlook. Privatization to them is a license to treat the workers as slave labour, arbitrarily increasing work norms, abandoning their earlier responsibility for medical and other welfare services to the workers and adopting a tough line in their dealings with the trade unions. All these are adding to the frustration of the workers burdened with the rising cost of living. These managers in short welcome the benefits of captive labour but are not prepared to meet its costs.

Another long-standing grievance relates to housing. While successive governments have held out various promises for solving the housing problem in the plantations, the ground situation has little progress to show. In contrast, the parceling out of even productive tea land for settling villagers continues at an accelerated pace.

These developments are further compounded by the increasingly hostile socio-political environment opposed to granting any concessions to the members of this community.

### External Environment

**T**he CWC, the leading trade union in the plantations, extended its fullest cooperation to the UNP government during its 17-year tenure of office and in the process secured many concessions on wages and welfare services. The granting of citizenship to a substantial number of plantation workers during this period enabled this community to emerge as a significant electoral block with political influence in the plantation areas.

The noticeable improvement in this electoral representation and political bargaining capacity generated a negative response from

certain political parties and religious and intellectual groups in Sinhala society. Some propagandist statements have gone to the extent of alleging that Tamil plantation leaders are motivated by a hidden agenda of establishing a separate sphere of influence, if not a separate state, in the up-country plantation area. Even purely trade union demands are immediately interpreted as part of a larger conspiratorial design.

The myth of an alien, selfish and unpatriotic Tamil plantation community has been revived, reminiscent of a similar process in the

50's and 60's, disregarding totally the invaluable contribution made by this community, at great cost to themselves, for the prosperity of the country. These negative developments will ultimately contribute to a new sphere of ethnic enmity and tension in an already conflict ridden country. Thus it is necessary that viable policies are adopted to manage emerging conflicts within the plantations as well as between the Kandyan Sinhalese and the plantation Tamil community. The integration of the plantation Tamil community with the rest of Sri Lanka's society and economy still remains part of an unfinished agenda. ■

*A review of N. Shanmugaratnam, Privatisation of Tea Plantations. The Challenge of Reforming Production Relations in Sri Lanka: an Institutional Historical Perspective, The Social Scientists' Association, Colombo, 1997.*

## THE FUTURE OF TEA ESTATES

David Dunham

Recent discussion on the future of Sri Lankan tea estates has focused on very concrete problems (commercial viability, costs of production, labour availability and labour use, the living conditions and social status of workers and their families, unemployment and militancy amongst youth) at the expense of a more balanced, holistic perspective on what will be needed for the industry to thrive over the longer-term. Studies have often been highly technocratic; they have treated history, ethnicity and politics as little more than a backcloth and they have either adopted an explicitly corporate stand or that of labour (with the state somewhere in between as a sort of neutral umpire). As a result, the whole discussion has been piecemeal. It has been oversimplified, it has taken existing institutional arrangements very much for granted, and in the process it has missed the urgency and much of the complexity of finding long-term solutions.

Shanmugaratnam's essay is a welcome contrast because it steps back and tries to take a look at the broader picture. It is far more serious about history, using it to understand contemporary problems and attitudes, and it rightly assumes that political, economic, socio-cultural and ecological factors are essentially interrelated. Where it is surprisingly not so generous is on gender issues (plantations being essentially masculine institutions, even though most of the workforce are women). Building on an earlier study of P.P. Manikam (1995), he sets off with a useful — if familiar enough — account of how the tea industry slid into crisis prior to privatisation. Financial starvation and the mismanagement of nationalised tea estates, declining or stagnant yields, obsolescent factories, rising costs of production and loss of international competitiveness, the failure to address workers' demands as a human and not just as an economic (even a cost of production) problem, and loss of ecological capital all loom large in his picture — with impoverished villagers waiting in the wings for a share of land or other assets if they are hived off to the workers. Historical experience emerges as of profound importance in moulding labour attitudes (and presumably planter attitudes and those of

politicians and bureaucrats). Quite rightly, he pieces together a highly complex scenario, though it is one that would also have gained from international comparisons..

Central to Shanmugaratnam's analysis is his assertion that the plantation, both as an agrarian institution and as a business entity, is today an anachronism. This is a familiar enough view in the international literature, and it has also been expressed by other observers of the Sri Lankan case (De Silva 1982; Dunham *et al.* 1997), but it is not one on which there is any consensus amongst companies, labour and the state in contemporary Sri Lanka. In traditional plantation economies, cheap land was the key factor of production and (once it was assured — and that was not always a simple matter) an unlimited supply of captive labour was simply taken for granted and was managed through a highly authoritarian system of labour relations. Commercial viability was then reasonably assured. In Sri Lanka, it yielded dividends for European investors and, later, surpluses were wrung from the nationalised estates and transferred to other sections of society, financing welfare programmes for which the country became famous. But little was reinvested to assure long-term profitability of the estates or to improve the standards of living of workers.

Over the longer-term, of course, this model was not viable. Other producers emerged, prices fell, the lack of investment and the inefficiencies of state-management began to tell, and high costs of production of Sri Lankan tea made it less competitive. It is often said that successive governments were wringing the neck of the goose that laid the golden egg. But there was also a more general malaise on which Shanmugaratnam is silent. Whether it was Jamaica or Malaysia, plantation economies have proved incompatible with the aspirations of new generations of more educated and politicised youth; they have been undermined by the tunnel vision of management, by outmigration, the stigma attached to plantation work, the rejection of authoritarian labour relations and persistent poverty. In