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## Sri Lankan cup d'etat



Merrill Fernando ... he was in Australia when he set up his company in 1988.

Photo: Rob Homer

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Competition and changing fashions present a challenge to tea producers but the makers of the Sri Lankan Dilmah Teas have to contend with civil strife as well, writes Eric Ellis.

"HOW ARE the Richmond Tigers doing? How is Rex?"

The questions come as a surprise, for the man asking is a Sri Lankan septuagenarian standing in a white lab coat in a tea-tasting room in downtown Colombo - a long way from the MCG - with the chaos of a South Asian metropolis swirling outside.

A day later the tin-pot air force of the Tamil Tigers will drop bombs on the city.

But Merrill Fernando, 77, the patriarch of Dilmah Teas, has a big soft spot for Australia. It is where, in 1988, he began Dilmah. Australian tea drinkers have helped grow the Fernando family business into a sprawling \$600 million tea empire now spanning 93 countries.

The football question is simply a conversational gambit for the savvy Fernando. He knows precisely how the Tigers are doing this year because the broadcaster Rex Hunt, a big mate of his, keeps him apprised of the AFL's ups and downs. Fernando often speaks to Australian football panels, now that Kamahl - Dilmah's long-time public face in Australia - has been dropped. As Kamahl might put it, people can be so unkind, but Fernando knows cheap publicity is good in Dilmah's best market.

Business is very personal for the Fernandos. Although slower after a recent illness, Merrill Fernando

spends part of his day personally responding to Dilmah customers around the world, with handwritten letters explaining the mysteries of the cherished leaf.

Fernando got his start in tea in 1950, when elephants would lug goods to the upcountry estates. Today he is regarded as an industry legend, while the modern cut-and-thrust is being handed to his 40-something sons, Dilhan and Malik, after whom Fernando named Dilmah.

The sons are busy remaking Dilmah as a modern brand, trying to pitch the family's single-origin teas as the Grange Hermitage of the humble cuppa, with evocations of terroire, of sommeliers and rare vintages. Dilmah's elegant packaging is heavy with wine iconography; descriptive labels equating a robust black tea to shiraz, or a fine white leaf to champagne. Many of the world's trendy latte-sippers may have long looked down on tea as the favourite tippie of an eccentric great-aunt, but Dilmah is positioning tea as a gourmet product, clawing back some of the \$85 billion world hot beverage market conceded to coffee's 75 per cent share by making tea fashionable.

The world drinks more than 1 billion cups of tea a day, but big producers have struggled to add value to the brew. Then there is the explosive growth from coffee giants such as Starbucks, opening an average five stores a day and also targeting tea drinkers.

Dilmah presents Sri Lankan tea as the purest - and most expensive - in the world, while also salving high-minded consumers' health concerns and rising enviro-consciousness. "You have to regard tea in the same way as you would an immaculate vintage," Fernando says. "People need to know what they are drinking."

The pitch does not wash with Dilmah's main competitors, such as the Anglo-Dutch giant Unilever, whose Liptons brand is world leader with 15 per cent, and Associated British Foods, second globally with Twinings at 6 per cent.

Running Dilmah from Sri Lanka has unique challenges not faced by Twinings and Unilever in Europe. Sri Lanka is hardly business friendly; its creaking infrastructure and labour laws are very 1940s. Getting goods from plantation to port is tricky for a product that stresses freshness. Dilhan Fernando cites a 150 kilometre journey from Dilmah's estates that can take seven hours. There are military roadblocks, and Colombo's port is often blockaded. The country has been crippled by a civil war between its minority Tamil-Hindus pining for a separate state in the island's north-east, and the majority Buddhist-Sinhalese of the south. About 70,000 people have been killed since 1983. With ethnic rivalries stretching back centuries, it is probably the world's most intractable conflict. On April 29, as Sri Lanka's Dilmah-sponsored national cricket team were playing Australia in the World Cup final and Lankans were gripped to the TV broadcast from Barbados at 2am, the Tamil Tigers bombed Colombo. The capital was plunged into panic as government anti-aircraft gunners blazed away indiscriminately at commercial airliners barely 50 metres from my hotel. Guests ducked for cover but the gunners failed to shoot down the invaders.

Dilhan Fernando apologises for his country's extremism.

"We've been able to manage and grow the business around the conflict, but we watch things very closely."

Politics can be tricky in Dilmah's tea country, too. The Fernandos' tea gardens are equidistant from Colombo and the self-styled Tamil homeland. Most of their 37,000 workers are Tamils, mostly female tea-pluckers descended from the communities brought from India in the 1800s by the then Scottish-owned estates as indentured labour. Known as Estate Tamils, they are regarded by Sri Lankans as distinct from

Eelam's Tamil communities. The tea region is peaceful, but estate managers note the effigies of the Tiger leader Vellupillai Prabhakaran in some Hindu temples. That has also been noticed by the Tigers' mortal enemy, the JVP, a party of Sinhalese Marxist nationalists who regard the tea country as their stronghold. The politics is reflected in Dilmah's marketing. Though the island has been called Sri Lanka since 1972, Dilmah and Colombo's state tea board market themselves as producing "Ceylon" tea, as it used to call itself. The Fernandos are no forelock-tuggers to former colonial masters; it's just good business. "Sadly, too many people associate the term Sri Lanka with strife," Malik Fernando says.

Dilmah is rare in the tea industry in being a vertically-integrated operation; a producer, packager and marketer of its own teas. But that has often been a thorny place to be in Sri Lanka. As the biggest foreign-exchange earner in one of the poorest countries, Sri Lanka's tea industry has endured a nationalisation by greedy governments, followed by half-hearted privatisations by reformers. Post-colonial administrations tried loosening the grip of the British tea houses, eventually succeeding in the 1970s by simply seizing estates. But that move backfired when the estates declined under state rule. With bureaucrats in control, Sri Lanka's tea industry almost collapsed as planters moved their skills to Kenya, and with devastating effect. From virtually nowhere in the 1970s, Kenya now vies with Sri Lanka as the world's fourth biggest tea producer and biggest exporter, after India and China, which consume most of their domestic output.

Merrill Fernando's best years were through the late 1970s and '80s when he sold bulk tea to the then Soviet Union and Saddam Hussein's Iraq. "Moscow was a very good customer," Fernando says. "They paid on time in pounds sterling via London, and were very courteous. I had more money than I knew what do with."

In 1988, in the midst of civil war, he used his windfall to start Dilmah. His vision was to develop a high-end branded tea, adding value to the bulk tea he was trading. Then, when Fernando's bulk markets in the Soviet Union and eastern Europe were collapsing, he launched the brand in Australia, where many of his countrymen had fled from the civil strife at home.

But the next challenge confronting Dilmah may be internal. Merrill Fernando recently fell ill and is handing more control to his sons.

The company seems a well-oiled operation. Still, when viewed against the backdrop of operating a very difficult country like Dilmah's homeland, such a transition is nothing special.

Eric Ellis is South-East Asia Correspondent of Fortune.

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