"Bandung … Uniting The tea world
For sustainable future"

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World Tea Production and Trade : Current and Future Development

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Food and Agriculture Organization of the United Nations

PREAMBLE

- An overview of the current production and trade situation for tea and outlook to 2021;
- A brief overview of the Intergovernmental Group (IGG) on Tea and context of this presentation;
- Established in 1969 as the Consultative Committee on Tea, then changed in 1971 to the IGG on Tea. It provides a forum for consultations on and studies of all problems connected with tea. In particular:
  - to conduct a continuing review of short and long term developments in tea production, consumption, trade and prices;
  - to study market structure and the promotion of tea consumption; and
  - to consider international act submission to Governments.

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INTRODUCTION

- Tea (*Camellia sinensis*) is the one of the oldest (2700 BC) and most consumed beverage in the world;
- 6 varieties consumed, based on oxidization and fermentation techniques;
- Requires specific agro-climatic requirements that are only available in tropical and sub-tropical climates;
- Temperatures :10-30^{o}C; min rainfall : 1250 mm; acidic soils; 0.5-10 degree slopes; and elevations up to 2000 meters;
- Highly sensitive to changes in growing conditions and importantly ideal growing conditions are at high risk under climate change.

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Socio-economic importance

- Main growth determinant of tea economy is demand;
- Both black and green tea are price inelastic - meaning that the price elasticity of demand is less than one (in absolute value): that is, changes in price have a relatively small effect on the quantity demanded;
- For black tea, price elasticities between -0.32 and -0.80, which means that a 10 percent increase in black tea retail prices will lead to a decline in demand for black tea between 3.2 percent and 8 percent;
- For green tea, prices elasticities between -0.69 and -0.98. Hence, a 10 percent increase in green tea retail prices will lead to a decline in the demand for green tea of 6.9 to about 10 percent.

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Socio-economic importance – cont’d

- Factors influencing demand for tea include:
  - traditional price and income variables;
  - demographics (age, education, occupation etc);
  - health benefits.
- Other drivers are:
  - trends and changes in per capita consumption;
  - market access;
  - effects of pests and diseases on production; and
  - changing dynamics between retailers, wholesalers and multinationals.

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World Tea Production

- World tea production increased significantly by 6% to 5.07 million tonnes in 2013: Black by 5.4% and green by 5.1 % in response to continued firm prices;
- Increases in all major producing countries, except Vietnam:
  - China largest (38 % of world output) = 1.9 mil MT; India = 1.2 mil MT; and the two largest exporting countries : Kenya = 436 300 MT and Sri Lanka = 343 100 MT.

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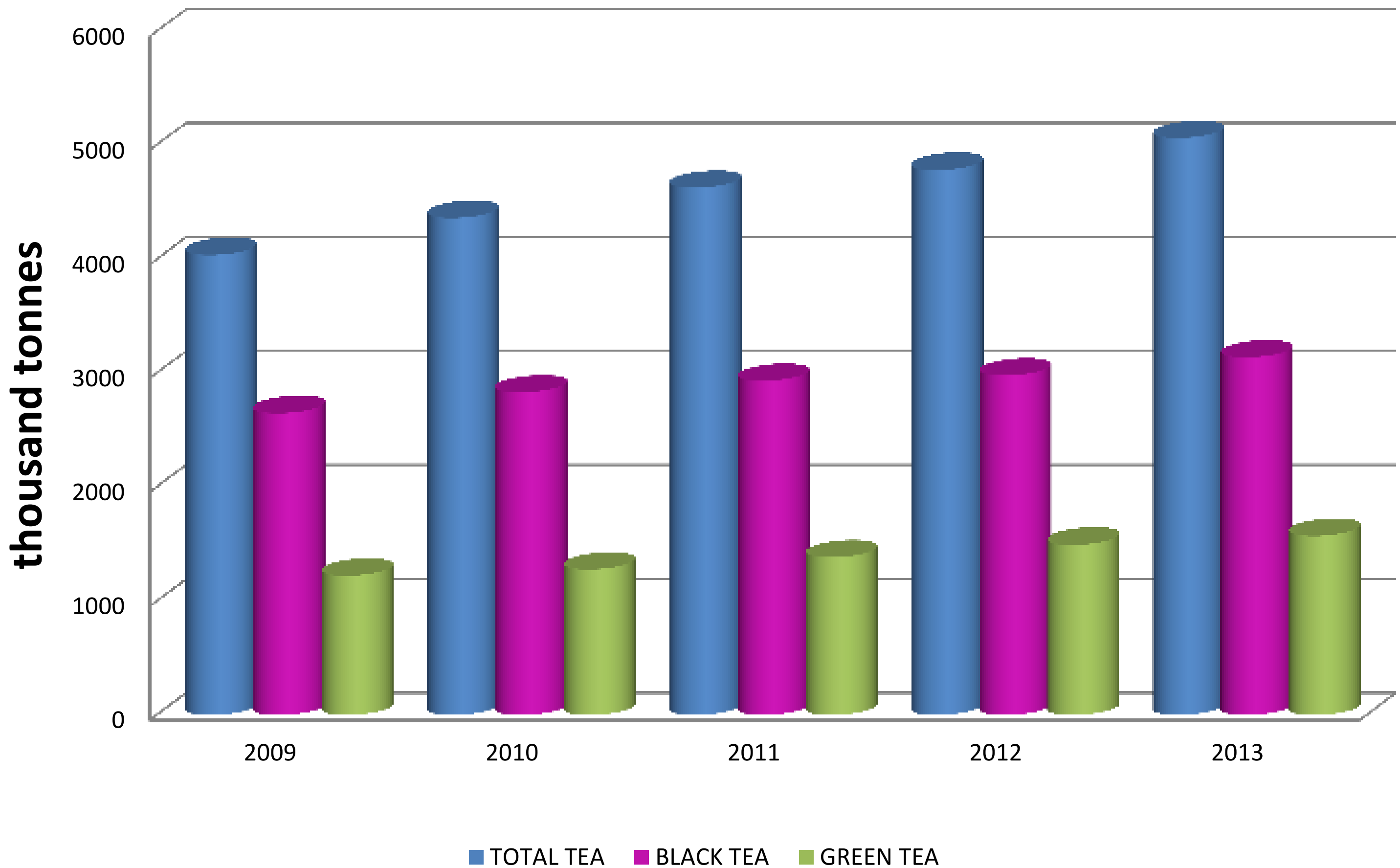
World Production of Tea, 2009-2013



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World Tea Exports

- World tea exports reached 1.77 mil MT in 2013 a 5 percent increase compared to 2012;
- Volumes of black tea were up by 5.8 percent in 2013 and export earnings increased by 10 percent to USD 5.7 billion .

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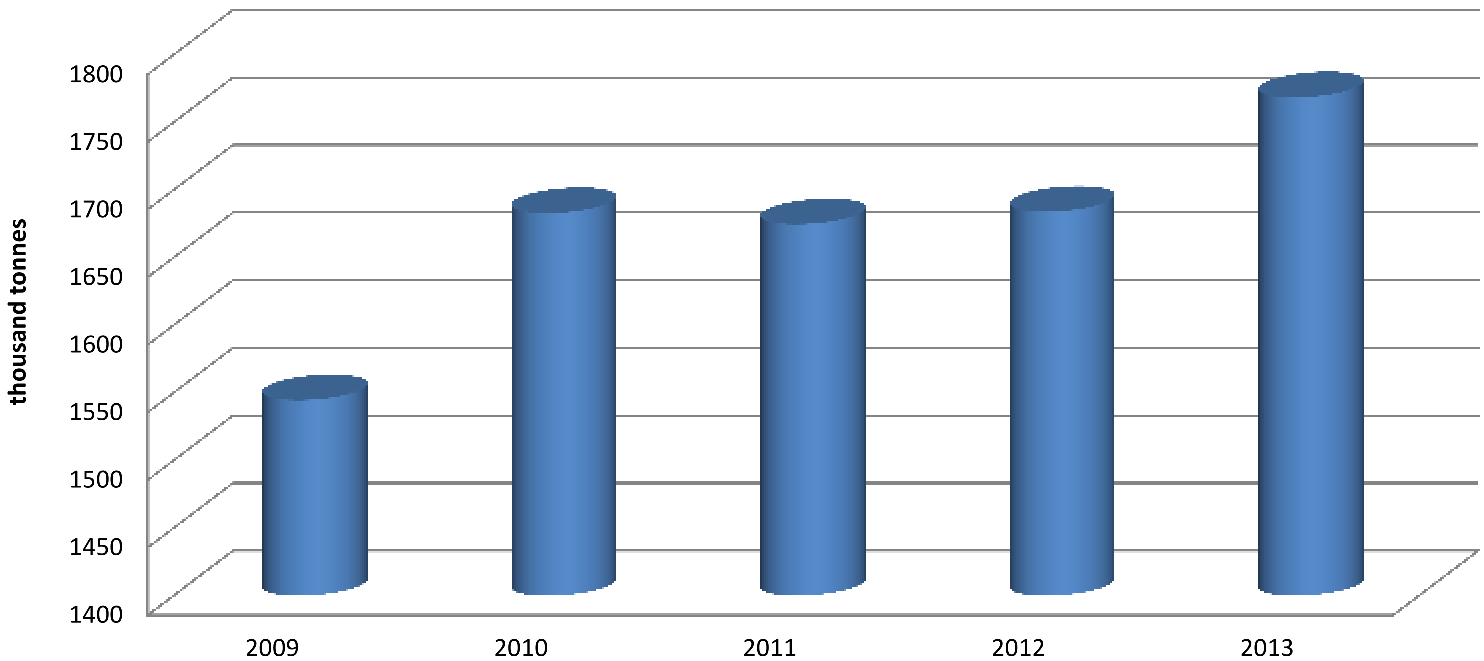
World Exports of Tea, 2009-2013



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World Tea Consumption

- World consumption 4.84 mil MT in 2013 (5% up);
- Underpinned by growth in per capita income;
- Particularly marked in China: 8 % p.a. over a decade increasing to 1.6 mil MT (9 %) in 2013 and in India where consumption expanded to 1 mil MT (6.6%).

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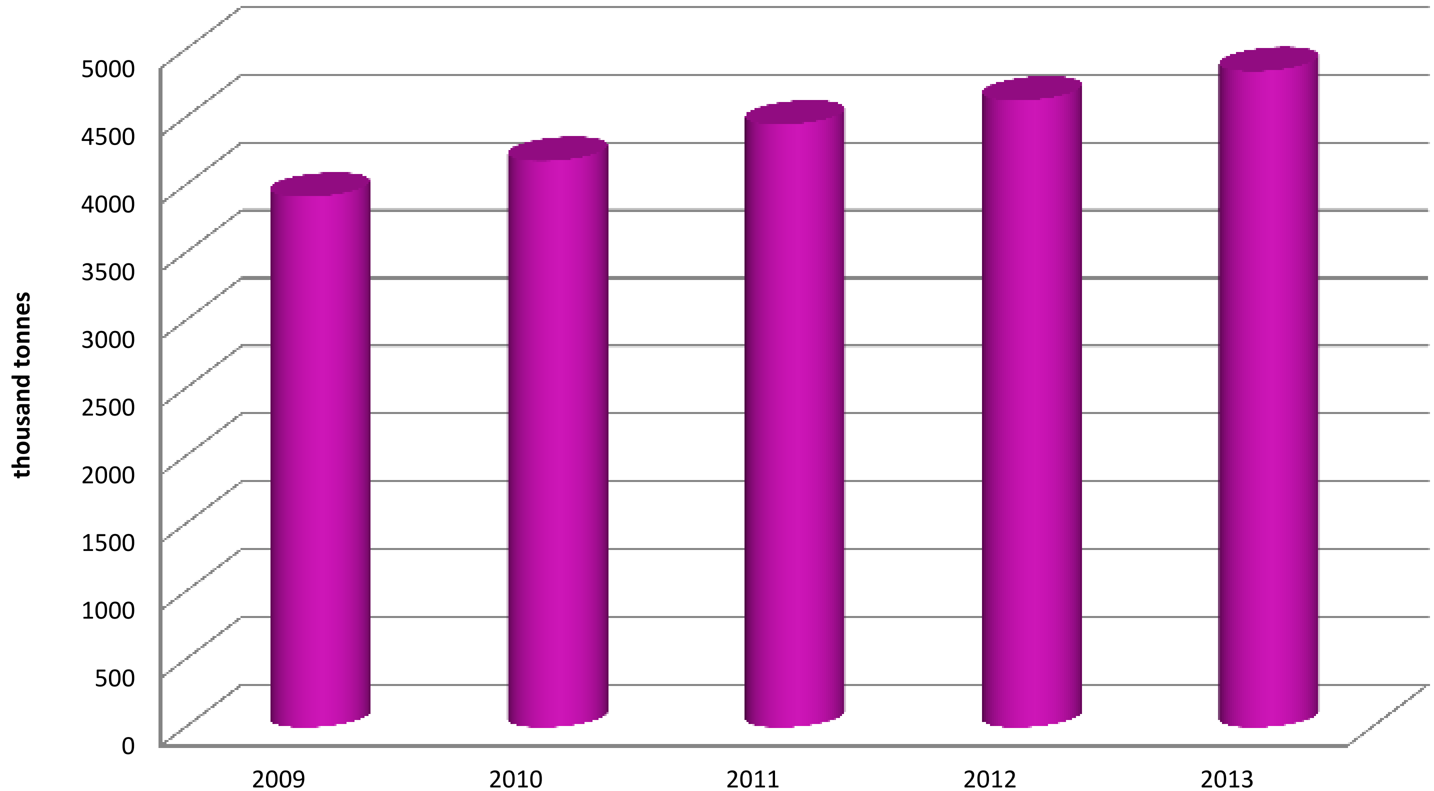
World Consumption of Tea, 2009-2013



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World Tea Prices

- FAO Tea Composite Price has consistently increased from 2002 to 2012;
- 2 % fall each year in 2013 and 2014;
- Exclusively due to weak CTC tea prices;
- Orthodox prices increased firmly, underpinned by strong demand in traditional orthodox tea markets;
- Auction prices indicate excess supply of CTC at current prices and a further weakening expected to clear the market.

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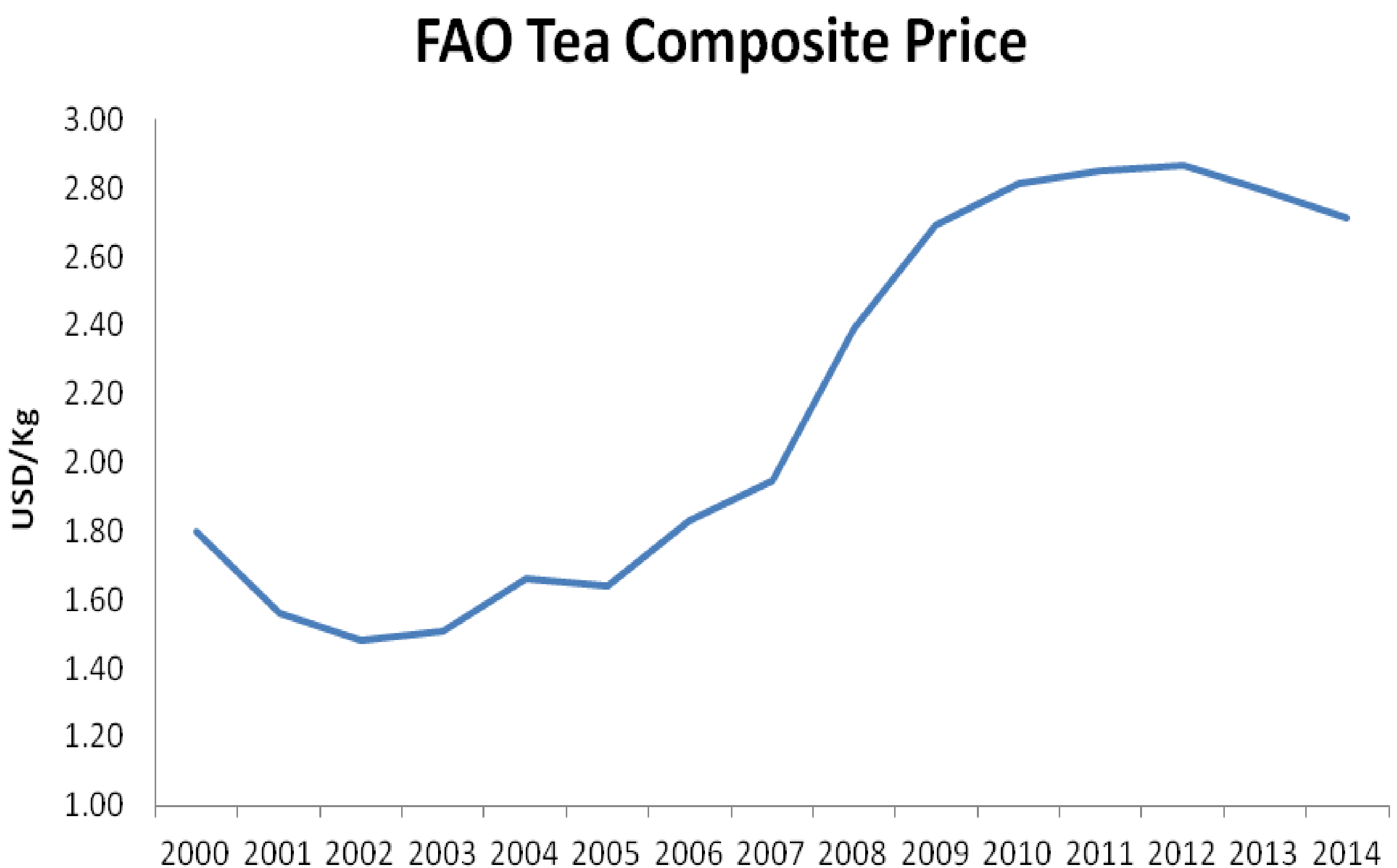

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Projections to 2021: Black Tea

- **Production:** production will grow at a slightly lower rate compared to the previous decade - at 1.9 % p.a. to reach 3.28 mil MT tonnes by 2021;
- **Consumption:** Black tea consumption will grow at 1.8 percent p.a. to reach 3.36 mil MT in 2021 Stronger growth in consumption in producing countries is unlikely to offset declines in traditional import markets in the next 10 years.
- **Exports:** 1.52 mil MT in 2021: Asia = 745 145 MT and Africa = 637 040 MT. Major exporter by ranking: Kenya, Sri Lanka, India, Vietnam, Indonesia, Malawi, Uganda and Tanzania.

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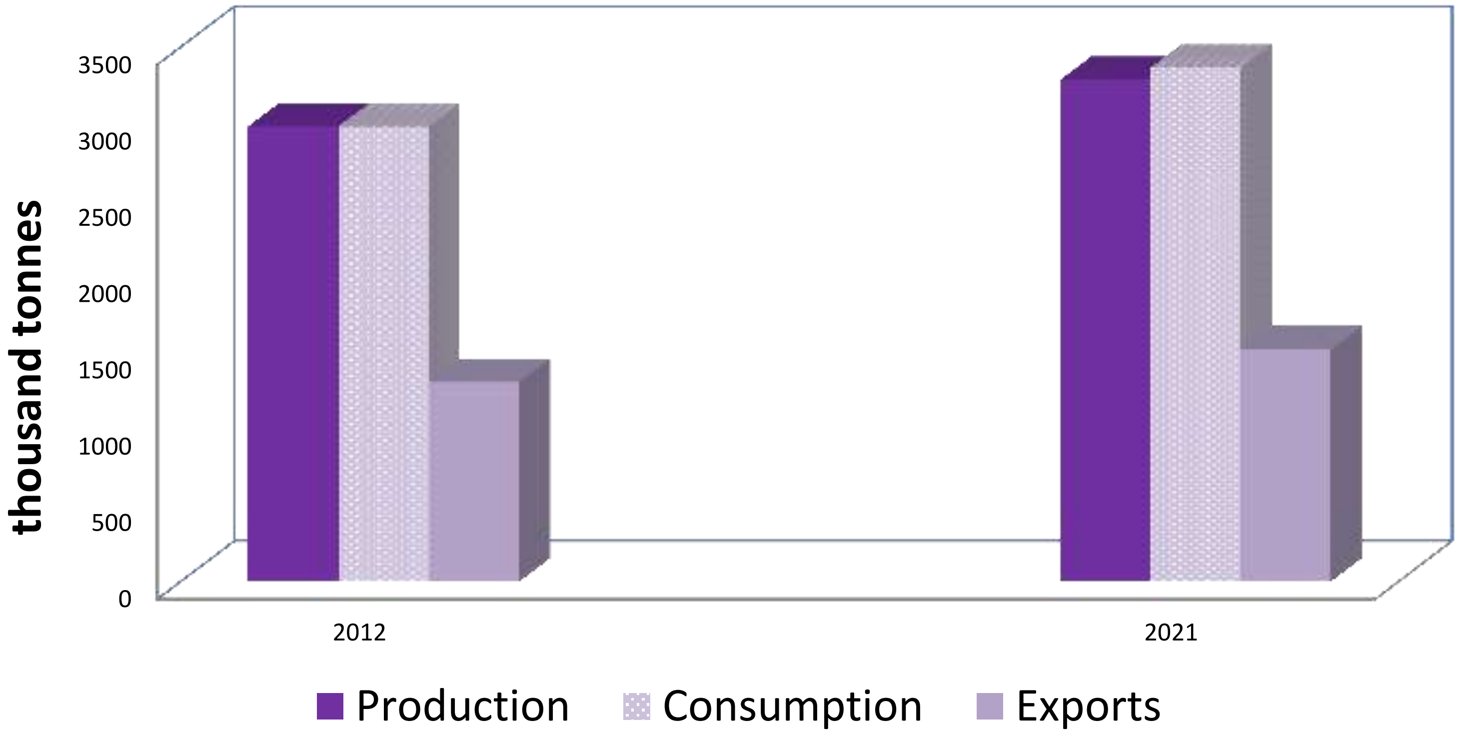
Actual and Projected Production, Exports and Consumption of Black Tea



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Projections : Green Tea

- **Production** : faster growth than black tea - 7.2% compared to 1.9% percent;
- **Exports :** 5.8 % growth rate to reach 515 972 MT by 2021. China is expected to continue to dominate with an export volume of 435 813 tonnes, followed by Vietnam at a distant second with 53 757 tonnes, Indonesia with 12 596 tonnes, and Japan at 2 721 tonnes.

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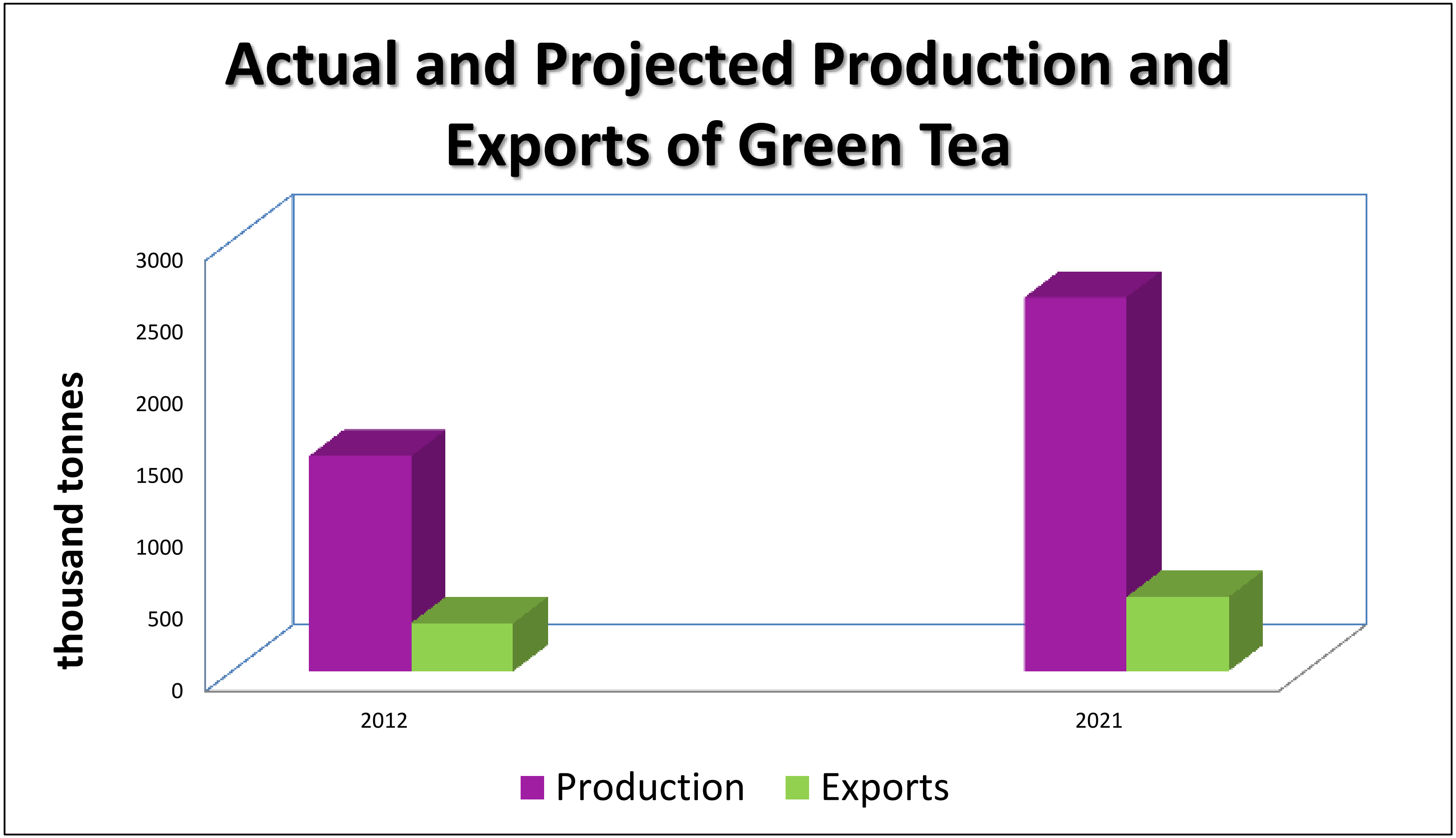

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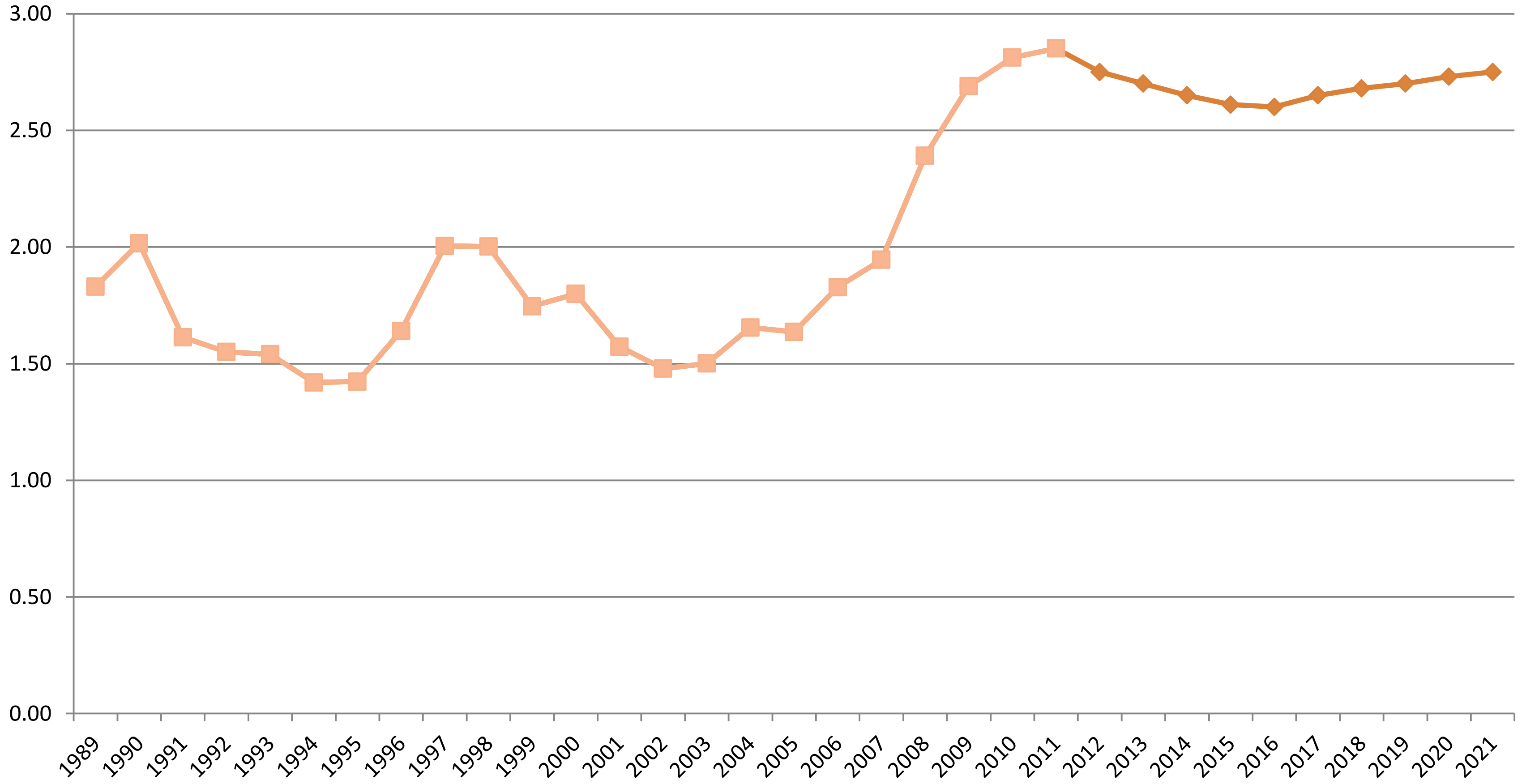
Concluding Remarks

- World tea market in 2013 : 5% increase in trade volumes; 10% increase in export earnings - USD 5.7 billion at the global level;
- Contribution to financing food import bills of tea exporting countries:
  - Kenya earned USD 1.33 billion and financed more than 50 percent of its food import bill;
  - Sri Lanka earned USD 1.55 billion and financed 71 percent of its food import bill;
  - Although export earnings were less as domestic consumption were larger in other countries, they were still significant: Indonesia =USD 155 million and Tanzania =USD 61.4 million.
- Trickle down effects invaluable to rural incomes and food security ;
- Price developments: Composite Price weakened in 2013/14 due to lower CTC auction prices;
- Although overall growth in demand for tea is increasing, most of it is occurring in green and specialist tea segments such as orthodox.

Concluding Remarks – cont’d

- In the medium term, the projections suggest that supply and demand of black tea will be in equilibrium in 2021 at a price of USD 2.75 per Kg, if there is no supply over-reaction to the current firm prices;
- However, if there is an over-reaction to recent high prices which, for example would result in a 5 percent increase in production, the results can be quite different. Here the clearing price would be 17 percent less than the baseline price.

Baseline projections : USD per Kg



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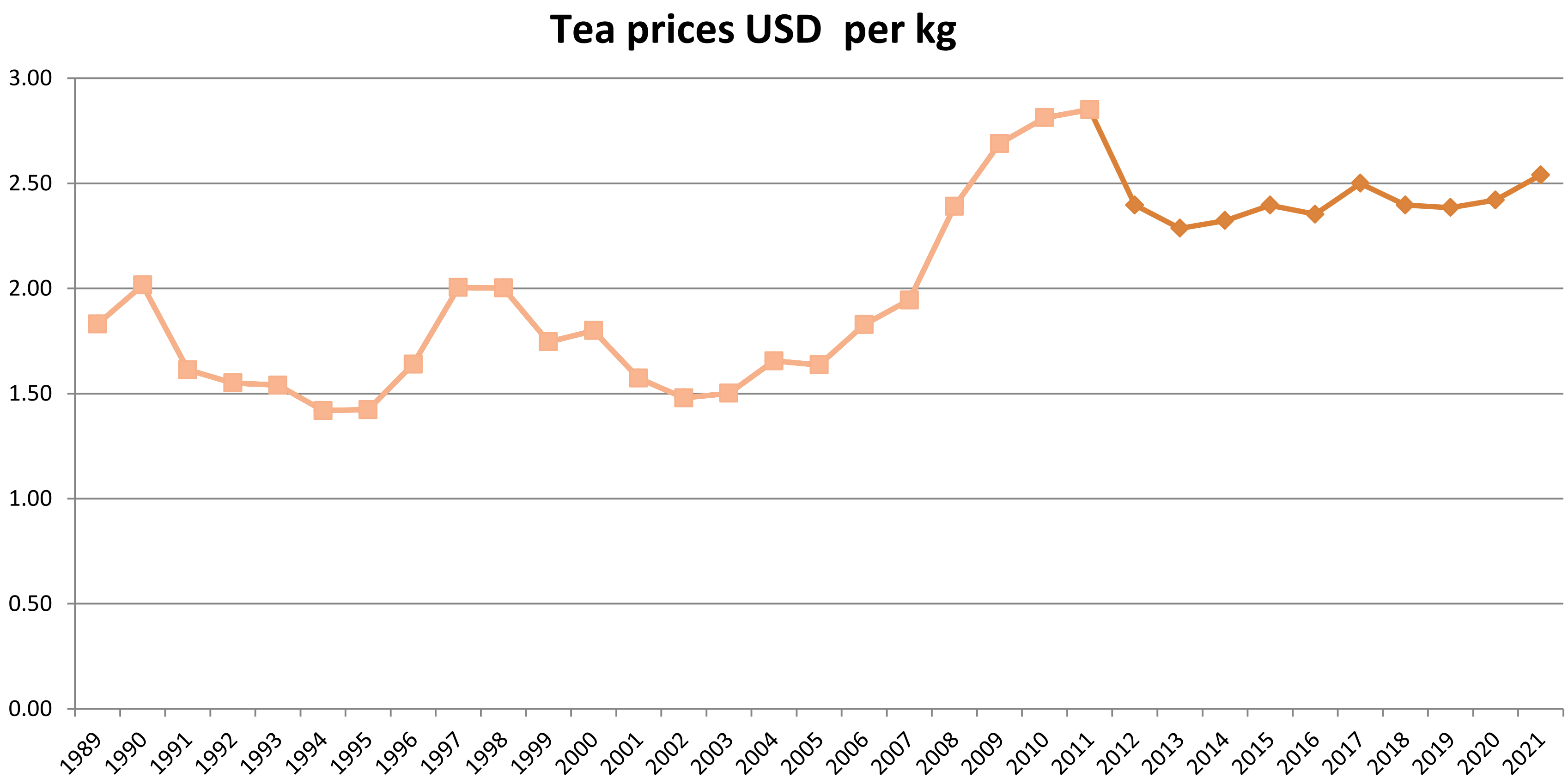
Production increases 5 percent over the baseline



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Conclusions

- Caution needs to be exercised;
- Greater efforts should be directed at expanding demand, particularly in producing countries with relatively low per capita tea consumption and relatively strong economic growth, as consumption is already high in traditional markets;
- This initiative should be supported by internationally co-ordinated actions aimed at promoting and expanding the demand for tea; and
- Interesting to note that major shifts in demand has occurred in recent years, as some tea blending and packaging activities were moved to producing countries in a strategic shift by several large packers in consuming countries.

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Thank You!