

## AN ASSESSMENT OF THE FACTORS INFLUENCING THE EFFICIENCY OF THE COLOMBO PUBLIC TEA AUCTION

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Tea, the major plantation crop found in Sri Lanka earns a critical portion of the country's foreign exchange by the exportation of Ceylon teas. Around 90% of the tea is marketed through the Colombo Public Tea Auction (CPTA). The auction possesses a history of years exceeding a century and is considered as an effective marketing strategy.

Recently, participants of the industry were questioning the efficiency of the auction channels over other tea marketing channels, necessity of brokers' role and disciplines of the brokers. Thus it was needed to study the compatibility of the design (structure), functioning (conduct) and the performance of the tea auction system in the modern business setting. In order to answer above questions a field survey was conducted with a random sample of 50 producers and buyers, 9 brokers and key figures of 9 relevant institutions. Survey data were fitted to the structure-conduct-performance paradigm (model) in order to understand the situation.

Results showed that, privately owned plantations and plantation companies have produced 97% of the total tea produced in year 2007. Small scale buyers are involved only in "dust auction" and their transactions are not transparent either. Purchasing of large scale buyers depends on demand of the international buyers. Existing tax policies as well as government bureaucracy have restricted the entry of new buyers and the performance of large scale buyers while causing negative impacts on stakeholders. Registration of brokers is a cumbersome process. Producers are discouraged by making them responsible for brokerage fees and charges of the Ceylon Chamber of Commerce (CCC). The CPTA has adopted an inferior promotion campaign.

Representation of procedures at the auction floor is low. Auctions are conducted on six grades of cataloged teas. Entire tea auction is based on by-laws and the conditions for the sale of tea. Auctions are held on Tuesday and Wednesdays. Brokers' catalogues and valuations are used at the actions for biddings. Strengths of the industry and reputation of the action are positioned on orthodox tea. Ceylon tea possesses a comparative advantage in terms of shelf life and quality. Cash-to-crop cycle in Colombo auctions is 21 days while that is months in other auctions. This auction ensures an equal opportunity for buying and selling while stakeholders are benefited by grading.

There are certain weaknesses in the CPTA namely; difficulty in buying small quantities, loss of certain market segments, inefficient labor use at the auction floor, corruptions,

entry barriers for brokers, incompatible behavior of the Sri Lanka Tea Board, collusive behavior of stakeholders, constrained bargaining power of small firms by large ones and inability to punish the violators of the by-laws.

Based on the findings it is possible to recommend a long term programme to promote current status and reputation of the auction, a campaign to popularize quality tea locally and abroad, to establish an independent body to produce and market and to evaluate of performance/role of the Colombo Public Tea Auction and related institutions.

*Key words:* Colombo Public Tea Auction, Brokers, Producers, Structure-conduct-performance, Business environment