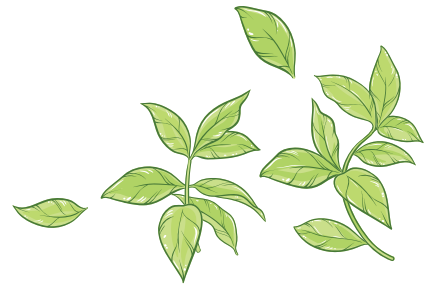




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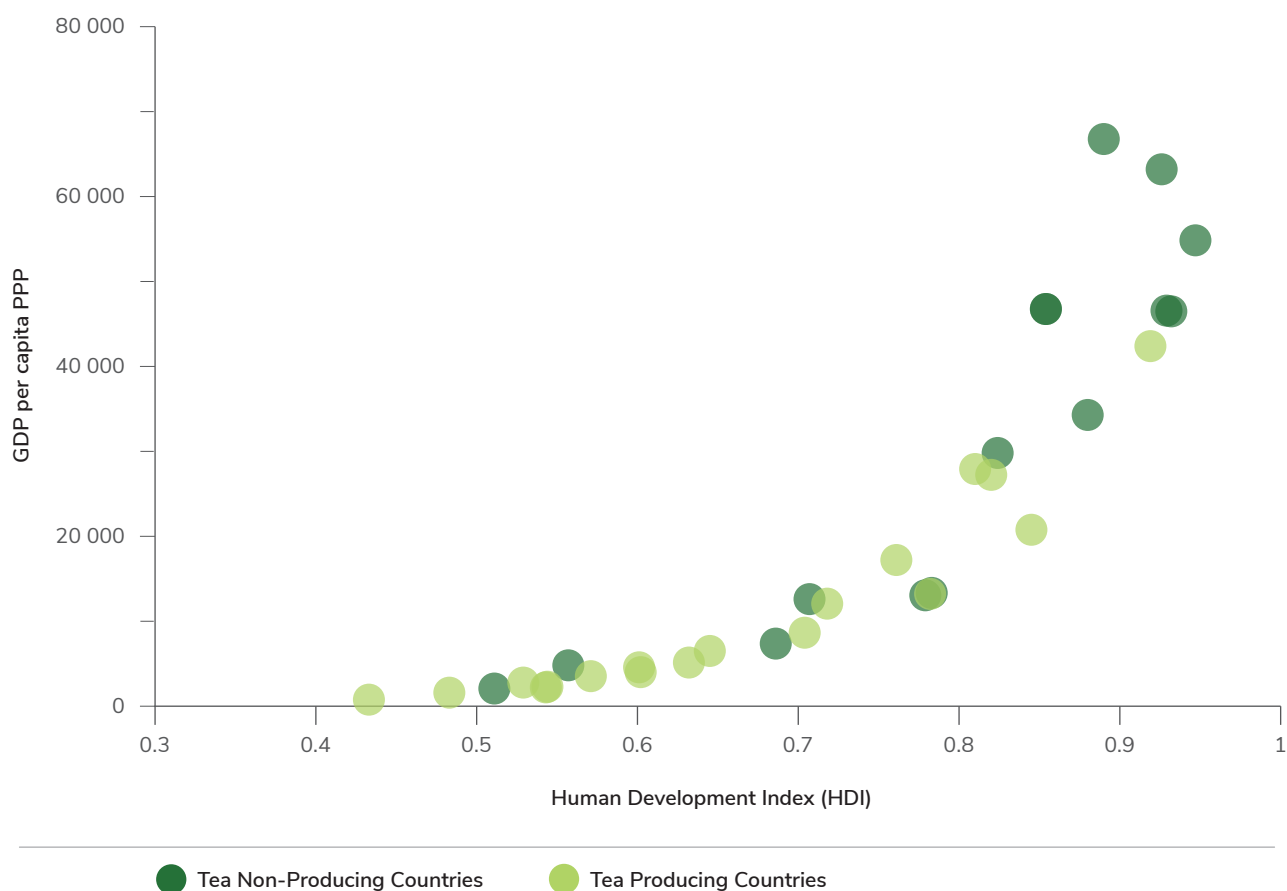
International tea market: market situation, prospects and emerging issues

Introduction

In many developing countries, the tea sector contributes significantly to rural development, poverty reduction and food security, representing, in several cases, a major source of income and employment for millions of poor families. The global tea production amounts annually to over USD 17 billion, while world tea trade is valued at about USD 9.5 billion, accounting for an important source of export earnings. One key characteristic about tea is that smallholders are responsible for 60 percent of world production. Importantly, tea provides productive jobs in rural areas, which empowers households and communities to meet their food security needs and improve their nutritional status.

World tea per capita consumption increased by 2.5 percent over the last decade, with marked expansions in tea producing countries. Developing and emerging economies have been driving the growth in demand, with East Asia, Africa, Latin America and the Caribbean, and the Near East leading the expansion (figure 1). However, in the more mature European markets, as well as other advanced countries, tea intakes have witnessed declining volumes.

Figure 1. Tea is largely produced in countries with relatively low income (2020)

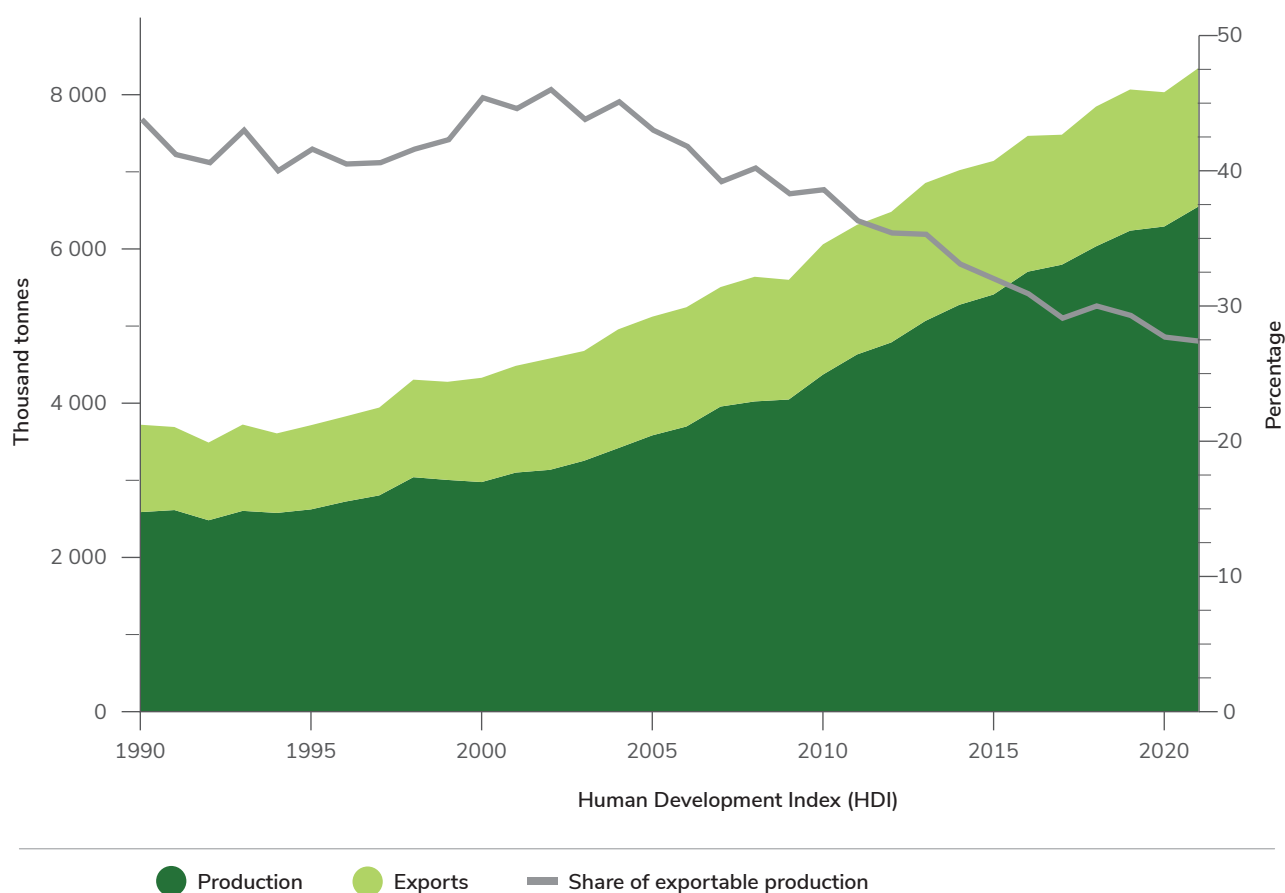


Source: FAO/EST (2022).

The drive for innovation is evident, as consumers increasingly demand natural and organic ingredients, in diversified blends, flavours and environments. There is also a growing interest in higher quality speciality teas with particular flavours. In parallel, green tea as well as herbal and fruit teas are gaining popularity in different markets, especially in Europe, owing to real or perceived health benefits. At the same time, public interest in organic, locally sourced, specialized premium teas has also intensified. Innovation and “premiumization” are characterising the market, which attracts a growing number of young customers from an emerging middle class. Yet, tea faces a number of challenges. It is critical that the sector succeeds in balancing the need for expansion and the requirements of sustainability at all stages of the value chain.

Several factors influence demand for tea, including prices and income variables, demographics such as age, education, occupation, and cultural background. Growing consumption of tea in producing countries, driven by population and income growth, has translated in a decrease of exportable production over the past two decades (figure 2). Nevertheless, per capita consumption remains low in these countries compared to importing markets, and greater efforts should be directed at expanding demand to explore prevailing market opportunities.

Figure 2. Share of exportable production declining since the early 2000s



Source: FAO/EST (2022).

Market situation

The FAO Tea Composite Price, a weighted average price for black tea, which includes crush, tear, curl (CTC) and Orthodox teas in the four major auctions (Mombasa, Colombo, Calcutta and Cochin), fell by 12 percent in 2019 to an average of USD 2.42 per kg. The composite price declined further in the first quarter of 2020 to USD 2.28 per kg, on the back of large availabilities and the measures imposed by many countries to contain the spread of COVID-19. The sharp retreat in prices was mainly on account of lower CTC tea quotations. Since April 2020, however, prices recovered to an average of USD 2.60 per kg, as increasing “in-home” consumption of tea more than offset declining “out-of-home” consumption. Despite the decline in the first quarter of 2020, prices over the whole of 2020 averaged higher than in 2019, at USD 2.52 per kg, registering an increase of 4.2 percent.

In 2021, international tea prices declined to USD 2.44 per kg, as pandemic-related disruptions to logistics affected trade, and Kenya, given its production surplus, was selling its tea at very competitive prices. In

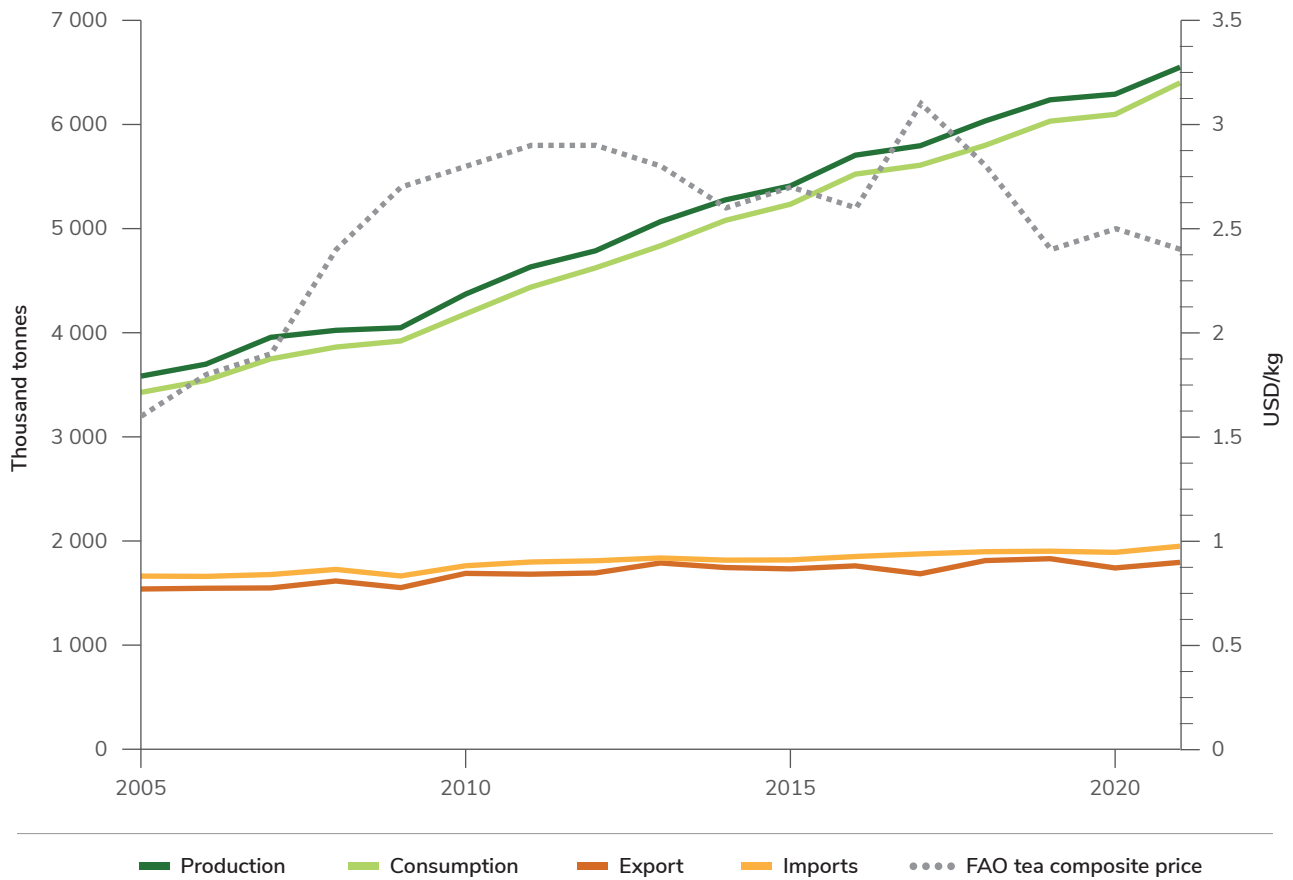
the last quarter of 2021, prices prompted a recovery, averaging USD 2.62 per kg. They increased further in the first trimester of 2022, averaging USD 2.72 per kg, and reaching a high of USD 2.85 per kg in April - the highest level since May 2018. The growth was due to major spikes in the Colombo auction market, on the back of tighter supplies from Sri Lanka, following the economic crisis faced by the country, and strong world demand. Prices also increased in the Calcutta auction in India, underpinned by a boost in demand, following supply cut backs in Sri Lanka and the easing of the trade restrictions imposed during COVID-19.

Tea prices and trade are also expected to be adversely impacted by the Russia-Ukraine conflict, as the Russian Federation is the largest importer of Indian tea, the third largest importer of Sri Lankan tea and the fifth largest importer of Kenyan tea. The Russian Federation is a major supplier of fertilizers, and a limited availability and/or higher prices of fertilisers could translate into lower yields and impact tea quality.

World tea production in 2021 increased to an estimated 6.5 million tonnes, from 6.3 million tonnes in 2020, as production of black tea recovered from the 2020 shortfalls in some of the major producing countries, such as India and Sri Lanka. China remains by far the largest tea producer, accounting for 47 percent of global output, reaching 3.1 million tonnes in 2021, compared to 2.9 million tonnes in 2020. Output in the second largest producer, India, recovered in 2021 to 1.33 million tonnes compared to 1.26 million tonnes in 2020.

Exports recovered slightly from the COVID-19-related downturn in 2020 to an estimated 1.8 million tonnes in 2021, owing to higher exports by Kenya and China and resumed shipments from Sri Lanka, the second largest black tea exporter. Global consumption of tea increased annually by 3.5 percent over the last decade, and is estimated to have amounted at around 6.4 million tonnes in 2021, underpinned by robust demand in major producing countries (China and India), as well as other Asian and emerging economies (figure 3).

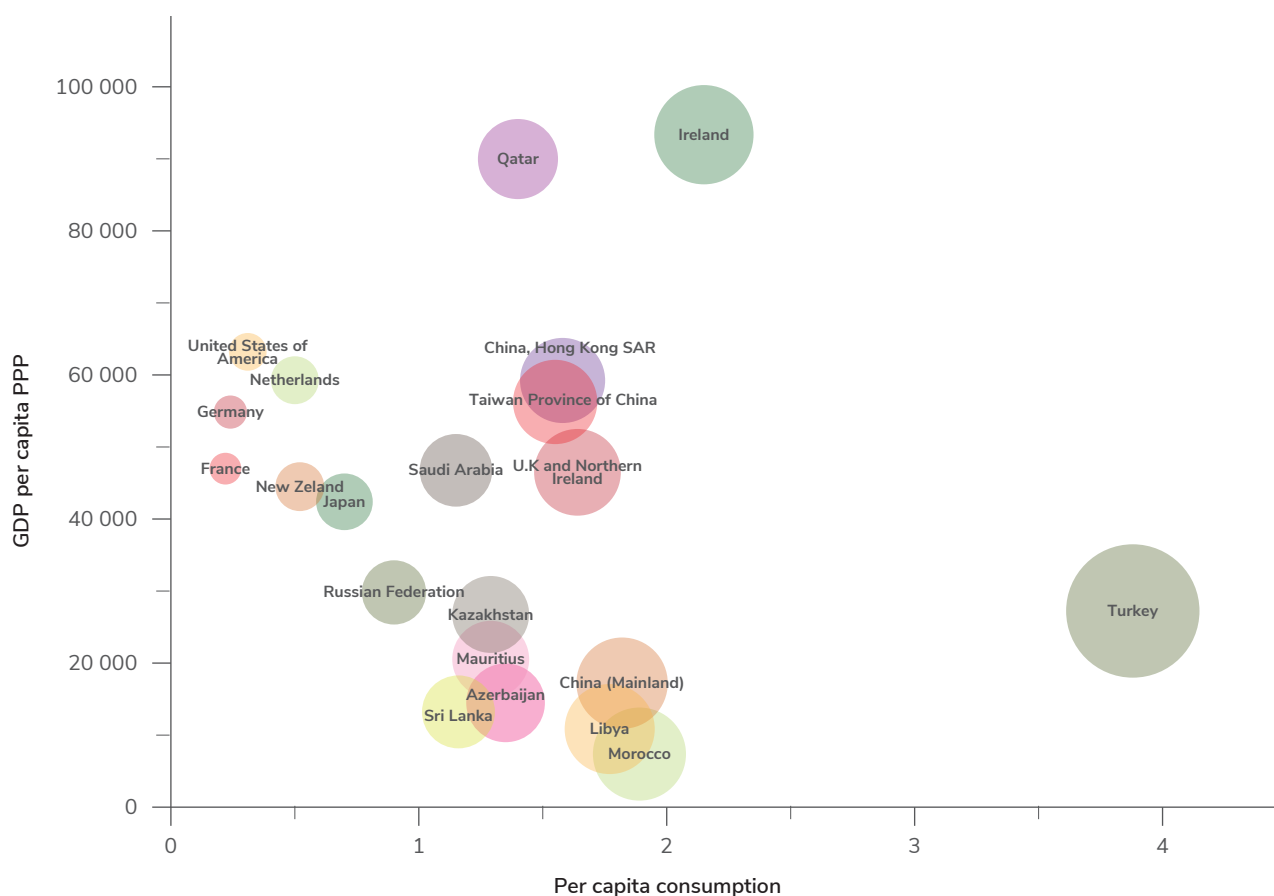
Figure 3. World tea market balance (total tea)



Source: FAO/EST (2022).

Per capita tea consumption expanded by 2.5 percent annually over the last decade. While declines were registered in traditional importing markets of Europe, Northern America and the Russian Federation, per capita tea consumption increased in producing countries, although marginally in most cases (figure 4).

Figure 4. Per capita tea consumption (2020)



Source: FAO/EST (2022).

Note: size of bubbles reflects per capita tea consumption.

Medium-term outlook

a. Production

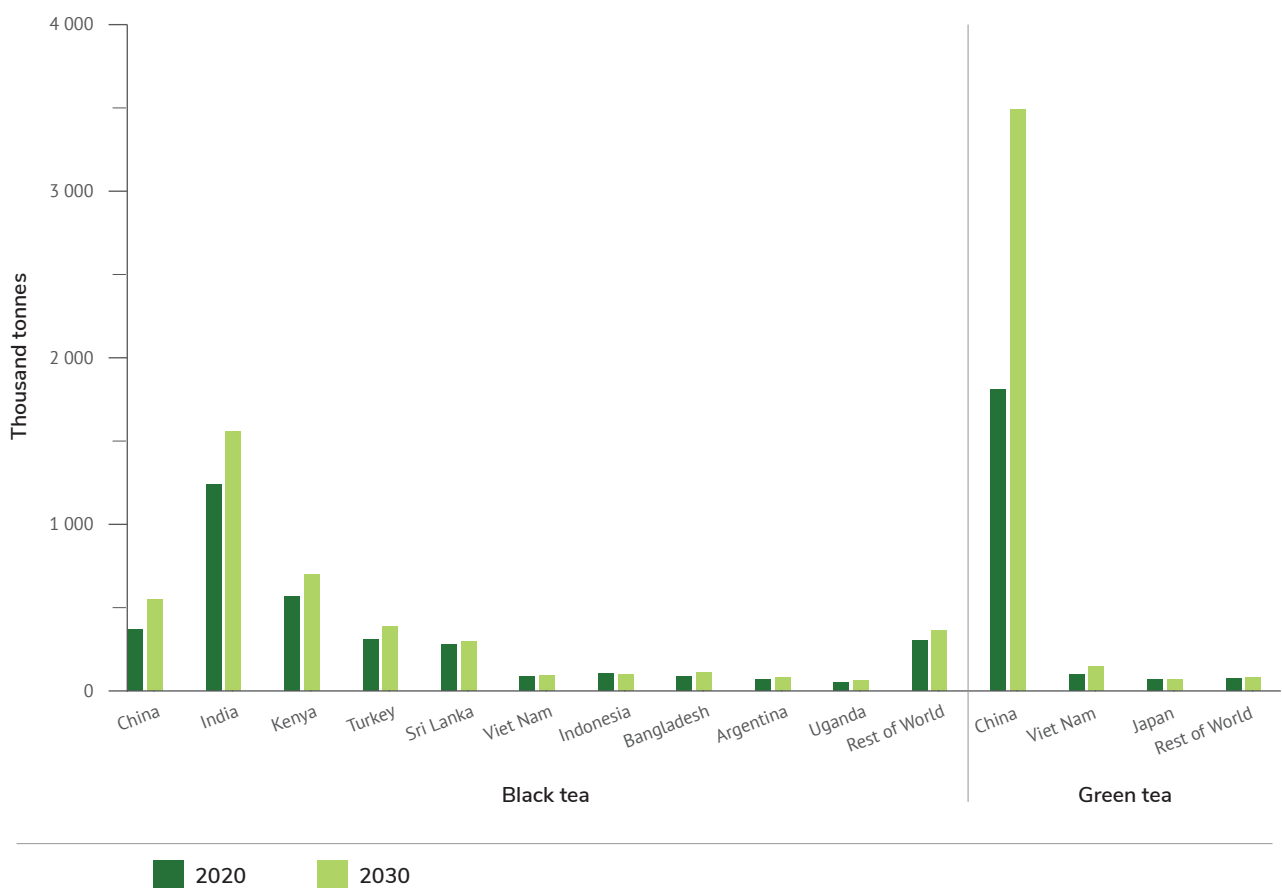
The medium-term outlook projections are based on the results of the FAO tea model, which is a partial equilibrium trade model covering the majoring importing and exporting tea countries. Price determination is based on the global market clearing framework, where the equilibrium price ensures total import demand is matched to total tea export supplies.

By 2030, world black tea production is projected to increase annually by 2.1 percent, at a slightly slower pace than the previous decade when growth stood at 2.4 percent, reflecting major increases in China, Kenya, India and Sri Lanka. The expansion in China is expected to be significant (4.1 percent), underpinned by strong growth in domestic demand for black teas such as pu'er, cultivated in the Yunnan Province in China. This variety of tea is aged and naturally fermented, and it is well known for its health

benefits and healing properties. Output in the top two exporters of black tea, Kenya and Sri Lanka, is expected to grow, respectively, by 2.1 percent and 0.6 percent annually, while output in India is projected to increase by 2.3 percent per year.

World green tea production is projected to increase at a faster rate of 6.3 percent annually, reflecting an expansion in China, where output is anticipated to nearly double by 2030. The expansion is expected to result from increased productivity rather than an expansion in area, through replanting of higher yielding varieties and better agricultural practices. Viet Nam is also expected to substantially increase its production of green tea with an average annual growth rate of 4.0 percent (figure 5).

Figure 5. Tea production by major producing countries



Source: FAO/EST (2022).

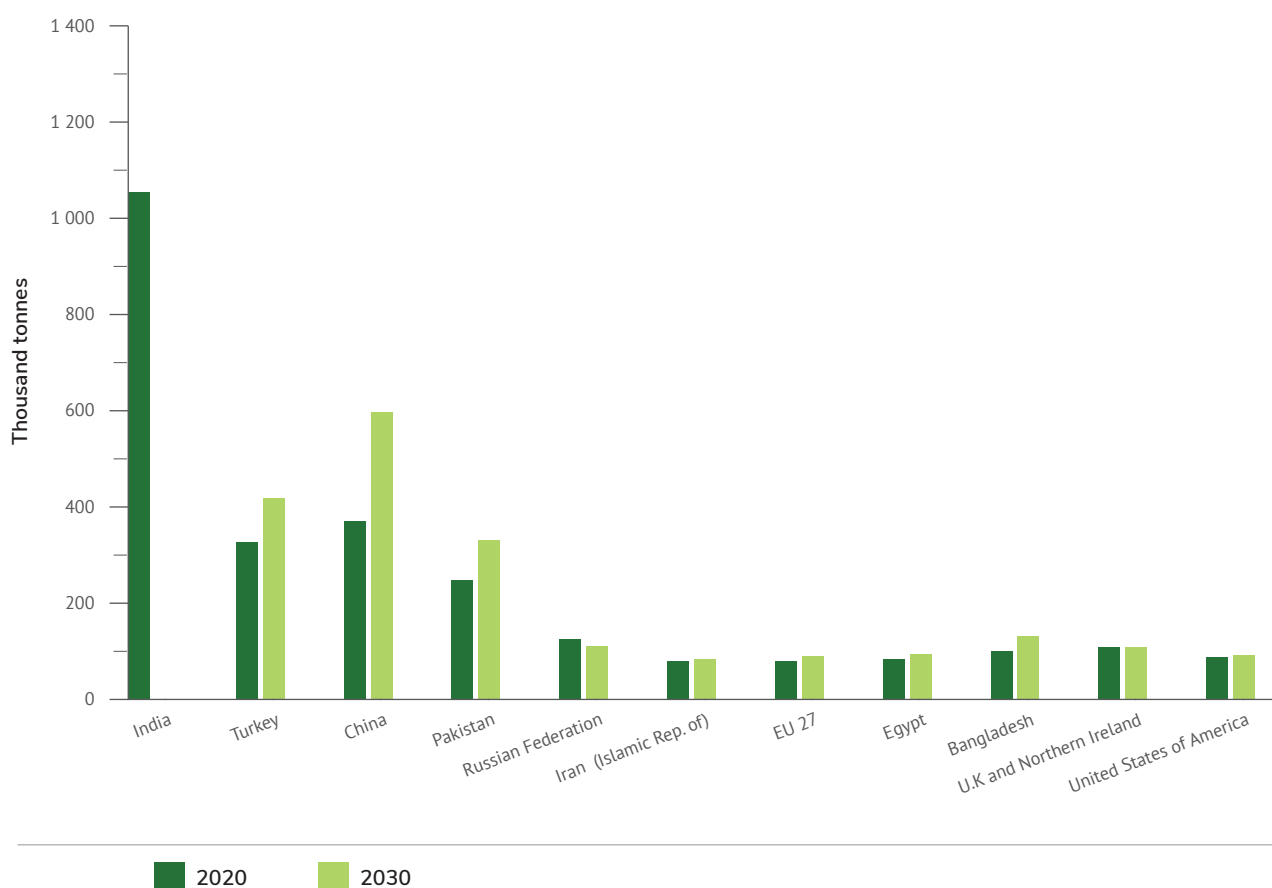
b. Consumption

World tea consumption increased by 3.5 percent over the last decade, reflecting strong growth in producing countries that has more than offset a subdued import demand in traditional tea importing markets, namely the Russian Federation, the European Union, the United States of America and Canada. Black tea consumption is projected to grow by 2.0 percent over the next decade. The largest expansion

within the top five producing countries is forecast in China, where consumption is expected to increase by an annual growth rate of 4.9 percent, as black tea, pu'er tea and dark tea are enjoying great popularity due to the increasing awareness of the health benefits linked to drinking tea. Strong growth is also expected in many producing countries in Africa and Asia, such as Uganda (8.1 percent), Rwanda (5.1 percent), Kenya (4.3 percent), Malawi (4.0 percent), Zimbabwe (3.8 percent), Bangladesh (2.8 percent), Nepal (2.4), India (2.1 percent), Indonesia (1.5 percent) and Sri Lanka (1.4 percent) (figure 6).

In the short run, the impact of COVID-19 on the tea market is estimated to be moderate. The market will continue to be underpinned by robust demand in developing and emerging countries, creating new rural income opportunities and contributing to food security in tea-producing countries. Tea consumption has grown particularly rapidly in China, India and other emerging economies, driven by a combination of higher incomes and diversification into other market segments, such as organic and specialty teas.

Figure 6. Black tea consumption by major consuming countries/markets



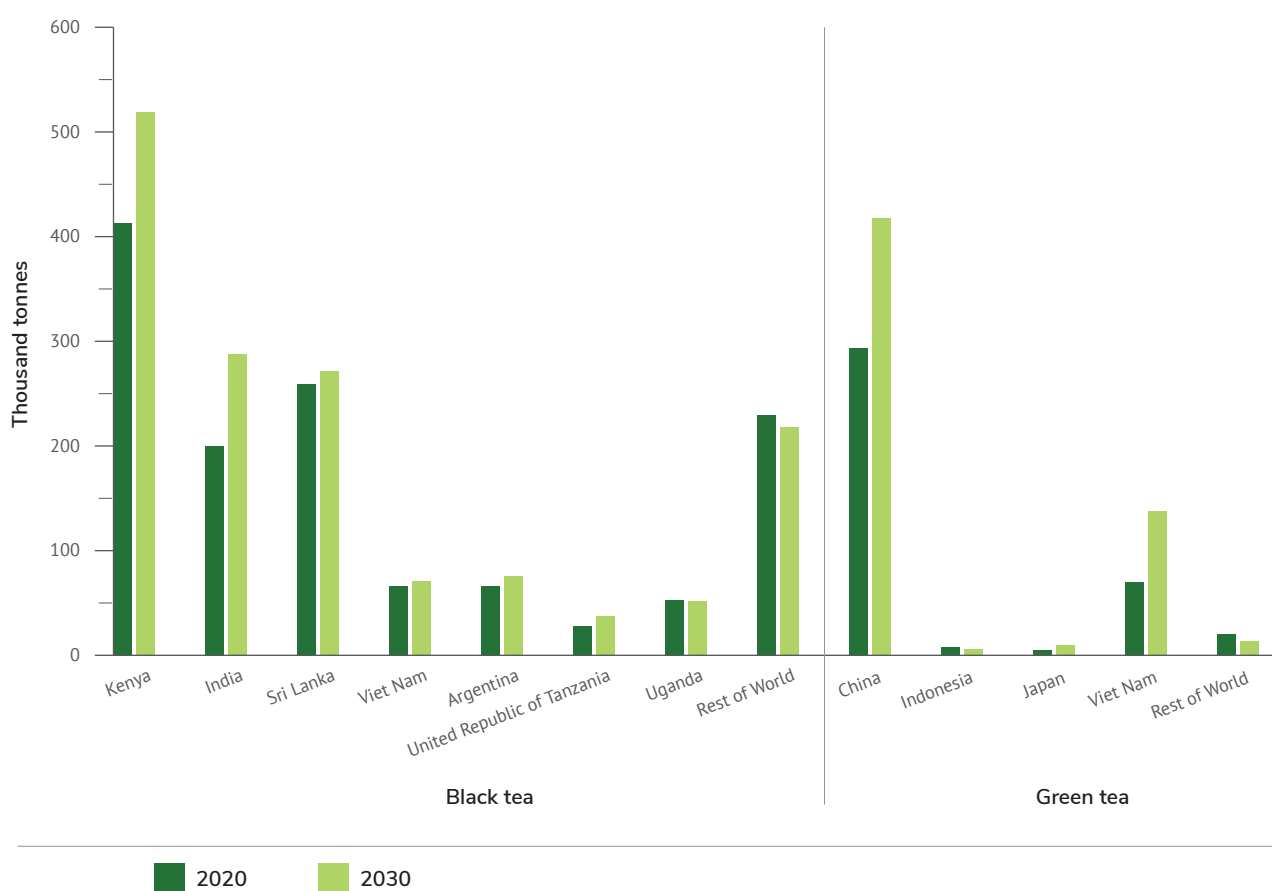
Source: FAO/EST (2022).

c. Trade

World tea exports increased annually by 0.5 percent over the last decade. Black tea exports registered a minor increase of 0.1 percent, owing to increasing shipments from Kenya and India, which more than offset reduced shipments by Sri Lanka, the second largest exporter of black tea. Green tea exports increased by 2.3 percent, mainly driven by increased sales by China and Viet Nam.

In the medium term, exports of black tea are projected to increase by 1.4 percent, on the back of expected larger shipments by Kenya, confirming the country's rank as the largest exporter, followed by India, Sri Lanka, Argentina, Viet Nam, Uganda and the United Republic of Tanzania (figure 7). World green tea exports are expected to grow at a faster rate over the medium term, by about 4.0 percent per year, driven by foreseen sharp increases in sales by the top three exporters. China is expected to continue to dominate the green tea export market, accounting for over 70 percent of global green tea exports and registering an annual increase of 3.6 percent up to 2030, followed by Viet Nam, with a share of over 20 percent. In terms of growth rates, Viet Nam and Japan are projected to lead, respectively, at 7.0 percent and 6.5 percent.

Figure 7. Tea exports by major exporting countries



Source: FAO/EST (2022).

Main issues and uncertainties

The tea sector faces a number of challenges that must be addressed to ensure its long-term sustainability. Climate change is threatening the livelihood of millions of tea farmers. Tea production is extremely vulnerable to climate-related events, and global warming is severely affecting yields and tea quality. Tea is mainly grown under rain-fed mono-cropping systems and weather conditions determine optimal growth. Changes in temperatures and rainfall affect not only the quality, but also the properties of tea leaves. Adaptation measures recommended by the FAO Intergovernmental Group (IGG) on Tea, include planting drought and stress tolerant tea cultivars, diversifying production, intercropping tea with other tree crops, organic cultivation and investing in water conservation technologies.

The sector must be sustainable environmentally, socially and economically. Carbon emissions and energy use are key variables. Environmental sustainability schemes that deal with relevant aspects, such as soil quality and biodiversity conservation, should be given priority. In addition, social standards that relate to labour, gender and equality have become increasingly important, and determine the competitiveness of the sector. Economic sustainability for the smallholder tea producers, which represent 60 percent of world tea production, can only be guaranteed if the returns from tea growing activities can cover at least the production costs and basic households' expenditures.

The promotion of market transparency and the economic sustainability of the tea value chain is another challenge that requires dedicated attention. International prices of tea in real terms, that is adjusted for inflation, have been declining for the past four decades, reflecting a tendency for technical improvements to increase yields and production faster than demand resulting from population and income growth. Economic sustainability entails that small-scale farm operations are also able to remain viable within a rather competitive market environment. Inclusiveness should be at the centre of sustainability. Other marketing options that have been explored, particularly by the FAO IGG on Tea, include raising the value of tea products through standards, specialty teas, product innovation and generic promotion.

Innovation and product diversification are key for future market expansion and for boosting tea consumption. For example, the Ready to Drink (RTD) tea market has been growing quite significantly, offering alternative market options to increase the earnings of tea growers. ●

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