

Ceylon Tea: THE COLOMBO TEA AUCTION

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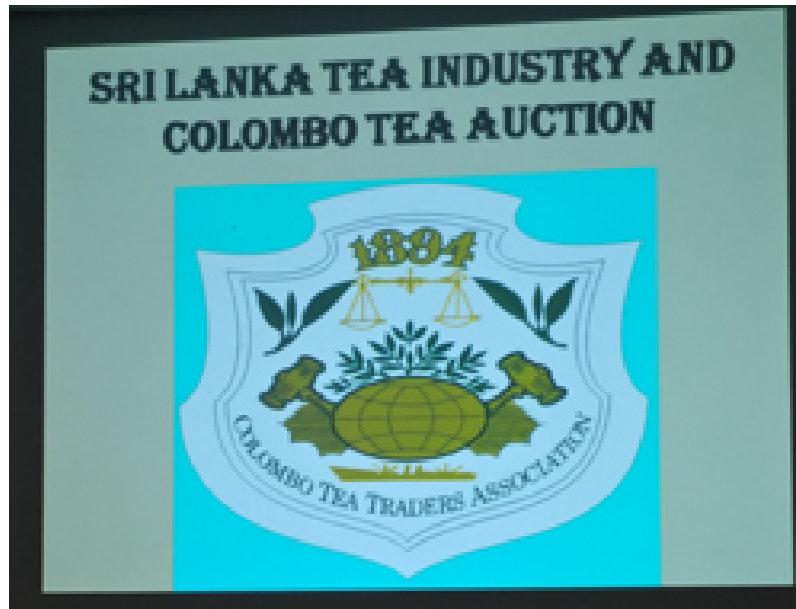


The iconic Colombo Tea Auction, in its formal configuration, and the Colombo Tea Traders Association, the Apex Body of the country's tea industry, from their respective inceptions, have been virtually synonymous. They both came into existence around the same time, towards the end of the nineteenth century, and have ever since developed in close association with each other.

The commercial cultivation of tea has been discerned to have commenced in 1867, following the devastating coffee blight, which, till then, was the main cash crop of the Island. By 1883, the first tea auction, private in nature, took place in the offices of Somerville & Company, a firm of Produce Brokers, on July 30. It comprised a mere five invoices of tea, of which almost all remained unsold on the occasion, in the absence of adequate bids.

By the 1890s, the Tea Industry had acquired a position of some importance in the commercial sector and production volumes had grown to an extent that necessitated formal regulation in disposal. The Industry requested the Ceylon Chamber of Commerce, established in 1839, which was mainly a commodity orientated organization then, to assist in this initiative. On June 18, 1894, an Association, under the title, "The Colombo Tea Traders' Association", materialized, with the primary objective of overlooking the interests of the Tea Trade.

One of the first undertakings of this Association was to review the loose collection of rules under which the auction of tea was being conducted, hitherto, so as to ensure the orderly and efficient operation of the auction. On November 1, 1894, recommendations on the "Rules of the Conditions of Sale", were ratified. Thus, the By-Laws and Conditions for the Sale of Tea by Public Auction came into formal existence.



Within the mandate of “promoting alike the common interests of sellers and buyers of tea in the Colombo market”, which encompassed the regulation and monitoring of the affairs of the Tea Trade, not necessarily confined exclusively to the Colombo Trade, but which also included those with interests in the Colombo market, particularly the producers of tea, it is perceived that the conducting of the Public Auction for the Sale of Tea by the Colombo Tea Traders’ Association, in a formal and disciplined manner, commenced at this point.

Before delving into the evolution of the Colombo Tea Auction, it is appropriate to briefly review the history of Tea Auctions globally. The legendary London Tea Auction unquestionably takes pride of place, with a 319 year history which commenced in 1680. Initially, handling the sale of Tea from China and India, exclusively, for much of its existence, many years later, a significant volume of Ceylon Tea, as well as teas from other emerging tea producing countries, began to find its way into its system.

The British East India Company held the first auction in East India House, Leadenhall Street, and continued to conduct the tea auctions till 1835, a period of 156 years. After the East India Company ceased to be a commercial enterprise, the auction was held, for a period of 100 years, till 1935, at the London Commercial Salerooms on Mincing Lane, which was known as the “Street of Tea”, as Tea Merchants established offices in and around its environs. For the next 35 years, the Tea Auction moved to the auditorium of Plantation House, which was originally the second largest office building in the City of London in terms of floor space. By the 1950s, a third of the global

tea production was bought through the London Auction. Thereafter, for 19 years, from 1971, the auction was conducted in Sir John Lyon House. Some, who are still actively associated with the Tea Industry in Sri Lanka, have been privileged to have visited these latter two auction centres and witnessed the auction in progress. The last venue of this historic auction was the London Chamber of Commerce, from 1990, where the final auction was held on June 29, 1998.

The Colombo Tea Auction is regulated by a set of By-Laws and Conditions for the Sale of Tea by Public Auction and by Private Treaty, which, since 1894, with the progressive increase in production volumes and the development of the Tea Industry, has been reviewed and updated under the guidance of the Colombo Tea Traders' Association to provide a stable, reliable and credible procedure for the sale of Tea, to meet the requirements of the changing circumstances of the Trade. A unique feature is that producers are unfailingly paid for their product by the 7th day following the auction at which it is sold.



It is considered as a model auction centre for its efficiency and professionalism and is supported by a sound infrastructure, developed over a period in excess of 100 years, which now comprises three auction rooms, two of which are custom-built auditoria, especially to accommodate the Colombo Tea Auction. It is the preferred authorized channel for the disposal of the overwhelming volume in excess of 300 million kgs of Ceylon Tea each year. It is acknowledged as the most transparent, orderly and disciplined means of selling Tea. It generates the widest possible competition and, consequently,

the optimum prices for the Teas disposed of through its system. Internationally, prices realized at the Colombo Tea Auction are, on average, considerably higher than any other auction centre in the world, mainly on account of its acknowledged superior quality.

It processes an average of 6 to 7 million kgs., spread over approx. 10,000 to 12,500 lots/invoices of tea per week at 50 weekly tea auctions unfailingly conducted each year. To accommodate this volume, the Colombo Tea Auction is generally held consecutively over two full days each week, concurrently, in three different auction rooms within the Ceylon Chamber of Commerce building. The two custom-built auditoria, with a minimum seating capacity of 175 each, are unique in that they permit the Selling Broker on the rostrum, located in the well of the auditoria, eye contact with all the participants, on account of the specially designed semi-circular, tiered seating arrangement. This is vital to ensure that every bid is registered, in view of the pace at which the auction is conducted and the value of each transaction – an average of five lots/invoices is sold each minute, which accounts for transactions of an average value of Rs.1.5 million, or more, being concluded during every minute of the proceedings. A single missed bid could be quite costly to both the Seller/Producer and the Buyer/Exporter. The total sales proceeds at each auction amounts to approximately Rs.2.5 to 3 billion.

Following the implementation of the Land Reform Act and the subsequent nationalization of all plantations, the Sri Lanka Tea Board [SLTB] was established in 1975, as the Regulatory Authority for the Tea Industry, under the SLTB Law No. 14 of 1975. The Colombo Tea Auction was also vested in the SLTB, as the State owned virtually the entire tea production and, therefore, had the right to control its disposal. However, the Colombo Tea Traders' Association was permitted to continue managing the tea auction, in view of its experience and expertise in doing so. This arrangement by which the Colombo Tea Traders' Association managed and conducted the Colombo Tea Auction, consequently, continued without a break, with the SLTB's ownership, in the main, being nominal. In as far as the Industry at large is concerned, the SLTB's role was confined to that of a regulatory nature, apart from driving promotional initiatives.

In 1992, the State decided to hand back the management of the State-owned Plantations to the Private Sector. Meanwhile, on account of the Land Reform Act, the fragmentation of proprietary-owned tea estates had created two new stakeholders in the Industry, namely, the Small Holder Sector [growers] and the Privately-owned Tea Factory Sector [manufacturers], as distinct from the

existing Plantation Sector, which combined these two functions. In view of the success of the privatization of management, in 1995 the State privatized the ownership of Plantations and the Industry technically reverted to its pre-nationalization status, where tea production was almost entirely owned by the Private Sector. Whilst the role of the SLTB, as the Regulatory Authority of the Tea Industry, could arguably be justified, because of the critical nature of the Tea Industry to the economy of the country, the rationale for the ownership of the auction to continue to be vested in the SLTB can be questioned. Only a very minor percentage of the total production is State-owned, while the SLTB is neither directly nor actively involved – nor has it ever been - in the conducting of the auction.

Special thanks to The Colombo Tea Traders' Association for providing this overview and for the time they took to allow The Tea House Times to tour the premises and receive a personalized presentation of the auction and processes.

Learn more at the Ceylon Chamber of Commerce website: <https://www.chamber.lk/business-services/auctions/>

Keep watching this blog for more about Ceylon tea.

This post was prepared by Linda Villano, [SerendipiTea](#), reporting for The Tea House Times.

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