

Executive brief



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Tea sector

1. Background and key issues

While global trends in tea consumption are evolving, China remains the leading consumer and producer of tea. China is also the leading exporter of green tea, and second largest exporter of tea overall. India is the second largest producer of tea, and is a major trader in tea (importing and re-exporting blends).

Kenya is the leading ACP tea producer, the third largest tea producer and the world's leading black tea exporter.

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Kenya not only produces tea, but also auctions tea from across the eastern African region at the weekly Mombasa tea auction. Concerns have recently emerged over the potential challenge posed by the rise of the Dubai Tea Trading Centre, which now auctions teas from

six ACP countries and seven non-ACP countries (see [Agritrade article 'Mombasa tea auction threatened?'](#), 11 March 2012).

Tea prices almost doubled between 2002 and 2011, rising from an average composite FAO price of US\$1.56/kg in 2001 to US\$2.85/kg in 2011, after a record of US\$3.18/kg in September 2009.

"Tea prices almost doubled between 2002 and 2011"

These higher prices were mainly attributed to global demand outstripping production; the September 2009 peak was attributed to political conflict in Kenya and weather-related factors in major producing countries.

In recent years, given global economic turmoil, both demand growth and production growth have slowed. FAO estimates production growth in 2011 at 1.8% compared to 4.2% in 2010, while growth in

tea consumption in 2011 is expected to slow sharply following an increase of 5.6% in 2010. On the consumption side, strong demand growth in emerging markets has been balanced by slower growth in recession-affected OECD markets.

Tea prices are expected to remain stable throughout 2012. FAO predicts prices for black tea, which accounts for a majority of world production, to stabilise around US\$2.75/kg over the coming 10 years, slightly below current levels. However, this assumes no over-reaction from growers in terms of expanding production in response to the current higher average tea prices. Such an overexpansion seems unlikely, given rising input costs.

In terms of the ACP and the EU, tea trade imports are duty-free. This includes finished teas, with only food safety-related standards applied on issues such as maximum residue levels (MRLs). However, following the Fukushima nuclear disaster in Japan, from 11 March 2011 the EU imposed special regulations on imports from Japan. These tight control measures have increased costs of imports, particularly where companies have introduced their own control mechanisms.

A handful of multinational companies play a dominant role in the tea trade (Unilever, Tata Tea, Van Rees and James Finley). In Europe, for example, the top three tea traders and packers control over 60% of the tea markets in the UK, Germany and Italy. Tea blending, processing and packaging largely take place in Europe and other developed country economies. Meanwhile, in Europe supermarkets provide the major outlet for big name brands, while specialist retailers cater for the growing market in flavoured and speciality teas. In the UK, however, supermarkets have been increasingly introducing fair-trade

teas: by 2010, fair-trade sales represented 10% of total UK tea sales.

A key challenge facing ACP tea producers is how to move up the value chain by developing appropriate branding and packaging strategies, as well as an appropriate means of product differentiation (e.g. a Kenyan mark of origin) that realises additional commercial value for producers. Additional challenges relate to a need to diversify markets away from the current high dependence on just five main export markets (Egypt, Pakistan, the UK, Sudan and Afghanistan). While some progress is being made, there is a need to consolidate these newly emerging market opportunities.

On the production side, getting to grips with increasingly strict verification procedures for minimum residue levels and containing rising inputs costs remain ongoing challenges.

2. Latest developments

Global tea market developments

The FAO predicts world black tea production growth at 1.87% annually over the next 10 years (slightly lower than the 1.99% average annual growth in the previous decade) to reach 3.28 million tonnes by 2021. World green tea production is expected to grow much faster at 7.2% per annum, and reach 2.6 million tonnes in 2021. This reflects a significant expected growth in Chinese production to reach 2.3 million tonnes.

Black tea consumption is set to grow at 1.8% per annum and reach 3.36 million tonnes in 2021. With demand projected to exceed supply by 2021,

this accounts for FAO projections of a world average tea price of around US\$2.75/kg, a level below recent peaks but above average historical price levels (for more details see *Agritrade* article 'Tea sector prospects for 2012 looking good, according to FAO', 8 April 2012).

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Production developments in China and India continue to drive tea price developments. For example, dry weather in the first 4 months of 2012 affected production in north-eastern Assam, India's main tea-producing region, trimming production by over 14% from a year ago. This shortfall should keep tea prices at a high level in India and on world markets. Thus, while prices at the Mombasa auction were flat between February and June 2012, by August 2012 they had risen by 3.6% to within 5.6% of the peak prices attained in December 2009.

In terms of consumption trends, the tea culture in China is changing. Traditional courtyard tea houses in large cities have given way to high-end tea shops selling some of the finest leaves, with Chinese consumers following 'Western' trends. In this context there appears to be a growing preference for black tea, given the association of black tea with British and American lifestyles. Black tea is increasingly being bought by Chinese tea houses from India, therefore taking a market share from East Africa.

Meanwhile, Indian domestic annual tea consumption is rising (a projected 2.5% rise in 2012), surpassing the growth in national production. However, the consequences of this rising Indian demand may, in the short term, be

offset by difficulties faced in the Iranian market, following the termination in 2011 of a long-standing payment arrangement used to settle trade accounts, following the imposition of financial sanctions on Iran.

World demand for tea is projected to remain strong in 2012. Sri Lankan tea exports are holding up despite turmoil in the Middle East and North Africa, a traditional market for Sri Lankan teas. But there is growing competition on black tea markets from China and Vietnam where major investments have been made.

Tea sector in ACP countries

According to FAO, in 2011 Kenya – the world's leading black tea exporter – produced some 8% less tea due to adverse weather (370,000 tonnes compared to 403,300 tonnes in 2010). However, local currency earnings soared to KSh109 billion, due to high prices and the devaluation of the Kenyan shilling, which lost more than a quarter of its value against the US dollar.

Volumes marketed through the Mom-basa tea auction fell by 5% in 2011 to 247,300 tonnes. Despite a rise in average earnings from \$2.75/kg in 2010 to \$2.99/kg in 2011, the devaluation of the Kenyan shilling also led to a sharp rise in input costs.

The main export markets for Kenyan tea were Pakistan (26,500 tonnes), Egypt (24,500 tonnes) and the UK (15,900 tonnes). These countries, together with Sudan and Afghanistan, account for about 70% of total Kenyan tea exports. There are ongoing efforts to diversify markets by penetrating the Chinese market. This is yielding some success, with a 40% increase in sales to China in 2011 compared to 2010, taking exports to 2,000 tonnes.

The effects of drought at the end of December 2011 and frost at the start of 2012 led to a 15% drop in Kenya's output in the first quarter of 2012 compared with the last quarter of 2011. However, subsequent heavy rains are expected to cause a turnaround in tea production levels.

Uniquely, the Kenyan tea sector consists of two distinct components: a plantation-based large-scale sector and a smallholder-based sector, with (according to Kenya Tea Board data) smallholder producers accounting for around 58 to 60% of total Kenyan tea production. Smallholder tea production in Kenya has grown over the past decade, rising from 85,511 ha to 115,023 ha (+34%). This move to smallholder tea production is consistent with trends elsewhere (e.g. in China, Vietnam, Sri Lanka and India) which have resulted from higher world market prices.

"In September 2011, the Kenya Tea Development Agency announced record payments to small-scale tea farmers"

In September 2011, the Kenya Tea Development Agency (KTDA) announced record payments to small-scale tea farmers, increasing by 6% compared to 2010. KTDA's chief executive, Leronka Tiampati, attributes this third year of record-breaking returns to:

- relatively high and stable tea prices;
- an exchange rate which yielded substantially higher returns in Kenyan shillings;
- efficient management of factory processes and effective cost management.

The strong financial performance has been achieved despite rising input costs, particularly of electricity and fuel. Farm-

ers have directly benefited from the strong financial performance of KTDA since they are shareholders in KTDA's 65 tea-processing factories. According to press reports, with the final total payment amounting to KSh48.40/kg (up from KSh43.76/kg last year), Kenya's small-scale tea farmers would be the highest paid in the world.

In August 2011 a Kenya Tea Mark of Origin was launched (see Agritrade article, '[Kenyan smallholders tea farmers enjoy third good year](#)', 25 October 2011). This trademark is aimed at raising tea exports and strengthening marketing initiatives targeting the Kenyan diaspora. Initiatives to support the sustainability of tea supply chains could potentially benefit Kenyan smallholder producers. Unilever, the largest buyer and seller of packet tea in the world, aims to link 500,000 smallholder farmers into their supply network by 2020 through their 'Sustainable Living Plan'. The company has set up a public-private partnership project in Kenya with KTDA and other partners to train smallholder farmers in sustainable tea cultivation. To date, some 720 farmers have been trained in improving harvesting efficiency, book-keeping, and health

"Processes of climate change threaten the Kenyan smallholder tea sector"

and safety issues at Farmer Field Schools based at four factories. However, processes of climate change threaten the Kenyan smallholder tea sector. By 2020 major current areas of tea production in Kenya are expected to become less suitable and by 2050 are unlikely to be tea-growing zones. The International Centre for Tropical Agriculture in Kenya has warned that 'the current tea growing areas in Kenya will change dramatically'. It is in this context that the KTDA has started to work with the German Development

Agency and the Ethical Tea Partnership on a 3-year programme to prepare the sector on how to respond to climate change (see *Agritrade* article '[Kenyan tea production down amid fears of long-term impact of climate change](#)', 6 October 2011). Developing a new tea zone map for Kenya is of critical importance. Developing systems of insurance so that growers can benefit from stable revenues could also assist any climate-related restructuring processes in the Kenyan tea sector.

Uganda's 25,000 ha of tea trees produced 56,000 tonnes in 2011, with export earnings reaching about US\$90 million. Yet, according to the Ugandan Tea Association, drought conditions may lead to an 8% decline in production in 2012. Changing weather patterns may well carry long-term consequences for Ugandan tea production. This situation is being made worse by reduced fertiliser application as input costs rise.

Tanzania's tea rehabilitation campaign has proven successful. After the 3.6% drop in production between 2009 and 2010 to 31,464 tonnes, 2011 should register a 10.6% rise to 35,000 tonnes. FAO has forecast a further 2.9% increase to 36,000 tonnes in 2012. Improved management and targeted investments in rehabilitation have been the key to Tanzanian success. But emerging drought conditions could seriously affect production; rather than the 2.9% increase initially foreseen by FAO, there could be a 9% decline (down to 32,000 tonnes) with smallholder tea producers being the most seriously affected.

"In Tanzania calls have been made for increased investment in irrigation for out-growers"

Calls have been made for increased investment in irrigation for out-growers, who produce 50% of the national tea crop. This could serve to stabilise and

expand production which is periodically affected by drought (see *Agritrade* article '[Experts call for out-grower irrigation schemes to boost Tanzanian tea sector](#)', 5 July 2011).

Burundi's tea export revenues rose by 22% in 2011 compared to 2010, boosted by high volumes and better quality. OTB, the country's state-run tea board, collected US\$22.2 million from the export of 8,816 tonnes in 2011 against US\$18.2 million for 7,318 tonnes

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in 2010. Burundi exports 80% of its tea through the Mombasa auction, with average prices for Burundi tea climbing to US\$2.80/kg in 2011 from US\$2.50 in 2010. OTB forecasts a decline in production in 2012 down to 7,750 tonnes because of uncertain weather conditions. However, with prices on regional markets increasing in response to reduced volumes, the income effects may be less pronounced (see *Agritrade* article '[East Africa tea sector faces variable trends](#)', 3 April 2011).

According to the FAO, Mauritian tea production has been increasing in recent years, with 1,868 tonnes of black tea produced in 2011. A further increase in production in 2012 is expected if favourable weather conditions prevail.

In the Caribbean, Jamaican Teas is the largest producer of teas under its own brands as well as under contract for different companies. The 44-year-old company started out as Tetley Tea Company, but was renamed in 2011. Since 1995, the company has been expanding its product range under the brand name Caribbean Dreams, through the introduction of flavoured teas. The spices and flavourings used

are grown locally. The company packs approximately 100 million bags of tea per annum.

Among the ACP Pacific countries, tea production is small. In Papua New Guinea (PNG), the tea industry comprises

"Papua New Guinea exports high-quality tea that attracts premium prices"

two domestic producers and one manufacturing company; imported tea is sourced from Australia and Asia. In the mid 2000s, production was over 6,000 tonnes, of which 10% was for the domestic market. PNG exports high-quality tea that attracts premium prices.

New trends

Tea consumption is set to grow at 1.8% a year to reach 3.36 million tonnes by 2021, according to FAO. Demand is increasing for high-quality, high-value products, especially in emerging countries. The World Tea Expo in Las Vegas in June 2012 highlighted some of these major new trends:

- quality tea;
- development of tea retail shops;
- cold-brew green tea;
- matcha lattes – milk-based drinks made with finely milled green tea;
- other speciality teas and tea-enhancing wares.

In the US there are more than 25,000 coffeehouses and only approximately 3,500 tea retail locations, which shows the potential for development of the latter. According to a study entitled 'Tea and ready-to-drink tea' in the US from Packaged Facts, the tea retail market will grow from approximately 6.6% in

2012 to 8.7% in 2014, reaching US\$8.3 billion that year. French tea houses such as *Mariage Frères* are seeing a rising demand for very high-value-added white tea, although green tea remains the most commonly sold product.

In addition there is a growing public awareness in the EU of the social and human conditions associated with tea cultivation, and consumers are increasingly seeking to buy certified teas – the major certification schemes being Fairtrade, Organic, Rainforest Alliance and UTZ. The market share of certified

“Consumers in the EU are increasingly seeking to buy certified teas”

teas has grown from just 1% in 2007 to a projected 13% of global production by the end of 2011. Most are consumed in the EU, with certification increasingly becoming the standard on the EU tea market. The UK, Germany, Poland, the Netherlands and France are the leading markets for sustainable teas in the EU. While tea imports into the UK and the Netherlands decreased in volume, the value of imports has increased. Dual certification of Fairtrade and Organic tea is increasingly common, especially in the UK, with this contributing to the increased value of tea imports.

Between 2006 and 2010, the volume of tea imported into the EU increased by 1.3% (to 353,000 tonnes) while value rose by 6.5% annually to €1 billion in 2010.

Organic tea consumption is rising, in part due to growing consumer interest in the positive health effects of tea, with organic tea being perceived as more healthy. India and China have pioneered organic tea production and are the world leaders. However, the organic tea sector is also expanding in other producing countries. This potentially

offers an important area for growth in the value of ACP exports, and can be seen as particularly relevant in the context of the rising input costs faced in many ACP countries.

Local markets in other producing countries are also developing. In Tanzania, consumption increased by 26.2 % in 2010 to reach 5,810 tonnes after the Tea Board of Tanzania, in collaboration with other stakeholders, strengthened tea drinking campaigns. In Kenya, local consumption of tea has grown steadily by more than 16% in the 6 months to June 2011, to some 10,000 tonnes, as packers intensified brand promotion activities to meet the expectation of health-conscious customers and the Tea Board of Kenya strengthened its promotional strategy.

Looking ahead, within Africa, FAO projects that the highest growth rate in black tea consumption up to 2021 will be in Tanzania and Rwanda (each projected to grow 4.1% per year), followed

“Tea consumption in African tea-producing countries should increase by an average of 2.9% per annum between now and 2021”

by Kenya (+3.9%). On average, consumption in African producing countries should increase by 2.9% per annum between now and 2021, compared to a world average increase in consumption of 1.8% per annum. African markets, therefore, have considerable growth potential for African producers.

On the issue of residue levels, the FAO Intergovernmental Group on Tea is working on a plan of action for the application of ISO 3720 (black tea and proposed standards for green tea) as a minimum quality standard for the global tea trade. A report of the working

group on MRLs, established in 2003, was presented in Mombasa in July 2011, and side meetings were held at the Pest Management Centre Minor Crop meeting in Canada (March 2011) and Codex Committee on Pesticide Residues (CCPR) in China (April 2011) to establish dialogue with agrochemical companies and raise the profile of tea as an internationally traded crop, which requires MRLs to be set globally. MRL submissions are to be made by several companies in the next year or so.

ACP producers will need to pay close attention to the issue of residues. The debate around MRLs may also prove valuable in promoting increased organic tea production.

3. Implications for the ACP

Getting to grips with production-related challenges

ACP tea-producing countries need to consider how best to anticipate market trends. In recent years, the world tea market has registered a greater balance between production and consumption. Oversupply has been reduced, leading to price rises and today's remunerative prices. However, if growers overreact to current firm prices and expand production too sharply, prices will follow

“The issue of sustainable tea cultivation is a particularly sensitive issue in smallholder production systems”

the cycle and fall. The issue of sustainable tea cultivation is particularly sensitive in smallholder production systems. The FAO has highlighted ‘an adverse impact on the environment in most producing countries due to clearing of

forests, often illegally, to plant tea and by the inefficient use of energy in the processing units'. This is likely to require ACP governments either to increase the effectiveness of the application of existing legislation or introduce new legislation, which is then effectively applied, to halt the conversion of forest land to unsustainable forms of tea cultivation.

There is, therefore, a pressing need for ACP countries to focus not so much on increasing their volume of tea production but rather on producing higher quality teas which:

- address food safety concerns;
- ensure traceability of the product;
- add value and differentiate the teas on 'quality' grounds.

Quality differentiation could range from the use of Geographical Indications, through increased production of organic teas, to close collaboration on the development of premium brand private labels with private partners which enable ACP producers to establish themselves on evolving premium priced tea markets.

Getting on top of consumption trends

Ironically, the economic crisis in Europe does not seem to have affected the high-value tea market. In this context

"East African tea producers need to step up their production and marketing activities to increasingly target high-value components of the tea market"

East African tea producers need to step up their production and marketing activities to increasingly target high-

value tea market components. According to Claudia Mingori from the French tea house *Mariage Frères*, although quality standards are met for black teas, there is a need to broaden the variety of teas offered for sale with more mixed blends being exported. A particular area of growth has been sales of theine-free Rooibos from South Africa, which is sold in Europe almost exclusively through blended mixed flavours.

Joint marketing efforts by East African producers, in association with strategic partners in major markets, could help develop these and other market components (e.g. by promoting the use of 'morning' or breakfast teas from Kenya and Malawi as a replacement for coffee).

Beyond Europe, rising Chinese demand for black tea is good news for ACP producers, particularly Kenya, the world's number one black tea exporter. However, this requires a strengthening of marketing initiatives targeting the Chinese market if Kenya and other African suppliers are to compete effectively with Indian exporters. Partnerships with local Chinese importers and tea houses will need to be developed, a requirement which closely parallels the situation in the coffee sector. However, for the tea sector, tapping into the know-how of European tea houses is likely to be essential, if Kenyan and other East African tea-exporting countries are to compete effectively on the Chinese market.

Meeting growing demand for organic tea

There is a growing trend towards the consumption of organic tea, but certification can be a costly and lengthy process, despite the natural production process applied in many tea-producing regions. The development of a common

regional organic tea certification mark that would be acceptable on the EU market could prove valuable in the cost-effective exploitation of this market trend. An intensification of ACP-EU

"The development of a common regional organic tea certification mark could prove valuable"

cooperation in this area would appear to be appropriate, particularly since it could develop cost-effective mechanisms for smallholder certification which could be applied in other sectors.

The growing trend towards organic teas could also usefully be built into tea sector restructuring in response to climate change challenges.

Mobilising resources to meet climate change challenges in the sector

A number of financial mechanisms are being set up to assist developing countries in responding to climate change; a concerted East African strategy to mobilise assistance for climate change-related tea sector restructuring could potentially yield considerable benefits.

"A concerted East African strategy to mobilise assistance for climate change-related restructuring of the tea sector could yield benefits"

This would appear to be an important area for the intensification of ACP-EU development cooperation.

Dealing with rising input costs

In East Africa, rising input costs have been compounded by currency devaluations. In this context the development of regional strategies that reduce the

extra-regional import intensity of tea production could well prove a useful area for joint action to enhance the competitiveness of East Africa tea production, thus ensuring net benefits to producers from higher than average tea prices.

"The development of regional strategies to reduce extra-regional import intensity of tea production could prove useful"

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