

# Becoming a force to be reckoned with in global markets

TEA OUTPUT IS OF A QUALITY TO RIVAL THE WORLD'S TOP PRODUCERS, BUT DIVERSIFICATION IS PLANNED INTO PALM OIL PRODUCTION AND TOURISM



Tea has been grown on plantations in Indonesia since 1860, and the country's output has become a force to be reckoned with in global export markets.

One twelfth of all the tea shipped around the world comes from Indonesia – and about a third of that is grown on plantations owned and operated by the state company PT Perkebunan Nusantara VIII (PTPN VIII) in West Java. With a total of 24 tea estates covering 67,000 acres, producing about 55,000 tons a year, PTPN VIII is the biggest tea producer in Indonesia.

The company exports 80 percent of its tea output to major markets including the United States, Britain, Germany, The Netherlands and Pakistan, even India and China – which are usually ranked as the first and second largest tea producing countries in the world, respectively. In addition PTPN VIII sells tea in Sri Lanka, the world's leading tea exporter.

PTPN VIII's plantations are also used to cultivate rubber, cinchona – an essential ingredient in the production of quinine – cocoa, palm oil and gutta percha, a sap used in the manufacture of a wide range of products, including golf balls, electrical insulation and dental and surgical equipment.

Rubber is the company's second most important crop, with annual output of between 27,000 and 30,000 tons of various types. There are 18 rubber plantations covering 72,000 acres. Most of the output, some 80 percent, is sold on the home market and the rest is exported to Asia, Europe and the US.

Palm oil, cocoa, cinchona and gutta percha are all lucrative products for niche markets, but, compared with tea and rubber, and in terms of land under cultivation and volumes produced, are still relatively modest items on the agenda at PTPN VIII. Together, they account for about 10 percent of its total output.

The output of palm oil averages around 15,000 tons a year, although the company plans to boost production by more than doubling the volume of land under cultivation from 12,000 acres to up to 30,000 acres. Its cinchona plantations produce about 1,250 tons a year of dry bark, while gutta percha output averages about eight tons a year.

Many of the plantations in West Java now making up PTPN VIII were originally owned by a Dutch company in the days of colonial rule. The plantations were transferred to state ownership in the 1950s, after Indonesia had won independence, and were merged into one commercial entity, PTPN VIII, in 1996.



**SOBANA SUWARNA**  
President Director of  
Plantation

PTPN VIII President Director **Sobana Suwarna** says two reasons lay behind the merger. The first was to create a bigger company from three separate state-owned units that were then all growing the same products, but competing against each other. Putting them together paved the way for achieving economies of scale. "The second was to make the management more efficient," he adds. Mr. Suwarna indicates that the company hopes to reduce its dependence on tea, which accounts for about 70 percent of total output at PTPN VIII, by developing the production of other crops. "We want to stabilize profits and diversify our products," he says. There are sound economic motives behind this plan, not least because the production of tea is labor-intensive and requires a lot of plants. Around two and a half acres of land under tea cultivation requires two people to look after it, but caring for the same acreage of palm oil needs barely a tenth of that effort. "That acreage would contain 13,000 tea plants, but only 130 palm oil plants," he adds. Expansion may yet pave the way for overseas investors. "If a foreign company wants to invest here, we still have spare land, but we have no money to work on it," says Mr. Suwarna.

Rubber plantations cover 72,000 acres and produce up to 30,000 tons a year

However, he adds, it is not just a simple question of securing finance but also one of gaining access to new export markets, "Perhaps our real need is in the area of marketing. It would probably be better to have a buyer who has an existing market to come here, rather than a capital investor on its own."



**THE COMPANY** exports 80 percent of its output to markets including Sri Lanka, India and China.

He would also be interested in securing partners to develop industries based on the company's products, particularly tea. At present, most of PTPN VIII's tea is sold in bulk as a raw material, after which it is blended – often with teas produced in other countries – by overseas tea companies.

Instead, he would prefer those foreign companies to invest in Indonesia. Asked if there are opportunities for foreign investors in the processing, packaging and distribution of tea, his answer is an unequivocal "yes." However, he emphasizes the need to find the right partner. "I think it would be better to have a partner that is already doing business in tea, because they'll understand the tea industry."

In the past, PTPN VIII has mainly sold its output to tea traders. Now, Mr. Suwarna says, "We want to sell our products directly to the manufacturers as well as to the traders."

During the past decade, PTPN VIII has made efforts to develop the plantations in terms of harnessing a commercial potential that has nothing to do with producing tea – tourism. The tea estates are located in verdant highland areas at a height of nearly 5,000 feet above sea level, where the volcanic soil and tropical climate provide a suitable environment for tea cultivation.

The plantations stretch over a beautiful green and mountainous landscape that also contains many interesting historical sites. The company has entered into agreements with travel companies, and the number of tourists taking time out to visit the estates has risen in recent years.

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