

Quality Control and Premiumisation: Unlocking the True Potential of Ceylon Tea

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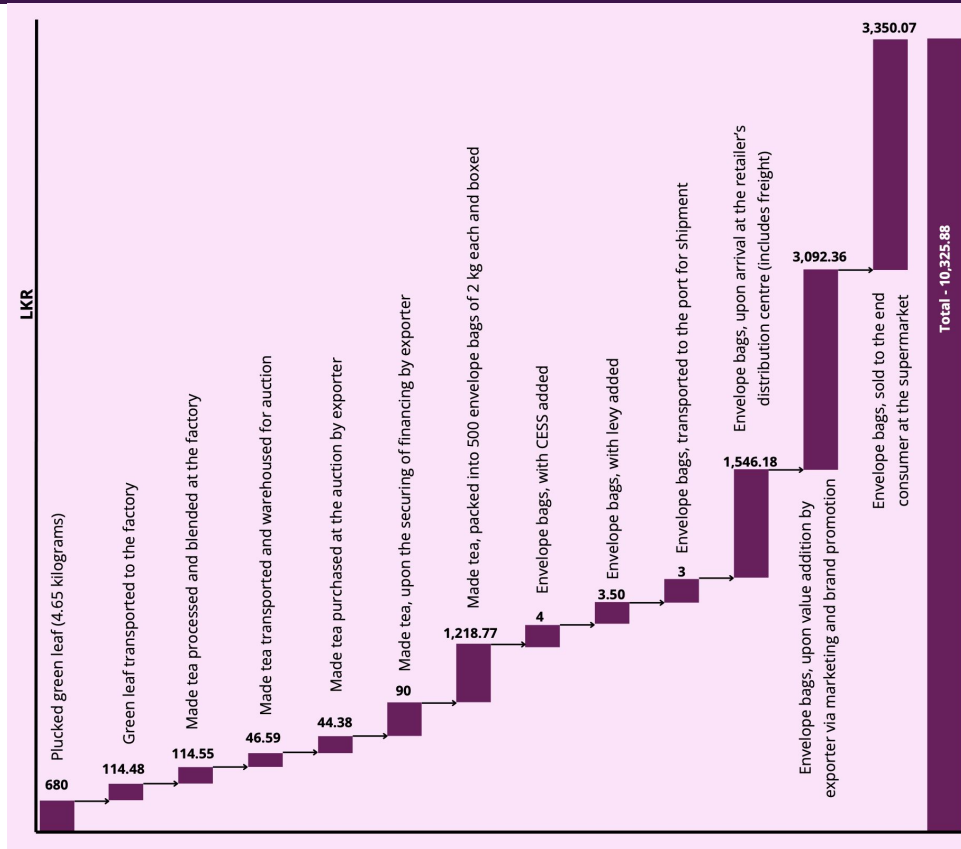


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Premiumisation

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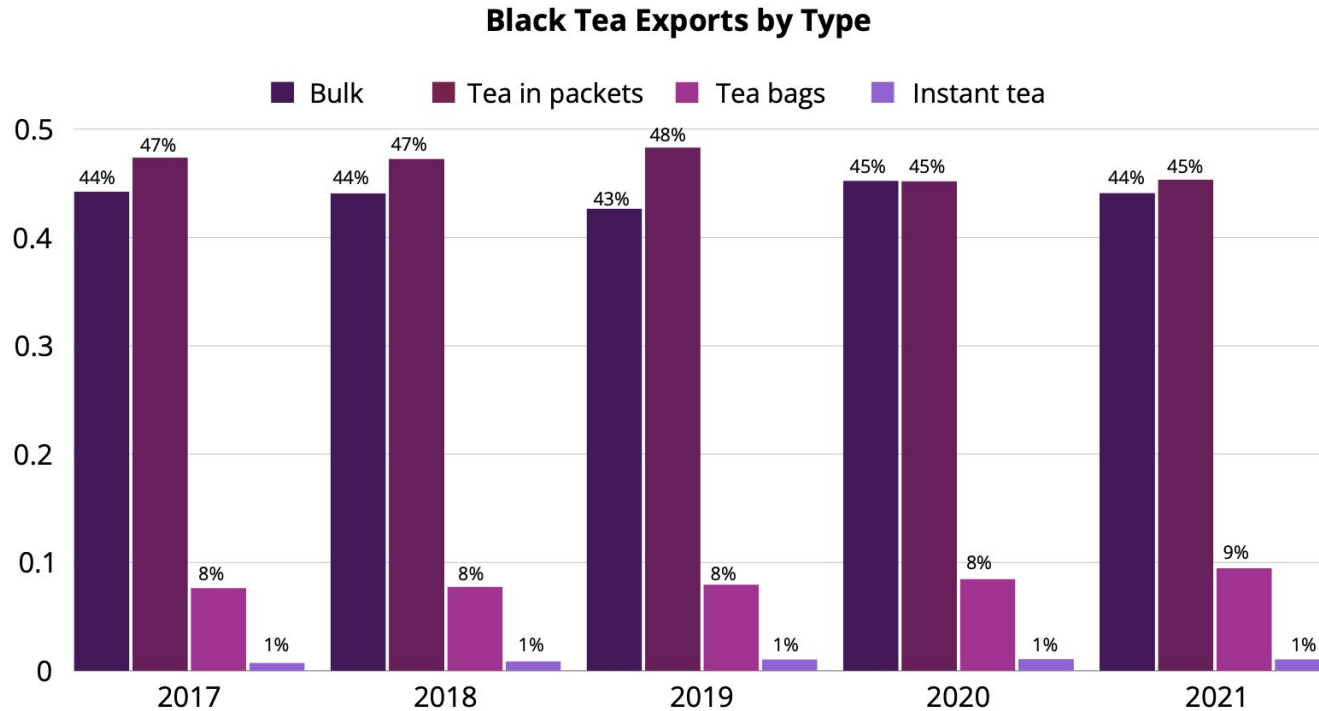
Value Addition: The Case of the Tea Bag



Is Value Addition Always Good?

Only if returns are higher than costs

Ceylon Tea: World Leader in Value Addition



Source: Sri Lanka Export Development Board

Contributing Factors to Value Addition

Packaging costs

Freight costs

Protectionist trade policy

- Ban on the import of other origin teas
- Differential tariffs by Russia, Iran & Egypt

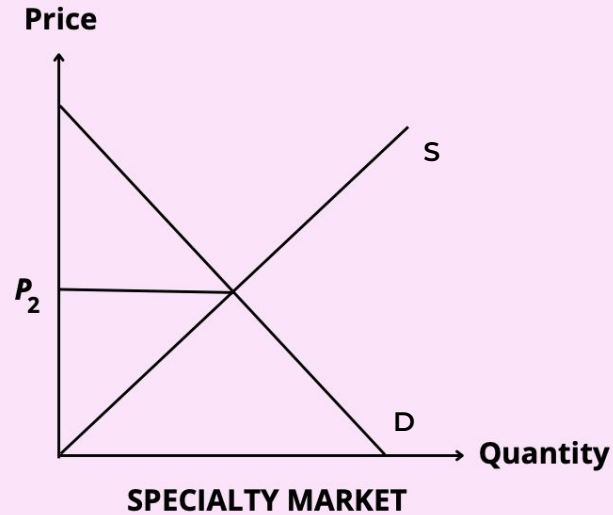
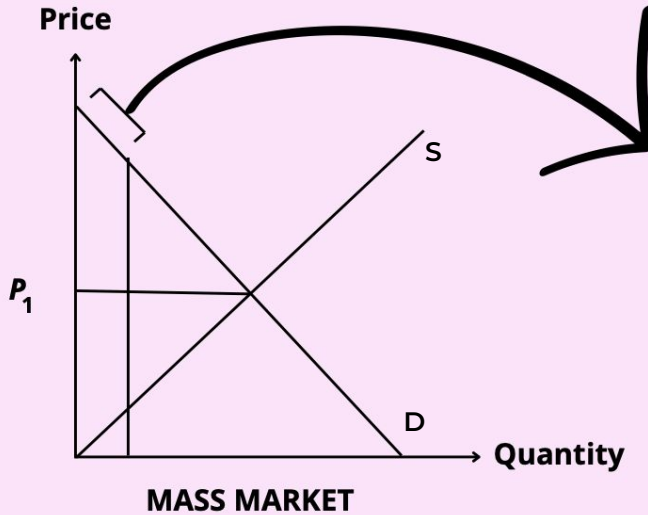
Setup of export companies

Value Addition: Two Strategies

1. Price Advantage (Mass-Market)
2. Product Differentiation (Premiumisation)

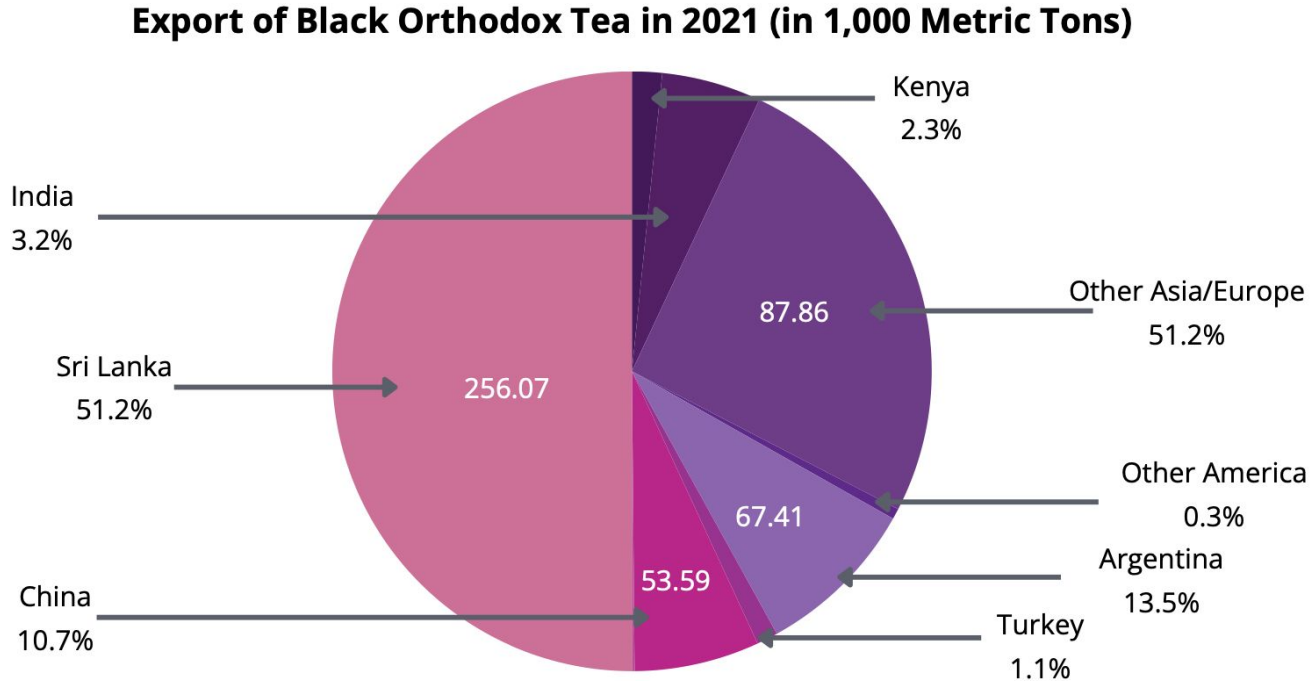
Or a hybrid strategy?

What Exactly is Premiumisation?



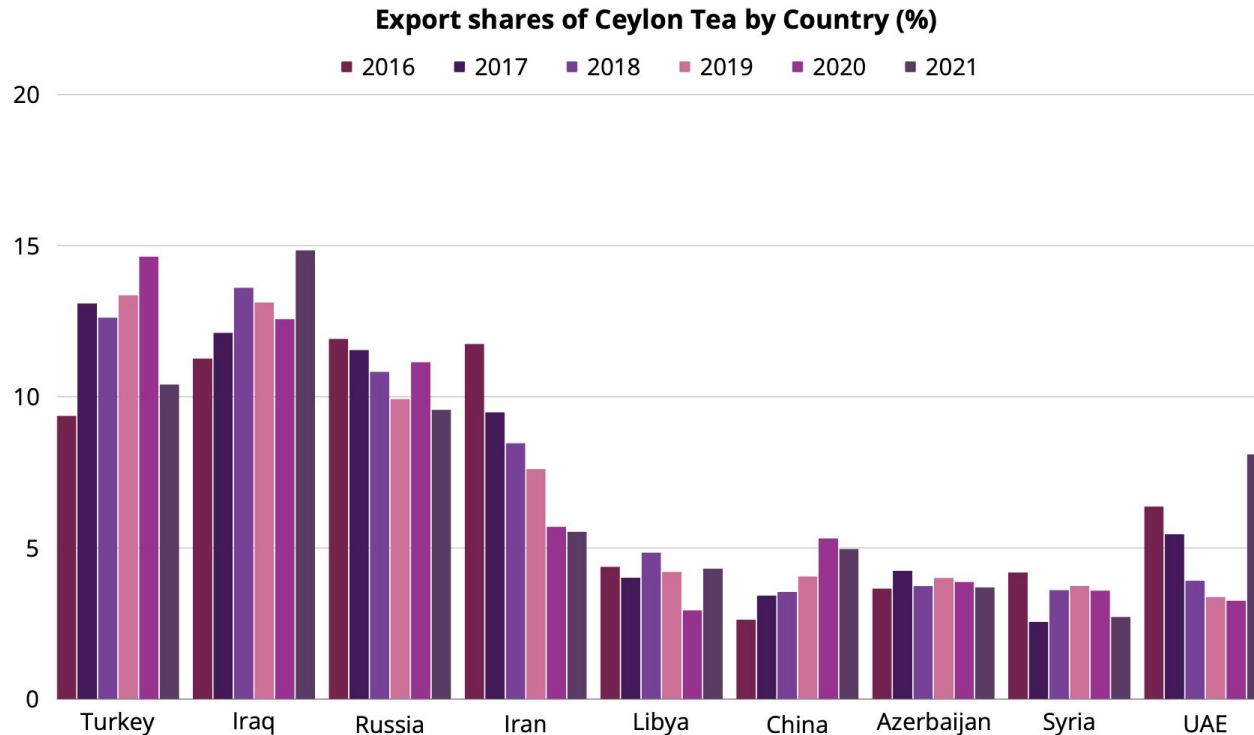
$$P_1 \gg P_2$$

Can Ceylon tea be made 'premium'?



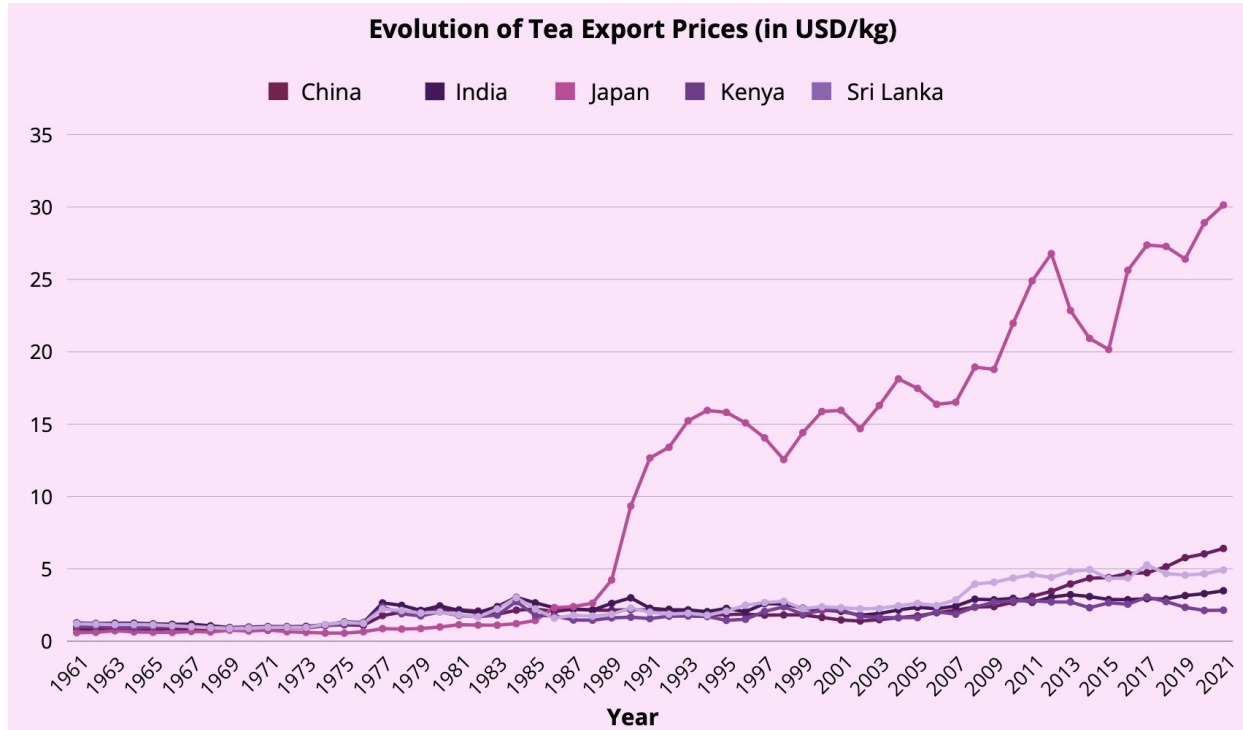
Source: International Tea Committee, 2021

Will Help Reach Diverse Markets



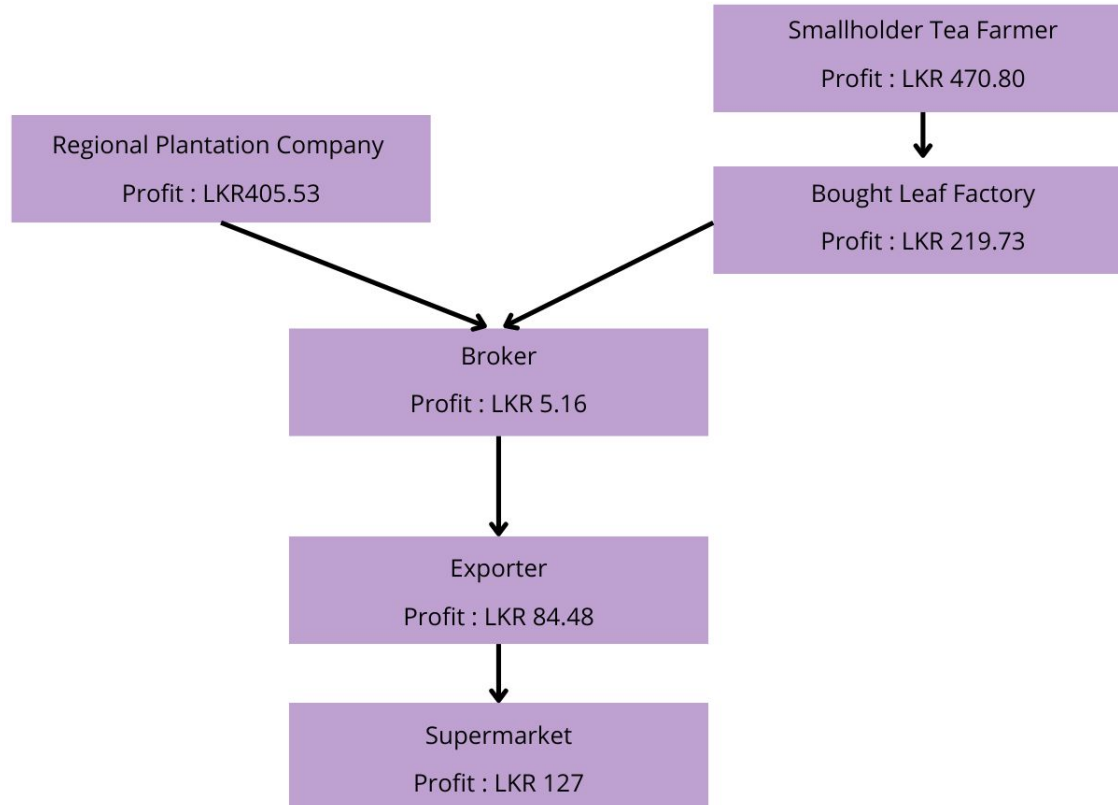
Source: SLTB Annual Reports

Case Study: Japan (and China)



Source: FAOStat

More Returns to the Green-Leaf Stage



Vertical Integration?

Brokers fill info gaps, lower transaction costs

Blending is important, not possible under VI

Auction system is necessary, but does it impede premiumisation?

Quality Control

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Defining Quality of Tea

Subjective	Objective	Ethical
Flavour profile	Moisture levels	Labour Rights
Aroma	Caffeine levels	Environment
Colour	Gluten levels	CSR
Infusion	Sugar levels	
	Manufacturing practises (Adulterated?)	

Quality Rules-of-Thumb

Two leaves and a bud, promptly transported to the factory

Blended for consistency

Storage conditions in transit and warehouses

- Humidity of 10 to 45 percent
- Minimal exposure to light
- Moisture content of less than 6 percent

Low Quality Actors \Rightarrow Low Prices for All

Information asymmetry because quality is unknown

If high quality tea deserves x and low quality tea deserves y where $x > y$, both paid $(x+y)/2$

Penalises high quality actors, rewards low quality actors

In the long run, encourages all players to converge to the lower end of quality

Contributing Factors to Low Quality

High cost & complexity of certifications

Proliferation of bought-leaf factories

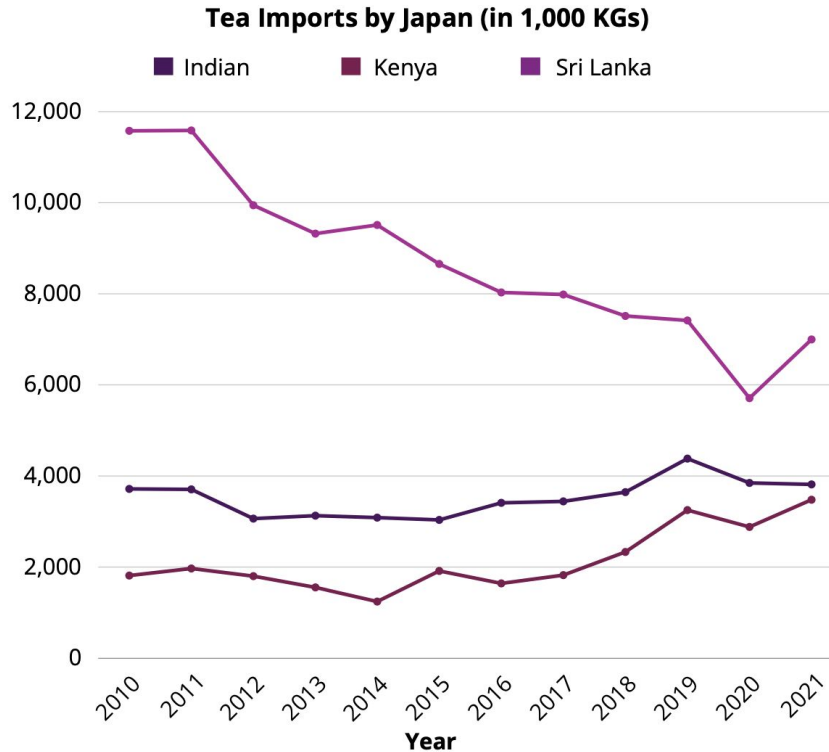
Weak regulatory framework

Weak execution of the regulatory framework

Lack of efficient technology

Black market activity stemming from ill-informed regulation

The Cost of Compromising on Quality



Source: FAOStat

Solutions

Strategic use of certifications, ESG & CSR

A robust GI framework for Ceylon tea

Better market incentives for quality enhancement in the smallholder sector

Technological innovations for quality monitoring

Reforms to the Sri Lanka Tea Board