



ANNUAL REPORT 2013



SRI LANKA TEA BOARD



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VISION

TO POSITION CEYLON TEA AS THE
"MOST ASPIRED BEVERAGE" IN THE
GLOBAL MARKET.



MISSION

TO INCREASE THE FOREIGN
EXCHANGE EARNINGS TO THE
COUNTRY THROUGH
SUSTAINABLE DEVELOPMENT
OF THE INDUSTRY AND THEREBY
ENSURING THE ECONOMIC
DEVELOPMENT OF THE
PLANTATION COMMUNITY.



Members of the Sri Lanka Tea Board

Chairperson Ms. Janaki Kuruppu

Secretary to the Board Mr. D.W.S. Narangoda (Up to 21/08/2013)
Director General Sri Lanka Tea Board

Members of the Board

Member Ministry of Plantation Industries Represented by
Addl. Secretary (Development)
Mr.P.L.U. Dissanayake (Up to 16/05/2013)
Mr. G.D.W. Jayawardene (From 17/05/2013 to
12/09/2013)
Mr. N.A.U.K.S. Mihindukulasooriya (From 13/09/2013)

Member Ministry of Finance & Planning Represented by
Deputy Secretary to the Treasury
Department of Public Finance
Ms. Pushpa Wellappilli

Member Chairman, Tea Small Holdings Development Authority
Mr. N.P. Kariyawasam

Member Chairman, Colombo Tea Traders' Association
Mr. Jayantha Keragala

Member Chairman, Planters' Association of Ceylon
Mr. S.K.L. Obeyesekera (Up to 26/09/2013)
Mr. Roshan Rajaduri (From 27/09/2013)

Member Chairman, Colombo Brokers' Association
Mr. Deepal Jayamanne (Up to 16/05/2013)
Mr. Jehan Algama (From 17/05/2013)

Member Chairman, Tea Exporters' Association
Mr. Rohan Fernando (from 14/11/2012)

Member President, Sri Lanka Federation of Tea Small Holder
Development Societies Represented by
Mr. Neville Ratnayake (From 31/12/2012)

Member Chairman, Sri Lanka Tea Factory Owners' Association
Mr. Anil Perera

Member Nominated by the Hon. Minister of
Plantation Industries
Mr. Geoff Aloysius

Observers Dr. S.S.B.D.G. Jayawardene
Mr. T. Sambasivam



Members of the Audit Committee

Chairperson

Ms. Pushpa Wellapili
Deputy Secretary to the Treasury
Department of Public Finance
Ministry of Finance & Planning

Members of the Committee

Member

Mr. P.L.U. Dissanayake (Up to 25/03/2013)
Additional Secretary (Development)

Mr. G.D.W. Jayawardana (From 22/05/2013 to 23/08/2013)
Additional Secretary (Admin)
Ministry of Plantation Industries

Member

Mr. Jayanatha Keragala
Chairman
Tea Exporter's Association

Member

Mr. Anil Perera,
Representative of Chairman,
Sri Lanka Tea Factory Owners Association

Observer

Mrs. C.M.S. Anthony
Superintendent of Audit
Auditor General's Department

Convener

Mr. D.W.S. Narangoda (From 01/01/2013 to 21/08/2013)
Director General
Sri Lanka Tea Board

Mr. N.A.U.K.S. Mihindukulasuriya (From 23/09/2013)
Director General (Acting)
Sri Lanka Tea Board



Members of the Promotion & Marketing Committee

The promotion & marketing committee is a sub- committee appointed to guide the board on promotional and marketing activities for Ceylon Tea.

Chairperson

Ms. Janaki Kuruppu
Chairperson, Sri Lanka Tea Board

Members of the Committee

Public Sector

Mr.P.L.U.Dissanayake(Up to 05/04/2013)
Addl. Secretary (Development)
Ministry of Plantation Industries

Mr.D.W.S.Narangoda
(Upto 05/04/2013)
Director General
Sri Lanka Tea Board

Mr. Hasitha de Alwis
Director (Promotion)
Sri Lanka Tea Board

Mr. N.A.U.K.S. Mihindukulasooriya
(From 04/11/2013)
Director General
Sri Lanka Tea Board

Mr. Hasitha de Alwis
Director (Promotion)
Sri Lanka Tea Board

Mr. P.D. Fernando(Up to 05/04/2013)
Director General
Department of Commerce

Mr.R.D.S.Kumararatne
(From 04/11/2013)
Director General
Department of Commerce

Private Sector

Mr. Malin Goonetilleke
Secretary General
Ceylon Planters Association

Mr. Ravi Abeywardena
Member, Private Tea Factory Owners Association

Mr. Anil Cooke (Up to 05/04/2013)
Representative
Colombo Brokers Association

Mr. Rohantha Athukorala
Head National Portfolio Development, UNOPS

Dr. S.S.B.D.G. Jayawardena
Chairman, Tea Research Board

Mr. Neville Ratnayake
Chairman, Sri Lanka Federation of
Tea Small Holder Development Societies

Dr. Gamini Abeywickrama
Managing Director, Basilur Tea Exports (Pvt) Ltd.

Mr. Muffadel Jafferjee
Managing Director, Jafferjee Brothers

Mr. Romesh Moraes
Director, Finlays Colombo PLC

Mr. Jayantha Karunaratne
CEO, Imperial Teas (Pvt) Ltd.

Mr . Malik Fernando
Director, MJF Group

Mr.Rohan Fernando
CEO, HVA Group

Mr. Niraj de Mel (Up to 04/11/2013)
Managing Director
Van Rees Ceylon Ltd

Mr. Tyeab Akbarally
Director, Akbar Brothers Ltd.

Mr. Avi De Silva
Director
Head of Tea Division
Unilever Ceylon Ltd



Senior Management Staff

Director General	Mr. D.W.S. Narangoda (Up to 21/08/2013)
Director General (Acting)	Mr. N.A.U.K.S. Mihindukulasuriya (From 23/09/2013)
Director (Promotion)	Mr. A.H. de Alwis
Tea Commissioner	Mr. E.A.J.K.Edirisinghe
Asst.Director General (Administration)	Mr. S.I.C.Perera
Asst.Director General (Finance)	Ms. A.D.W.Bandarage
Director(Analytical Services)	Dr.M.A.N.Jayathilaka



Message from the Chairperson



It is with great pleasure that I write this message on the activities and progress of the Sri Lanka Tea Board during the year under review. 2013 was a record breaking year for the Sri Lankan tea industry with the industry key performance indicators surpassing most of the previous records. This includes the highest ever production recorded in its' 146 year old history of 340 million kilograms which is a 3.5% growth over 2012 and the exports recording the highest ever earnings of Rs 199.44 billion which is a 10.5% growth over 2012. The elevation wise highest production growth has come from medium elevation followed by low and high elevations respectively. With respect to export volume growth, there's a 19% growth in instant tea and 21% growth in green tea is a sign of product diversification which is needed to capture some of the new markets. Further, the 12 month average FOB price for 2013 was Rs 623.91 which is a 10.6% growth over 2012 while the same in US\$ 4.8 is a 9.3% growth. Given this background, the Sri Lanka Tea Board has set targets to achieve Rs 260 billion export turnover and 358 million KG of production targets by 2016.

In the home front at the Sri Lanka Tea Board, we continued on the plan of improving operating systems with respect to human resources and IT. The board has finally filled most of its cadre that was a long overdue criteria to improve the performance and the staff is now subjected to regular training on technical and other aspects.

With respect to development, approximately Rs 14 million was spent during the year under review as subsidies for re-planting which covered 143.5 HA and approximately Rs 18 million was spent as factory modernization subsidies granted to 35 factories during the year. Eventhough, we at the tea board wanted to disburse more of this subsidy, it should be noted that the speedy disbursement of these subsidies is not totally within the control of the tea board since it is disbursed in stages and the companies and tea growers who apply have to first complete several stages of the re-planting and the factory modernisation before the full amount can be disbursed. The B-Leaf 60 program which is implemented to reduce the post harvest losses and the quality of tea has gained momentum and has attracted many factories to push the implementation of the program at their own initiative after seeing the positive impact on tea leaf quality and the prices obtained.

Further on regulation, for the first time in the history of the tea board, all tea blending and packing warehouses in Colombo and suburbs which is over 250 in number, were inspected and rated as per their standards. The warehouses that were not upto the minimum standards were given ultimatums to upgrade before the renewal of registrations for next year. The tea board laboratory was also reinforced with additional staff and equipment to deliver advanced testing facilities to the industry as well as to be able to handle extra testing required for tea board quality inspections.

Sri Lanka Tea Board made history in promotion work as well in 2013. An International Tea Producer Forum was set up at the initiation of Sri Lanka in January 2013 with 7 tea producing countries namely, Sri Lanka, India, Kenya, Indonesia, Rwanda, Malawi and Iran as its' founder members. This was achieved after 30 years of failed attempts to set up such a forum by these tea producing countries. The inauguration was held in Colombo with the participation of several officials of tea boards of all the key tea producing countries and subject Ministers from Kenya, India and Sri Lanka. The culmination of the event was signing of a memorandum of understanding between the seven founder members along with the draft constitution of the forum covering the interests of the global tea industry.

Another historical first was when Sri Lanka Tea Board became the international sponsor of Sri Lanka cricket for 3 years thus bringing together two world renowned unmatched brands belonging to Sri Lanka. This could be called the first major initiative of the global campaign for Ceylon Tea and was done with the objective of linking the country Sri Lanka to Ceylon Tea and to obtain maximum mileage on the awareness for the brand on international television channels especially targeting new and lapsed markets for Ceylon Tea. Besides the above, Ceylon Tea became a platinum sponsor during CHOGM 2013 business forum and used the opportunity to promote Ceylon Tea to the thousands of foreign business people that participated at the business forum, at the media forum and at the trade exhibition at Janakala Kendraya.

I take this opportunity to thank my board members, all the staff at the Sri Lanka Tea Board and the Hon. Minister and Secretary of the Ministry of Plantation Industries for the support given during the year under review.

Janaki Kuruppu
Chairperson
Sri Lanka Tea Board



Basic Comparative Indicators

Tea Production				
	2011	2012	2013	Comparison 2012 Vs 2013 (%)
Total Tea Production(Mn.Kg)	327.5	328.3	340.0	3.5
Classification by Elevation(Mn.Kg)				
High	78.2	73.6	75.8	2.9
Medium	52.6	52.6	56.1	6.6
Low	196.7	202.1	208.1	2.9
Classification by Processing Method (Mn.Kg)				
Orthodox (includes Bio,Instant, Reclaimed teas)	302.0	302.1	314.0	3.9
CTC	22.6	23.3	13.7	41.2
Green	3.0	3.0	3.7	23.3
Tea Sales				
Total Tea Sales –Volume(Mn.kg.)	323.3	325.4	335.5	3.1
Total Tea Sales –Unit Price (Rs.kg.)	360.53	392.03	444.75	13.4
Elevation wise Sales Volume (Mn.Kg.)				
High	73.8	69.8	71.4	2.3
Medium	52.4	52.4	54.4	3.8
Low	197.1	203.2	209.8	3.2
Elevation wise Unit Price (Rs./Kg.)				
High	333.28	379.18	407.91	7.6
Medium	319.48	350.86	396.97	13.1
Low	381.65	407.06	469.67	15.4
Tea Exports(Without Re export)				
Volume (Mn.kg.)	303.2	306.0	311.1	1.7
Value (Rs. Bn.)	151.8	169.0	190.8	12.9
Black	298.8	302.0	306.3	1.4
Green	2.5	2.4	2.9	20.8
Instant	1.9	1.6	1.9	18.8
Total Tea Exports(With Re Exports)				
Volume (Mn.kg.)	322.6	319.9	319.7	0.1
Value (Rs. Bn.)	164.9	180.4	199.4	10.5



01 Corporate Background

The Sri Lanka Tea Board which function under the purview of the Ministry of Plantation Industries was established on 01st January 1976, under the Sri Lanka Tea Board Act No. 14 of 1975, as amended by Act No. 17 of 1985, No. 44 of 1990, No. 29 of 2003, and No. 44 of 2006.

The main objectives of the Board under the Tea Board Act are development and regulation of Sri Lanka tea industry and promotion Ceylon Tea globally. As the authority responsible for regulating the industry, the board monitoring the production, quality assurance, cultivation of new lands, replanting, rehabilitating old gardens, establishment of factories and operations, monitoring of subsidies for upgrading factories, policy formulation and implementation of quality assurance of tea.

Sri Lanka Tea Board is also involved in monitoring of quality standards of tea at the point of sales, monitoring of pre-shipment teas, Inspection of warehouses of brokers, blenders and exporters and providing advisory services on hygienic blending and storing. Additionally the board regulate control and direct all institution and organizations engaged in the management of tea estates and in the production and marketing of tea.

Sri Lanka Tea Board is planning on intensifying the promotion of Sri Lanka as "Ceylon Tea" globally with the assistance of the stakeholders and other government organizations such as Export Development Board, Ministry of External Affairs, Department of Trade and Commerce and Sri Lanka Tourist Board. In addition, steps have already been escalated to protect Ceylon Tea name globally and Locally.

The Main Secretariat, Tea Commissioner Division, Tea Promotion Division and Analytical Laboratory function as the major divisions of the SLTB and all divisions work towards the betterment of the tea Industry.

Sri Lanka Tea Board Structure

1.1 Main Secretariat

Responsible for overall supervision of all the activities undertaken by the board The Secretariat consists of Chairperson office, Director General office, Administration Division, Finance Division, Internal Audit unit, Statistics and IT Unit and Library.



1.1.1 Administrative Division

Administration Division is responsible for overall Human Resource Management and Development, Procurement & Stores, Maintenance, Operations, Infrastructure Development and Transport activities

1.1.2. Finance Division

Finance division is responsible for overall financial control and management of Sri Lanka Tea board. Other main activities of Finance division are recommendations for financial policy formulations to the board, preparation of annual budget, Annual financial statements, Monthly accounts and periodical reports, Maintenance of inventories and annual verification and Submitting annual accounts to Auditor General.

1.2. Tea Commissioner's Division

All matters connected with regulatory, deals with development and export functions in respect of cultivation, manufacture of tea, quality development, disposal of made tea, warehousing, packaging, exportation and importation of tea. The Division operates through a network of six(06) regional offices.

1.3. Tea Promotion Division

The Division is responsible for all matters connected with promotion of Ceylon tea, internationally and locally, together with Overseas Offices. Provides market intelligence periodically and as per the demand of the Industry. A Tea Sales Counter beneficial to the locals and foreigners is in operation.

Tea Tasting Unit under the Promotion Division is responsible for examination of tea on Minimum Quality Standards, Reference Standard on Lion Logo and examination of other origin teas through an independent panel of expert Tea Tasters. Media advertising, participation at international Food & Beverage Fairs, Brand Promotion Schemes, and Generic Promotion with the assistance of overseas Tea Promotion Officers & Commercial Officers attached to Sri Lanka Missions abroad. Liaison with International Tea Councils & Tea Associations, Intergovernmental Group on Tea of FAO etc.

1.4. Analytical Laboratory

Responsible for testing and issuing of quality certificates for tea on Chemical, Microbiological and Pesticides residue quality parameters, using high- tech equipments to maintain the tea quality. Therefore, individually each unit had contributed in quality certification matters and thereby supported to protect the image of "Ceylon Tea".

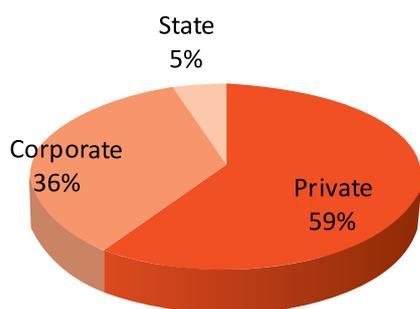
02 Industry Profile – 2013

The Tea production improved during the year owing to satisfactory weather, in addition to liberal inputs and good agricultural practices maintained in the fields. The continuation of the fertilizer subsidy also contributed to the year’s achievement. Sri Lanka tea production stood at 340.0 Mn. kg reflecting an increase of 3.5% against the 2012 production of 328.3 Mn. kg. Matured (harvesting, bearing) tea extent in hectares is about 194,508 at present. During the 2013, tea production per hectare has increased from 1688Kg to 1748Kg (Based on matured tea extent). The Colombo Tea Auction averages ending the year at Rs. 444.42, increasing over the previous year by Rs. 52.19.

2.1. Distribution of Tea Land

The Total Extent of cultivation in Sri Lanka is 204 ,406⁺ ha at present. The breakdown of tea lands along with their management criteria is Private (59%), Corporate (36%) and State sector (5%). Tea cultivation is distributed within few districts in the country mainly in wet zone areas due to the suitable climate conditions for tea cultivation .

Chart 2.1: Tea Land Proprietorship



2.2. Tea Production in Sri Lanka

Following extreme weather conditions experienced in tea growing areas during the first half of year 2013, tea production for the year reached an all time high of 340.0 Mn.Kg. Production for 2013 was remarkably (3.5%) higher compared to 328.3 Mn. Kg recorded in 2012.

Sri Lanka produces tea cultivation in variety of elevations, with the bulk being low grown tea. Tea is cultivated in elevations ranging from sea level to 600 meters, and essentially has a stronger flavor and color.

Table 2.2: Total Tea Production by Elevation

Elevation	Production(Kg)
High	75,776,810
Medium	56,127,362
Low	208,122,315
Total	340,026,487

As such, higher income levels and the resultant rise in demand have pushed up the low-grown tea in recent times. Meanwhile, high-grown tea is cultivated in altitudes of over 1,200 meters and is generally regarded as being of superior quality, with a unique taste and aroma.

Tea production in Low Elevation contributed more than two third (62%) of national tea production whilst high and medium accounted for 22% and 16% respectively.

2.2.1. Monthly Tea Production

The graph depicts monthly total tea production in 2013. Total monthly tea production has shown a slight growth during the year 2013 except the months of June, July and September, compared to year 2012. The chart 2.2 shows the elevation wise monthly total tea production for the last consecutive years.

Chart 2.2: Monthly Tea production by Elevation



2.2.2. Agro Climatic District Wise Analysis

Ratnapura and Galle continued to be at the top of the list of agro district-wise tea production, with 56Mn.kg. and 47.4Mn.kg, respectively. It could be revealed that all agro climatic districts in Western sub-district ended up with an escalating tea manufacturing trend in year 2013 compared to the previous year. Under Medium agro climatic district, Hunnasingiri/Knuckles/Y’dessa regions showed the highest growth of tea production than other agro regions(45%).

*Ministry of Plantation Industries (Provisional)

Table 2.3: Agro - Climatic District -Wise Tea Production

Agro Climatic District	Production Quantity (MT)		Change	
	2013	2012	Qty. (MT)	%
A. Nuwara - eliya	4,241	3,564	677	19
B. WESTERNS				
1. Ramboda	2,643	3,139	-496	-15.8
2. Punduloya	2,693	2,498	195	7.8
3. Agarapatana	7,084	6,834	250	3.7
4. Nanuoya/ Lindula/ Talawakelle	11,737	11,820	-83	-0.7
5. Patana/ Kotagala	6,263	6,232	31	0.5
6. Hatton/ Dickoya	8,465	8,595	-130	-1.5
7. Bogawantalawa	5,603	5,410	193	3.6
8. Upcot/ Maskeliya	8,487	8,541	-54	-0.6
TOTAL WESTERNS	52,975	53,069	-94	-0.2
C. MEDIUMS				
1. Watawala/ Ginigathhena/ Norton Bridge	3,028	2,837	191	6.7
2. Pussellawa/ Hewaheta	7,053	6,548	505	7.7
3. Kotmale	2,068	2201	-133	-6.0
4. Gampola/ Nawalapitiya/ Dolosbage	14,725	14,523	202	1.4
5. Nilambe/ Hantane/ Galaha	1,396	1,255	141	11.2
6. Kadugannawa	8,055	7,796	259	3.3
7. Madulkelle/ Knuckles/ Rangala	5,043	5,458	-415	-7.6
8. Hunnagiri/ Knuckles/ Y'dessa	1,441	994	447	45.0
9. Balangoda/ Rakwana	3,398	3,569	-171	-4.8
TOTAL MEDIUMS	46,207	45,180	1,027	2.3
D. UDA PUSSELLAWA				
1. Uda Pussellawa/ Halgranoya	5,309	4,870	439	9.0
2. Maturata	2,887	2,827	60	2.1
TOTAL UDA PUSSELLAWA	8,196	7,698	498	6.5
E. UVAS				
1. Koslanda/ Haldumulla	412	314	98	31.2
2. Haputale	4,513	3,771	742	19.7
3. Bandarawela/ Poonagalla	3,065	2,953	112	3.8
4. Malwatte/ Welimada	3,264	3,197	67	2.1
5. Demodara/ Haliella/ Badulla	9,256	7,767	1,489	19.2
6. Ella/ Namunukula	1,494	1,180	314	26.6
7. Passara/ Lunugalla	4,583	4,004	579	14.5
8. Madulsima	2,575	2,368	207	8.7
TOTAL UVAS	29,162	25,554	3,608	14.1
F. LOW GROWNS				
1. Deniyaya	15,655	16,545	-890	-5.4
2. Galle	47,491	44,393	3,098	7.0
3. Kalutara	23,744	21,553	2,191	10.2
4. Kegalle	10,798	10,817	-19	-0.2
5. Kellani Velly	894	829	65	7.8
6. Kandy/ Matale/ Kurunegala	3,924	3,572	352	9.9
7. Matara	4,486	4,460	26	0.6
8. Morawaka	26,619	25,488	1,131	4.4
9. Ratnapura	56,152	57,042	-890	-1.6
10. Balangoda	9,478	8,633	845	9.8
TOTAL LOW GROWNS	199,241	193,333	5,908	3.1
GRAND TOTAL	340,022	328,397	11,625	3.5

2.2.3. District Wise Tea Production

During the year under review, It is evident that major high grown production has reported from the Nuwara Eliya district and the highest low grown production has reported from the Ratnapura district during the year.

Table 2.4: District wise Tea Production (in Kg)

District	High	Medium	Low	Total
Badulla	15,252,863	15,097,375	0	30,350,239
Colombo	0	0	645,206	645,206
Galle	0	0	52,861,550	52,861,550
Hambantota	0	0	256,603	256,603
Kalutara	0	0	18,657,951	18,657,951
Kandy	814,013	22,449,689	10,899,930	34,163,632
Kegalle	0	738,654	10,917,598	11,656,252
Matale	0	1,752,158	485,366	2,237,524
Matara	0	105,242	44,684,270	44,789,512
Nuwara Eliya	58,799,039	13,607,092	894,376	73,300,507
Ratnapura	910,894	2,377,151	67,819,465	71,107,510
Total	75,776,809	56,127,361	208,122,315	340,026,486

2.2.4 Production Analysis by Green Leaf Collection Method

The total tea production of a factory includes the green tea leaf collected from their own estates or from other estates, or from the leaf bought from the other suppliers. The following table illustrates the total production of made tea produced from each green leaf collection methods.

Table 2.5: District Wise Tea Production According to Leaf Collection Method

Admin District	Own Leaf	Other Estate	Bought Leaf	Total Production
Badulla	12,746,603	7,264,547	10,339,089	30,350,239
Galle	1,460,619	357,303	51,043,628	52,861,550
Colombo	-	-	645,206	645,206
Hambantota	-	-	256,603	256,603
Kalutara	802,366	75,144	17,780,442	18,657,951
Kandy	6,262,668	1,921,030	25,979,935	34,163,633
Kegalle	1,399,681	618,047	9,638,525	11,656,252
Matale	387,852	198,418	1,651,254	2,237,524
Nuwara Eliya	46,956,331	11,106,525	15,237,651	73,300,507
Ratnapura	6,532,857	1,808,360	62,766,294	71,107,511
Mathara	2,160,115	447,993	42,181,404	44,789,512
Total Production	78,709,091	23,797,365	237,520,031	340,026,487

2.2.5 Production analysis by Processing Method

2.2.5.1. Black Tea and Green Tea Production



The Orthodox tea production realized a growth of 4% (11,941,554kg) in 2013, whilst CTC production has showed a decrease of 4% against year 2012. During the year under review, Black tea production increased significantly to record of 11Mn.Kg (3.4%). Green tea production shows an increase of 693,150Kg which is a 23% growth over previous year.

Table 2.6: Tea production by processing method

Processing Method	2012 (Kg)	2013 (Kg)	2012 Vs 2013	
			Change(Kg)	Growth (%)
Orthodox	302,061,086	314,002,640	11,941,554	4.0
CTC	23,303,833	22,298,582	(1,005,251)	-4.3
Green	3,032,115	3,725,265	693,150	22.9
Total	328,397,034	340,026,487	11,629,453	3.5

2.2.5.2. Instant Tea and Bio Tea Production

In comparison to year 2012 both Instant tea and Bio tea showed a slight increase of its productions.

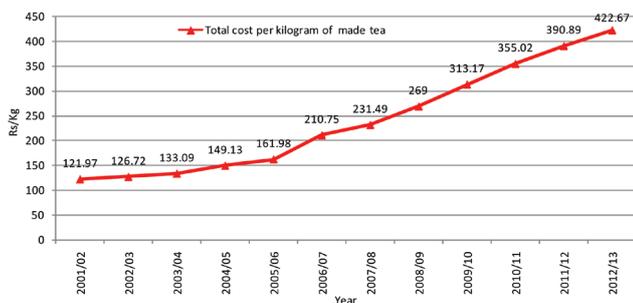
Instant tea showed a increase of 0.1Mn.Kg and Bio tea showed a increase of 0.3Mn.Kg for year 2013.

2.2.6. Cost of Production of Made Tea

Productivity and cost of production (COP) are inter-related and increasing cost of production continues to be a worrying phenomenon in the plantations sector. Labor productivity in tea has a greater relationship with COP as tea production system needs larger quantity of labor. Sri Lanka has highest COP among major tea producing countries. This has affected the country's competitiveness in the global arena.

The cost of production per kilogram of made tea has rapidly increased during the last decade. Increase in labor cost and higher prices of inputs had specially affected the production cost. The annual cost of tea production, compiled by the Department of Census and Statistics for 2012/13, was Rs.422.67 per Kg which is an increase of 8% against 2011/12.

Chart 2.3: Trend of Cost of Production (Total cost per kilogram of made tea)



2.3. Tea Sales

Sri Lanka tea industry recorded a greater average price for teas in 2013 compared to 2012. A quantity of 325.4 Mn.Kg of tea was sold in 2012 at an average of Rs.392.03 per kg against 335.5Mn.Kg sold at Rs.444.75 per kg including Public, Private and Direct sales in year 2013. This unit-increase compared to the previous year was around Rs.52.72 (13.4%), moving up from Rs.392.03 to Rs.444.75 per kilogram.

2.3.1. Mode of Sales

Public auction is the main mode of sale of teas manufactured in factories. An quantity of 330.0 Mn.Kg was sold under the Colombo Tea Auction in 2013. Private sales accounted for 4.0 Mn.Kg (1.1 %) and the rest about 0.5% sold through direct sales.

2.3.2. The Colombo Tea Auction

In 2013 there were 51 auctions conducted by Ceylon Chamber of Commerce under Colombo Tea Traders Association and recorded a substantial increase of 11Mn.Kg (3.4%) for public and private sales. However, average price fetched at the Colombo Tea Auction during 2013 reported a comparatively greater value, and resulted an annual escalation from Rs.391.64 per kilogram to Rs. 444.42 per kilogram.

2.3.3. Elevation-wise Sales

Table 2.7 shows an analysis of tea sales according to their elevations. In all three elevations, unit prices fetched are increased when compared to the last year, resulted a positive turnover in year 2013.

Table 2.7: Elevation-wise Tea Sales.

Elevation	Quantity (Mn.kg)				Unit Price (Rs./Kg.)			
	2012	2013	Change	%	2012	2013	Change	%
High	69.8	71.4	1.6	2.3	379.18	407.91	28.73	7.6
Medium	52.4	54.4	2.0	3.8	350.86	397.97	46.11	13.1
Low	203.2	209.8	6.6	3.2	407.06	469.67	62.61	15.4
Total Sales	325.4	335.6	10.2	3.1	392.03	444.75	52.72	13.4

2.4. Tea Exports

Sri Lanka's Tea Exports (with re-exports) for the year 2013 was 319.7Mn.kg achieving export earnings of Rs.199.4billions. The average unit FOB price was Rs.623.91 per kilogram. This is the fourth consecutive year that the exports earnings of tea exceeded Rs.150 billion mark.

Although Sri Lanka is still regarded as a producer of remium-quality tea, the country is gradually losing its footing in the global tea industry. Intense competition from rivals has dversely affected the nation's competitive position and this

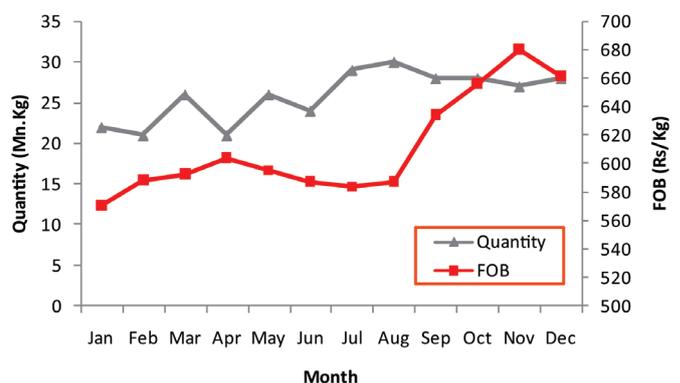
has been exacerbated by the higher production cost of tea and poor yield in Sri Lanka. Meanwhile, the country's continues dependency on orthodox tea as opposed to CTC teas could further erode its market share among global consumers' rapidly changing preferences.

2.4.1. Tea Export analysis according to Categories

In general, preferences for tea vary substantially, depending on the origin and quality of the leaves. For instance, Middle Eastern and CIS countries opt for low-grown, orthodox, strongly flavored tea produced primarily in Sri Lanka.

The cumulative tea exports (with re-export) in 2013 (Black, Green & Instant Tea packages only) were 0.06% descending in its volume and 10.5% ascending in its earnings respectively than that in 2012. Moreover unit FOB price was attained a positive change of Rs.61 per Kg. (i.e.10.4%). However, cumulative exports earnings were ended up with US\$1,558.0 Million in 2013 relating to the US\$ 1,414.0 Million in 2012 and accomplished a 10.2% increase.

Chart 2. 4: Monthly tea exports 2013 - Volume & Unit Value



Source: Sri Lanka Customs

2.4.2. Annual Tea Exports -2013

The category wise tea exports for the January to December in year 2013 are showed in Table 2.8.

Table 2.8: Annual Tea Exports – 2013			
Category Exports	As at December 2013		
	Qty (Kg.)	Value (Rs.)	FOB (Rs./Kg.)
Black Tea Packaging			
Tea in Bags	23,210,382	25,476,608,354	1,097.64
Tea in Bulk	129,287,835	72,118,470,750	557.81
Tea in Packets (4g.-1Kg.)	91,223,712	55,810,232,251	611.80
Tea in Packets (1Kg.-3Kg.)	1,376,570	903,042,064	656.01
Tea in Packets (3Kg.-5Kg.)	18,281,518	9,659,101,976	528.35
Tea in Packets (5Kg.-10Kg.)	42,937,913	21,229,306,318	494.42
Black Tea – Total	306,317,930	185,196,761,713	604.59
Green Tea Packaging			
Tea in Bags	862,587	1,536,758,686	1,781.57
Tea in Bulk	804,817	449,410,476	558.40
Tea in Packets (4g.-1Kg.)	1,188,657	1,589,446,039	1,337.18
Tea in Packets (1Kg.-3Kg.)	1,032	1,154,247	1,118.46
Tea in Packets (3Kg.-5Kg.)	2,190	3,682,576	1,681.54
Tea in Packets (5Kg.-10Kg.)	17,022	24,002,472	1,410.09
Green Tea – Total	2,876,305	3,604,454,496	1,253.15
Instant Tea			
Instant Tea – Total	1,950,649	2,002,724,122	1,026.70
All Tea Exports	311,144,884	190,803,940,331	613.23

Table 2.9: Annual imported tea exports (Re-exports) 2013			
Category Re- Exports	As at December 2013		
	Qty (Kg.)	Value (Rs.)	FOB (Rs./Kg.)
Black Tea Packaging			
Tea in Bags	2,524,856	2,631,690,595	1,042.31
Tea in Bulk	516,471	354,447,294	686.29
Tea in Packets (4g.-1Kg.)	2,994,140	1,972,405,719	658.76
Tea in Packets (1Kg.-3Kg.)	4,665	5,051,763	1,082.91
Tea in Packets (3Kg.-5Kg.)	8,780	5,107,692	581.74
Tea in Packets (5Kg.-10Kg.)	107,973	58,385,777	540.74
Black Tea – Total	6,156,885	5,027,088,840	816.50
Green Tea Packaging			
Tea in Bags	1,141,464	2,289,278,960	2,005.56
Tea in Bulk	208,143	119,230,219	572.83
Tea in Packets (4g.-1Kg.)	1,002,406	1,195,578,174	1,192.71
Tea in Packets (1Kg.-3Kg.)	5,935	3,597,011	606.07
Tea in Packets (3Kg.-5Kg.)	623	703,136	1,128.63
Tea in Packets (5Kg.-10Kg.)	279	437,199	1,567.02
Green Tea – Total	2,358,850	3,608,824,699	1,529.91
Instant Tea			
Instant Tea – Total	243	491,377	2,022.13
All Tea Re- Exports			
Grand Total	8,515,978	8,636,404,916	1,014.14

Source: Sri Lanka Customs



2.4.3. Value added Tea Exports

The global preferences are rapidly changing into value added tea categories where Sri Lanka should adopt to these market changes in order to maintain its traditional market position in the globe. Exports of value added teas, tea packets, tea bags and instant teas recorded a share of 58.2% of the total export volume. However, it had pushed the revenue from value added teas, a share of 62.0% of total export income.

2.4.4. Main Destinations of Sri Lanka Tea Exports

Historically, Sri Lanka's main export destination for tea had been Europe, including the UK. However, Sri Lankan bulk tea exports have now tilted towards the Middle East as result of increased use of tea bags.

As Russia is the world's largest tea importer, it is also Sri Lanka's largest individual buyer of tea, accounting for nearly 14.7% of export volume share with 15.8% of export earnings share during the period under review. Iran continued to be the second in the list of main destinations of Ceylon Teas, while Turkey upgraded its position as the third with an export volume share of 10.3%. The Middle East is Sri Lanka's largest export destination as a region; demand has been expanding robustly on the back of strong oil prices.

Top 10 pure Sri Lankan tea exporting destinations are accounted for around 70.8% of the totality. However, only Russia, & Japan, maintained the significantly greater FOBs with respect to the average unit FOB price attained. Furthermore the gloomy economic outlook on US and the sovereign debt crisis in EU could also cripple the potential revenue from the tea exports.

Table 2.10: Main Destinations of Sri Lankan Tea Exports 2013

Country	Qty. (Mn. kg)	Value (Rs.Bn.)	FOB (Rs./Kg.)	% Share Export Volume	% Share Export Value
Russia	45.7	30.2	660.25	14.7	15.8
Iran	38.4	24.4	635.11	12.3	12.8
Turkey	32.2	18.2	564.07	10.3	9.5
Iraq	22.3	11.1	500.61	7.2	5.8
Syria	21.1	12.1	574.68	6.8	6.3
UAE	17.5	10.1	578.76	5.6	5.3
Kuwait	16.0	6.4	401.68	5.1	3.4
Azerbaijan	10.8	6.4	595.98	3.5	3.4
Japan	8.8	6.0	683.12	2.8	3.2
Jordan	7.6	4.6	598.74	2.5	2.4
Total	220.4	129.6	587.88	70.8	67.9

2.4.4.1. Exports of Black Tea

Russia continued her position as the prime Sri Lankan Black tea importer (14.43%) in year 2013 by importing 44.9Mkg. Iran and Turkey's Black tea imports from Sri Lanka achieved 38.4Kg.(12.34%) and 32.2Mkg.(10.35%) respectively.

Table 2.11: Top-Five Destinations of Black Tea Exports

Country	Qty. (Mn. kg)	Value (Rs.Bn.)	FOB (Rs./Kg.)	% Share Export Volume	% Share Export Value
Russia	44.9	29.1	648.14	14.4	15.3
Iran	38.4	24.4	634.95	12.3	12.8
Turkey	32.2	18.2	564.03	10.4	9.5
Iraq	22.2	11.1	498.79	7.1	5.8
Syria	21.1	12.1	574.56	6.8	6.3
Total of Top 5 Destinations	158.8	94.8	597.24	51.0	49.7

2.4.4.2. Exports of Green Tea

Out of leading ten importers of Green teas, Russia recorded a considerable volume of 0.8Mn.kg.in year 2013. Another remarkable point is that more than 50% of the total exports of Green teas were exported to top 5 destinations.

Table 2.12: Top-Five Destinations of Green Tea Exports

Country	Qty. ('000 kg)	Value (Rs.Mn.)	FOB (Rs./Kg.)	% Share Export Volume	%Share Export Value
Russia	782.2	1,060.1	1355.33	0.25	0.56
UAE	484.9	254.7	525.18	0.16	0.13
Ukraine	315.6	392.4	1,243.15	0.1	0.21
USA	109.1	131.6	1,206.77	0.04	0.07
Germany	82.1	106.8	1,300.66	0.03	0.06
Total of Top 5 Destinations	1,773.9	1,945.6	1,096.78	0.57	1.02

2.4.4.3. Exports of Instant Tea

Ireland became the first place of leading instant tea importing country from Sri Lanka and responsible for an import volume 1.9Mn.Kg. (97%). USA and Indonesia maintained second and third positions in the list of major instant tea exports destinations.

2.4.4.4. Exports of Ready To Drink (RTD) Teas

Sri Lanka's RTD tea exports were shipped to 6 destinations in 2013. United Kingdom was the principal buyer of Sri Lankan RTD teas, which having Thousand Liters 21.1 (71%). Considering the imported tea exports (i.e.re-exports) stream, only Iran upholds their quantity exported over 1Mn. Kg. and Iran, Uzbekistan nearly 0.7 Mn kg and 0.6 mn kg. for the year 2013. They contributed to import 32 % of Sri Lanka total imported tea re-exports' volume.

2.5. Global Tea Industry Background

Tea is one of the most popular and widely consumed hot beverages the world over. Sri Lanka's exports, particularly tea has played a vital role in the National economy and Social Development from the inception of its illustrious history. The commodity based product has made inroads as a significant contributor of Sri Lanka's exports earnings, whilst this segment is also amongst the largest employers in the country.

Amongst tea producing countries, the principal producers are India, China, Sri Lanka, Kenya and Indonesia. These five countries account for 77% of world production and 80% of global exports. While China was mainly instrumental for the surge in world tea crop, African Continent particularly Kenya also registered a bumper harvest. Considering the Sri Lankan scenario in the global tea industry, the year 2013 is continued with escalated average unit price (auction) and revenue performances (exports) compared to the other tea producing members.

2.5.1. Global Tea Cultivation

Total extent planted with tea in the world was estimated to be more than 3 million hectares at the end of the year 2013.

Table 2.13: Highest Tea Extent Records

Country	2010 (Ha.)	2011 (Ha.)	2012(Ha)
China	1,970,200	2,112,510	2,279,940
India	560,609	579,350	580,000
Sri Lanka*	188,007	187,860	190,717
Kenya	171,916	187,855	187,000
Vietnam	129,000	127,000	124,027
Indonesia	122,796	122,764	121,076
Myanmar	78,400	78,500	78,500
Turkey	77,500	77,700	77,800
Bangladesh	54,900	54,400	54,500
Japan	46,800	46,200	45,900

Source: ITC Bulletin of Statistics – 2013

*Estimated Area registered as Planted

According to the International Tea Committee (ITC), largest tea extent is found in China and its extent noticeably increased during last decade. Tea area in Kenya also reached to a higher extent in 2010 to 2012. The top-ten country-wise tea extent for the year 2009-2012 is incorporated in table 2.13.

2.5.2. Global Tea Consumption

Annual tea consumption and triennial average per capita tea consumption during the three years period of 2010-2012 reveal that the annual consumption was highest in China, recording 1,279.33Mn.kg. Although the per capita consumption is low which was recorded as 0.95Kg. It was followed by India with a 871.67Mkg. and 0.73Kg. per head.

According to the country-wise per capita tea consumption statistics for the period of 2009-11 and 2010-12 published by ITC, Morocco & Kuwait tea consumers decreased consumption by 0.02 kg & 0.29 kg respectively & China and Egypt tea consumers increased consumption by 0.08Kg & 0.06 kg. per head per year in the latest review period. Bahrain tea consumption is in a stable position in the latest review period when compared to the previous period.

However, the annual per capita consumption of tea is highest in Kuwait, Ireland & Afghanistan with 3.25Kg. 1.90kg. & 1.97Kg. respectively. Table 2.14 gives a list of Countries having per-capita consumption according to the highest.

Table 2.14: Country-wise Tea Consumption

Country	2009-11		2010-12	
	Total (Mkg.)	Per capita (Kg.)	Total (Mkg.)	Per capita (Kg.)
Kuwait	9.47	3.54	8.68	3.25
Ireland Re-public	9.85	2.18	8.51	1.90
Afghanistan	50.37	2.06	49.27	1.97
Turkey	150.10	2.06	151.57	2.04
United Kingdom	122.46	1.92	123.51	1.97
Libya	10.23	1.72	13.60	2.39
Morocco	56.17	1.76	56.17	1.74
Taiwan	44.18	1.65	44.00	1.64
Qatar	2.43	1.42	2.53	1.46
Syria	28.54	1.42	26.50	1.25
Hong Kong	9.64	1.36	9.48	1.34
Sri Lanka	28.03	1.36	27.79	1.33
Iraq	42.00	1.31	40.35	1.21
Chile	20.45	1.20	21.40	1.24
Egypt	85.03	1.08	91.63	1.14
New Zealand	4.38	1.00	4.35	0.99

Source: ITC Bulletin of Statistics – 2013

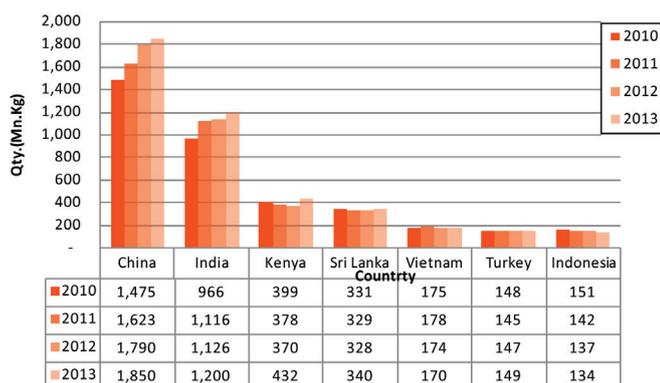
2.5.3. Global Tea Production

Global tea production is primarily concentrated in 4 countries - India, China, Kenya and Sri Lanka which together accounted for nearly 79% of the world's output in 2013 (refer to Chart 2.6). An all-time record of 4.8 bn.Kg. was recorded as the global tea production in 2013. The contribution of major tea producers to the global manufacture in year 2010-2013 (who exceeds 100Mn.Kgs) is represented in Chart 2.6.

Although India and China are still the largest tea producers, these 2 nations' considerable domestic consumption has rendered Kenya and Sri Lanka the largest global exporters of this commodity.

China occupies the highest position with 1,850.0Mn.kg. and India stayed at second with a annual production of 1,200Mn.kg. in 2013. Kenya is placed third by surpassing the Sri Lanka's annual crop in year 2013 also and maintained its manufacturing level at 432 Mn.kg.

Chart 2.6: World Tea Production Statistics.



Source: Supplement of ITC Bulletin – 2013

2.5.4. Global Tea Sales

Colombo Auctions was lifted her position as the leading auction centre by handling maximum sales volume during 2013. However, volume traded in Mombasa Auctions also maintained over 320Mkg. and Kolkata Auctions had shown a significant decline of its sales volume in 2012 but it has recovered in 2013 by increasing sales volume.

Table 2.15: Statistics of Major Tea Auctions (Qty. - in Mn.Kg., Avg. Unit Price - in US\$/Kg.)

Auction Centre	2010		2011		2012		2013	
	Qty.	Price	Qty.	Price	Qty.	Price	Qty.	Price
Chit-tagong	57	2.61	54	2.14	58	2.41	55	2.87
Cochin	61	1.71	59	1.73	57	1.8	53	1.94
Colombo	322	3.28	323	3.26	325	3.07	336	3.44
Guwahati	122	2.43	126	2.33	119	2.47	119	2.26
Jakarta	39	1.82	33	1.97	32	1.97	33	1.98
Kolkata	155	2.86	166	2.78	151	2.81	163	2.72
Limbe	16	1.58	13	1.61	13	1.7	10	1.82
Mombasa	348	2.54	334	2.72	322	2.88	384	2.41
Total	1120	-	1108	-	1077	-	3305	-

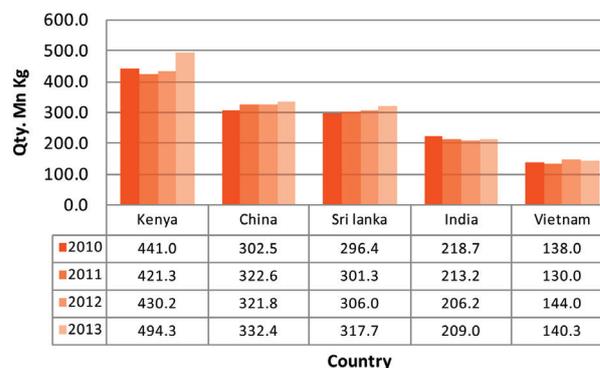
Source: ITC Web Site

Colombo Auctions holds the record for the highest average auction price fetched for the last four years. Also it was the only auction centre that exceeds USD 3.00per Kg. during the reference period. Kolkota holds the second largest average auction price with US\$ 2.72 per Kg. & Mombasa stated her position as the third in 2013.

2.5.5. Global Tea Exports

Global tea exports during 2013 showed a shrinkage of 92.0Mn.kg (5%) as against the previous year. Kenya & Sri Lanka escalated its export quantities and attained growths of 14.9% & 3.8% correspondingly, compared to the other major tea exporting countries in 2013. The three largest exporters, viz, Kenya, China and Sri Lanka accounted for more than 61.4% of global exports.

Chart 2.7: Major Tea Exporters



Source: Supplement of ITC Bulletin of Statistics – 2013,

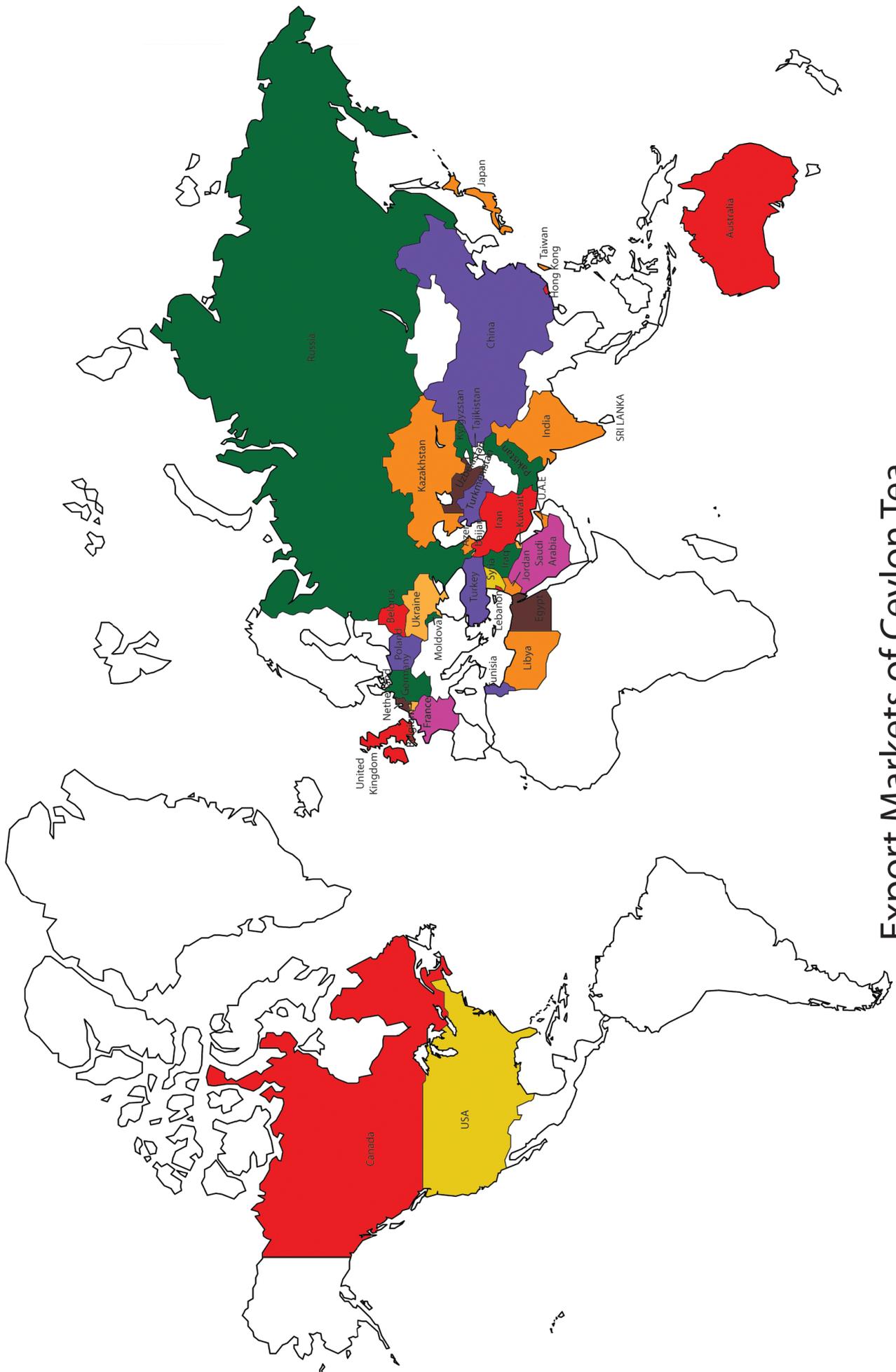
Note: Sri Lankan Figure with Excluding Re-exports

The leading tea exporting countries with their export revenues in year 2012 are listed below. It reveals that Sri Lanka earned second largest income from tea exports. This reveals that Kenya has earned US\$ 3.3million compared to the second largest export earnings which is Sri Lanka. Sri Lanka's tea industry was able to continue a one billion dollar industry status with its pure Sri Lankan tea exports.

Table 2.16: Top-most export revenues(2012)

Country	Export Revenue (US\$ Million)
Kenya	1,328.00
Sri Lanka	1,324.70
China	1,115.80
India	686.80
Vietnam	227.00
Indonesia	156.70

Source: ITC Bulletin of Statistics – 2013



Export Markets of Ceylon Tea

2.6. Export Market Review for Ceylon Tea

2.6.1 Russia and CIS Region

Russia and CIS countries continued to maintain a prime position as a major buyer of "Ceylon Tea" with a share of 22% from total Ceylon Tea exports to the world in 2013. Russia single handedly absorbed around 15% of all Ceylon tea exports and maintained the position as the number one buyer of Sri Lanka Tea. This region comprises of 12 countries that imports Ceylon Tea.

Table 2.17 Country wise Ceylon tea exports to CIS region (2012/2013)

Country	2012 (Kg)	2013 (Kg)	Change Qty (Kgs)	Growth %
Russia	49,231,228	46,371,885	(2,859,343)	-5.8
Ukraine	9,792,151	9,342,238	(449,913)	-4.6
Azerbaijan	10,691,045	10,780,779	89,734	0.8
Kazakhstan	991,480	867,949	(123,531)	-12.5
Uzbekistan	1,932,078	1,259,839	(672,239)	-34.8
Kyrgyzstan	1,014,460	991,067	(23,393)	-2.3
Belarus	579,162	638,247	59,085	10.2
Moldova	321,320	271,361	(49,959)	-15.5
Georgia	178,282	327,711	149,429	83.8
Tajikistan	41,013	30,663	(10,350)	-25.2
Turkmenistan	130,425	46,151	(84,274)	-64.6
Armenia	222,781	70,198	(152,583)	-68.5
Total	75,125,425	70,998,088	(4,127,337)	-5.5

2.6.1.1 Russia

Russia continues to be the single largest buyer of Ceylon tea. The tea exports to Russia from Sri Lanka represent 15% (2013) of the total Ceylon Tea exports to the World. The annual tea consumption in the country is estimated to be around 181,000 MT with per capita consumption of 2.4 kg. According to the Russian Customs authorities, Sri Lanka was the market leader during the year 2012 & 2013 with a share of approximately 33% each year.

In quantity terms Russia has imported 180.1 Mn.Kg of tea during 2012, of which, 47Mn.Kg of tea was from Sri Lanka, 46 Mn.Kg from India, 15.3 Mn. Kg from China, 14 Mn.Kg from Indonesia and 19.3 Mn.Kg from Kenya and 23 Mn.Kgs from Vietnam.

According to Sri Lanka Customs, direct exports from Sri Lanka during 2013 to Russia was 46Mn.Kg of Ceylon tea



at a value of approximately SLR 31.0 Bn. and a quantity of 49.2 Mn. kgs of Ceylon Tea with a value of SLR 28.5 Bn. was exported during the period 2012. As per the Russian Customs department, Sri Lanka maintained the number one position as the largest supplier with 47Mn.kg of tea to Russia during 2012.

The shipment of tea packets and tea bags rose by 13 percent during the year 2013 (8.5 Mn.kg in 2013 and 7.5 Mn.kg in 2012 from Packs and 2.7 Mn.kg and 2.6 Mn. kg in 2011 from bags) reflecting a growth in value addition. This is in spite of some of our Ceylon tea brands like 'Riston' (U.K Beverages) starting packing operations in Russia in addition to 'Akbar' who started their packaging a few years ago. Ahmed Tea who was in contract packaging in Sri Lanka has also increased their packaging in Russia.

Among the popular brands in Russian Federation Orimi Trade LLC (Greenfield, Tess, Princess Gita, Princess Nuri, and Princess Java) maintained first position, followed by: MAY Company with its brands "Korona" and "Lisma"; UNILEVER with brands "Lipton", "Brook Bond" and "Beseda"; AHMAD with its brand 'Ahmad'; and SAPSAN with the brand "Akbar" and "Bernely".

2.6.1.2 Ukraine



Ukraine is a traditional tea consuming country in CIS and is the second largest tea market next to Russia in the region. The average annual consumption per person is around 500-600 grams which is comparatively low and hence, the potential for expansion is encouraging.

Ukrainians are predominantly black tea drinkers and there had been a significant growth in tea imports. The orthodox leaf tea is most popular. All Ukrainians drink hot teas and the consumption of tea is of a seasonal nature with the maximum consumer demand in the winter months.

The domestic market is a place where major world-famous companies and brand manufacturers in Sri Lanka and Russia operate along with national tea brands. May Tea, Orimi, Ahmad Tea Company, Solomia Company are the major brand owners that have their packing plants in Ukraine.

As per Sri Lanka Customs statistics, the exports from Sri Lanka in 2013 was 9,342,238kg, of which approximately 62% of the volume was imported in bulk form, 22% in packets, 6.5% in tea bags, 3.4 % of Green Tea and 6.1% under "others". A quantity of 9,342,238kg was exported during 2013 and this is a 5% decrease over 2012.

The economic crisis and devaluation of currency has affected their economy and has had direct impact on the Sri Lankan tea exports and that is also a reason for importers to reduce ordering pre-packed teas and to increase bulk shipment for local packaging. Due to the country turbulences, the Ceylon Tea exports to Ukraine is expected to decline during the coming year.

2.6.1.3 Azerbaijan

Azerbaijan is considered as a symbol of warm hospitality and there is a tea tradition in Azerbaijan. When guests come to home tea is served first. One Azerbaijan person drinks approx. 10-15 cups of tea per day. The tea market in Azerbaijan is about 9,000 MT per annum and it is estimated that approximately 2000 MT is traded through cross borders (mainly through Russia, Iran, Georgia and Turkey). According to Statistics Committee, annual tea consumption per Azerbaijani family is 700gr. to one kilo. This means that the average monthly tea consumption per capita is 145g.



According to Sri Lanka Custom Statistics, 95% was in bulk and 5% was in Packet in 2013. The exports in 2013 have increased by 1%.

2.6.1.4 Kazakhstan

Total market volume of tea in Kazakhstan is estimated to be 26000 – 29000 MT. In Kazakhstan, tea is consumed with milk in contrast to other CIS countries, and per capita consumption of tea in Kazakhstan is around 1.8 kg. Kazakhstan's hot drinks market largely depends on tea and demand is likely to be maintained over a long period as culture and tradition do not change easily in the country.



According to Sri Lanka Customs Statistics, Kazakhstan imported approximately 867,949 kg of Ceylon teas directly from Sri Lanka during the year 2013. This is a decreased of 12% over 2012. The Zero duty for bulk encourages the off-shore packing in Kazakhstan. However, the tea market in Kazakhstan is predominantly for CTC teas. As per the available statistical data 85% of the total CTC teas imports to the country are from India and Kenya. Green tea constitutes approximately 6% of the total market volume.

2.6.1.5 Uzbekistan

Uzbekistan is predominantly a green tea market and the domestic tea market is estimated approximately at 30,000 MT annually. As per Sri Lanka Custom's statistics, Sri Lanka exported 1,259,839 kg of tea in 2013 and it reported a 35% decrease in comparison with the year 2012 because of the Green Tea dominated market in Uzbekistan.



2.6.1.6 Kyrgyzstan

Kyrgyzstan is predominantly a black tea drinking country and they prefer hot black tea light in color (yellowish) without adding anything. Market sources indicated that the actual volume of tea consumption is estimated at around 4000MT per annum. With a population of 5.5 million, the per capita consumption is about 700g.



As per the Sri Lanka Customs Statistics, Sri Lanka's direct exports to Kyrgyzstan were 991,067 kg in 2013 and 1,014,460kg in 2012. Accordingly, there was a 2% decrease in 2013 compared to 2012. In 2012, approximately 92 % of tea was exported in bulk form. However an increase of 2% in tea packet shipments in 2013 was registered over the previous year. The shipments in Tea bags have doubled in 2013 over 2012. Loose tea is available for sale only in rural areas and tea bags and flavored tea consumption is not reported to be high. The demand for green tea has been improving but export recorded a stagnant situation. China is the main supplier of green tea.

2.6.1.7 Belarus

Tea is one of the most favorite beverages among the Belarusians as an economical and healthy drink. With a population of 9.48 million, the total tea market in Belarus has been estimated as 8000 MT per year and 50% of the volume comes through the borders of Russia and Ukraine.



According to the Sri Lankan Customs Statistics, Sri Lanka had exported 638,247kg of tea directly to Belarus in 2013. Over 84% of Sri Lanka tea exports to this market are in value added form (59% in Packets, 23% in Tea Bags, and 9% of Green Tea). There was a decline of exports of bulk teas by 9.7% in 2013 over 2012.

2.6.1.8 Moldova

Moldova remains the poorest country in Europe despite recent progress from its small economic base. The total market for tea is estimated at around 2500 – 3500MT per annum based on actual sales with a per capita consumption of 500 grams. The ratio of consumption of black and green tea is estimated at 95:5. Flavored teas are also consumed in small volumes. The demand for tea bags is gradually increasing in urban areas. Most of the teas enter Moldova via the Ukrainian border. Ceylon Tea is extremely popular and widely available in almost all the market outlets.



According to customs statistics, Sri Lanka has exported 271,361kg of tea during 2013, out of this 48% was in packet form, 32 % in tea bags and 12% Green tea. A quantity of 321,320 kg was exported in 2012 which showed a decrease of 16% in total tea exports to Moldova over the previous year.



2.6.1.9 Turkmenistan

The tea market volume of Turkmenistan is estimated to be around 8000 MT with a per capita consumption of 1.5 kg per annum. Turkmenistan is a predominantly a green tea market, which comes mainly from China. Black tea is imported from UAE, Iran, Georgia and Sri Lanka. Being the cheapest, the Iranian black teas are the most popular in the country. Green tea is mainly consumed in rural areas while black tea is consumed in urban areas.



As per Sri Lanka Custom statistics, direct exports to Turkmenistan from Sri Lanka during the years 2012 and 2013 were 46,151kg and 130,425kg respectively. Accordingly, a 65% decrease was reported in year 2013 over the previous year. However, all exports were in value added form and it was evident that there was potential for export for Ceylon Tea in packets and tea bags with value addition.

2.6.1.10 Tajikistan

With a population of 7 million, Tajikistan's tea market is estimated to be in the range of 6,000MT to 7,000 MT per annum. Tajikistan has the lowest per capita GDP among CIS countries. As per market sources, since the buying power is poor, the demand is mainly for cheap teas. As per Sri Lanka Custom's statistics, direct exports from Sri Lanka during the years 2012 and 2013 were 41,013kg and 30,663kg respectively. While bulk shipments were not made in 2013, the packet shipments were 75% of the total exports whereas it was only 32% in 2012. Hence, the total Ceylon tea imports registered a decrease of 25% compared to 2012.



2.6.2 Middle East & North African Markets (MENA)

Sri Lanka tea exports to MENA region reached 172,072,205 Kg for the year 2013 as against a volume of 170,307,012 Kg recorded for the same period in 2012 (including re-exports). Although the increase was only 1,765,193 (1%), it is a significant achievement when considering the ground situation in many countries in the region. The MENA countries have accounted for 53.83% of Sri Lanka tea exports in 2013 maintaining its position as the largest market for Ceylon Tea especially for low grown leaf tea grades.

Table 2.18 Country wise Ceylon tea exports to MENA region (2012/2013)

Country	2012 (Kg)	2013 (Kg)	Difference (Kg)	Growth %
Iran	41,043,481	38,416,383	-2,627,098	-6.4
Turkey	23,163,115	32,202,299	9,039,184	39.0
Iraq	23,488,487	22,266,861	-1,221,626	-5.2
Syria	24,741,383	21,058,862	-3,682,521	-14.9
Kuwait	7,402,233	16,021,562	8,619,329	116.4
UAE	11,887,358	17,531,254	5,643,896	47.5
Jordan	9,434,035	7,632,455	-1,801,580	-19.1
Libya	16,514,196	6,520,837	-9,993,359	-60.5
Saudi Arabia	4,698,970	3,519,977	-1,178,993	-25.1
Lebanon	2,156,770	2,815,634	658,864	30.5
Egypt	3,800,074	2,016,859	-1,783,215	-46.9
Others	1,976,910	2,069,222	92,312	4.7
Total	170,307,012	172,072,205	1,765,193	1.0

2.6.2.1 Iran

The following economic, financial and political changes made an impact on the tea trade between Sri Lanka and Iran during the year 2013



1) Introduction of new sanctions by USA on Iran targeting its financial sector, gold imports and shipping sector. Most international shipping lines halted direct sailings to Iran from mid 2013.

2) Despite USA & EU tightening sanctions on Iran, the negotiations between Iran and group of 5 + 1 on the controversial Iran nuclear project continued. A deal was struck in November 2013 when Iran agreed to down grade the uranium enrichment and USA/EU to relax some sanctions within a six month period.

3) The election of a new President in Iran in June 2013 has made a positive impact on its economy, political relationship with other countries etc. The historic meeting between the Foreign Ministers of Iran and USA in New York at the UN General Assembly session has improved the relation between two countries.

4) The Iran government cancelled the official exchange rate of IR 12,260/- to US Dollar in July 2013 and introduced the new rate IR 25,560/-. As a result the market rate of the dollar improved from IR 36,000/- to IR 29,000 – 30,000/- by November 2013.

5) The non availability of banking facilities for Iran importers of Ceylon Tea has made Sri Lanka products more expensive forcing some consumers to look for cheaper tea from other origins. Kenya tea has benefited from the current situation in Iran.

The International Tea Committee (ITC) in UK, in their 2012 Annual Bulletin of Statistics has given a figure of 15,000 MT for Iran domestic tea production for year 2013. The government kept on providing subsidies for the tea growers despite falling crop level as more than 100,000 people were employed in the tea cultivation.

With a 79 million population, Iran imports approx. 100,000 MT of tea per annum as the local tea consumption is more than 110,000 MT per year. Due to restrictions on import of pre-packed tea and comparatively high customs duty of 30% on bulk tea over 40,000 MT of tea found the way into Iran through unofficial channels. The legally imported volume of tea per year is between 60,000 MT – 65,000 MT only. Sri Lanka with direct and indirect exports is the leader in Iran tea market followed by India, Kenya & China. However, during the year 2013, India was able to consolidate its position in Iranian tea market.

According to Sri Lanka Customs Department statistics, Iran has imported 38,416 MT of tea from Sri Lanka in 2013. This indicates a decrease of 2,627 MT or 6% when compared with same period in 2012. It should be stated here that Sri Lanka has shipped more tea to Iran at the expense of her exports to UAE which has witnessed a drop of almost 50% in her tea imports from Sri Lanka for re-exports due to financial sanctions on Iran. Most Iranian tea importers who were buying tea through UAE agents began direct imports from Sri Lanka.

However, during the latter part of 2013, the improvement in political and economic situation in Iran had a positive impact on Dubai re-export trade as well. The stabilization of Iran Rial in the second half of 2013 enabled Dubai tea trade members to bring more tea from Sri Lanka for re-exports to Iran. In return, this new development has caused a decline of direct Sri Lanka tea exports to Iran during 2013.

2.6.2.2 Turkey

Turkey is a leading producer of orthodox tea in the region and according to the local sources; the annual tea production is over 170,000 MT. However, the International Tea Committee (ITC), UK, gives a somewhat lower figure for Turkish tea production which is in the region of 145,000 – 150,000 MT per year.



According to trade sources, the legally imported volume of tea into Turkey is less than 8,000 MT per annum. The entry of illegal tea into Turkey mainly takes place through eastern and southern borders with Iran, Iraq and Syria. The exact figures of tea that come to Turkey illegally are not available but Euro Monitor has placed it at around 30,000 MT per year.

Sri Lanka tea exports to Turkey have registered an impressive growth of 9,039 MT or 39% in 2013 when compared

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Sri Lanka tea exports to Turkey have registered an impressive growth of 9,039 MT or 39% in 2013 when compared with previous year. Sri Lanka tea exports to Turkey reached 32,202 MT last year as against 23,163 MT recorded for 2012. Most Turkish consumers in the eastern part of the country prefer Ceylon Tea which has encouraged the unofficial tea trading activity. The civil war in Syria has diverted some of its tea imports to Merzin Free Port in Turkey. As per trade sources, some of the Syrian tea imports for re-exports to Iran are channeled through Turkey making it the second largest importer of Ceylon Tea in the region. However, it should be noted here that most of Sri Lanka tea exports destined to Turkey do not enter the country legally. A significant volume of the Ceylon tea consignments recorded for Turkey is finally destined to neighboring countries.

2.6.2.3 Iraq

Iraq tea imports were liberalized two years ago and direct imports have increased. The country still obtains a part of its tea requirement through Jordan, Kuwait, Turkey and Northern Iraq. As per the trade sources the total tea imports are estimated to be over 50,000 MT per annum.



The direct Ceylon Tea exports to Iraq have enabled Sri Lanka to secure more than 50% of the Iraqi tea market by 2013. The Indian suppliers have not been able to maintain their market share after the state sector discontinued imports of tea. Most private trade members were aware that India was supplying multi origin blends rather than pure Indian tea and this may have compelled them to reduce purchases from India. Vietnam tea with its comparatively low price and close similarities with Ceylon Tea in appearance continued to challenge the position of Sri Lanka tea share in the Iraqi market. The local traders may have imported Vietnam tea for blending with Ceylon Tea to achieve a price advantage.

The economy of Northern Iraq (Kurdistan Region) has recorded a higher growth rate compared to other areas of the country. The enhanced trade relationship between Northern Iraq and Turkey has boosted the cross border trading that helped tea trade as well. Large quantities of Ceylon Tea enter Turkish market through Kurdistan region.



The Sri Lankan Customs Department statistics reveal that Sri Lanka has exported 22,267 MT of tea to Iraq during 2013 period, a decrease of 1,222 MT or 5% against the volume of 23,488 MT registered for 2012. The decline of Sri Lanka tea exports to Iraq is attributed to the detaining of a large number of tea containers from Sri Lanka at the beginning of 2013 by Iraqi authorities over high mould and yeast count. The visit of a Sri Lanka Trade Delegation led by Hon. Minister of Industry & Commerce to Baghdad and visit of Iraqi Food Quality Control officials to Colombo helped to resolve the issue. The Iraqi officials were concerned about the shipping of substandard tea from Sri Lanka to Iraq and SLTB intervention to implement 100% inspection on Iraq tea cargo satisfied the Iraqi concerns. A significant factor in tea exports to Iraq is that most of them are shipped in pre-packed form with bulk exports accounting for less than 5% of the volume. Iraq tea imports were liberalized two years ago and direct imports have increased. The country still obtains a part of its tea requirement through Jordan, Kuwait, Turkey and Northern Iraq. As per the trade sources the total tea imports are estimated to be over 50,000 MT per annum.

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2.6.2.4 United Arab Emirates(UAE)

The UAE has become a leading importer of tea thanks to the re-export potential of Dubai in the region and also facilities provided for blending and packing of tea in the Jabel Ali free zone (JAFZA). The eight million population in UAE consume



between six to seven million Kg of tea annually but its import volume of tea is ten times more due to the re-export trade. The political uncertainties, tariff and non-tariff issues etc in the regional markets have supported Dubai re-export trade over the years. Iran is the largest buyer of tea from Dubai, UAE while Saudi Arabia, Russia, Iraq, CIS and other Middle East countries also account for substantial volumes of re-export trade.

Sri Lanka tea exports to UAE increased in 2013 due to the impact of lifting of international sanctions on Iran on the UAE-Iran re-exports trade. The country was able to export 17,531 MT of tea in 2013 an increase of 5,644MT or 47%, compared to 11,887 MT supplied in 2012.

The election of a new President in Iran in June 2013 and Geneva agreement on Iran nuclear project had a positive impact not only on Iran but on the UAE-Iran re-export trade as well. The appreciation or stabilization of Iran Rial against the USA dollar helped UAE tea trade members to send more tea to Iran which enabled Sri Lanka to supply more tea to UAE in 2013.

2.6.2.5 Syria

The Syrian anti government struggle developed in to a full blown sectarian war in 2013 involving a large number of foreign fighters supporting both the government & opposition. More than 7 million Syrians have been displaced as a result of the civil war while more than 120,000 people have been killed by end of 2013. The official exchange rate of Syrian Pound revised 2 -3 times during the year under review. From SP 47.50 to the USA dollar in 2011, it has now fixed at SP 104.00 per dollar by end of 2013. The open market rate fluctuates between SP 200 – 300 per dollar as the government was unable to meet the full demand of foreign currency.



The civil war disrupted the internal distribution of all items and as a result, import of tea by Syria too came down in 2013. It is reported that most of the re-export of tea via Northern Syria have been badly affected by the war. Government introduced more subsidies for basic food items including tea to ease the cost of living conditions and also to win the support of masses.

Having a share of about 2/3, tea is the most popular hot beverage in the Syrian market with coffee and mate (herbal drink) sharing the balance portion. Syria imports tea for both domestic consumption as well as for re-exports to Iran and Turkey through its Northern border. The annual tea imports

volume of the country range between 28,000 – 30,000 MT. According to International Tea Committee (ITC) UK, statistics, based on recorded exports, Syria has imported 28,000 MT of tea in 2012.

According to Sri Lanka Customs Department statistics the country has exported 21,059 MT of tea to Syria during 2013. This reflects a drop of 3,683 MT or 15% when compared with the volume of 24,741 MT recorded for the same period in 2012. The escalation of civil war in Syria badly affected the tea market as traders were unable to distribute the tea freely in the country, collect payment for delivery and also due to the disruption to cross border trading with Iran.

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2.6.2.6 Kuwait



The domestic tea consumption in Kuwait is estimated to be around 3,000 MT per year but country always imported more tea as it used to supply tea to Iran. Since 2008, Kuwait also started supplying tea to Iraq, the reason for increase in total tea import volume of the country. Sri Lanka is the main supplier of tea to Kuwait for re-export purposes as both Iran & Iraq prefer Ceylon Tea. According to International Tea Committee (ITC), UK, estimates Kuwait tea imports have risen from the average of 5,000 MT to 10,000 MT per year from year 2008 onwards. It has imported 8,500 MT of tea in 2011 and then dropped to 7,050 MT in 2012.

Sri Lanka has exported 16,021MT of tea to Kuwait in 2013, around 8,619MT or 116% more than the volume of 7,402MT shipped to this destination in 2012. The increase in Sri Lanka tea exports to Kuwait last year could be due to expansion of re-export trade with Iraq.

2.6.2.7 Jordan



With a population of about six million people, the annual tea consumption in the country is estimated at around 9 – 10 million kg only. According to trade sources teas given to the Libyans at a subsidized price are sold to neighbouring countries but quantities traded via borders are not known. It has become an unofficial business giving some extra income for the low income Libyan people. The frequent clashes between militant groups and government forces have created a serious security vacuum in the country. The government's inability to maintain law and order has its impact on the economic growth rate also.

Sri Lanka tea exports to Libya were a record volume of 16,514 MT in 2012, perhaps the highest recorded tea export volume from Sri Lanka to Libya. However, during the year 2013, Sri Lanka was able to export only around 6,521 MT which shows a drastic decrease of 9,993 MT or 61%. The pattern of tea imports by Libya is very irregular and always a high volume of tea imports is followed by a lower intake.

2.6.2.8 Libya



Jordan was, once, an important transit point for Sri Lanka tea exports to Iraq but with the increase in direct imports by Iraq and emergence of Kuwait as re-export trade center, this position has been gradually reduced. Sri Lanka (70%), Egypt (15%) and Saudi Arabia (5%) are the main suppliers of tea to this small tea market which is estimated to be between 5,000 – 6,000 MT per year.

The Sri Lanka tea exports to Jordan still contain some tea for Iraq market but imports from Egypt and Saudi Arabia are mainly for the domestic consumption. According to Sri Lanka Customs Department statistics, Sri Lanka exported 7,632 MT of tea to Jordan in 2013 registering a decline of 1,802 MT or 19% over the volume of 9,434 MT shipped in 2012. It is strongly believed that this decrease in Sri Lanka tea volume to Jordan is the result of enhanced re-export trade of Kuwait to Iraq market.

2.6.2.9 Saudi Arabia

Saudi Arabia, the largest country among the Gulf Nations, is also the largest consumer of tea within the six gulf countries. As per available reports, the Kingdom imports Approximately 30,000 MT of tea annually and only 1,000 MT of this volume is re-exported leaving 29,000 MT of tea for the domestic consumption. The social and religion factors have greatly contributed towards the consumption of tea in the country which is the most popular beverage among the people.



According to Sri Lanka Customs Department figures, Sri Lanka has exported 3,520 MT of tea to Saudi market in year 2013, a decline of 1,179 MT or 25% when compared to the volume of 4,699 MT of tea shipped in 2012. Saudi Arabia buyers are very much concerned about the price factor, the possible reason for reduced tea imports by the Kingdom.

M/s Baeshan Tea Company, the owner of Rabea brand tea, is still the single largest importer of Ceylon Tea in Saudi market. The decline in Sri Lanka tea exports volume to the Kingdom too has been largely in bulk category.

2.6.2.10 Egypt

The political turmoil in Egypt, after military backed Interim Government took over powers from elected President Mohamed Mursi, has once again destabilized the country. It has affected the economy including foreign investment, tourism etc but tea sector was relatively unharmed.



Egypt is the largest tea market in the Arab world. Tea is the most popular hot beverage and annual consumption of tea is estimated to be around 90 – 95 million kg. The consumer preference for tea had changed from orthodox to CTC during the last three decades and today African tea producing countries led by Kenya are the major suppliers of tea to Egypt. The relative price advantage and preference for strong colour tea have given the CTC tea producers significant advantage over the orthodox tea suppliers in the Egyptian tea market.

Kenya followed by India, Sri Lanka, Indonesia & China are the main suppliers of tea to Egypt. However, Kenya has an extra ordinary share of over 90% in the Egyptian market

which she has consolidated from the Free Trade Agreement with Egypt entered in to in 1998.

As per Sri Lanka Customs Department figures, Sri Lanka tea exports to Egyptian market in 2013 were registered a total volume of 2,017 MT. This reflects a decrease of 1,783 MT or 47% as against the volume of 3,800 MT shipped in 2012. The increase of the tea prices in Colombo Auction has impacted the decline of Sri Lanka tea exports to Egypt. However, the easing of tea prices in Kenya encouraged the trade members in Egypt to import more tea from Kenya in 2013.

2.6.2.11 Lebanon

The security situation in Lebanon deteriorated due to the involvement of Lebanon based Hezbollah group in the Syrian civil war. However, Lebanon re-exports to Syria have increased during the year due to disruption to direct imports by Syrian trade members.



Lebanon is predominantly a coffee drinking country and ratio of coffee to tea consumption stands at around 80:20. As per Lebanon Customs Department data, Lebanon imports between 2,600 – 2,700 MT of tea per year of which around 10% are re-exported to neighboring countries.

Sri Lanka, the leading supplier of tea to the small Lebanese market has been able to maintain her position in 2013 as well. According to Sri Lanka Customs Department statistics, Sri Lanka has exported 2,816 MT of tea to Lebanon in 2013, as against 2,157 MT recorded for the same period in 2012. Accordingly, the Sri Lanka exports to Lebanon has increased by 659 MT or 31% from 2012 to 2013.

The growth in tea bags segment has allowed Egypt to increase her market share in Lebanon. Egypt has become an important player in Lebanon tea market due to the export of Litpon brand tea from M/s. Unilever Tea Company tea packing plant in Alexandria, Egypt.

2.6.3 Far East/Oceania region

Table 2.19. Country wise Ceylon tea exports to Far East/Oceania region (2012/2013)

Country	2013 Qty (kgs)	2012 Qty(kgs)	Change Qty (Kgs)	Growth %
Japan	8,821,344	9,545,484	(724,140)	(7.59)
Hong Kong	4,919,900	4,389,930	529,970	12.07
China	4,145,924	3,084,433	1,061,491	34.41
Australia	2,647,996	2,739,152	(91,156)	(3.33)
Taiwan	2,151,676	1,935,516	216,160	11.17
New Zealand	962,351	917,236	45,115	4.92
Malaysia	721,004	739,299	(18,295)	(2.47)
Singapore	565,259	602,145	(36,886)	(6.13)
Fiji Island	315,247	360,695	(45,448)	(12.60)
Indonesia	139,955	322,750	(182,795)	(56.64)
South Korea	108,413	64,928	43,485	66.97
Thailand	106,969	181,028	(74,059)	(40.91)
Mongolia	99,245	109,856	(10,611)	(9.66)
Vietnam	69,985	69,626	359	0.52
Philippines Island	46,627	64,415	(17,788)	(27.61)
Total	25,821,895	25,126,493	695,402	2.77

2.6.3.1 Australia

The tea consumption is mainly in Black Tea form but the Green Tea segment which is still very small (Approx. 3%) has shown a positive growth. The total tea imports to Australia indicate 11,800MT in 2013 against the imports of 11,400MT in 2012, which shows an increase of 3.5%. India accounts for 28.8% as leading supplier followed by Sri Lanka's with a contribution of 22%, Indonesia (16%) and China (14%) in 2012/13. Black tea accounts for 83% share of the market in terms of volume fruit/herbal 6% and green 6%. Black specialty tea has also captured some share from standard black tea over the past decade, rising from a 10% off-trade total volume share in 2002, to 12% in 2012.



Unilever with two brands Lipton & Bushells hold 31% market share in terms of value, followed by Twining's (20%), Dilmah (12.5%), Tetley (8.5%), Nerada (4.8%) and Madura (4.4%). The demand for black specialty tea, green tea and fruit/herbal tea has been growing.

Sri Lanka has exported 2,641 MT of tea to Australia in 2013 as against 2,706 MT in 2012. Ceylon Tea exports to Australia has decreased from 2,641 MT in 2012 to 2,706 MT in 2012, which is a decrease of 2.5%. Value added component accounts for 86% (tea bags-69% and packed tea-17%) of total tea exports to Australia.

2.6.3.2 China

Tea production level of China has reached 1.8 billion kilos in 2013 as the largest tea producer contributing a share of 38% to global supply. Green Tea accounts approx. 77% of the total production volume.

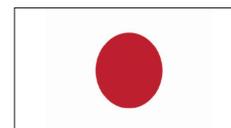


The direct tea imports to China which is mainly Black tea for local consumption is growing from a small base very positively during the past few years after entry into W.T.O. and the tariff on import duty gradually coming down. The direct tea imports to China which is mainly Black tea for local consumption is growing from a small base very positively during the past few years after entry into W.T.O. and the tariff on import duty gradually coming down. The total tea imports to China recorded 14,000 MT in 2013 as against 11,000 MT in 2012 which shows an increase of 27% against 2012.

The total Ceylon Tea exports to China has increased significantly by 45% registering the volume of 4,485 MT during 2013 against 3,084 MT of corresponding period of 2012.

2.6.3.3 Japan

Japan is undoubtedly considered as the most sophisticated tea market in the world. Thus, bench-marking Japan as the ultimate goal of any tea industry could enable a paradigm shift for that origin and a definite competitive edge over other producing countries.



In the global tea arena, Japan is a leading player with annual consumption of around 130,000 to 135,000 Tons after China, India, Russia, Pakistan and Turkey. While Green Tea consumption dominates the Japan market with 70% share, the demand for black tea is growing slowly but steadily while the absorption of Oolong tea is reflecting a downward trend. It may be highlighted that Japan is a unique market which consumes a quantity of around 1.5 to 2.0MKG of instant tea per annum, besides other types of teas such as green, black, Oolong and barley.

However, the demand for Black tea has steadily increased during the past two decades and the growth is a phenomenal 30% in volume terms.

Sri Lanka continues to dominate the Black Tea segment in Japan with a powerful market share of around 60%. Sri Lanka has exported 8,822 MT of tea to Japan as against 9,545MT in 2012 which is a decrease of 7.5% in terms of volume.



2.6.3.4 Hong Kong

Hong Kong is demonstrating a unique tea culture due to the longstanding and deep rooted British influence from one side and the Green / Pierh tea culture of mainland China from the other side. However, due to the 30 Million tourist and visitors patronizing Hong Kong each year, the actual absorption of tea by residents must be lesser.



Sri Lanka continues to dominate the tea market in Hong Kong with a share of 36% in 2012. The total tea imports to Hong Kong reflect a marginal fluctuation up and down but remains within a 9,000 to 12,000 Tons during the past decade.

Sri Lanka exported 4,920 MT to Hong Kong during the year 2013 as against 4,390 MT in 2012. The value added component of Ceylon tea exports to Hong Kong is 21%.

2.6.3.5 Taiwan

Today, Taiwan tea production is limited to around 15,000 MT of which most of teas are high quality Oolong tea, probably the best oolong tea in the world.



The total tea imports to Taiwan are registered around 25,000-30,000y MT per year. According to the figures in 2012, Taiwan imported 9,406 MT of Green tea from all origins. Vietnam is the dominant player exporting tea to Taiwan with share of 74% followed by China and Sri Lanka with a share of 13% and 7% respectively. In 2012, Sri Lanka Tea exports to Taiwan shows 2152MT against 1935 MT in 2012, increased by 11% over the previous year.

2.6.4 European Region

Table 2.20: Country wise Ceylon tea exports to European Region (2012/2013)

Country	2013 Qty (kgs)	2012 Qty(kgs)	Change Qty (Kgs)	Growth %
Germany	6,557,405	5,629,940	927,465	16.47
Poland	2,778,007	2,411,608	366,399	15.19
Belgium	2,428,270	2,403,312	24,958	1.04
Netherland (Holland)	2,252,619	2,055,075	197,544	9.61
Ireland	1,909,865	1,468,759	441,106	30.03
Israel	1,481,396	1,408,051	73,345	5.21
Italy	1,376,433	1,774,990	(398,557)	(22.45)
Finland	1,239,873	987,450	252,423	25.56
France	869,906	955,273	(85,367)	(8.94)
United Kingdom	833,422	1,692,942	(859,520)	(50.77)

2.6.4.1 United Kingdom

With a population of about 62.6 million UK is the second largest consumer of tea in the world. The UK is by far the largest importer of tea in the EU, with a market share of 22% in total tea imports in 2012. As per available ITC statistics, UK imported 144,575 MT of tea during the year 2012 and showed a marginal decline of 6% over the previous year imports of 154,500 MT. UK consumers are black tea drinkers, with 97% of the tea imported being black tea and only 3% green tea.



The grower countries are the largest suppliers to the UK tea market with Kenya leading the way with 61,180 MT (42.3%) followed by India 30,696 MT (21.2%), Indonesia 16,562 MT(11.4%) and Malawi 8,068 MT (5.6%) in 2012. A quantity of 2,302 MT Ceylon Tea was imported into UK and showed an increase with a share of 2.2% during the year 2012.

The UK is the largest EU exporter of tea, accounting for 40% of total EU tea exports. Re-export during the year 2012 was 21,288 MT. The main export destinations are Canada, USA, Ireland, Belgium and France.

Sri Lanka tea exports show a fluctuating trend during the last seven years. According to Sri Lanka Customs, direct exports from Sri Lanka during 2012 were 1692 MT of Ceylon tea at a value of approximately 1130 million rupees. A quantity of 855 MT of Ceylon Tea with a value of 881 million rupees was exported during the year 2013, of which 66 % was in bulk, 13.8% was in packets and 14% in Tea bags.

2.6.4.2 Poland

With a population of about 38 million Poland is the third largest consumer of tea in Europe. The annual tea consumption in the country is estimated to be around 34,000 MT with per capita consumption of 1.1 kg (ITC 2012). Poland is a significant importer of tea in the EU, with a market share of 26.5 % of total tea imports in 2012. As per available ITC statistics, Poland imported 29,483 MT of tea during the year 2012 and showed a decline of 12% over the previous year imports of 33,978 MT. Poles are black tea drinkers, with 84% of the tea imported being black tea and only 16% green tea. The



black tea market is dominated by CTC type from Kenya and India, Orthodox of the OPA, FBOP and BOP leafy types; and infusions including fruit, herbal and flavoured tea bags.

The grower countries are the largest suppliers to the Poland tea market with Kenya leading the way with 4,233 MT (14%) followed by Vietnam 3,509 MT, India 3,474 MT (12%), Indonesia 3,201 MT, Germany 2,670 MT(9%) and China 2,241 MT (8%), Indonesia and Sri Lanka 2,295 MT in 2012.

According to Sri Lanka Customs, direct exports from Sri Lanka during 2012 were 2,412 MT of Ceylon Tea at a value of 1,620 million rupees. A quantity of 2,778 MT of Ceylon Tea with a value of 2,032 million rupees was exported during the year 2013, of which 58 % was in bulk, 8% was in packets, 33% in Tea bags and 1% of green tea. It reflected an increase of 15% in volume and 25 % in value over 2012. Poland which is considered as the third largest tea bag market for Ceylon Tea during certain years after the Russian Federation and Australia needs to be recognized as an important outlet for value-added teas from Sri Lanka.

2.6.4.3 Germany



Germany is the second largest importer of tea in the European Union but in terms of consumption it is behind United Kingdom and Poland. Germany imported 55,985 MT of tea during the year 2012. Germany after UK is the second largest re-exporter of tea in Europe and during 2012 it re-exported 47% (26,149 MT) of the total import volume with net imports of 29,836 MT for domestic consumption.

Total tea imports to Germany increased from 46,601 MT in 2006 to 55,985 MT in 2012, an increase of 9,384 MT or 20% over the seven year period. China supplied 19% (10,717MT) of Germany's tea imports, followed by India (14%), Sri Lanka (14%), and Indonesia (9%).

Re-exports of tea from Germany have marginally increased from 25,303 MT in 2006 to 26,149 MT in 2012 – an increase of 846 MT or 3.3 %. Re-export accounts approximately 50% of total volume of tea imports. USA is the major destination of re-export from Germany holding a share of 19.8% followed by France (12%), Poland (8.4%), UK (8.3%) and Netherlands (7.4%).

Sri Lanka was the major supplier of black orthodox tea to Germany. Sri Lanka exports most of its tea in bulk form and value added exports accounts for 29%. Sri Lanka exported 6,475 MT of tea to Germany in 2012 and Germany was the 14th highest export destination for Ceylon Tea with an increase of 16% over the previous year.

2.6.4.4 France



France is the fourth largest importer of tea behind U.K, Poland and Germany in the European Union with a market share of 5.9%. The tea imports during the period 2008-2012 had fluctuated between 18,687 MT -17,835MT. Tea imports during the year 2012 were 17,835 MT as against 18,687 MT in 2008 which shows a decrease of 4% in terms of volume. China is the major tea supplier with a market share of 36% followed by Belgium (10.5%), Germany (9%), and Sri Lanka (7.4%). About 20% of France's tea imports are re-exported leaving the balance for domestic consumption.

Black tea with market volume of 9,064 MT represents 51% of total imports while green tea with a volume of 8,771 MT holds 49% share. About 70% of teas imported into France are in pre-packed form while only 30% are imported in bulk form. China is the largest supplier of black tea with a share of 17.5% followed by Belgium (15.6%), Sri Lanka (14.6%), Germany (10.3%) and U.K. (6.5%). Supply of Green tea is also dominated by China with a major share of 55% followed by Germany (9%) and Belgium (5.2%).

As per Sri Lanka custom statistics, during the year 2013, Sri Lanka has exported 817 MT of tea against 881 MT in 2012. But Sri Lanka's share in the French market could be much higher since tea coming from Belgium, UK and Germany too include a reasonable volume of Ceylon Tea.

2.6.4.5 Netherlands



Tea imports into the country have fluctuated between 25,000-30,000MT levels during the period of 2008 – 2012. Black tea holds a large market share of about 93% of total import volume.

Malawi is the largest supplier of tea with the market share of 18.3% followed by Argentina (14.6%), Indonesia (10.9%), Iran (9.5%), China (8.8%), India (7.3%) and Sri Lanka (7.2%). Local tea consumption is estimated to be around 7,000-8,000MT per annum with a consumption of 0.48Kg per capita. Black tea share of the market is approximately 85% and green tea accounts for the balance. Tea bags are the most popular which accounts for over 90% of retail sales. It is noted that a number of specialty tea shops have been growing since more people are looking for good quality teas.

During the year 2013, Sri Lanka has exported 2253 MT of tea against 2055 MT in 2012. Pre-packed tea accounts for about 92% of the total market with the bulk making up the balance.



2.6.5 North and South American Region

Table 2.21 - Country wise Ceylon tea exports to North and South American region (2012/2013)

Country	2013 Qty (kgs)	2012 Qty(kgs)	Change Qty (Kgs)	Growth %
Chile	6,837,547	6,555,300	282,247	4.31
Usa	3,736,641	2,950,474	786,167	26.65
Canada	567,219	614,981	(47,762)	(7.77)
Ven- ezuela	30,424	92,578	(62,154)	(67.14)
Brazil	10,735	4,087	6,648	162.66
Mexico	10,142	17,599	(7,457)	(42.37)
Panama	5,633	93	5,540	5956.99
Argen- tina	27,040	29,960	(2,920)	(9.75)
Colom- bia	318	895	(577)	(64.47)
Total	11,225,699	10,265,967	959,732	9.35

2.6.5.1 United States of America (USA)

USA is the largest and the most important tea market in the American Continent. Today USA is estimated to be the third largest tea importing country in the world, importing 126 million kilos after Russia and Pakistan which imported around 174 million kilos and 131 million kilos respectively. In 2012, the net imports for consumption exceeded that of U.K which was the second largest importer of tea in the past.



With a population of about 320 million and an annual tea consumption of around 125,653 MT the per capita consumption is 0.41 kg. About 85% of tea consumed in USA is black tea while 14% is green tea and the balance 1% is Oolong and white tea. The consumption of green and fruit teas is however increasing. Almost 85% of all tea consumed in USA is in iced form.

Argentina remains as the major supplier of tea to USA with a share of 39%, followed by followed by China (20%), India (9.6%), Vietnam (5.7%), Indonesia (3.5%) and Sri Lanka (3.3%). Major Green tea suppliers were China and Japan. In respect of value terms, China was the top import source of tea to USA in 2012 followed by Argentina and India.

Tea exports from Sri Lanka to USA during the past years had fluctuated around 2.6 to 3.6 million kilos per annum. It represents 3% of total imports into USA. During the year 2013, Sri Lanka has exported 3,736,641 Kg of tea which is an increase of 26.6% in volume compared to 2012. The export earnings during the period have moved up significantly by 35.7% or Rs. 2597 Million.

2.6.5.2 Canada



Canada is another traditional tea market in North America. Black tea remained the largest category, accounting for 69% of total retail value sales at C\$360 million in 2012. Similarly, black tea accounted for 89% of total retail volume sales at 12,300 tonnes. Black tea remains the preferred choice for most Canadian consumers thanks to its high health benefits. Green tea stood out in retail sales, growing by 6% in value and 3% in volume in 2012. Fruit/herbal tea remained the smallest category with volume sales accounting for a mere 5% of total tea volume in Canada.

Tea consumption will continue to grow in Canada as changing demographics and rising demand for premium tea experience drive new developments in the market. Overall growth will likely come from specialty black tea as well as such innovations as tea pods that cater to increasingly premium-minded Canadian consumers, offering them a new and refreshing way to consume tea.

Sri Lanka exported 567,219 Kg of tea to Canada during the year 2013, compared to 614,981 Kg in 2013. In value terms it has moved up significantly from Rs. 526 Million to Rs. 610 Million. which is an increase of 16% during the period.

2.6.5.3 Chile



Chile is the largest Tea market in South America with imports exceeding 20,000 MT per annum. Tea in Chile continued to develop well with a slightly better volume performance; tea consumption rose by 3% whilst current value retail sales achieved 5% growth during 2012. Black tea continues to take the majority of tea volume sales; its retail volume growth increased by 3% whilst retail value sales reflected a 5% increase. Whilst black tea retains a **loyal following** of Chile is the largest Tea market in South America with imports exceeding 20,000 MT per annum. Tea in Chile continued to develop well with a slightly better volume performance; tea consumption rose by 3% whilst current value retail sales achieved 5% growth during 2012. Black tea continues to take the majority of tea volume sales; its retail volume growth increased by 3% whilst retail value sales reflected a 5% increase. Whilst black tea retains a **loyal following** of consumers, its relatively commoditized nature makes it an easy target for private label substitutes that continue to erode value from the category. Similarly, flavour developments in other tea categories are able to attract consumer attention and therefore expand their sales fast.

Argentina remains as the major supplier with 60% share while Sri Lanka is the dominant back-up supplier with 30% share. Sri Lanka has exported 6,837,547 Kg of tea to this market in 2013 compared to 6,555,300 Kg in 2012 which is an increase of 4.3% in terms of volume. Export earnings in 2013 increased to Rs. 3240 Million or by 18.5% compared with 2012.

2.6.6 South Asia Region

Table 2.20: Country wise Ceylon tea exports to European Region (2012/2013)

Country	Qty (kgs)			Growth %
	2013	2012	Change	
India	610,484	499,376	111,108	22.25
Pakistan	604,401	4,487,124	(3,882,723)	(86.53)
Bangladesh	280,647	93,732	186,915	199.41
Maldives	225,985	216,054	9,931	4.60
Afghanistan	8,766	-	8,766	100.00
Nepal	2,110	1,069	1,041	97.38
Total	1,732,393	5,297,355	(3,564,962)	(67.30)

The region comprises of six countries that import Ceylon and these countries represent 23 percent of the entire world population. The region manufactures the world's highest volume of CTC and Orthodox teas. The above table indicates that these six countries imported 1.7Mkg of tea from Sri Lanka. The volume decreased by 67% in 2013 compared to 2012. Increased production and exports of CTC teas by East African countries and India were the main reason for this decrease.

According to the ITC data, tea production in India increased by 9.2% to 1.2 billion kilograms in 2013 as against 1.1 billion kilograms during previous year. Tea exports from India, the world's second biggest producer, improved 5% from a year earlier. India exports CTC (crush, tear, curl) tea variety mainly to Egypt, Pakistan and the United Kingdom, and the premium orthodox variety to Iraq, Iran, Germany and Russia.

Sri Lanka has exported 610484Kg to India valuing Rs. 376.5 million during the year 2013. Under Indo/Lanka Bilateral Free Trade Agreement Sri Lanka has shipped 96,322Kg of tea during 2013.

India imported more Ceylon tea in 2013 compared to 2012 and this is attributed to demand from the premium market segment. Despite of 15 million kg quota with duty free concession under FTA, few Ceylon Tea Brands were present in the market.

Pakistan, a price sensitive tea market registered poor imports from Sri Lanka due to substantial price reduction of Kenyan teas compared to 2012. The tea consumption of Bangladesh increased due to an economic boom during 2013. Hence, Sri Lanka made use of the opportunity to export more Ceylon Tea to Bangladesh during 2013. Maldives maintained the volume of their Ceylon Tea imports in 2013 and showed some modest improvements as against 2012.

Maldives, Afghanistan and Nepal made considerable increases in their Ceylon tea imports and Afghanistan commenced import of Ceylon tea in 2013.

03 Activities Undertaken by the Board

The Main Secretariat, Tea Commissioner Division, Tea Promotion Division and Analytical Laboratory function as the major divisions of the SLTB and all divisions work towards the betterment of the tea Industry.

3.1. Tea Commissioner's Division

The Tea Commissioner's Division administrates all matters connected with the regulatory functions in terms of the Sri Lanka Tea Board Law No. 14 of 1975 and the Tea Control Act No. 51 of 1957 in respect of Development, Manufacturing, Disposing and regulations of tea industry which were delegated to the Tea Commissioner since 01st January 1976.

Functions of the Tea Commissioner's Division have been decentralized into seven regional offices which are located in Galle, Matara, Rathnapura, Gampola/Hatton, Bandarawela and Matugama.

The Tea Commissioner's Division of SLTB performs following duties in furtherance of the tea industry:

- Collection of statistics related to production of Tea
- Registration and renewals of tea manufacturers and factories
- Programs for Improvements of Green Tea leaf standards
- Providing subsidies for factory modernization and replanting (including infilling and new planting)
- Reasonable price payments for factories and dealers
- Special monitoring of GMP
- Registration and monitoring of green tea leaf dealers
- Registration and monitoring of refuse tea processing centers and dealers
- Conducting SLTB/SLSI product quality certification programs.

Regulations, which were framed under the section 25 of the Sri Lanka Tea Board Law No. 14 of 1975 and delegated to the Tea Commissioner, are appended below.

a) Sri Lanka Tea Board (Processing & Hygienic Standard for made tea) Regulations 1986

b) Sri Lanka Tea Board (Replanting & Factory Modernization Subsidy Scheme)

3.1.1. Key Achievements

Division made major achievement in 2013 compared to the previous years. One of the major achievements was a revision of penalty scheme for defaulters. The "B leaf 60 Program" is another major development activity started during the year 2013. Launching of price checks at factory level through SMS was beneficial to small holders remarkably and another major achievement was a development of new quality standards for the local market.

3.1.2. Registration of Manufacturers and Factories

Under the Tea Control Act No. 51 of 1957 the Tea commissioner's division maintains a Register of Manufacturers in relating to manufacturers of tea and the prescribed particulars relating to the tea factories of such manufacturers to be registered. The division has the authority to decide whether any person is entitled to be registered as a manufacturer for the purposes of this Act. Every tea manufacturer should register with Tea Board for manufacturing and selling teas through auction centre.

All the factories that manufacture made tea are essential to be registered with the Tea Board in order to ensure that the building, equipments and manner of operations of the factory is of a standard conducive to the manufacture of good quality teas, assist in monitoring of quality of tea produce by the factory, enables control over the disposal of refuse tea and implementation of reasonable price formula.

Classification of those in operation in terms of the elevational categories and degree of bought leaf manufacture is shown in the table 3.1

Table 3.1 Classification of Tea Factories by Operation

Status	High	Medium	Low	Total
1. Confined to Own Leaf	55	18	05	78
2. Own leaf & Bought leaf :-				
a) Own leaf less than 50% at total production	13	38	139	190
b) Own leaf more than 50% of total production	84	31	15	130
3. Bought Leaf only	06	25	255	286
4. Registered Tea Factories not in operation	35	70	76	181
5. Total number of Registered Tea Factories	201	189	507	897
6. Total no of Registered Tea factories in operation	166	119	431	716

3.1.3 Reasonable Price Payable for Bought Leaf

Under the provisions of the Tea Control Act, factories engage in bought leaf manufacture are required to pay prices for bought leaf based on Tea Commissioner's recommended prices as well as the price fetched by made tea manufactured at those factories. The reasonable price payable by factories to green leaf suppliers was determined on the basis of monthly net sale average of such factories.

The proceeds from made tea sales are to be split between the leaf suppliers and factories in a ratio of 68:32. If factory sales average exceeds the monthly elevational average, the incremental revenues are shared in a 50: 50 ratio. The formula is based on an out turn ratio of 21.5% from green leaf to made tea.

3.1.3.1 Defaulted Payment

During the year under review the total defaulted payments for green leaf suppliers are maintained at Rs. 200 million as at 31st December 2013. We also recovered Rs 6.06 Million during the year 2013. Further accumulation of defaulted payment interrupted by suspending their registration. Restoration of registration of such factories was considered only after settlement of the total defaulted payment.

Table 3.2 Status of Defaulted Payment / In thousand Rupees (Rs. '000)

Region	Amount as at 2013.01.01	Amount added during 2013	Amount recovered and paid	Balance payment due to smallholder as at 31.12.2013	Amount due from closed Factories	Amount due from functioning Factories
Ratnapura	33,965	-	6,061	40,026	115,434	25,282
Matara	2,654	-	-	2,654	2,639	15
Gampola	14,501	-	-	14,501	17,369	8,151
Galle	14,450	32	-	14,482	11,312	3,216
Mathugama	8,498	397	8,895	17,393	6,754	2,650
Hatton	1,253	-	-	1,253	-	-
Bandarawela	8,083	-	-	8,083	847	7,213
Total	83,403	429	14,956	98,391	154,356	46,527

3.1.4. Quality Control of Green Leaf

The appropriate conditions of the buildings, equipments, machineries and manner of operations are essential to maintain the good quality of made tea. Hence, if above conditions are not conducive to the manufacture of good quality made tea, The Tea Commissioner has the authority to cancel the factory registration of such under the Tea Control Act.

The quality control of green leaf is vital fact for the manufacturing operations undertaking using bought leaf. If the high quality green tea leaf are used in the manufacturing process eventually, the quality of the made tea will be increased and it will be an ultimate benefit for the both Green tea leaf Dealers as well as the tea manufactures. . If any factory found as a defaulting factory, it will be warned that either registration of the factory will be liable to be suspended or cancelled.

Sri Lanka Tea Board has published a Gazette notification for Green Tea Leaf standards on 14th December 2010. Under the Tea control Act the Tea Commissioner's Division has been empowered to monitor and improve the quality of tea manufacture and the following projects have been designed and implemented in order to improve the quality of tea manufacturer.

- a). SLSI-SLTB Quality Certificate
- b). The "B Leaf 60" program to improve the green tea leaf standard
- c). Rush Crop Management program during festival season
- d). Low NSA Strategy
- e). Quality Monitoring System(Task Team Operation- TTO)
- f). Factory Modernization subsidy scheme
- g). Tea Re Planting Subsidy Scheme
- h). Factory based tea development program
- i). Establishment of GMPS in Tea Factories
- j). Green Tea Dealers Training Program (N I P M)

a). SLSI – SLTB Quality Certificate

The Sri Lanka Tea Board (SLTB) in association with Sri Lanka Standards Institution (SLSI) operates a Product Certification Scheme to certify the manufacturing process and the final product, i.e. Black Tea.

The scheme is centered around essential elements of the Quality Management System combined with additional requirements on process control and product testing as specified in the relevant standards along with applicable legal requirements. SLSI - SLTB Tea Product Certification Scheme operates in an impartial, non discriminatory and transparent manner to provide third party guarantee of quality Black Tea to the ultimate customer.

b). The "B Leaf 60" Program to Improve the Green Tea Leaf Standard

This program has been implemented to improve the leaf quality by minimizing the post harvest damage and by improving the plucking standards. The present leaf standard is the Best Leaf 33% Below Best 32% and Poor 35%. The "B Leaf 60" was implemented with the target of maintaining green leaf standards (Best leaf standard) at minimum of 60% within a short a period.

The following strategies have already been implemented to achieve this target.

1. Awareness Program for Stakeholders
2. Impose regulations on handling of leaf
3. Financial assistance for improving post harvest techniques

c).Rush Crop Management Program During Festival Season

This project is designed to minimize the crop losses during festival season due to closing down of tea factories for a longer period. This project was introduced in 2005 and since then the Tea Commissioner's Division was able to control the crop lose almost completely by introducing various activities. The Tea factories that closed during festival season were restricted between 11th and 16th of April 2013.

d). Low NSA Strategy

This is a project that is designed for tea factories that are in the lowest rungs of the NSA ladder. The objective of the project is to bring up the NSAs of these factories to higher levels by improving the standards of green tea leaf and the standards of tea manufacture.



Figure 3.1.1: Awareness programs for “B Leaf 60 Project”



Figure 3.2.2: Promotional Campaign for “B Leaf 60 Project”

e).Quality Monitoring System (Task Team Operation- TTO)

56 Surprise inspections were carried out at tea factories by the officials of the Tea Commissioner's Division during the year 2013.

Table 3.3 :Task Team Operations

Region	No of Inspections
Bandarawela	5
Gampola	6
Ratnapura	7
Matara	18
Galle	7
Mathugama	13
Total	56

f). Subsidy Scheme for Factory Modernization & Tea Replanting

Under Domestic funds, the Treasury has allocated funds for the tea development activities through the Sri Lanka Tea Board. The above allocated funds are utilized for the subsidy scheme for factory modernization and tea planting during the year.

Funds were available for the corporate and private sector for replanting and factory modernization for the year 2013. Out of these funds 6.88% has been allocated for the development of privately owned tea factories and the balance has been allocated for the factory modernization & replanting of the corporate sector.

Table 3.4. : No. of applications and amount paid as subsidies

Region	Replanting Subsidy Scheme			Factory Modernization Subsidy Scheme	
	No of Applications	Amount Paid (Rs. '000)	Extent (Hec)	No of Applications	Amount Paid (Rs. '000)
Bandarawela	29	7,471.69	48.29	01	379.75
Hatton	84	7,471.69	116.70	03	1,491.64
Gampola	08	873.50	13.57	-	-
Ratnapura	15	3,091.09	24.14	09	6,309.37
Matara	02	259.36	3.66	04	1,689.31
Galle	01	46.80	0.39	07	4,486.94
Mathugama	-	-	-	06	2,933.41
Total	139	14,370.74	206.75	30	17,290.42

g).Factory Base Tea Development Program (FBTDP)

Factory based tea development program has been designed with the aim to improve the productivity of tea smallholdings and the tea factories collaboratively by Sri Lanka Tea Board, Tea Research Institute and Tea Smallholdings Development Authority.

An extension officer (Field coordinator) has been planned to appoint through this program for the purpose of monitoring the productivity of tea smallholdings and handling of Green tea leaf. This was planned to extend the project to all tea growing areas for year 2013.

h).Establishment of Good Manufacturing Practices (GMPs) in Tea Factories

Under this scheme 308 tea factories were evaluated and actions were taken to improve the standards of tea manufacturing process.

Table 3.5 : Regional wise assessments of GMP

Region	Assessment of GMP
Bandarawela	11
Gampola/Hatton	148
Ratnapura	25
Matara	60
Galle	51
Mathugama	13
Total	308

i). Licensing of Dealers in Green Tea Leaf

According to the Tea Control Act it is required for all green tea leaf dealers to obtain annual license from the Tea Commissioner Division.

Table 3.6 : No. of license issues during 2013

ATC – Regions	License declarers as at 01.01.2013	Renewals of Licenses	New Licenses issued	Licenses to deal in Green Tea Leaf as at 31.12.2013
Bandarawela	152	141	15	156
Gampola/Hatton	262	242	57	299
Matara	341	307	35	342
Galle	350	319	38	357
Ratnapura	597	521	72	593
Mathugama	280	261	39	300
Total	2,007	1,791	256	2,047

j). Processing of Refuse Tea

Processing of refuse tea is a procedure of extracting consumable tea from un-denatured refuse tea. A scheme for issuing permits for the refuse tea processing centers has been established since 2009. The table no. 3.7 illustrates the regional wise total permits issued during the year 2013.

Region	Registered Centres as at 01/01/13	Renewals during the year	Newly issued during the year	Processing Centers as at 31/12/13	No of Permit Issued as at 31/12/13
Bandarawela	1	1	1	2	629
Gampola/Hatton	287	289	11	290	1,728
Matara	13	13	4	17	785
Galle	45	43	2	45	770
Ratnapura	7	5	1	6	1,300
Mathugama	6	5	2	7	395
Total	359	356	21	367	5,607

3.2. Tea Exports Section

The powers and functions of the Tea (Tax & Control of Exports) Act No. 16 of 1959 and regulations laid down under the Sri Lanka Tea Board Law No. 14 of 1975 are administered by the Tea Exports Section of the Sri Lanka Tea Board. The Tea Export Section performs duties relating to registration of tea exporters, tea packers, warehouses, importers, types of tea packs, retrieval of tea, monitoring of minimum quality standard for tea, authorization of export of tea, compilation of statistics on the export of tea and monitoring of export of tea under bilateral Free Trade Agreements (FTAs) of Sri Lanka.

3.2.1 Key Achievements

The Export Section terminated the acceptance of manual submission of Customs Declaration Message (CUSDEC) and other supplementary documents required for the authorization of export of tea in December 2013 in order to proceed with the practice of online submission by January 2014.

A special operation was carried out in the warehouses of produce brokers, tea exporters, tea blenders and tea packers with a view to assessing the parameters with regard to the Good Manufacturing Practices (GMP) and quality of made tea. The Export Section was able to further strengthen the sample securing process and streamlined the sampling methods with group visits during the year 2013.

3.2.2 Registrations

One of the key duties of the Tea Export Section is registration and renewal of Exporters, Packers, Warehouses, Importers, Local Packers and Produce Brokers.

The tea exporters who possess the minimum requirements; the organization (legal entity), minimum capital requirement of Rs. 1 million, registered warehouse (for storing, blending and packing of tea), a qualified tea taster with tea tasting facility are eligible to apply for the registration as a tea exporter.

In terms of the Sri Lanka Tea Board Regulation (Registration of Tea Packers) 1986, published in the Gazette Extra-ordinary No. 386/13 of 28th January, 1986, any person who engage in the business of packing tea in polythene bags for domestic consumption or in other forms of packaging it is essential to register with the Sri Lanka Tea Board. Every registration is valid only for one year period and required to renew the registration on annual basis.

Any entity registered as an exporter of tea under Tea (Tax & Control of Exports) Act No. 16 of 1959 is eligible to register as an importer of tea.

Table 3.8: Registration statistics of Exporters, Packers, Warehouses, Produce Brokers and Importers (2013)

Registrations	As at 01/01/13	During year 2013 (New Registrations)	Total No. as 31/12/13/
Exporters	383	31	414
Packers	412	63	475
Warehouses	447	51	498
Importers	191	3	194
Produce Brokers	08	-	08

In terms of the Sri Lanka Tea Board Regulation (Warehousing of Tea) 1984 published in Government Gazette Extraordinary No. 326/17 of 05th December, 1984 as amended by No. 410/11 of 10th September, 1986, No. 1280/8 of 20th March, 2003, warehouses used for the storage of any quantity of tea in excess of 1000 Kgs of tea of any one time, and which the Sri Lanka Tea Board considers satisfactory for the purpose of storing tea, shall be registered with the Sri Lanka Tea Board in accordance with the provisions of the said regulations.

Retail containers which contain other origin teas blended with Sri Lanka Teas would export under the Sri Lanka Tea Board Regulations (Import & Export) 1981. Such containers/packs should bear the narration "A Blend of Ceylon and other origin Teas packed in Sri Lanka" or "Other Origin Teas packed in Sri Lanka" only.

All registered tea exporters are required to submit CUSDECs with other required documents to the Tea Exports Section prior to move the cargo to the Port of Colombo in order to obtain the authorization .

3.2.3. Importation of Tea

The Sri Lanka Tea Board has issued 469 import permits for importation of 5,083,763.26 Kgs of tea. However, the actual quantity of import was 4,982,759 during the period under review.

Table 3.9: Sri Lanka's actual tea imports (January - December 2013)

Country	Type	Imported Qty. (Kgs)	CIF Value (Rs.)	Value Rs.
China	Green Tea	2,369,847	411.1	974,238,256
	Special	122,373	933.44	114,227,564
	White Tea	73,996	107.69	7,968,778
	Sub Total	2,566,216	427.26	1,096,434,598
India	CTC	1,296,464	255.98	331,870,718
	Special (Black Tea)	183,027	921.47	168,654,608
	Green Tea	470	1,017.66	478,298
	Sub Total	1,479,961	338.52	501,003,624
Kenya	CTC	741,085	339.43	251,542,885
Indonesia	CTC	26,200	346.46	9,077,282
Vietnam	Green Tea	98,550	291.86	28,762,859
Miyanmar	CTC	1,688	-	-
Germany	Decaffeinate Tea	1,870	1,570.10	2,936,087
	Green Tea	49	1,733.00	84,917
	Sub Total	1,919	1,574.26	3,021,004
Korea	Special	6,080	887.01	5,393,042
Uganda	CTC	14,660	299.36	4,388,592
Malawi	CTC	46,400	281.6	13,066,240
Grand total		4,982,759	383.86	1,912,690,126

3.2.4. Maintenance of Minimum Quality Standard ISO 3720 for Made Tea

The Expert Panel of Tea Tasters appointed by the Sri Lanka Tea Board examine all the offered tea samples and samples drawn from tea factories, the unloaded consignments after import, consignments prepared for export in order to ascertain whether the made tea in concern falls under the permitted categories, conforms to ISO 3720 and free of any contamination, thereby permitting only the suitable made tea for export.

Table 3.10 No. of quality defects at each sampling level

Type of sampling	No. of samples withdrawn	No. of cases detected as below ISO and contamination
Pre auction	6122	74
Post auction	5940	22

3.2.5. Denaturing of tea due to unsuitability for consumption

Made tea found to be unsuitable for human consumption at the levels of pre-auction, pre-shipment and special investigations is denatured under the supervision of the Export Section. This section has denatured 231,263 Kgs of made tea identified at all levels above in 2013.

3.2.6 Performance of Exports Under the FTAs

Sri Lanka enjoys preferential Tariff Rate Quota (TRQ) for tea under the Indo-Sri Lanka Free Trade Agreement (ISFTA) and Pakistan-Sri Lanka Free Trade Agreement (PSFTA). However, a substantial utilization of TRQ has not been recorded in 2013.

Table: 3.11 Utilization of TRQ under the FTAs (2013)

FTA	Quota per annum Kg	Total exports Kg.
India – Lanka	15,000,000	96,322.29
Pakistan – Lanka	10,000,000	--

3.2.7. Retrieval of Tea

If a consignment of tea is not accepted by the overseas buyer, the local exporter has to retrieve the same with the approval of the Sri Lanka Tea Board. The consignment is re-inspected by the SLTB prior to granting the authorization for export / re-use.

3.3. Tea Promotion Division

3.3.1. Main Objective/ Task of the Division

Tea Promotion Division is responsible for the implementation of Ceylon Tea promotion programs locally and in foreign markets on behalf of Sri Lanka Tea Board under the following broad categories;

1. Uni National Promotion of Ceylon Tea.
2. Generic Promotion for tea.
3. Participation at International Food & Beverage Trade Fairs and Exhibitions.
4. Compilation & dissemination of strategic market profiles on all important tea consuming countries.
5. Assisting Ministry of Plantation Industries on policy formulation for the Tea Sector.
6. Analysis of competitor activities.
7. Lion Logo registration and monitoring.
8. Protection of Ceylon Tea & other Regional Tea Growing names/logos as Geographical Indications.
9. Ozone friendly Pure Ceylon Tea Logo registration and franchising to the private sector packers.
10. Local Tea Promotion.

3.3.2. Overseas Tea Promotion

Offices & Market Coverage

Sri Lanka Tea Board presently maintains two regional overseas Tea Promotion Units attached to Sri Lanka Missions in UAE and Russia. The office in UAE is responsible for tea promotion in Middle East/ Gulf/ North Africa regions while the office in Moscow handles the tea promotion work in Russian Federation & CIS markets. The Ceylon tea promotional activities in other markets are handled by the Tea Promotion Division-Colombo in collaboration with the respective Trade Officers/Sri Lanka Missions overseas.

3.3.3. Promotion & Marketing Committee (PMC)

The PMC comprised 19 members from government and private sector tea industry experts. The promotional and marketing levy of Rs. 3.50 per Kg on all tea exports is estimated to generate a budget of Rs. 6.2 billion (US \$ 50 Mn) for advertising of Ceylon Tea globally within a period of 5 years and during the year 2013, collected Rs1.15 billion. The PMC is responsible to formulate a strategic marketing plan which will be launched under the supervision of the Tea Promotion Division of Sri Lanka Tea Board during 2014 - 2016 period. The committee conducted three meetings during the year 2013, and took action to forward proposals to the Technical Evaluation Committee for evaluation (TEC). The Technical Evaluation Committee has eight members headed by chairperson of Sri Lanka Tea Board and they concluded nine meetings during the year 2013 to evaluate the selection of advertising Agencies for International Ceylon Tea Promotion, Local Tea promotion and Market Research. During the year 2013, SLTB completed the draft of the strategic global communication plan and the process of the Expression of Interest (EOI). The final decision is pending at Cabinet Approved Negotiation Committee for the selection of Advertising Agencies to launch the Global Campaign.

3.3.4. Trade Fair Participation

It is customary for Sri Lanka Tea Board to assist the Sri Lankan tea exporting companies to participate at International Food & Beverage Fairs in selected tea markets promotion of Ceylon Tea brands. SLTB participated at the following trade fairs and coordinated the logistics of a Group Stand for Tea enabling private sector to enhance volume and value of their export portfolio of Ceylon Tea in 2013.

1. Prodexpo-Russia - February
2. Gulf Food 2013 UAE - February
3. Food & Drink Event 2013 (IFE) in London - March
4. SACC – Kunming China - June
5. International Coffee and Tea Industry, Singapore (Expo-2013 Fair) - March
6. Sri Lanka Three Day Mega Promotion Campaign in Bangalore, India - February
7. Sri Lanka Three Day Mega Promotion Campaign in Mumbai, India - May
8. International Tea Fair, Hong Kong - August
9. Summer Fancy Food Fair, Australia - June/July
10. Foodex Japan - March
11. SIAL China-China - May
12. Food Taipei, Taiwan - June
13. World Food, Moscow - September
14. Izmir International Fair in Turkey - August /September
15. World Food Ukraine - November
16. Anuga Trade Fair 2013, Cologne, Germany - October
17. Shenzhen International Tea fair China - December





Figure 3.3: World Food Moscow 2013



Figure 3.4 Izmir Beverage Fair - Turkey



Figure 3.5: Hong Kong International Tea Fair



Figure 3.6: Anuga 2013 Trade Fair in Germany

3.3.5. Uni National Promotion of Ceylon Tea

Uni National Promotion of "Ceylon Tea" relates to the propaganda of Sri Lanka tea against other origin teas. The Tea Board launches Uni National Promotion campaigns for Ceylon Tea in foreign markets through the Overseas Tea Promotion Units and Commercial Sections of Sri Lanka Missions abroad. Media advertising, outdoor advertising, liquid tea services, tea workshops and seminars as well as other public relation activities are the main elements of Uni National Promotion activities carried out by the Board.

3.3.6. Generic Tea Promotion

The promotion of tea against other beverages falls under generic tea promotion activities. Sri Lanka Tea Board is a member of the Intergovernmental Group on Tea of FAO, USA Tea Association, International Tea Committee-UK and Japan Tea Association. Generic tea promotional work is undertaken through these organizations. The generic tea promotion mainly focuses on Tea & Health concept which is promoted through consumer education and public relation activities. SLTB contributed towards the advertising budgets of Tea Associations and Councils for generic tea promotion work in selected countries in 2013 as mentioned above.

3.3.7 Trade Mark Protection

Registration of Lion Logo Trademark (712)

Sri Lanka Tea Board is the legal owner of Ceylon Tea Lion Logo Trade Mark. The registration / renewal of Ceylon Tea Lion Logo in Sri Lanka and other countries are carried out by Tea Promotion Division of the Board. By the end of the year 2013, Lion Logo has been registered in 98 countries. The franchise to use the Lion Logo has been granted only for branded, value added tea products (Tea Bags & Tea Packs) which contains 100% Ceylon Tea and compliance with ISO 3720 Standard while being above a minimum reference standard to each destination and should be pre packed in Sri Lanka. During the year under review, Lion Logo registrations in China and Taiwan were completed. Sri Lanka Tea Board also published the Lion Logo Cautionary Notices in local news papers in Sri Lanka, UAE, Jordan and Turkey to discourage counterfeiting and violations as well as passing-offs.



3.3.8. Registration of Ceylon Tea, Regional Names & Logos under Geographical Indications (GIs)

Sri Lanka Tea Board formulated necessary rules and regulations for protection of 'Ceylon Tea' and seven other agro-climatic regional teas (Nuwara Eliya, Uva, Dimbula, Uda Pussellawa, Kandy, Ruhuna & Sabaragamuwa) as Geographical Indications through the provisions available under TRIPS Agreement of World Trade Organization. This would not only help to prevent the misuse of 'Ceylon Tea' and other regional tea growing names particularly by overseas contract packers but also add value and a premium for Ceylon Tea marketed under GIs. Home registration of Ceylon Tea, Regional names and logos as Certification Marks were completed during the year.

The application for international registration of Ceylon Tea and seven agro-climatic regional names as Geographical Indications or as Certification Marks commenced during 2012 and is on-going.

Applications for registration of 'Ceylon Tea' were filed in 20 countries namely EU, USA, Japan, Canada, Australia, UAE, Iran, Turkey, Jordan, Iraq, Libya, Kuwait, Saudi Arabia, Syria, Egypt, Lebanon, Tunisia, Russia, Ukraine, Azerbaijan. Registrations was completed in Syria, Lebanon and Jordan. Applications for registration of Regional Tea names and logos (GI) were filed in 5 countries: EU, USA, Japan, Canada, Australia and the registration was completed in Japan and USA.





Figure 3.7: Bangalore Ceylon Tea promotion



Figure 3.8: Special Ceylon Tea Promotion Event in Beijing

3.3.9 Registration of Ozone Friendly Pure Ceylon Tea Logo

Sri Lanka Tea Board has registered the Ozone Friendly Pure Ceylon Tea logo in Sri Lanka as a Certification Mark in order to promote the production of Ozone Friendly tea. Under the Montreal Protocol, Sri Lanka implemented two projects to phase out the use of Methyl Bromide for non quarantine & pre-shipment purposes. The project on tea sector was successfully completed in 2002 by adopting environment friendly technologies without use of Methyl Bromide in the tea plantation and Sri Lanka received the Montreal Protocol Implementers Award in 2007. Thus, Sri Lanka became the first tea producing country in the world to manufacture Ozone Friendly tea and still is the only tea producing countries to have achieved this accolade.



09 tea exporters have obtained franchise rights from SLTB to use the Ozone friendly Pure Ceylon Tea logo for 16 brands during the year.

Applications were filed for registration of Ozone Logo in 30 countries, namely, EU, USA, Japan, Canada, Australia, Russia, Ukraine, Azerbaijan, Vietnam, South Africa,, New Zealand, Taiwan, China, Singapore, Malaysia, Hong Kong, Chile, South Korea, UAE, Iran, Iraq, Kuwait, Syria, Libya, Turkey, Jordan, Saudi Arabia, Egypt, Lebanon and Tunisia. The registration of Ozone logo were completed in Syria, Malaysia, Tunisia and Japan.

3.3.10 Bilateral Discussions at Ministerial Level

During the Ministerial visit to Latin America in June 2013, the Sri Lanka delegation concluded very productive meetings with officials of Municipality of Santa Fe which is considered as the strongest Chamber of Commerce in Argentina. The meeting with the Ministry of Agriculture officials received agreeability to join ITPF which is currently headed by Sri Lanka Plantation Minister. Visits to the Argentina Tea School paved the way for members of the delegation to taste several types of teas from Argentina. The opportunity was utilized to meet the Head of Las Marias Tea Factory, one of the biggest in Argentina. It was recommended by the Hon. Minister to pursue the possibility of a joint venture between NIPM and the Argentina Tea School. In consultation with the only Argentine Tea Club in that country namely El Club Del Tea, Director (Promotion) organized a well planned and highly professional workshop/seminar for Ceylon Tea to an invited target audience of tea lovers in Argentina.

The second phase of the Latin American tour was a visit to Chile. As per the last leg of the ministerial visit, the tea delegation of state sector and private sector officials arrived in Sao Paulo, Brazil after the completion of the tour to Chile and Argentina. Hon. Minister and the accompanying state officials briefed the Sri Lanka Ambassador to Brazil, H.E. Raja Edirisuriya and Deputy Chief of Mission Major General Kamal Gunaratne regarding the meetings and discussions concluded during the visits to Argentina and Chile along with their outcomes. The feature event of the delegation in Brazil was the participation at Sial Brazil 2013 in Sao Paulo which was held from 25th to 28th June at Expo Center Norte.

3.3.11. Participation at International Forums - International Tea Producers Forum (ITPF)

Under the valuable guidance of Hon. Mahinda Samarasinghe, Sri Lanka Tea Board joined hands with the Ministry of Plantation Industries to reach another milestone in the history of the tea industry with the formation of an International Tea Producers' Forum (ITPF) in Colombo, Sri Lanka. Ministerial and high level state sector officials combined with the private sector from the world's largest tea producing nations came together on January 21, 2013 in Colombo, Sri Lanka to establish an Association exclusively dedicated for the promotion and development of common interest of tea producing countries. The absence of a specific global body to deliberate matters significantly important to the world tea industry has resulted in substantial set-backs. Sri Lanka the current chair of the FAO/IGG on Tea took the initiative and was greatly instrumental for the formation of a dedicated Association called the International Tea Producers' Forum at a conference held at the Cinnamon Grand Hotel in Colombo. Seven of the largest tea producing countries, namely, India, Kenya, Indonesia, Malawi, Rwanda, Iran and Sri Lanka became founder members of this historic initiative with China and FAO as observers.

The Constitution of the ITPF was ratified by the Ministerial representations from these major tea producing countries that constitute more than 80% of the tea production in the world. A joint communiqué was signed by the delegates from these countries and Sri Lanka was selected as the Secretariat for the first ever International Tea Producers' Forum. The climate change phenomena, the escalation of cost of production, the low yields and the issues in implementing Good Agricultural Practices were identified as some of the challenges beside higher food safety standards, increased transportation cost and tariff as well as non tariff barriers. These common issues would be addressed by the ITPF in the future.



Figure 3.9:ITPF first meeting - Colombo



3.3.12. Foreign Delegations

Sri Lanka Tea Board facilitated and hosted delegations from Iraq, China and Japan during the year under review and arranged trade meetings with stakeholders of Sri Lanka tea industry with the objective of building trade relationships, exchanging ideas and sharing knowledge for the mutual benefit of both countries.

3.3.13 Promotional/Information

Publications

Following promotional/informational publications were released during the year:

- i. Bi-monthly Newsletter (06).
- ii. Quarterly Tea Market Review-2013 (04).

3.3.14 Local Tea Promotion

SLTB participated at following local trade exhibitions/events during the year under review and conducted promotional activities such as media campaigns, outdoor advertising, liquid tea services, sale of SLTB range of packs, distribution of promotional material.

- International Defence Seminar 2013 - Held at Galadari Hotel (3rd - 5th September 2013)
- Deyata Kirula 2013 - Ampara (4th to 10th February)
- Dalada Perahera- Kandy (13th - 20th August 2013)
- Annual Session at the Association of Natural Rubber Producing Countries – Galadari Hotel.

3.3.14.1 Workshop on Ceylon Tea for the Sri Lanka Institute of Tourism and Hotel Management

The Sri Lanka Institute of Tourism and Hotel Management (SLITHMT) have decided to include a module on tea industry with lectures and practical tea tasting sessions in their syllabus for their students in association with the Sri Lanka Tea Board. Considering the Local promotional objectives, SLTB agreed to this proposal and conducted the training modules. SLITHM is the only Government approved premier Institute in Sri Lanka which trains young men and women in the field of Hospitality and Travel Industry.

3.3.14.2 Sri Lanka Tea Board at CHOGM 2013

The 23rd Commonwealth Heads of Government Meeting was held in Colombo from 15 to 17 November 2013. Parallel to the 23rd CHOGM, Sri Lanka Tea Board conducted several Ceylon Tea promotional events.

3.3.14.3 Commonwealth Business Forum (CBF) at Cinnamon Grand Hotel

Sri Lanka Tea Board was a principal sponsor to CBF. A wide range of sponsorship benefits were accorded to Sri Lanka Tea Board. These included branding of Ceylon Tea, dedicated seminar slots, setting up of information booth, special tea tasting sessions, tea documentary on mega screen, advertisements in print and electronic media, opportunities to give away special Ceylon Tea gifts.

3.3.14.4 Trade Exhibition at Janakela Kendriya

'Reflection of Sri Lanka' international exhibition for Agriculture, Manufacturing and Services was held from 13th to 17th at Janakelar Kendraya, Battaramulla. The exhibition was organized by Ministry of Economic Development with assistance from the Ministry of Industry and Commerce and the Export Development Board. Sri Lanka Tea Board coordinated and promoted 25 Tea companies to the Tea Sector Pavilion. Other promotional activities included: landscape of model Tea Garden with tea experience for visitors in the outdoor exhibition area; dissemination of Industry information to visitors; liquid Tea services and a seminar on the Tea Industry.

3.3.14.5 Ceylon Tea Ceremony at "Ape Gama"

A new page was opened in the history of Sri Lanka Tea Industry as SLTB launched the first ever Ceylon Tea Ceremony for the "First Ladies" in attendance at CHOGM 2013. The SLTB initiated a novel concept for the Ceylon Tea Ceremony to offer a finely brewed tea served with Sri Lankan traditional food items of sweets and savouries and sought an artistic intervention as a pioneering move - the Ceylon Tea ceremony conceptualized the experience as being in the 'court of the Kandyan Kingdom' of King Narendra Singha of early 18th Century AD.

3.3.14.6 Dinner for International Media Personnel

The event was used to promote Ceylon Tea through our National cricket team. The Sri Lanka cricket team was invited to mingle with the participants and the opportunity was given for all participants to take photographs in front of Ceylon Tea branded backdrop and instant photos were given as souvenirs. Ceylon Tea branding was done was also done at the event.

3.3.14.7 Commonwealth Peoples Forum in Hikkaduwa

All participants were welcomed with iced Tea and 1000 Ceylon Tea Gift packs and brochures were disseminated among the participants.



3.3.15 Tea Sales Centre

The Tea sales centre located at the SLTB premises sold flag bearer range of Tea Board packs and selected tea products from seventeen private sector tea companies. Through this sales centre which is managed by the Sri Lanka Tea Board, the consumers not only get to select among the best and widest range of Ceylon Tea brands but also get to see the diversity and variety in the tea category available today in the convenience of one outlet. During the year 2013, revenue of Rs 18.49 million was generated through the sale of tea at the center which showed a significant increase of 17% of sales compared to the previous year. The sale of SLTB packs earned Rs 11.7 million while private sector tea brands accounted for 5.4 million.

3.3.16 Sri Lanka Cricket Sponsorship

Sri Lanka Tea Board concluded a historic agreement with Sri Lanka Cricket to sponsor the National Men's & Women's Cricket teams for the next three years commencing from June 2013. This is the first time ever that a Government Organization with one of the most famous global brand was selected as the official overseas sponsor of the cricket team at a value of US\$ 4 million for three years. "Sri Lankan Tea (Ceylon Tea) and the national cricket team have been able to bring honor and fame to the country. Sri Lanka Tea Board is proud to sponsor Sri Lanka Cricket

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3.3.17 Distribution of Complimentary Tea

SLTB has issued Rs 3 Million worth of tea on a Complimentary basis in the following manner for the purpose of promotion of "Ceylon Tea"

1. Complimentary teas to 40 Sri Lankan Missions overseas.
2. Liquid tea service and distribution at International Trade Fairs.
3. Promotional give-away to VIPs/Official



Figure 3.10: International Defence Seminar 2013 - Held at Galadari



Figure 3.11: Tea Garden Opening at CHOGM by His Excellency the President Mahinda Rajapaksa



Figure 3.12: Tea Garden at CHOGM



Figure 3.13: CHOGM Seminar - SLTB Booth



Figure 3.14: Tea Ceremony for First Ladies- CHOGM



Figure 3.15: Sri Lanka cricket sponsorship



Figure 3.16: Tea Gift to Japan Tea Museum

3.4. Tea Tasting Unit

3.4.1. Major Task/Objective

Maintain the minimum quality standard/ monitoring of ISO 3720 and ISO 11287 at any given point of dispose of tea. Issuing Lion Logo brand franchise certificates for branded Ceylon Tea products for consumer packs, monitoring and ratification Private Sales Direct Sales and forward contracts.

3.4.2. Expert Panel Of Tea Tasters

The independent panel consisted two members.

Namely : Mr. C.N.G. de Silva
(over 40 years tasting experience)
Mr. V.A.A. Perera
(over 30 years experience)

Panel members representing the Stake-holders consist of each representative from the following Associations :-

Colombo Tea Traders Association (CTTA)
Colombo Brockers Association (CBA)
Ceylon Planters Association (CPA)
Sri Lanka Federation of Tea Small Holding Development Societies (SLFTSHDS)
Tea Exporters Association (TEA)
Private Tea Factory Owners' Association (PTFOA)

3.4.3. Adopted Tea Tasting Methodologies

SLTB adopt the methodology of ISO 3102 of tea preparation of liquor using in sensory tests. Tea Tasting Terminology ISO 6078 for Black tea vocabulary/ Monograph On Tea Production in Ceylon – no: 4 – Tea Manufacture in Ceylon.

3.4.4. Conduct Of Expert Panel Tea Tasting Sessions

- Pre-auction Teas
- Special investigation Teas
- Pre imported samples
- Direct Sales
- Evaluating Tea Tasters for new export Companies.

The decision of the panel is forwarded to the relevant divisions. TCD and DTC (exports) for necessary action.

3.4.5. Registration Of Lion Logo Packs

Exporter who wish to depict the Lion Logo on branded consumer packs which is a symbol of quality and country of origin fully owned by the Sri Lanka Tea Board has to forward the application and the branded products for evaluation, as according to the destination and market.

To use the Lion Logo franchise Sri Lanka Tea Board charge Rs. 5,000/- + (VAT + NBT) per brand as registration fees for which a certificate is issued, which is valid for one year.

Granting franchise rights to use the Lion Logo on retail packets. 772 applications were processed for New brands/Renewals, additional packs for the year 2013.

3.4.6. Monitoring Of Quality – Lion Logo Depicted Packs (Local/Overseas/Tea Board Range Of Packs)

3.4.6.1 Local Monitoring

Randomly samples from Colombo Super markets and retail shops evaluated particularly the brands using the Lion Logo. Mainly reputed the long standing packers registration with the Tea Board who are having a reasonable market share are granted to use the Lion Logo and monitored accordingly.

3.4.6.2 Overseas Monitoring

Under overseas monitoring system all exports samples including the samples with shipments with Lion Logo (80%) sampled under pre-shipment monitoring scheme by DTC (Exports) and forwarded to the Tasting Unit for monitoring purposes prior to shipment.

Also regularly lion logo depicted packs from overseas markets are forwarded by our overseas Bureaux and the Commercial Counselors of Sri Lankan embassies for evaluation and reporting.

3.4.6.3 Tea Board Range Of Packs

Flag carrier packs of SLTB are mainly sold at our Sales Counter and sent to overseas Diplomat missions, Bureaux, and trade fairs. The teas are selected and brought on behalf of Sri Lanka Tea Board from Auction or Private Sale channel with the approval of the Tea Tasting Unit by the official packer. The purchased samples, prop samples and blend samples are also tasted and approved prior to final packing by the TTU.

F.F.C.T. (500g),
Planters Punch (100g & 250g),
Misty Hills (200g),
Royal Ceylon (Metal Can – 200g)
Family Pack (500g & 250g), Poly pack (250g),
Green Tea (100g),
Tea Plucker (250g & 100g),
Luxury Blend – Wooden (125g)
Luxury Blend Carton – 125g)
Connoisseur – (250g, 200g, 125g & 100g)





Figure 3.17: Sri Lanka Tea Board Tasting Unit

3.4.7. Tasting of teas for Quality Control of Pre-Auction teas

Two weeks prior to the sale, the eight brokers forward their pre-auction samples for evaluation. Unit firstly visually evaluate the off-grade, Dust, Premium Flowery and BOPIA samples. Thereafter organoleptical evaluation is done. Selected samples after the evaluation are offered to the panel to take a collective decision to be offered or not at the coming auction of which the decision is conveyed to the DTC (Exports)

No. of samples examined visually- 148,239

Organoleptic- 15,465

No. of Pre-auction samples rejected by the panel for suspected liquor contamination- 372

Siliceous matters- 168

Crude Fiber- 460

Pre-auction samples forwarded by the DTC (Ex.) on random basis (BSL/ESL)

No. of Lots examined- 2,944

No. of samples suspected- 284

3.4.8. Tasting of teas for Quality Control of Pre-Shipment Teas

The above monitoring scheme samples are forwarded with a schedule by the DTC (Ex.) to evaluate the use of Lion Logo, ISO 3720 parameters or any other contamination prior to shipment.

Total no. of pre-shipment samples examined under pre-shipment monitoring scheme- 5,940

3.4.9. Tasting of teas for Quality Control of Pre-Import Teas

Pre-Imported samples forwarded by the DTC (Ex.) accompanied with a form to evaluate its suitability for importation. With each application line samples details about the origin, grade etc. is marked.

The panel of tasters will evaluate the teas according to the guide lines of the SLTB circular no: OR/1/65 and to the amendments.

Total no. of samples examined- 1,230

3.4.10 Tasting of teas for Quality

Control of Post-Import Teas

On arrival of imported tea consignment samples are drawn and forwarded by the Tea Exports Division to this unit under un-loaded reference samples for approval.

These samples are evaluated as against the offered sample as and when the samples on arrival at the Tea Tasting Unit by Deputy Director (Tech.) of the Tea Tasting Unit.

No. of samples examined- 810

3.4.11 Tasting of teas under special investigation

Samples are forwarded by the Tea Commissioner or by DTC (Exports) for the Thursday panel, on a approved schedule to evaluate the grade, contamination, ISO or for any other remarks.

3.4.12 Ratification of Private Sale Panel

Valuation Certificate

Ratification of private sale is done by this unit when the sample accompanied with the panel forwarded to this unit by the selling broker with the independent brokers approval. Ratification fees of Rs. 500/-+ (VAT + NBT) per line is charged for the above service. Presently, the above scheme is scale down to only for Green teas, Organic teas, specialty teas and for small breaks which are not sold through the Colombo Auctions.

Total no. of private sale lots examined and ratified- 7,650

3.4.13 Ratification of Forward Contracts

Ratification was done for few selected marks depending on the buyer's requirement for a period of time. Seller, buyer, broker and the Tea Board ratified the contract of sale. Ratification fess of Rs. 500/-+ VAT + NBT) per line as charges for the above service too.

Total forward contracts lines ratified- 1,036

3.4.14 Ratification of Direct Sale

The above scheme permit Producer cum Exporter to sell their products directly to the overseas buyers. In exception Green tea, Organic tea and Specialty Tea could be sold to the local buyers. Direct sales are ratified by the Thursday panel.

Total Direct sale Lines ratified- 1,918



3.5. Analytical Laboratory

During the intervening year 2013, Analytical Laboratory Division handled 6640 numbers of chemical, microbiological and pesticides residue testing on tea samples. Such tea samples for testing were received through two channels: Internal Monitoring Service (IMS) and External Certification Service (ECS). Tea Board directs its team of tea Inspectors to disperse and draw tea samples randomly on prior to auction and prior to shipment according to the established criteria. This IMS scheme covers all tea disposal points: tea manufacturer, tea broker's warehouses, tea blending & packetting and tea exporters' warehouses. Whereas, ECS covers tea exporters' certification requirements as per their buyers' requirements. During the period 2013, out of the total work done, 5684 tests (about 85.6%) carried out based on samples received

under IMS, whereas total number of tests performed under ECS was 956 (about 14.4%). Out of these, Chemical Analysis Unit handled 4721 number of tests (about 71.1%) & Microbiological Analysis Unit handled 1527 tests (about 23%). The rest of the tests, 392 tests (about 5.9%) had been handled by the Pesticide Analysis Unit.

Analytical Laboratory charge fees for its rendered testing services while exempted the tea samples identified as best quality tea and total income of the laboratory generated during the year 2013 was Rs.6,233,900.00. When the Exporter's contribution was Rs. 1,457,900.00 (23.38%) the income share of internal divisions was Rs.4, 776,000.00 (76.62%)

Table 3.5.1 :Summary of tests performed during the year 2012/2013

Name of test	No. of tests	
	2012	2013
Chemical Analysis Unit		
01. Determination of moisture in tea	538	1089
02. Determination of total ash in tea	198	597
03. Determination of water soluble ash in tea	188	574
04. Determination of acid in-soluble ash in tea	188	578
05. Determination of water extract in tea	188	602
06. Determination of alkalinity of water soluble ash in tea	190	604
07. Determination of Crude Fiber in tea	347	568
08. Determination of pH in tea brew	2	8
09. Qualitative Analysis of Cyanide contamination in tea	623	-
10. Qualitative Analysis of Arsenic contamination in tea	622	-
11. Basic Radiation Determination tests	727	28
12. Other Tests (Added Color, Sugar, Gel, Liquor, Taint, flavour, Chemical Identification, bicarbonate, extraneous)	2	54
13. Grade identification tests/ Sieve Analysis	16	12
14. Determination of Fe/Iron content in tea	-	7
Microbiological Analysis Unit		
01. Determination of Total Plate Count	352	372
02. Determination of Yeast and Mould Count	370	372
03. Microscopical examination for dead or live insects and other Impurities/ foreign matter in tea	12	11
04. Determination of Genetically Modified Organisms (GMO) in tea	121	139
05. Detection and Enumeration of Faecal Coliforms & Escherichia coli (E.coli)	163	314
06. Detection and Enumeration of Total Coliforms	169	319
Pesticide Residue Analysis Unit		
01. Ethion	-	44
02. Malathion	-	44
03. Cypermethrin	-	44
04. Alfa Endosulfan	-	69
05. Beeta Endosulfan	-	69
06. Bifenthrin	-	69
07. 2,4 - D	-	25
08. MCPA	-	28
Total	5042	6640

3.5.1. Test Certificates

Total number of the issued certificates during the year 2013 was 553. However, compared with the last year 2012 (total of 1178), slight drop was identified in number of issued certificates due to non perform test categories during year 2013

Categories of Issued Certificates;

1. Test report on moisture analysis in tea
2. Certification of tea quality with ISO 3720 minimum quality parameters
3. Certification on tea for chemicals (and chemical adulteration) concerned parameters
4. Certification on siliceous matter quantification in tea, dust /powder particle analysis in tea and sieve analysis of tea
5. Certification on extraneous matters/ microscopical examination for dead and/or alive insects, foreign substance and debris in tea.
6. Certification on microbiological contamination in tea, especially on bacteria, fungus & mould growth, E-coli, Coliform and Salmonella sp.
7. Certification on genetically modified organisms (GMO) in tea.
8. Certification on pesticide multi residue levels in tea (MRL test)

3.5.2. Revenue collection through the testing services of the Analytical Laboratory

Analytical Laboratory charge fees for its rendered testing services at the requests made by clients, as per the Tea Board circular No. OR/1/87 dated 06/08/2010. Total income of the Laboratory is combined with testing fees received directly from the Exporters (i.e. 23.38%) and fees recovered by the Tea Commissioners Division and Tea Exports Division under the category 'below standard teas' as confirmed by the Analytical Laboratory (i.e. 76.62%).

Table 3.5.2: Share of the Total Income: Internal Monitoring vs. External Certification

	2012 (Rs.)	%	2013 (Rs.)	%
Internal Monitoring Service (IMS)	2,043,000	42.05	4,776,000	76.62
External Certification Service (ECS)	2,815,000	57.95	1,457,900	23.38
Total Income	4,858,000	100.00	6,233,900	100.00

Based on the finding of the laboratory analytical services, official actions were taken by the Tea Commissioner and the Deputy Commissioner (Exports) against those contaminated or below standard tea lots. Accordingly, 372 lots were treated as below standard and taken official actions during the intervening year 2013. During the year 2013 analytical laboratory earned Rs6.2 million and for the year 2012 it was Rs. 4.million and showed an income growth of 28.3%.

3.5.3. Work performances of the individual units of the Analytical Laboratory

3.5.3.1 Quality Inspection and Sampling Unit

Maintaining a document control procedure is mandatory for any testing laboratory serving for international certification. Therefore, the main function of the Quality Inspection Unit is maintaining laboratory documentary procedure according to the international standards for laboratory accreditation, on ISO 17025 standards. Accordingly, during the year under review 2013, established and maintained an internal document control procedures in Chemical, Microbiological and Pesticide Residue Analysis Units. In addition to the above, this section manages the laboratory sample receiving and issuing of test reports.

3.5.3.2 Chemical Analysis Unit

Under the supervision of the Director (Analytical services), the Analyst (Chemical) in the concerned unit was able to work with his team of technical staff and performed the following.

1. Chemical Assessment on inferior quality teas produced before auction and pre-shipment.
2. Chemical Assessment against the established ISO 3720 Standards. (It includes the parameters: Total Ash, Water Soluble Ash, Alkalinity, Acid insoluble ash, Water extract, Moisture and Crude Fiber contents)
3. Estimation of tea dust and powder contents using sieve analysis technique
4. Estimation of siliceous matter content in tea

Among the other important events, participating in Inter-laboratory Proficiency Testing program was highlighted. This program supports to improve competency of the working staff in Chemical analysis Unit.

In the Chemical Analysis Unit, members accommodated were with one Analyst (Chemical) as in-Charge, two Technical Assistants (contractual) and a Laboratory Attendant under the supervision of the Director (Analytical services).



Figure 3.18: Sri Lanka Tea Board Laboratory

3.5.3.3. Microbiological Analysis Unit

The Microbiological Analysis Unit was comprised with an Analyst (Microbiology) as in-Charge, one Technical Assistant (contractual) and Laboratory Attendant under the supervision of the Director (Analytical services). Microbial levels present in tea samples checked using internationally accepted testing methods.

3.5.3.4 Pesticide Residue (MRL) Analysis Unit

Maximum residue level' (MRL) means the upper legal level of a concentration for a pesticide residue in or on tea, set in accordance with regulations established by individual countries, based on good agricultural practice and the lowest consumer exposure necessary to protect vulnerable consumers. Therefore establishment of this test parameter for imported / export tea became extremely important during the past few years.

After several years of research and development with heaps of trails, in year 2013 we implement MRL test using internationally recognized method call 'QuEChERS'.

Members accommodated in Pesticide Analysis Unit are one Analyst (Chemical/ Pesticides) as in-Charge and one Laboratory Attendant under the supervision of the Assistant Director (Laboratory).

3.6. Administration Division

Administration Division of SLTB is responsible for formulation, implementation, monitoring and evaluation of all Human Resources Management and Human Resources Development activities, implementing and maintaining of Information Technology services, coordinating and facilitating of Planning, Monitoring & Evaluation activities of the Board, dissemination of Statistical information, Managing and Maintenance of SLTB Library, Procurement activities, Security and Transport activities of the Board.

3.6.1 Human Resource Management

Table 3.6 Staff Strength of SLTB at the end the year 2013

Category	No of Staff		Total
	Male	Female	
Senior Level	03	01	04
Tertiary Level	49	24	73
Secondary Level	36	78	114
Primary Level	61	04	65
Total	149	106	255

3.6.2 Human Resource Development

Two days out bound training program was held for field officers of SLTB and It was the outbound training that ever had in SLTB history. The main objectives of this training program were to help the participants to understand the scope of the job, regional management procedures, rules & regulations related to the industry and Administration Regulations (AR) and Financial Regulations (FR) and to prepare the Tea Commissioners Division's annual targets for the year -2014. The target group consisted with 58 tea Inspectors and field staff at Regional officers and program ran over two days period. Four employees participated for foreign trainings (Tertiary Level-02 and Secondary Level-02)

Table 3.6 Staff Strength of SLTB as at 31st December 2013

Category	No of Employees Trained
Senior Level	-
Tertiary Level	19
Secondary Level	31
Primary Level	-
Total	50

The 8th International GI training program was held at 'At Le Courtil' in Switzerland and Tea Commissioner participated for this program.

The Market Analyst of Sri Lanka Tea Board participated for the three months advance certificate course in Tea tasting and Technology in India.



Figure 3.19: 8th International GI Training "INTERGI 2013", At Le Courtil, Switzerland



Figure 3.20 : Advanced certificate Course in Tea Tasting and Technology-India

3.7. Internal Audit Section

Internal Audit is an independent appraisal function within the Sri Lanka Tea Board, for the review of activities as a service to all levels of Management. It is a control which measures, evaluates and reports upon the effectiveness of Internal controls, financial and non-financial, as a contribution to the efficient use of resources within an organization.

The Audit Committee of the SLTB, approved the Internal Audit Program & reviewed the Internal & External Audit Reports, including special assignment / investigations.

Three Audit Committee meetings were held during the year under review & made recommendations to the Board of Directors along with the Minutes, to facilitate taking correctives measures.

3.8. Information Technology

Division

During the 2012/2013, the IT division has completed the 1st phase of the Tea system project and signed the maintenance agreement. Furthermore, 2nd phase of the financial system has completed and now it's in the latter part of the project. In first time in history, SLTB use barcode system for sample numbering as a module of a Tea system. With this method, we are able to minimize the corruption and do more transparent analysis for tea exporters, who generate lot of revenue and maintain high quality standards of Sri Lankan Tea. Bandwidth of IISL and VPN connections was double in head office and VPN connection of regional offices was upgraded by 4 folds to enhance the ICT infrastructure of SLTB.

Furthermore, CCTV camera system was installed at the Head Office premises to mitigate security issues. Monitoring will be done through intranet of SLTB and privileges were given to limited administrative authorities in top management. The IT division played an imperative role in assisting and consulting the all division to overcome challenges in day today office work during last year.

04 Financial Review

Statement of Financial Position

As at 31 December 2013

ASSETS	Note	As at 31.12.2013 Rs.	As at 31.12.2012 Rs.
NON-CURRENT ASSETS			
Property, Plant and Equipment	7	683,561,264	669,074,922
Prepaid Leasehold Right to Land	13	2,935,383	3,007,283
Intangible Assets	14	10,034,678	9,311,278
Financial Assets	8	4,813	4,813
		696,536,138	681,398,296
CURRENT ASSETS			
Inventories	9	63,651,786	19,948,861
Trade and Other Receivables	10	54,293,751	39,019,571
Deposits and Prepayments		26,400,861	13,111,889
Other Financial Assets	11	4,032,781,237	2,804,609,593
Cash In Hand and At Bank		51,290,662	42,831,205
		4,228,418,297	2,919,521,119
TOTAL ASSETS		4,924,954,435	3,600,919,416
EQUITY AND LIABILITIES	Note	As at 31.12.2013 Rs.	As at 31.12.2012 Rs.
Contributed Capital		652,067,602	652,067,602
Retained Earnings		(374,108,286)	(399,284,580)
Promotion and Marketing Levy	16	3,898,124,564	2,710,683,852
Special Reserve	16	481,933,543	481,933,543
Total Equity		4,658,017,423	3,445,400,417
NON-CURRENT LIABILITIES			
Employee Benefit Obligations	12	43,083,575	44,034,691
		43,083,575	44,034,691
CURRENT LIABILITIES			
Deferred Renewal Income		-	7,233,260
Trade and Other Payables	15	223,853,438	104,251,048
		223,853,438	111,484,308
TOTAL EQUITY AND LIABILITIES		4,924,954,435	3,600,919,416

The accounting policies on pages 67 to 71 and notes on pages 72 to 77 form an integral part of these financial statements. The board of directors is responsible for the participation and presentation of these Financial Statements. These Financial Statements were approved by the Board of Directors and signed on their behalf.

Asst. Director General- Finance

Director General

Chairman

Income Statement

Year ended 31 December 2013

	Note	2013 Rs.	2012 Rs.
Revenue	03	303,887,127	271,879,671
Tea sector development expenditure	04	(36,676,467)	(27,934,212)
Administrative expenses	05	(257,195,960)	(238,632,602)
Other operating expenses	06	(59,164)	(139,783)
Operating profit / (Loss)		10,073,865	(19,437,909)
Finance expenses		(75,738)	(194,353)
Finance income		9,073,109	8,241,826
Profit / (Loss) for the period		19,071,236	(11,390,437)
Non conversion adjustments relating to prior year		-	-
PROFIT / (LOSS) FOR THE PERIOD		19,071,236	(11,390,437)

Statement of Other Comprehensive Income

Year ended 31 December 2013

	2013 Rs.	2012 Rs.
Profit for the period	19,071,236	(11,390,437)
Other comprehensive income	-	-
Total comprehensive income for the period, net of tax	19,071,236	(11,390,437)

The accounting policies on pages 67 to 71 and notes on pages 72 to 77 form an integral part of these financial statements.

Statement of Changes in Equity

Year ended 31 December 2013

	Contributed Capital Rs.	Promotion & Marketing Levy Rs.	Special Reserve Rs.	Accumulated Profit Rs.	Total Rs.
Balance as at 01 January 2012	652,067,602	1,348,778,067	-	94,039,398	2,094,885,068
Promotion and Marketing Levy (Note -16)		1,361,905,785			1,361,905,785
Loss for the year	-	-	-	(11,390,437)	(11,390,437)
Special Reserve (Note 16)	-	-	481,933,543	(481,933,543)	-
Balance as at 31 December 2012	652,067,602	2,710,683,852	481,933,543	(399,284,582)	3,445,400,415
Balance as at 01 January 2013	652,067,602	2,710,683,852	481,933,543	(399,284,582)	3,445,400,415
Promotion and Marketing Levy (Note -16)	-	1,187,440,712	-	-	1,187,440,712
Retaining Earnings				6,105,060	6,105,060
Profit for the year	-	-	-	19,071,235.88	19,071,236
Special Reserve (Note 16)	-	-	-	-	-
Balance as at 31 December 2013	652,067,602	3,898,124,564	481,933,543	(374,108,286)	4,658,017,423

The accounting policies on pages 67 to 71 and notes on pages 72 to 77 form an integral part of these financial statements.

Statement of Cash Flow

For the year ended 31st December 2013

Cash Flows From Operating Activities	2013 Rs.	2012 Rs.
Net Profit from Operations	19,071,236	(11,390,437)
Adjustments for		
Depreciation of PPE	27,001,289	26,904,372
Adjustments for retained earnings	6,105,060	-
Gratuity provision	3,434,335	5,859,469
Finance Income	(9,073,109)	(8,579,826)
Profit or Loss disposal of PPE	2,615,555	1,582,649
Amortisation of Leasehold Land	71,900	71,900
Operating Profit before Working Capital Changes	49,478,214	14,751,002
Decrease / (Increase) in Trade and Other Receivables	(28,563,152)	3,466,955
Increase/(Decrease) in Trade and Other Payables	119,602,390	7,959,365
Increase/(Decrease) in Deferred Renewal Income	(7,233,260)	(2,123,000)
Decrease / (Increase) in Inventories	(43,702,925)	1,994,462
Cash Generated from Operations	89,581,267	26,048,784
Interest Paid	(75,738)	(194,353)
Gratuity Paid	(4,385,452)	(7,465,493)
Net Cash From Operating Activities	85,120,077	18,388,938
Cash Flows (used in) Investing Activities		
Finance Income Received	9,073,109	8,579,826
Investments	(1,228,171,644)	(1,336,761,172)
Acquisition Intangible assets	(899,611)	-
Acquisition of Property Plant & Equipment	(44,103,186)	(49,400,179)
Net Cash Flows / (Used in) Financing Activities	(1,264,101,331)	(1,377,581,525)
Cash Flows Used in Financing Activities		
Funds transferred to Consolidated Fund	-	-
Promotion and Marketing Levy	1,187,440,712	1,361,905,785
Net Cash Flows used in Financing Activities	1,187,440,712	1,361,905,785
Net Increase / (Decrease) in Cash and Cash Equivalents	8,459,457	2,713,198
Cash and Cash Equivalents at the beginning of the year	42,831,205	40,118,006
Cash and Cash Equivalents at the end of the year	51,290,662	42,831,204

The accounting policies on pages 67 to 71 and notes on pages 72 to 77 form an integral part of these financial statements.

Notes to the Financial Statement

Year ended 31 December 2013

1. Corporate Information

General

The Sri Lanka Tea Board (SLTB) was established on the 1st of January 1976, under the Sri Lanka Tea Board Law No. 14 of 1975, as amended by Act No. 17 of 1985, No. 44 of 1990, No. 29 of 2003 and No. 44 of 2006. The head office is located at No. 574, Galle Road, Colombo 3.

SLTB prepares financial statements for the twelve months period ended 31st December and these financial statements are authorized by the board of directors.

Principal Activities

The objectives of the Sri Lanka Tea Board are regulation, development of the tea industry in Sri Lanka and Promotion of Sri Lanka Tea (Ceylon Tea) globally. It is the authority responsible for regulating the activities of the tea industry, viz. production, cultivating new area and replanting, rehabilitating old gardens, the establishment of factories and their operation. It also regulates the conduct of the auctions, monitors quality standards and regulates the sales, export brokerage, warehousing and shipping of tea. SLTB also regulate control and direct all institutions and organizations engaged in the management of tea estates and in the production and marketing of tea.

2. Basis Of Preparation

2.1 Basis of preparation and adoption of SLAS (SLFRS and LKAS) effective for the financial period beginning on or after 01 January 2012

The Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards comprising SLFRS and LKAS as issued by the Institute of Chartered Accountants of Sri Lanka.

For all periods up to and including the year ended 31 December 2012, SLTB prepared its financial statements in accordance with SLASs effective up to 31 December 2011. These financial statements for the year 31 December 2012 are the first SLTB has prepared in accordance with Sri Lanka Accounting Standards effective for the periods beginning on or after 01 January 2012.

2.2 Basis of Measurement

The financial statements have been prepared on a historical cost basis. The financial statements are presented in Sri Lankan Rupees.

3. Summary Of Significant Accounting Policies

3.1 Significant Accounting Policies

The following are the significant accounting policies used by SLTB in preparing these financial statements.

3.2 Property Plant and Equipment

Property, plant and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing component parts of the property, plant and equipment and borrowing costs for long-term construction projects if the recognition criteria are met. When significant parts of property, plant and equipment are required to be replaced at intervals, the SLTB derecognizes the replaced part, and recognizes the new part with its own associated useful life and depreciation. Likewise, when a major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognised in the income statement as incurred.

Notes to the Financial Statement

Year ended 31 December 2013

3.3 Depreciation

Depreciation is calculated on pro rata basis. No depreciation is charged during the year of disposal. Estimated useful lives of Property Plant & Equipment are as follows.

Freehold Buildings	50 years
Office Equipments	02 - 20 years
Furniture & Fittings	01 - 20 years
Motor Vehicles	10 years
Computer Equipment	05 years
Library Books	05 years
Laboratory Equipments	03 - 10 years

3.4 Capital work in progress

Capital expenses incurred during the year, which are not capitalized as at the balance sheet date are shown as Capital work in progress, whilst the capital assets which have been capitalized during the year and put to use have been transferred to Property Plant & Equipment.

3.5 Leasehold Land

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset, even if that right is not explicitly specified in an arrangement. Estimated useful lives of Lease assets are as follows.

Leasehold Land	50 years
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3.6 Intangible Assets

Intangible assets acquired separately are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortization and accumulated impairment losses, if any. Internally generated intangible assets, excluding capitalized development costs, are not capitalized and expenditure is reflected in the income statement in the year in which the expenditure is incurred. Estimated useful lives of intangible assets are as follows.

Computer software	15 years
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3.7 Impairment of non financial assets

SLTB assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, SLTB estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

3.8 Taxation

No provision for taxation is made as SLTB is not liable for taxes.

3.9 Inventories

Inventories are recognized at cost and net realizable value whichever is lower after making due allowance for obsolete and slow moving items which are valued at 'First In First Out' basis.

3.10 Cash & Cash Equivalents

Cash and cash equivalents comprise cash in hand and bank, Treasury bill investments, other short-term highly liquid investments with original maturities of three months or less. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.



Notes to the Financial Statement

Year ended 31 December 2013

4. Liabilities and Provisions

4.1 Retirement Benefit Obligations

4.1.1 Defined Benefit Plan – Retirement Gratuity

SLTB is liable to pay Gratuity in terms of the Payment of Gratuity Act No.12 of 1983. The liability for gratuity to an employee arises only on completion of five years of continued service with SLTB. In order to meet this liability, a provision is carried forward in the Balance Sheet. The resulting difference between the brought forward provision at the beginning of a year and the carried forward provision at the end of the year is dealt with in the Income Statement.

The principal assumptions used in the calculations are as follows.

Expected Annual Average Salary Increment Rate-	1.01% to 1.03%
Discount Rate / Interest Rate-	12.16%
Staff Turnover Factor-	6%

The liability is not externally funded. The item is grouped under Non-Current Liabilities in the Balance Sheet.

4.1.2 Defined Contribution Plans- Employee Provident Fund & Employee Trust Fund

SLTB contributes to Employees' Provident Fund contribution and Employees' Trust Fund contribution is covered by relevant contribution funds in line with respective regulation. Obligations for contributions to the plans covering the employees are recognized as an expense in the income statement.

Employee Provident Fund

SLTB and Employees contribute to provident fund at 15% and 10% respectively on gross salary.

Employees' Trust Fund

SLTB contributes 3% on gross salary to the Employees' Trust Fund.

5. Income Statement

For the purpose of presentation of the Income Statement, the function of expenses method is adopted as it represents fairly the elements of corporation performance.

5.1 Revenue Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the SLTB and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable taking into account contractually defined terms of payment.

The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

Rendering of services

Revenue from rendering of services is recognised in the accounting period in which the services are rendered or performed.

Other Income

Other income is recognised on an accrual basis.

Interest income

For all financial instruments measured at amortised cost and interest bearing financial assets classified as available for sale, interest income or expense is recorded using the effective interest rate (EIR), which is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

5.2 Expenses

All expenditures incurred in the running of the business have been charged to income in arriving at the profit for the year. Repairs and renewals are charged to profit and loss in the year in which the expenditure is incurred.



6. Financial Instruments- Initial Recognition And Subsequent Measurement

6.1 Financial Assets

6.1.1 Initial Recognition and Measurement

Financial assets within the scope of LKAS 39 are classified as financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets, as appropriate and determine the classification of its financial assets at initial recognition.

All financial assets are recognized initially at fair value plus, in the case of assets not at fair value through profit or loss, directly attributable transaction costs.

The financial assets of SLTB include cash and short term investment, trade and other receivables, staff loans and other receivables.

6.1.2 Subsequent Measurement

The subsequent measurement of financial assets depends on their classification as follows.

6.1.2.1 Financial Assets at Fair Value through Profit or Loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. SLTB did not have any held-to-maturity investments during the years ended 31 December 2012 and 2011.

6.1.2.2 Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortized cost using the effective interest rate method (EIR), less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement. The losses arising from impairment are recognized in the income statement in finance cost.

6.1.2.3 Held-to-Maturity Investments

Non-derivative financial assets with fixed or determinable payments and fixed maturities are classified as held-to-maturity when the SLTB has the positive intention and ability to hold it to maturity. After initial measurement, held-to-

maturity investments are measured at amortized cost using the effective interest method, less impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included in finance income in the income statement.

6.1.2.4 Available-for-Sale Financial Investments

Available-for-sale financial investments include equity and debt securities. Equity investments classified as available-for-sale are those, which are neither classified as held for trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value with unrealized gains or losses recognized as other comprehensive income in the available-for-sale reserve until the investment is derecognized, at which time the cumulative gain or loss is recognized in other operating income, or determined to be impaired, at which time the cumulative loss is reclassified to the income statement in finance costs and removed from the available-for-sale reserve. Interest income on available-for-sale debt securities is calculated using the effective interest method and is recognized in profit or loss. SLTB did not have any available-for-sale financial investments during the years ended 31 December 2012 and 2011.

6.1.2.5 Derecognition

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognized when,

- i) the rights to receive cash flows from the asset have expired
- ii) the SLTB has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either

(a) the SLTB has transferred substantially all the risks and rewards of the asset, or

(b) the SLTB has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

6.1.2.6 Impairment of Financial Assets

The SLTB assesses at each reporting date whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults

6.1.2.7 Financial Assets Carried at Amortized Cost

For financial assets carried at amortized cost, the SLTB first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the SLTB determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate.

6.2 Financial Liabilities

Initial Recognition and Measurement

Financial liabilities within the scope of LKAS 39 are classified as financial liabilities at fair value through profit or loss, at amortized cost, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. SLTB determines the classification of its financial liabilities at initial recognition.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings, carried at amortized cost. This includes directly attributable transaction costs. SLTB's financial liabilities include trade and other payables.

Subsequent Measurement

Subsequent measurement of financial liabilities are at amortized cost.

Derecognition

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Notes to the Financial Statement

Year ended 31 December 2013

3 REVENUE	YE 31.12.2013 Rs.	YE 31.12.2012 Rs.
Revenue - Treasury	120,000,000	117,110,000
Revenue - Treasury for development activities	35,240,241	23,669,759
Lab Income	3,404,300	2,788,300
Registration and Renewal Income	137,261,250	129,036,431
Net profit from commercial activities (Note 3.1)	7,981,336	6,857,414
	303,887,127	279,461,904
3.1 NET PROFIT FROM COMMERCIAL ACTIVITIES	YE 31.12.2013 Rs.	YE 31.12.2012 Rs.
Tea Sales	11,730,035	13,436,220
Commission on exporter pack sales	5,407,891	2,288,736
Monopol rental	1,300,000	-
Other Sales	52,730	17,450
	18,490,656	15,742,406
Less : Cost of sales	(10,509,320)	(8,884,992)
Net profit from commercial activities	7,981,336	6,857,414
4 TEA SECTOR-DEVELOPMENT EXPENSES	YE 31.12.2013 Rs.	YE 31.12.2012 Rs.
Installation of product quality certificate	496,806	-
Factory Modernization	17,964,807	10,357,381.00
Tea replanting subsidy scheme	14,370,667	13,312,378.00
Minimize post harvest damage	1,417,616	-
GMP Improvement	2,426,572	-
FAO/IGG on tea in Srilanka	-	-
	36,676,467	23,669,759.00
5 ADMINISTRATION EXPENSES	YE 31.12.2013 Rs.	YE 31.12.2012 Rs.
Personnel emoluments	162,154,729	161,749,027
Other administrative expenses	2,755,745	4,405,218
Travelling expenses	4,894,297	14,443,513
Supplies and requisites	9,344,183	8,536,823
Repairs and maintenance	14,246,006	17,196,468
Depreciation of PPE	27,001,289	26,904,372
Amortisation of Intangible assets	176,210	108,522
Amortisation of Prepaid Leasehold rights to land	71,900	71,900
Utilities and other expenses	36,551,602	40,031,362
	257,195,960	273,447,205
6 OTHER OPERATING EXPENSES	YE 31.12.2013 Rs.	YE 31.12.2012 Rs.
Discount allowed	267,434	158,144
Loss on sales in foreign currency	783	604
Difference exchange - Loss	(327,382)	1,624,103
	(59,164)	1,782,851

7 PROPERTY, PLANT AND EQUIPMENT	Cost or valuation as at 1 January 2013	Additions	Disposals	Adjustments	Cost or valuation as at 31 December 2013
Freehold Land	350,241,280	-	-	-	350,241,280
Buildings	249,327,095	-	-	2,371,076	246,956,019
Plant & machinery	49,136,163	5,253,380	3,445,454	-	50,944,089
Furniture & Fittings	21,768,148	1,985,645	243,093	185,600	23,325,100
Motor & Other Vehicles	42,918,419	9,916,736	20,000	-	52,815,155
Library Books	383,044	-	-	-	383,044
Computer - Hardware	24,950,858	7,227,650	413,702	-	31,764,806
Laboratry equipments	89,400,053	378,560	-	-	89,778,613
	828,125,061	24,761,971	4,122,248	2,556,676	846,208,107
Work in progress					
Building	-	19,341,215	-	-	19,341,215
Computer software	1,056,519	-	-	-	1,056,519
	1,056,519	19,341,215	-	-	20,397,734
	829,181,580	44,103,186	4,122,248	2,556,676	866,605,841
PROVISION FOR DEPRECIATION	Accumulated depepreciation as at 1-1-2013	Charge for the year	Disposals	Adjustments	Accumulated depepreciation as at 31-12-2013
Buildings	22,827,722	4,988,897	-	-	27,816,619
Plant & machinery	37,875,204	3,521,081	3,425,509	-	37,970,775
Furniture & fittings	11,403,253	1,596,342	219,656	-	12,779,939
Motor & other vehicles	10,032,903	4,867,137	4,500	-	14,895,540
Library books	361,174	17,881	-	-	379,055
Computer - hardware	20,829,856	2,557,695	413,702	-	22,973,849
Laboratry equipments	56,776,544	9,452,256	-	-	66,228,800
	160,106,656	27,001,289	4,063,367	-	183,044,577
Net book value	669,074,924				683,561,264

Notes to the Financial Statement

Year ended 31 December 2013

8 FINANCIAL ASSETS	As at 31.12.2013 Rs.	As at 31.12.2012 Rs.
Other	4,813	4,813
	4,813	4,813
9 INVENTORIES	As at 31.12.2013 Rs.	As at 31.12.2012 Rs.
Laboratory & Other Material	12,639,602	6,527,173
Tea	2,651,000	2,919,562
Consumables	9,451,093	2,040,555
Others	38,910,090	8,461,572
	63,651,786	19,948,861
10 TRADE AND OTHER RECEIVABLES	As at 31.12.2013 Rs.	As at 31.12.2012 Rs.
Trade Receivables	7,732,541	961,175
Factory Modernisation & Replanting Subsidy Receivable	-	2,669,759
Staff Receivables & other advances	30,916,725	31,760,973
Receivable - JEDB	25,000,000	25,000,000
Prepaid Staff Expense	2,637,639	2,637,639
Advances & Other	13,006,847	990,025.00
Less:		
Provision for bad & doubtful debts	(25,000,000)	(25,000,000)
	54,293,751	39,019,571
11 OTHER FINANCIAL ASSETS	As at 31.12.2013 Rs.	As at 31.12.2012 Rs.
Short Term Investments	4,032,781,237	2,804,609,593
	4,032,781,237	2,804,609,593
12 EMPLOYEE BENEFIT OBLIGATIONS	As at 31.12.2013 Rs.	As at 31.12.2012 Rs.
Gratuity opening balance	44,034,691	45,640,715
Gratuity charges for the year	3,434,335	5,859,469
Benefit paid/ payables during the year	(4,385,452)	(7,465,493)
	43,083,575	44,034,691
13 PREPAID LEASEHOLD RIGHTS TO LAND	As at 31.12.2013 Rs.	As at 31.12.2012 Rs.
Opening Balance	3,007,283	3,079,183
Amortisation	(71,900)	(71,900)
Closing Balance	2,935,383	3,007,283
14 INTANGIBLE ASSETS	As at 31.12.2013 Rs.	As at 31.12.2012 Rs.
Software	1,157,598	1,077,307
Software Work In Progress	8,877,081	8,233,971
	10,034,678	9,311,278
15 TRADE AND OTHER PAYABLES	As at 31.12.2013 Rs.	As at 31.12.2012 Rs.
Trade Payables	98,087,455	41,016,920
Other Payables	102,946,581	51,128,665
Accrued expenses	22,819,401.67	12,105,463
	223,853,438	104,251,048

Notes to the Financial Statement

Year ended 31 December 2013

16 CAPITAL & RESERVES

There is no change in the Authorized Capital during the year ended 31 December 2013.

CONTRIBUTED CAPITAL

Contributed Capital is made up by government grants amounting to Rs. 652,067,602.00 as at 31 December 2013.

PROMOTION & MARKETING LEVY

A sum of Rs 3.50 on every kg of tea shall be levied from every registered exporter of tea, at the time at which CUSDEC is authorized permitting the exportation of such tea, by the director general of Sri Lanka Tea Board (SLTB). All sum collected in terms of the provisions of regulation, shall be credited to a designated account as it is determined by the SLTB and form part of the capital fund of the Board. On the coming into the operation of these regulations, the money lying to the credit of the SLTB in the designated account shall be used exclusively by the Board for the purpose of engaging in activities related to tea promotion and marketing strategy, within and outside Sri Lanka.

	As at 31.12.2013 Rs.	As at 31.12.2012 Rs.
Opening Balance	2,710,683,851	1,348,778,067
Amount collected from exporters	1,156,368,343	1,186,445,976
Interest on investment	363,797,757	211,481,173
Sale of cricket Tshirt	3,521,500	-
Global marketing campaign	75,000.00	-
	4,234,446,451	2,746,705,216
Promotional Entertainment	850,809	45,310
Advertising ,Publications in Local Media	1,736,255	221,758
Complementary tea to Missions ,Other gift teas & giveaways	3,447,419	3,036,776
Special Promotional Campaigns	1,678,787	2,297,111
Participation of Local exhibition & Trade fairs	5,113,668	2,901,453
Seminars/Workshops for promoting tea Overseas/Local	253,389	942,509
Printing of Brochures, Posters & Leaflets	2,903,205	831,170
Participation at International Trade Fairs & Exhibitions	15,437,560	7,650,352
Foreign Uni-National Promotions	42,185,553	2,416,398
Subscriptions to International Tea Councils/ Associations	1,854,270	2,900,111
Lion Logo Registration & Renewal	4,341,507	8,243,308
Market Intelligence & Research	3,866,148	709,813
International tea produces forum	5,593,116	-
Global promotion of ceylon tea	2,175,005	-
Bank Charges	760,213	-
Sponsorship for Sri Lanka Cricket	207,959,798	-
Operation of Tea House	1,819,734	-
G.I. Registration	975,293	3,825,294
Grants to Tea Museum	1,500,000	-
Expenditure -TB Moscow	6,266,849	-
Expenditure -TB UAE	10,129,752	-
Travelling Expenses - Foreign	15,473,557	-
	336,321,888	36,021,365
	3,898,124,563	2,710,683,851

Notes to the Financial Statement

Year ended 31 December 2013

SPECIAL RESERVE

Board has decided to create a special reserve for amounting Rs.481,933,543 and its use will be determined by the board as appropriate.

17 LIABILITIES AND PROVISIONS.

A court case heard by the Arbitral Tribunal was given against SLTB for an award of Rs 15,556,355 during the year. However SLTB has appealed against this award and proceeds are in process.

SLTB has been advised by the legal council on the legal cases including the above case pending as of 31st December 2012 that it is only possible, but not probable that the action will succeed. Accordingly no provision has been made in these financial statements.

18 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Board's principal financial liabilities comprise of trade and other payables. The main purpose of these financial liabilities is to finance SLTB's operations. SLTB has trade and other receivables, and cash and short-term deposits that arrive directly from its operations. SLTB is exposed to liquidity risk. The SLTB's senior management oversees the management of these risks. The members of the board reviews and agrees policies for managing each of these risks, which are summarized below.

Liquidity risk

SLTB's objective is to maintain a balance between continuity of funding. The table below summarizes the maturity profile of SLTB's financial liabilities based on contractual undiscounted payments.

19 RELATED PARTY TRANSACTIONS

19.1 Transactions with State and State Controlled Entities

In the normal course of its operations, SLTB enters into transactions with related parties. Related parties include the Government of Sri Lanka (State: as the ultimate owner of SLTB), various government departments, and State controlled entities. Particulars of transactions, and arrangements entered into by SLTB with the State and State controlled entities which are individually significant and for other transactions that are collectively, but not individually significant are as follows:

Nature of the Transaction	YE 31.12.2013 Rs.	YE 31.12.2012 Rs.
Transactions:		
Revenue	120,000,000	117,110,000
Utility expenses	19,338,503	17,880,913
Outstanding Balances: Receivables		
JEDB (Plantation Ministry)	25,000,000	25,000,000

19.2 Key Management Compensation

SLTB's key management personnel include the Board of Directors.

	YE 31.12.2013 Rs.	YE 31.12.2012 Rs.
Short term employment benefits	776,479	750,000

20. EVENTS AFTER THE BALANCE SHEET DATE

All the material events after the balance sheet date have been considered and appropriate adjustment and disclosures have been made in to the financial statement, where necessary.

Offices of the Sri Lanka Tea Board

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Chairperson

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Director General

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E mail:dgsltb@pureceylontea.com

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Tea Commissioner

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2584845/ 2587814/ 2587773

Fax: 0112580161

E-mail: tcd@pureceylontea.com

Tea Promotion Division

Director (Tea Promotion)

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2580169

Fax: 0112587341

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Analytical Laboratory

Director (Lab) Tel: 0112587814/2581576
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E-mail: atcgl@pureceylontea.com



Foreign Branches

<p>Ceylon Tea Promotion Unit- United Arab Emirates</p>	<p>Director (Tea Promotion)- M.E./ Gulf/ N.A. Tea Promotion Unit Consulate General of Democratic socialist Republic of Sri Lanka P.O.Box 51528 , Dubai,UAE</p>
	<p>Tel: 00971 4 3987871 Tel(Direct): 00971 4 3989349 Fax: 00971 4 3987872 E-mail:ctbureau@emirates.net.ae / ceylonte@eim.ae</p>
<p>Ceylon Tea Promotion Unit- Russia/CIS</p>	<p>Tea Promotion Officer Tea Promotion Unit Embassy of the Democratic Socialist Republic of Sri Lanka Ulitsa Schepkina-24 Moscow 129090 Russia</p>
	<p>Tel: 007 495-688-1620/ 495-6881651/ 495-688-1463 Fax: 007-495-688-1757 E-mail:tea@srilankaembassy.org</p>



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கணக்காய்வாளர் தலைமை அபிவி திணைக்களம்
AUDITOR GENERAL'S DEPARTMENT



මගේ අංකය
எனது இல.
My No. }

LP/I/SLTB/1/13/07

ඔබේ අංකය
உமது இல.
Your No. }

දිනය
திகதி
Date }

27 May 2015

The Chairman
Sri Lanka Tea Board

Report of the Auditor General on the Financial Statements of the Sri Lanka Tea Board for the year ended 31 December 2013 in terms of Section 14(2)(c) of the Finance Act No. 38 of 1971

The audit of financial statements of the Sri Lanka Tea Board for the year ended 31 December 2013 comprising the statement of financial position as at 31 December 2013 and the statement of income, statement of comprehensive income, statement of changes in equity and the statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory information, was carried out under my direction in pursuance of Provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with Section 13(1) of the Finance Act, No.38 of 1971. My comments and observations which I consider should be published with the annual report of the Board in terms of Section 14 (2)(c) of the Finance Act appear in this report. A detailed report in terms of Section 13(7) (a) of the Finance Act will be issued in due course.

1.2 Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards and for such internal control as the management determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.

1.3 Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards consistent with International Standards of Supreme Audit Institutions (ISSAI 1000- 1810). Those standards require that I comply with ethical requirements and plan and perform the audit to obtain



reasonable assurance about whether the financial statements are free from material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgments, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Board's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Board's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements. Sub-sections (3) and (4) of Section 13 of the Finance Act, No.38 of 1971 give discretionary powers to the Auditor General to determine the scope and extent of the audit.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

1.4 Basis for Qualified Opinion

My opinion is qualified based on the matters described in paragraph 2.2 of this report.

2. Financial Statements

2.1 Qualified Opinion

In my opinion, except for the effects of the matters described in paragraph 2.2 of this report, the financial statements give a true and fair view of the financial position of the Sri Lanka Tea Board as at 31 December 2013 and its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.



2.2 Comments on Financial Statements

2.2.1 Sri Lanka Accounting Standards (SLFRS/ LKAS)

The following observations are made.

(a) LKAS 16 – Property, Plant and Equipment

- (i) The fixed assets had not been revalued as required by the Standard and as such the fair value of certain fixed assets were not reflected in the financial statements as at end of the year. Further, the value of the land at Gampola Regional Office had been shown as Rs.17,000 in the financial statements.
- (ii) Fully depreciated assets purchased at a cost of Rs.68.13 million which are continuously being used by the Head Office and Regional Offices had not been revalued and brought to account.

(b) LKAS 39 – Financial Instruments – Recognition and Measurements

A sum of Rs. 4,329,769 receivable from a Tea Factory since the year 1995 had been taken into account without considering the possibility of recoverability.

2.2.2 Accounting Deficiencies

The following observations are made.

- (a) Action had not been taken to adjust the goods in transit in the years 2010, 2011 and 2012 totaling to Rs.693,257 although the goods had been received subsequently.
- (b) Even though a sum of Rs. 8,000,000 had been shown as a construction of Mathugama Regional Office under work-in-progress and creditors as at 31 December 2013, no payments had been made during the year under review for this construction works. Further, the Agreement of this construction works had been entered into only on 08 January 2014, thus this transaction was not relevant for the year under review.
- (c) The value of the leasehold land at Bandarawela Regional Office amounting to Rs.224,280 had been shown under freehold land instead of being shown under leasehold land.



- (d) Interest amounting to Rs.97,368 receivable on Repurchase Agreements for the year under review had not been taken into account and as such the surplus of the year under review had been understated by this amount.
- (e) Withholding Tax on interest income amounting to Rs.22,896,392 for the year under review had been omitted in the accounts and as a result the current assets and the surplus for the year under review had been understated by a similar amount.
- (f) LP Gas pipeline valued at Rs. 344,321 purchased for Tea House had been considered as expenses of Promotional Levy without being capitalized.
- (g) A sum of Rs. 900,000 received in advance from 13 companies as monopolies rental had been taken into income for the year under review. Therefore, the income for the year under review had been overstated by a similar amount.
- (h) The Board had paid a sum of Rs.205,060,800 to the Sri Lanka Cricket as Sponsorship Fees for the period from June 2013 to May 2014. However, it was observed in audit that the whole amount had been taken into account as expenses for the year under review instead of a sum of Rs. 85,442,000 being shown as a prepayment.
- (i) Even though the value of the stock of stationery according to the stock verification amounted to Rs.1,392,775, it was taken into accounts as Rs.3,178,836. Therefore, the stationery stock had been overstated by Rs.1,786,061 in the accounts.
- (j) A sum of Rs. 35,986,763 had been taken into accounts as goods in transit as at the end of the year under review, even though those items had not been ordered by the Board even up to the end of the year under review.
- (k) It was observed in audit that the current assets and current liabilities amounting to Rs. 403,153 and Rs. 801,119 respectively of the Tea Promotional Units in Moscow and Dubai had not been taken into the accounts.
- (l) Interest on Temporary Surplus Trust Fund for the year 2012 amounting to Rs.16,930,787 received during the year under review had been taken to the income for



the year under review. Therefore, the interest income for the year under review had been overstated by the same amount.

- (m) Notional Tax on interest income of Rs.363,851 relating to Repurchase Agreements had not been taken into income.

2.2.3 Accounts Receivable and Payable

The following observations are made.

- (a) A sum of Rs. 25 million shown as receivable from Janatha Estates Development Board for more than five years had not been recovered even up to end of the year under review. However, a provision had been made for a similar amount under bad and doubtful debts as the recovery was doubtful. Further, according to the minutes of the meeting of the Committee on Public Enterprises held on 19 June 2012, the Janatha Estates Development Board and the Board had arrived at a decision to acquire the ownership of the Ceylon Tea Museum at Hantana, belonging to the Janatha Estates Development Board valued at Rs. 16 million and to write off the balance of Rs. 8 million. However, this process had not been completed even up to the date of audit on 31 October 2014.
- (b) Action had not been taken to settle the Green Tea Leaf Suppliers deposits amounting to Rs. 4,225,671 since the year 2006. *The Chairman had stated in this regard that out of this, an amount of Rs. 2,599,793 cannot be refunded as those should be kept for payment when a dispute arises.*
- (c) An advance of Rs. 631,737 paid by the Board during the year 2011 to conduct the FODEXPO Trade Fair in Syria had not been recovered as it had not been conducted.

2.2.4 Unexplained Differences

The following unexplained differences were observed in audit.

Item	Amount according to the financial statement	Amount according to the confirmations/ related registers/ schedules	Difference
	Rs.	Rs.	Rs.
Creditors (Official Tea Packer)	7,878,879	3,961,506	3,917,373
Retention Money	4,171,495	1,270,371	2,901,124
Cash and Bank Balances (Tea Promotional Unit in Dubai)	1,003,151	1,371,000	367,949
Green Leaf Dealer Deposits	15,195,743	15,060,580	135,163

2.2.5 Lack of Evidence for Audit

The following evidence indicated against each item shown below had not been furnished to audit.

Items of Account	Value	Evidence not made available
	Rs.	
(a) Refundable Deposits	316,493	Schedules and supporting Documents
(b) Land of Bandarawela Regional Office	224,800	Lease Agreement
(c) Land of Mathugama Regional Office	-	Title Deeds of the Land
(d) General Deposits	74,383	Schedules and supporting Documents
(e) Staff Tea Recoveries	257,382	
(f) Payments in Advance	7,105,299	
(g) Deposits and Prepayments	207,360	
(h) Bank Balance at - UAE	1,003,151	Bank Confirmations
- Moscow	416,229	
(i) Embassy Account -UK	16,566	
- Canada	134,377	
- Poland	135,426	



2.3 Non-compliance with Laws, Rules, Regulations and Management Decisions etc.

The following non-compliances were observed in audit.

<u>Reference to Laws, Rules, Regulations and Management Decisions</u>	<u>Non-compliance</u>
(a) (i) Section 49 of Tea Control Act, No.51 of 1957 and Section 25(3) of Sri Lanka Tea Board Law, No. 14 of 1975	Registration fees, registration renewal fees and license fees had been increased by the Board on 29 July 2010 without obtaining the approval of the Cabinet of Ministers and being published in the Gazette of the Democratic Socialist Republic of Sri Lanka according to the Act.
(ii) Sections 13 and 14 of Sri Lanka Tea Board Law, No.14 of 1975	Amendments had not been made to the Provisions of the Act for the establishment and operation of the Cess Fund.
(b) Section 132 of the Inland Revenue Act, No. 10 of 2006	The Pay As You Earn Tax had not been deducted and remitted to the Department of Inland Revenue from the total salaries amounting to Rs.1,560,000 paid to a Project Consultant appointed to the Tea Promotion Division for the period from 02 August 2012 to 01 August 2013.
(c) Government Financial Regulations Financial Regulation 507	Book balances and the value of fixed assets had not been taken into the Board of Survey Reports in terms of



provisions in the Regulation. As such the discrepancies between the quantity recorded in the books and physically available balances were not shown in the Boards of Survey Reports and as a results the objectives of the Boards of Survey had not been fulfilled.

(d) Treasury Circular No.842 of 19 December 1978

The register of fixed assets had not been updated and properly maintained in terms of the Circular instructions.

(e) Management Services Circular No. 2012 MSD 49 of 24 December 2012 and No.01/2013(i) of 09 December 2013 Annual Bonus for the years 2012 and 2013 had been paid without adhering to the Circular instructions.

3. Financial Review

3.1 Financial Results

According to the financial statements presented, the operation of the Board for the year ended 31 December 2013 had resulted in a surplus of Rs.19,071,236 as against the deficit of Rs. 11,390,437 for the preceding year, thus indicating an improvement of Rs.30,461,673 in the financial results for the year under review. This improvement was mainly due to the increase of registration and renewal income, and decrease of administration and operating expenses of the Board for the year under review.

4. Operating Review
4.1 Achievements of Financial and Physical Targets

The achievements of targets according to the Progress Reports of the Board for the year under review are shown below.

(a) Development Activities

Activity	Allocation		Progress	
	Financial Targets	Physical Targets	Financial Progress	Physical Progress
	Rs. millions	Rs. millions	Rs. millions	Rs. millions
i. Factory Modernization Subsidy Scheme	16	65 Factories	17.96	39 Factories
ii. Tea Replanting Subsidy Scheme	16	250 Hect.	14.36	259 Hectares
iii. Minimizing Post Harvest Activities	12	35 Factories	1.42	15 Factories
iv. SLSI/SLTB Quality Product Certification	01	35 Programmes	0.46	-
v. Factory Based Tea Development Programmes	0.30	35 Programmes	1.79	15 Programmes
Total	45.30		36.00	

According to the above information the activity of Tea Replanting Subsidy Scheme only was completed as planned. Although 65 factories targeted to be modernized under the Subsidy Scheme during the year review, only 39 factories had been modernized exceeding the allocation by Rs. 1.96 million.



(b) Buildings and Structures

<u>Activity</u>	<u>Progress</u>		
	<u>Allocation</u>	<u>Financial Progress</u>	<u>Physical Progress</u>
	Rs. millions	Rs. millions	Rs. millions
i. Renovation of Auditoriums and Head Office Building	20	-	-
ii. Construction of District Office at Kalutara	08	-	-
iii. Construction of District Office at Nuwara Eliya	12	0.05	In progress
Total	<u>40.0</u>	<u>0.05</u>	

It was observed in audit that the above activities also had not been completed as planned during the year under review. *According to the Chairman's reply the renovation of Auditoriums could not be done as the concurrence of the Honorable Minister of Plantation Industries had not been given to the Finance Minister for approval in terms of provisions in the Financial Regulations.*

(c) Acquisition of Capital Assets

According to the Procurement Plan for the year under review the following assets had not been purchased as planned.

<u>Asset</u>	<u>Value</u>
	Rs. millions
Equipment for Information Technology Unit	12.11
Laboratory Equipment	7.80
	<u>19.91</u>

4.2 Levies for Tea Promotion and Marketing Strategy

The collection of Levy from tea exporters at the rate of Rs.3.50 per kilogram of tea exported in terms of Notification published in the Gazette No.1677/14 of 27 October 2010 for tea promotion and marketing strategy and the expenses incurred for tea promotional activities during the period from 01 November 2010 to 31 December 2013 by the Board are given below.

Year	Levy Collected	Interest on Investments	Other Income	Total Income	Total Expenses
	Rs.millions	Rs.millions	Rs.millions	Rs.millions	Rs.millions
2013	1,156.37	363.80	3.60	1,523.76	336.32
2012	1,186.45	211.48	-	1,397.93	36.02
2011	1,113.81	66.44	-	1,180.26	25.76
2010	194.28	-	-	199.28	-
Total	3,650.91	641.72	3.60	4,296.23	398.10

The following observations are made in this connection.

- (a) In the absence of a proper plan and management, a sum of Rs. 398.10 million or 9.27 per cent out of the total income of Rs.4,296.23 million had only been utilized for the promotional and marketing strategies up to the end of the year under review .
- (b) Although the main objective of the levy collection is to utilize the collection for Tea Promotions and Marketing Strategies, the money had been invested on short term investments and earned a sum of Rs. 641.72 million as interest during the year under review due to delay in conducting promotional activities.
- (c) According to the budget and Action Plan for the year 2013, an amount of Rs. 19.95 million had been allocated for Market Intelligence Activities. Nevertheless, no research activities had been conducted during the year under review other than the payment of Rs. 2.45

million made to Euro Monitor Global Research Data Collection for the year 2013. Further, a Project Consultant and a Graphic Designer had been appointed on contract basis for a monthly salary of Rs. 130,000 and Rs. 31,500 respectively on 02 August 2012 for a proposed Global Campaign for New Marketing Cell. However, this activity also had not been implemented up to 30 August 2013 and a sum of Rs.1,406,391 had been paid as salaries during the year. The Project Consultant had resigned from the service after the completion of his contract period on 01 August 2013.

- (d) Although the budgetary provision of Rs.1,995 million had been made for promotional and marketing strategies for the year under review, a sum of Rs.336.32 million or 16.85 per cent only had been utilized during the year under review.
- (e) Although a sum of Rs. 1,197 million had been allocated for Uni-National Activities in 28 countries, only a sum of Rs. 42.18 million (3.5 per cent) had been spent under this activity. It was observed in audit that most of the payments were made for Commonwealth Heads of Government (CHOGM) Meetings held in 2013 under Uni-National Activities.
- (f) The following expenses had been incurred during the year under review to establish a Tea House at Race Course Building, Colombo on rent basis and paid 50 per cent of non-refundable rent deposit for 10 years commencing from 28 February 2014. Details are shown below.

	Rs.
Fifty per cent of non-refundable rent deposit for 10 years	8,571,360
Construction and Interior work (lighting, floor concreting and carpeting, laying pipelines, painting etc.)	11,934,325
Purchase of kitchen equipment	6,635,547
Installation of Air Conditioning	1,482,819
Goods in transit relating to Furniture and kitchen items	16,813,383
	<u>45,437,434</u>

In addition to the above expenses, sums of of Rs 4,000,000, Rs. 270,000 and Rs.300,000 had been paid as initial cash float, monthly rent, and monthly management fees respectively for the operation of Tea House. However, it was observed in audit that a

feasibility study had not been carried out for the operation of Tea House and as a result a loss of Rs.4.59 million had been incurred during the first six months period from March to October 2014.

- (g) Although an amount of Rs.665 million had been allocated for Sri Lanka Cricket for the year under review, a sum of Rs. 207.96 million only had been spent during the year for this activity. Therefore, it was observed that an over allocation of Rs.457 million was made in this connection.
- (h) According to the Cricket Sponsorship Agreement, a sum of Rs. 9,943,000 had been spent for purchase of 9,943 T-Shirts. However, these T-Shirts had not been sold as expected during the year. Although a sum of Rs.3,521,500 had been shown in financial statements as profit on sale of T-Shirts, 1,229 T-Shirts costing 1,229,000 had been returned in the year 2014. Therefore, the profit on sale of T-Shirts had been overstated by Rs.1,711,200.
- (i) According to the information made available for audit, the position of Ceylon Tea in the world market was in third place continuously for past five years among the World Tea Exporting countries and it was observed that proper promotional activities had not been conducted by the Board although the funds were available.

4.3 Human Resources Management

According to the information made available there were 79 vacancies as at 31 December 2013 including Director General, Director (Administration and Finance), Deputy/Assistant Director (IT), Deputy and Assistant Tea Commissioner (Regional), 34 Senior and Junior Tea Inspectors/Instructors, 08 Technical Assistants (Lab) etc. Further, 33 redundant posts were included in the actual cadre.

The following observations are also made in this connection.

- (i) Fourteen Management Assistants had been appointed during the year under review without calling applications through a public advertisements or a newspaper advertisement in terms of paragraph 5.4 of the Scheme of Recruitment. Further a test for computer knowledge also had not been conducted in terms of paragraph 5.4.1 for these appointments.
- (ii) Out of 09 Management Assistants appointed in 2012, five persons appointed did not possessed required qualifications in terms of paragraph 5.3.1 of the Scheme of Recruitment

and those were still in service without completing the required qualifications.

- (iii) A newspaper advertisement had been published for recruitment to the post of Director (Finance and Administration) on 07 April 2013 at a cost of Rs. 87,024. Nevertheless no officer was appointed and the money spent for the advertisement had become fruitless expenditure.
- (iv) It was observed that a proper staff rotating method had not been applied by the Board.

4.4 Management Inefficiencies

The following observations are made

- (a) The building occupied by the Tea Commissioner's Division had been vacated on 31 December 2002 and the rent advance amounting to Rs. 2.4 million deposited with the owner of the premises had been recovered by the Board through an arbitrator by spending Rs. 2.8 million since 2005 to 30 May 2011. However, the owner of the premises had appointed an arbitrator against the Board in October 2008 by claiming Rs.4.9 million with 20 per cent interest and 15 per cent value added tax for the damages to the building and failure to restore the area of the building to be leased from January to September 2003. The Board had appealed against this case and the proceedings are still in process. According to the Chairman's reply it is assumed that the total payments to the owner would be Rs.14 million. However Sri Lanka Tea Board had filed an appeal against this decision.
- (b) Laboratory equipment (LCMC) valued at Rs. 32 million purchased in the year 2009 had been idling up to the date of audit on 14 July 2014. The Chairman had stated that the equipment are functioning properly now and testing reports are being taken.

5. Accountability and Good Governance

5.1 Budgetary Control

Significant variances were observed between the budget and the actuals thus indicating that the budget had not been made use of as an effective instrument of management control.

6. Systems and Controls

Deficiencies in the systems and controls observed during the course of audit were brought to the notice of the Chairperson of the Board from time to time. Special attention is needed in respect of the following areas of control.

- (a) Inventory Control
- (b) Accounting
- (c) Receivables and Payables
- (d) Promotional Activities


W.P.C. Wickramaratne
Acting Auditor General