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# COMMITTEE ON COMMODITY PROBLEMS

## INTERGOVERNMENTAL GROUP ON TEA

### Twenty-second Session

Naivasha, Kenya, 25-27 May 2016

## SRI LANKA TEA INDUSTRY REVIEW OF 2014 AND 2015 AND OUTLOOK FOR 2016

### Review of 2014

The year 2014 commenced on an upbeat, consequent to the revenue from tea exports, together with production reaching record levels in 2013 and prices continuing to maintain attractive levels from all elevations. This was despite the fact that some of our key Middle Eastern markets were faced with political unrest and financial instability. These record price levels however could not be sustained throughout the year, due to continued instability in the Middle Eastern region and the drop in oil prices to a great extent, particularly towards the latter half of the year.

The Sri Lanka tea industry experienced a remarkable year during 2014 with the highest ever earnings from tea exports which was registered as US\$ 1.63 billion, though there was a marginal decline in production recorded as 338 m/kg. Other tea producing countries in the world have not achieved revenue this high from tea exports as yet. As the global leader in the production of orthodox black tea, Sri Lanka fetched the highest ever average prices at the Colombo Tea Auctions during 2014. From an average Colombo Auction Price of Rs. 391.64/- per kilo (US\$ 3.00) in the year 2012, the auction price increased to Rs. 462/- per kilo (US\$ 3.56) during the year 2014. The low grown teas which constitute over 60% of the total production were instrumental to achieve this record performance and that segment registered an average auction price of around Rs. 500/- per kilo (US\$ 3.85).

The Middle East/Gulf Region continued to remain as the backbone of the export market and absorbed almost 55% of the total Ceylon Tea off-takes with the Russian Federation and other CIS countries consuming another 22%. Turkey emerged as the largest buyer of Ceylon Tea in 2014 by overtaking Russia, while Iran, Iraq, UAE, Syria, and Libya patronized teas from Sri Lanka strongly. This performance helped the Colombo Tea Auction prices to remain way above all other global tea auction centers during 2014. While most Auction Centers reflected a decline in tea prices, the Colombo Auctions showed an unabated growth during most of the year. The average FOB price during the past year reached an all time high of US\$ 4.97 per kilo.

### Tea Industry Overview 2015

Year 2015 will go down in history as one of the most challenging years for the tea industry. On the one hand the Middle Eastern region where the bulk of our teas is exported never recovered from the socio economic unrest, restricting exports to the region. On the other hand destinations such as Russia and Ukraine were faced with many economic challenges which led to currencies being constantly devalued thus impacting prices at the Colombo auctions.

In 2015, the cumulative Colombo Tea Auction price average had reached US\$ 2.99 per kilo as against US\$ 3.56 per kilo during 2014. The average auction price at Mombasa during the year 2015 recorded

an increase from US\$ 2.03 per kilo to US\$ 2.73 per kilo. Similarly, the Tea Auction Prices in Cochin came down from US\$ 1.66 per kilo to US\$ 1.55 per kilo during the year 2015.

In respect of production, the total crop during the year declined from 338 m/kg in 2014 to 329 m/kg in 2015. This production loss was due to extreme weather conditions in the tea plantation sectors of Sri Lanka during the year.

With respect to export trade, the FOB price had shown a decline from Rs. 649.44 (US\$ 4.97) per kilo in 2014 to Rs. 593.11/- (US\$ 4.36) per kilo in 2015. The revenue generated from Ceylon Tea exports during 2015 was US\$ 1.34 billion. Total exports of 307 m/kg during 2015 shows a decrease of 20 m/kg compared to 327 m/kg over the previous year. Russia was the single largest buyer of Ceylon Tea with 36.1 m/kg, followed by Turkey (33.7 m/kg), Iraq (31 m/kg) Iran (29.6 m/kg) and UAE (22.9 m/kg).

### **Outlook for 2016**

Projecting a possible market outlook for 2016 would no doubt be difficult, due to the turmoil in Sri Lanka's main tea export markets and the drastic currency depreciation in these markets as well. On the supply side, global tea production up to end of the 3rd quarter and the forecast for the last quarter of 2015, estimate a global crop deficit of 80-100 m/kg at the dawn of the New Year. A significant feature would be the sharp decrease in production of approximately 50 m/kg from Kenya (primarily CTC teas) and India recording a shortfall of approximately 20 m/kg and to a lesser extent Indonesia, Malawi and Sri Lanka.

From a Sri Lankan perspective, an important factor in the supplier equation is that Orthodox tea which accounts for 90% of our total tea crop records a decline of approximately 9 m/kg (2.74%) in 2015 compared to 2014. Tea production in 2016 is also unlikely to record any appreciable change. From a global angle, rising concerns of an El-Nino impact would also warrant due consideration.

The global commodity crisis emanating from political issues between Russia/Ukraine, turmoil in the Middle Eastern markets (decline in oil and gas prices – which is the lowest since Jan/Feb 2009), drastic currency depreciation in key tea importing countries, economic sanctions etc. affected the Colombo tea market in particular and to a lesser extent demand for tea in general during the year 2015. Consequently, tea prices particularly in Colombo which reached a record high in 2014 ended the year substantially weaker. In fact, the Colombo Auction average for the calendar year 2015 is approximately Rs. 62.60 lower than the corresponding average in 2014.

The decline in US Dollar terms would record an even sharper decline compared with 2014 following the devaluation of the Sri Lankan Rupee against the US Dollar during 2015. This brings in to focus the sharp decline in Auction averages brought on essentially by economic and political issues in Sri Lanka's key tea exporting markets which mostly impacted Sri Lanka's Low Grown teas.

