

AN EAST AFRICAN TEA PERSPECTIVE

NOVEMBER 2011

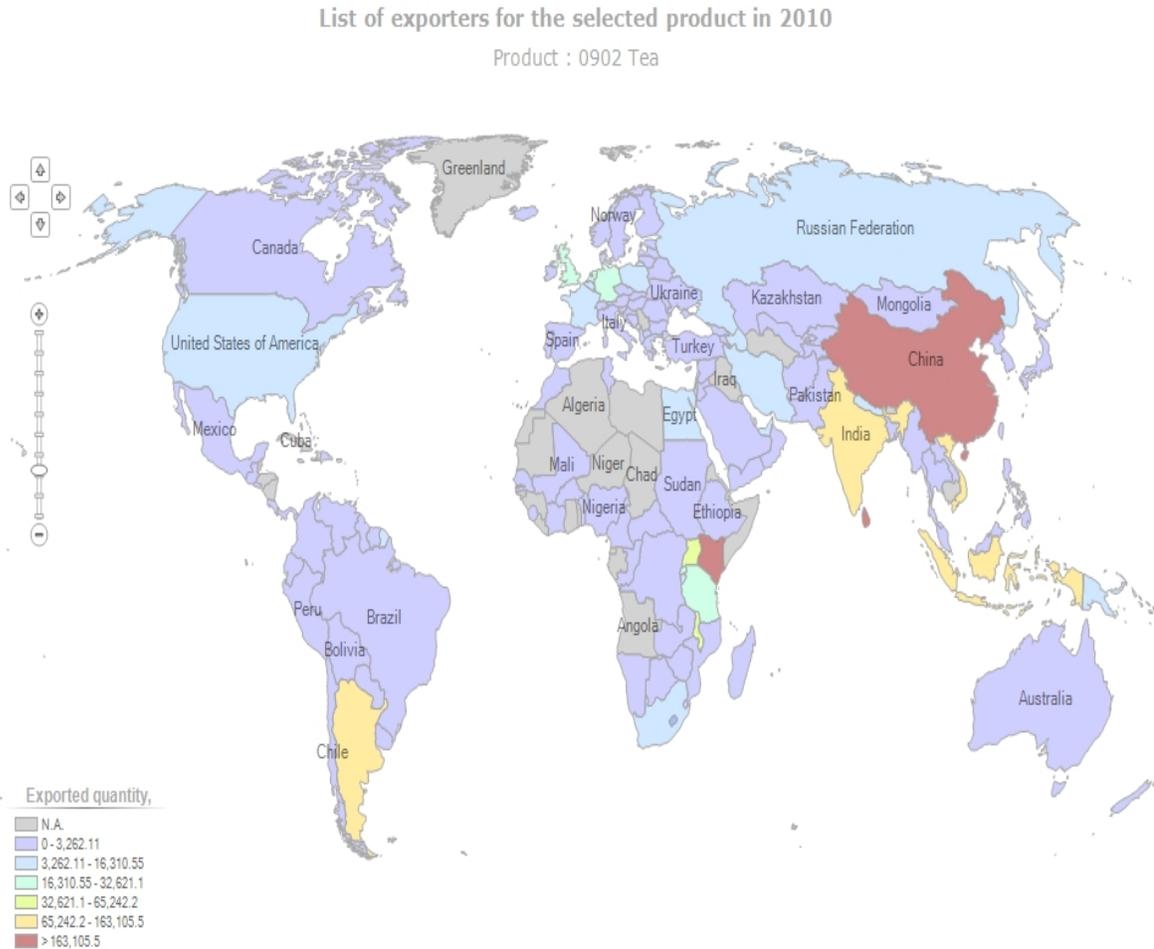
1. INTRODUCTION

- 1.1 This report discusses tea production in the following East African countries: Uganda, Rwanda, Kenya, Tanzania, Malawi, and Burundi.
- 1.2 Among the East African countries Kenya and Malawi are the largest producers of tea. The East African tea trade is based in Mombasa where the weekly tea auction has been setting prices since 1969.
- 1.3 While East African tea makes up only 14-16 per cent of world production it is well known for its ability to produce high quality black teas and fetch high prices at auction. This high quality results from the high altitude and uniquely fertile soil of the region.
- 1.4 However, overproduction, increased capacity among South East Asian producers, and a lack of transport infrastructure provide significant threats to the East African tea trade in the short and long term.
- 1.5 The future of the Mombasa Tea Auction is threatened by the following: advances in technology which could provide producers and traders with real-time information on quality and facilitate a futures market in tea, and a rise in the direct sale of teas among Kenya's tea producing neighbours.



2. EAST AFRICAN TEA IN CONTEXT:

2.1 Map of tea exports by volume



Source: International Trade Centre

2.2 East African Producers by Tonnage

	Countries	'000 Metric Tons	% of world production	% of world export value
1	Uganda	58	1.3	1.2
2	Tanzania	26	0.70	0.8
3	Kenya	439	11	20.5
4	Rwanda	22	0.58	.6
5	Burundi	7	0.20	.4
6	Malawi	59	1.4	1.4
	Total	941	16	27.5

3. TEA GROWTH, PRODUCTION, AND GRADING

3.1 Growth and Production

- 3.1.1 The vast majority of teas are grown from one plant species, *Camellia Senensis*. The various grades of a tea are determined after the green tea leaves of the plant have been plucked during the processing and blending stages.
- 3.1.2 The varieties of tea are determined by the environmental conditions and the processing method used. Ninety-eight per cent of East African teas are black teas.
- 3.1.3 In East Africa, the harvesting of green tea leaves goes on year round but peaks during a country's rainy seasons. Tea is grown throughout East Africa at altitudes ranging from 800-2,500 metres.
- 3.1.4 Harvested tea leaves must be processed within a few hours of being plucked from the bush or risk a lower quality final product. Tea leaves must be harvested manually and be handled gently to ensure that the leaves remain intact.
- 3.1.5 Tea harvesting and production is expensive because of the labour and processing facilities required.
- 3.1.6 During processing the moisture level of the raw tea leaves is reduced by 65-67 per cent; machines are then used to crush, tear, and curl (CTC) the leaves. This triggers a chemical process through which the tea gains its flavour.
- 3.1.7 Once the CTC process is complete sorting machines are used which gauge the size of the leaf, determine its grade, and remove stalks. The tea is best packed in double strong paper sacks lined with aluminium sheeting at an average weight of 70 kg.

3.2 Tea Grading

- 3.2.1 Grades of East African tea are determined by the quality of the leaf, particularly by its size and consistency after having been processed.
- 3.2.2 Black teas are graded on one of four scales of quality; whole leaf teas, broken leaves, fanning's, and dusts. The various grades of whole leaf teas consistently fetch higher prices than the other three grades.
- 3.2.3 However, two teas with the same grade will often fetch different prices at auction due to differences in flavour. The grades within the four categories above have no strict definitions and are only a nominal guide to value.
- 3.2.4 Most brand name teas are a blend of different varieties, grades, and additives.
- 3.2.5 Leaf density is an important factor in determining prices in markets with very strict standards.
- 3.2.6 Teas that have a high volume per 100 grams are inadequate for customers in these markets and are sometimes ignored by buyers.

- 3.2.7 The colour a tea produces upon being brewed will affect its price. Colour preferences for brewed tea usually follow regional patterns but among black teas a yellow colour is generally more valued than a darker colour.

4. THE MOMBASA TEA AUCTION

4.1 Pre-Auction and Selling Brokers

- 4.1.1 The Mombasa Tea Auction helps to set prices globally by bringing together teas from different countries
- 4.1.2 Teas sold at the auction are provided with 'Factory Marks' which designate the factory where they were produced.
- 4.1.3 Teas are sold according to the 'grades' previously discussed. Each batch of production of a single leaf grade is given a unique invoice number, before being packed into paper sacks and then into pallets.
- 4.1.4 The standard unit of tea is one pallet consisting of 20 packages and one invoice number will apply to a number of pallets made up of 20 packages of a single grade of tea.
- 4.1.5 Each factory invoice is provided with a 'lot number' which becomes the main reference for the various teas to be sold at the auction.
- 4.1.6 Buyers are always provided with samples for measurement and tasting before the auction.
- 4.1.7 Tea producers/processors do not sell their tea directly at the auction but are represented by their Selling Broker. It is the Selling Broker who is responsible for cataloguing their client's teas.
- 4.1.8 The format for the auction catalogues is uniform and includes the following: lot number, factory mark, grade, invoice number, number of packages, package type, net weight and weight per package.
- 4.1.9 There are currently eleven Selling Brokers who operate at the Mombasa Tea Auction; they form the Tea Brokers' Association and are subject to the Constitution Rules and Regulations of the East African Tea Trade Association (EATTA).
- 4.1.10 Mombasa Selling Brokers
- Africa Tea Brokers Ltd
 - Anjeli Ltd
 - Bicorn Exim Ltd
 - Centreline Tea Brokers Ltd
 - Choice Tea Brokers Ltd
 - Combok Ltd
 - Prudential Tea Brokers Ltd
 - Savings Tea Brokers Ltd
 - Tea Brokers East Africa Ltd
 - Union Tea Brokers Ltd
 - Venus Tea Brokers Ltd

4.2 The Auction System

- 4.2.1 Despite the dominant influence of a few large buyers who sell East African tea in the key export markets of Pakistan, Egypt, and the UK, the auction system still fosters competition.
- 4.2.2 Purchasing contracts between buyers and their clients are often determined by very small differences in pricing. This forces buyers to fulfil their client's orders efficiently, or risk losing their contract.
- 4.2.3 Buyers who are new to the tea trade can experience discrimination from brokers due to their perception of increased risk.
- 4.2.4 A list of buyers registered with the East African Tea Trade Association can be found at http://www.eatta.com/public_site/webroot/index.php/eatta-member-directory.
- 4.2.5 Fluctuations in tea prices are influenced by weather conditions, the cost of fertilisers, economic conditions in export markets, the availability of cash, and foreign exchange rates.
- 4.2.6 The tea auction is open to the public. 'Lots' of tea are sold to the highest bidder given that the minimum price set by the broker has been reached.
- 4.2.7 As 'lots' consist of multiple pallets they can be divided up between several buyers.
- 4.2.8 Buyers have ten days to make payment which is then automatically transferred to producers by electronic payment system.
- 4.2.9 Prices rise during the auction as buyers try and fill their order specifications. When purchase limits are reached and orders are filled prices begin to stabilise.

5. KEY TEA COMPANIES

5.1 Major Tea Producers and Traders

- 5.1.1 The three largest producers of black tea are Unilever which owns Lipton and PG Tips, Associated British Foods which owns Twining's, and Tata Global Beverages which owns Tetley.
- 5.1.2 Unilever buys around 12 % of the world's annual supply and is the world's largest purchaser of black tea. Through its subsidiary Brooke Bond Kenya Ltd, Unilever operates some of the largest tea estates in Kenya (over 8,000 hectares), as well as estates in Malawi and Tanzania.
- 5.1.3 Associated British Foods is the fourth largest tea trader in the UK. Its Twining's brand has an 11 % share of the UK tea market. Twining's tea buyers work with brokers at all of the world's tea auctions and also source their tea directly from estates.
- 5.1.4 Tata Global Beverages (TGB) is the world's second largest manufacturer and distributor of tea and has a 27% share of the UK market.
- 5.1.5 In Africa, TGB owns a 33 per cent stake in Joekels Tea Packers who are the third largest tea company in southern Africa. Joekels blend, pack, and sell major brands like Tetley in South Africa, Namibia, Botswana, Lesotho and Swaziland.
- 5.1.6 Major East African Producers:

- Unilever (Estates in Kenya, Malawi, and Tanzania)
- Williamson (Estates in Kenya)
- James Finlay (Estates in Kenya)
- Camellia (Estates in Kenya and Malawi)
- McLeod Russell (Estates in Uganda and Rwanda)
- L.A.B. International (Estates in Rwanda)

5.1.7 Other Major Tea Companies:

- Ace India (tea trading)
- Barry's Tea (finished tea products)
- Bewley's (finished tea products)
- Cargill (tea trading)
- Cadbury Schweppes (finished tea products)
- Global Tea & Commodities (tea production and trading)
- Harris Tea Company (finished tea products)
- Nestle (finished tea products)
- Taylors (finished tea products)
- Universal Commodities (tea trading)
- Van Rees Group (tea production and trading)

5.1.8 Tea companies with more limited operations in East African tea production and manufacturing are listed below by country.

6. LEAST DEVELOPED COUNTRY STATUS: PREFERENTIAL ACCESS TO KEY MARKETS

6.1 The Everything But Arms Agreement

- 6.1.1 The Everything But Arms Agreement (EBA) is a trade agreement which provides Duty-Free, Quota-Free access for products exported to the European Union from the countries on the U.N. Least Developed Countries list.
- 6.1.2 This agreement provides benefits to exporters of tea products from East African countries with the exception of Kenya which is not an LDC country.
- 6.1.3 The preferential rates of customs duty provided by the EBA and Generalised System of Preferences apply to imports in to all EU Member States.
- 6.1.4 To this date East African tea producers have been unable to take full advantage of this agreement because of a reliance on the Mombasa Tea Auction, a failure to directly market their tea in key export markets like the European Union and production capacity that lags far behind the regional leader (Kenya).
- 6.1.5 East African tea producers who develop their capacity to produce high quality, niche tea brands, and are able to directly market their products to buyers in the E.U. would benefit tremendously from this kind of preferential access. Further, the EBA is not subject to the renewal of the E.U.'s scheme under the Generalised System of Preferences and, therefore, is not limited in time.
- 6.1.6 The European Union and the East African Community (EAC) are currently negotiating the final terms of a comprehensive Economic Partnership Agreement intended to further promote the competitiveness of EAC products. This agreement would provide duty-free, quota free access to the EU for all imports from EAC countries including Kenya.

6.1.7 Aside from these preferential trade agreements the following tea products can be imported in to the EU/UK, regardless of the country of origin:

6.1.7.1 Green tea (not fermented)

6.1.7.2 Black tea (fermented) and partly fermented tea in packing's of a content not exceeding 3kg.

6.1.8 These nil rates of duty are available for imports of finished and unfinished tea by buyers based in the UK, and by buyers based in the UK but with subsidiaries in EBA eligible countries.

6.2 The African Growth and Opportunity Act

6.2.1 The African Growth and Opportunity Act (AGOA) is a trade agreement similar to the EBA intended to provide duty-free access to the U.S. market for exports from Sub-Saharan Africa.

6.2.2 All of the countries discussed in this report are eligible for AGOA benefits. These benefits expire in their current form in 2015.

6.2.3 In order to benefit from the above agreements importers must obtain proof of preferential origin in the country of origin which is issued in the beneficiary country concerned. This form must be declared on the customs import entry in order to benefit from the nil preferential rate of duty.

6.2.4 Finally, the tea must not be manipulated (blended, processed) during its transport from the beneficiary country to the relevant EU Member State.

7. THE EAC, COMESA, AND THE MOMBASA TEA AUCTION: OUTLOOK

7.1 The East African Community (EAC) common market came into effect in 2010 with the optimistic goal of being fully operational by 2015. EAC member countries include Kenya, Rwanda, Uganda, Tanzania, and Burundi, all of whom are major tea producers in the region.

7.2 The EAC as a whole has a population of about 126 million and a combined Real GDP of around U.S. \$ 74.5 billion. Like the European Union the EAC common market has as its goal the free movement of labour, capital, and goods within the EAC.

7.3 Rwanda, Uganda, Kenya, Malawi, and Burundi, are also members of the Common Market for Eastern and Southern Africa (COMESA). COMESA exists as a free trade zone in which the EAC is included. There is currently a forum underway to merge the EAC, COMESA, and the South African Development Community (Angola, Botswana, DRC, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, United Republic of Tanzania, Zambia, and Zimbabwe).

7.4 While it is important not to overstate the significance of these regional institutions their development should at the very least encourage cooperation on infrastructure. However, African governments often react negatively to the idea of relegating their sovereignty and this will undoubtedly lead to slow progress in other areas.

7.5 Member countries of the EAC and COMESA are currently at the bottom of world rankings for "Cross Border Trade". The development of these regional institutions has already allowed tea exporters to realise reductions in cross border trade barriers though, and thus a reduction in their production costs.

- 7.6 Further, as trade barriers are diminishing in the EAC, domestic consumption of tea is on the rise and tea producers and exporters in the EAC will have direct, tariff free access to a market of 126 million consumers.
- 7.7 Setbacks to the reduction of trade barriers will likely be characterized by the dominant influence of Kenya in the region, especially in the tea trade. Kenya faces growing production capacity amongst its neighbours, unpredictable environmental degradation, and with EAC tariffs a reduction in earnings revenue based on tea imports bound for the Mombasa Tea Auction.
- 7.8 The position that Kenya takes towards these threats and the position of buyers on the world tea market may lead to an increase in direct sales of tea and a declining role for the Mombasa Tea Auction system. The future role of the Mombasa Tea Auction system may be affected by the position of buyers on the world market and by the ability of other East African countries to encourage direct sales by large producers.
- 7.9 The Mombasa Tea Auction system is, however, entrenched in the way that major players in the tea trade operate where they are involved through subsidiaries in every aspect of the supply chain. Despite the potential for other East African countries to increase their direct sales, only a futures market in tea would lead to the end of the Mombasa Tea Auction system.

8. RWANDA

8.1 Tea Growth and Production

- 8.1.1 According to the Rwanda Tea Authority smallholders maintain 5,469 hectares for tea production. Almost 50 % of the country's land is devoted to growing tea. Industrial plantations maintain 4,027 hectares and tea grower co-operatives maintain 1,903 hectares.
- 8.1.2 Yields in Rwanda are low when compared to those of other African and Asian tea producing countries. Public sector tea plantations in Rwanda produce approximately 1,400 kg/ha and small holders 1,200 kg/ha.
- 8.1.3 Due to their use of fertilisers private sector plantations produce an average of 3500 kg/ha and co-operatives produce 2,600 kg/ha.
- 8.1.4 In Rwanda approximately 11,400 hectares are planted on the hillsides and marshes in the provinces of Byumba, Cyangugu, Giknogoro, Gisenyi, and Kibuye at altitudes of 1500-2200m. The ground soil and altitude along the Congo-Nile crest where these provinces are located provide an ideal location for tea plantations.
- 8.1.5 Distinctions in Rwandan teas are made between those grown on hillsides and those grown in the marshlands. Regardless, Rwandan tea is characterised by its consistent bright colour and all around quality.
- 8.1.6 The harvesting and processing of tea leaves in Rwanda takes place year round but production peaks during the two rainy seasons, from March to May and from October to December.

8.2 Tea Exports

- 8.2.1 In the near future small East African producers like Rwanda will have to compete with Asian producers who are increasing and stabilising their production

capacity. Rwandan producers will have to develop their position in the tea trade as marketers of high quality, niche teas in order to improve their competitiveness.

8.2.2 Rwanda is the fifth largest producer of tea in the region behind Tanzania. In the period from 2006-2010 Rwanda increased production by an average of 14% per annum.

8.2.3 In 2010 Rwanda earned \$ 55.7 million from tea exports up from \$ 48.2 million in 2009. These earnings amounted to 1 % of GDP (Real) and 23 % of the country's total export earnings.

8.2.4 Rwanda Tea Exports in relation to GDP (2010)

Country	'000 Metric Tons	Value of tea exports (\$)	Value of total exports (\$)	% of total exports	GDP (Real) (\$)	% of GDP
Rwanda	22	55.7 million	234.2.million	23	5.622 billion	1.0

8.2.5 Despite a fall in output due to adverse weather conditions export earnings rose by 4 per cent to \$ 34.3 million in the first half of 2011 compared to the same period last year due to rising prices.

8.2.6 The Rwandan government projects that output will rise to 35,000 MT/year. by 2012 under the government's plans to expand the amount of land used for growing tea to 21,000 hectares up from 12,000 hectares in 2009.

8.2.7 Ninety-nine per cent of Rwandan tea is exported to Kenya for sale through the Mombasa Tea Auction with its most common final destination being Pakistan. Other destinations include the United Kingdom, China, Uganda, France, and South Africa.

8.3 Rwanda Tea Legislation

8.3.1 Despite an on-going privatisation process Rwanda's tea production and marketing are still in large part managed by state owned companies with only a few private investors.

8.3.2 Agriculture spending is a priority for the Rwandan government which has instituted irrigation and transport projects to lower the cost of production, ease the privatisation process, and increase production capacity.

8.3.3 The Rwanda Tea Authority (OCIR-THE) is the state owned company in charge of the promotion, regulation, and monitoring of the tea industry in Rwanda. It was established by Law No. 49/2006 and given a mandate by the Ministry of Agriculture to ensure the production and supply of high quality tea to the international market.

8.3.4 The Rwanda Tea Authority has financial autonomy but is answerable to the Ministry of Agriculture. Further, OCIR-THE directly finances the production and marketing of tea for local and international markets.

8.3.5 Businesses exporting tea from Rwanda must register with OCIR-THE and obtain a certificate of origin.

8.3.6 Further, businesses exporting tea from Rwanda must obtain an Export Declaration form from the Commercial Bank of Rwanda. This process takes an average of five days and costs around U.S. \$ 12.00.

8.3.7 In 2006 the Rwanda Tea Authority established the “Tea Working Group” in association with free market think tanks, private investors, and Rwandan tea grower associations to develop a strategy for making the industry more competitive. The strategy given by the working group consists in developing the capability to export tea in value-added/packaged form, and in increasing production and manufacturing capacity.

8.4 Tea Supply Chain

8.4.1 While Rwanda’s landlocked geographical status and poor infrastructure mean high transport costs for producers, the country’s tea factories are well placed in relation to the main export hub of Kigali. Further, According to “Opportunities for Investors In Rwanda’s Tea Sector”, a joint paper by the Rwanda Development Authority and OCIR-THE, Rwanda has the highest paved road network density in the region.

8.4.2 Plans are underway to extend the road network by an additional 500 km and to rehabilitate more than 3000 km of the existing road network in the next five years.

8.4.3 Exports from Kigali bound for Mombasa currently must go by paved road to Kampala and then by rail or road to Mombasa via Nairobi.

8.4.4 Exports from Kigali bound for Dar es Salaam must go by road and then rail via Isaka.

8.4.5 Regional governments are currently seeking investors to develop a rail line from Kigali to Mombasa via Kampala and Nairobi, as well as a rail line to Isaka providing direct rail access to Dar es Salaam.

8.4.6 Five airlines have announced plans to offer regular cargo service from Kigali to Amsterdam, Brussels, Kinshasa, Nairobi, Addis, Dubai, and Johannesburg.

8.4.7 After being processed locally, which is necessary to ensure quality, Rwandan tea is transported to Mombasa where prices are determined on a day to day basis. Tea generally reaches the supermarket 20-30 weeks after being plucked from the bush.

8.4.8 Labour costs represent 55-60 per cent of production costs while only 3 per cent of the consumer price of Rwandan tea. Currently, eighty per cent of value is added further down the supply chain after being purchased in Mombasa.

8.5 Key Tea Companies

Nshili Kivu Tea Factory S.A.R.L.
Office des Cultures Industrielles du Rwanda (Rwanda Tea Authority)
Pfunda Tea Company
Rwanda Mountain Tea
Gisakura
Sorwathe S.A.R.L.
Nyabihu
Shagasha

8.6 Associations

Tea Association of Rwanda (est. 2011)

9. UGANDA

9.1 Uganda Tea Growth and Production

- 9.1.1 According to the Uganda Tea Authority there are 21,000 hectares of land that are used to harvest tea in Uganda. This is estimated to be only 10 per cent of the land suitable for growing tea in Uganda.
- 9.1.2 After coffee, tea is the second most important agriculture export for the Ugandan economy.
- 9.1.3 Like Rwanda, favourable climate, high altitude, and unique soil conditions allow Uganda to produce high quality teas. Ugandan teas are brightly coloured and have a strong taste.
- 9.1.4 It is estimated that around 60,000 small holder farmers grow tea in Uganda. Further, the tea sector in Uganda supports the livelihood of around 500,000 in a population of 32,709,865.
- 9.1.5 Tea farms and processing plants are found in the provinces of Mpanga, Igara, Mabale, and Kayonza.

9.2 Exports

- 9.2.1 Uganda is the third largest exporter of tea in East Africa after Kenya and Malawi.
- 9.2.2 In 2009-2010 Uganda earned U.S. \$ 75.9 from tea exports. Tea earnings in 2009-2010 accounted for 0.45 per cent of GDP and 2.5 per cent of total export earnings.
- 9.2.3 Uganda Tea Exports in relation to GDP (2010)

Country	'000 Metric Tons	Value of tea exports (U.S. \$)	Value of total exports (U.S.\$)	% of total exports	GDP (Real) (U.S. \$)	% of GDP
Uganda	58	75.9 million	2.972 billion	2.5	17.01 billion	0.45

- 9.2.4 Despite an increase in production capacity and an increase in the forecast for expected earnings from the Uganda Tea Association the future of the tea industry in Uganda is unclear. According to a report from the International Centre for Tropical Agriculture, the land suitable for tea growth in Uganda will be limited to mountains and hillsides if there is an average temperature increase of 2.3 degrees Celsius by 2050.
- 9.2.5 Ninety-eight per cent of Uganda's tea is exported to be sold at the Mombasa Tea Auction. Ugandan tea is also exported to domestic markets in Rwanda and the DRC.

9.3 Uganda Tea Legislation

- 9.3.1 After the expulsion of foreign nationals by the Idi Amin government plantation owners were forced to abandon their businesses leaving the Ugandan tea sector in disarray after Amin's departure.
 - 9.3.2 Succeeding governments began to intervene in the tea sector and in a joint venture with Tamteco the Uganda Tea Corporation (UTC) was created. Today, UTC has been privatised and accounts for 10 per cent of the country's production.
 - 9.3.3 The Ugandan tea sector began on a path to liberalisation when the Asians' Property Custodian Board sold off disputed plantations to private investors in 1990. Since that time the tea sector has been largely deregulated and small holders work in association with larger manufacturers to provide local governance of the industry.
 - 9.3.4 Today, tea factories in Uganda set their own quality standards and are self-regulating. There is no government regulator charged with responsibility for the tea industry in Uganda. Under this arrangement competition among plantation and factory owners is unregulated.
 - 9.3.5 Recently, grower associations have begun to criticize this set up and blame the lack of a government regulator for a decline in the quality of Ugandan tea on the world market.
 - 9.3.6 Businesses wishing to directly export Ugandan tea are obligated to either enter in to a contract with an established producer, or to invest in the development of their own tea plantation and processing factory which would allow for direct export.
 - 9.3.7 Ugandan exporters face real obstacles in the form of Kenyan regulations that contradict the spirit of the EAC Common Market Agreement. With zero per cent import tariffs on goods coming from EAC member countries Kenya faces a decline in revenue which it has sought to make up for by over-charging exporters for warehousing and requiring that tea imports awaiting auction be certified for quality.
- 9.4 Tea Supply Chain
- 9.4.1 Tea exports from Uganda are plagued by limited access to the sea ports at Mombasa and Tanzania due to delays and political conflict.
 - 9.4.2 The main trade route for Ugandan exports is the rail line operated by the Uganda Railways Corporation which reaches Mombasa via Jinja and Tororo.
 - 9.4.3 The rail line between Kampala and Mombasa (1200 km) takes a minimum of two to three days to transport goods to Mombasa along this route.
 - 9.4.4 The alternative trade route is Kampala - Mutukula – Dar-es-Salaam (1,800 km) with an average transit time of four days.
 - 9.4.5 The delivery circle at both the Dar-es-Salaam and Mombasa ports and the 'dwell time' (the period containers stay at the terminal) is within the range of three to ten days.
 - 9.4.6 Mombasa remains the only significant destination for tea being exported from East Africa partly because of its port status but also because of the weekly tea auction there which large producers have traditionally relied on to set prices.

9.4.7 Tea exporters in East Africa face significant transport and storage costs dealing with Kenyan regulators. However, waiting time for border entry has decreased with the introduction of the EAC Common Market.

9.5 Key Tea Companies

Dayalbhai Madanji & Co
Kijura Tea Factory Ltd
Kinkiizi Development Co. Ltd
Mabale Growers Tea Factory Ltd

McLEOD RUSSEL Uganda Ltd
Mpanga Growers Tea Factory Co. Ltd
Mwera Tea Estates Ltd
Nyambya Tea Company Limited
Rusekere Growers Tea Factory Ltd
Rwenzori Commodities Ltd
The Toro & Mityana Tea Co. Ltd

Uganda Tea Corporation
Uganda Tea Development Agency Ltd
Rusekere Growers Tea Factory Ltd

9.6 Associations

Uganda Tea Association

10. KENYA

10.1 Tea Growth and Production

10.1.1 Kenya is the world's largest exporter of black tea. While Kenyan teas can be of high quality they are widely used for blending purposes.

10.1.2 According to the Kenya Tea Development Agency small scale farmers produce 60 % of Kenyan tea.

10.1.3 Like other East African producers tea harvesting takes place year round in Kenya but the best teas are picked in February and March.

10.1.4 Kenyan tea plantations are located along the equator and west of Mt. Kenya in the counties of Aberdares, Kericho, Nandi, and the Kisii Highlands at altitudes of 1500-2500 metres.

10.1.5 Around eight per cent of Kenya's arable land is used for the growth and harvesting of tea.

10.1.6 Seventy-five per cent of Kenya's 9.2 million population are involved in agriculture.

10.1.7 The Kenyan tea sector faces an unpredictable future according to a recent report which argues that small increases in temperature will dramatically reduce the productivity of current Kenyan tea holdings.

10.2 Tea Exports

- 10.2.1 Kenya is the third largest producer of black tea behind China and Sri Lanka. Further, Kenya is the largest exporter of black tea in the world and the largest producer and exporter of tea in East Africa.
- 10.2.2 Tea amounts to 60 per cent of Kenya's total foreign exchange earnings and is the number one agriculture export earner in the country followed by coffee and horticulture.
- 10.2.3 In 2010, Kenyan tea generated U.S. \$ 1,028 billion dollars in export earnings accounting for 2.8 per cent of GDP and 20 per cent of total export earnings for that year.

10.2.4 Kenya Tea Exports in relation to GDP (2010)

Country	'000 Metric Tons	Value of tea exports (U.S. \$)	Value of total exports (U.S. \$)	% of total exports	GDP (Real) (U.S. \$)	% of GDP
Kenya	439	1.028 billion	4.984 billion	20	35.787 billion	2.8

10.3 Tea Supply Chain

- 10.3.1 Kenya's over reliance on the export of tea and coffee means that it is forced to import the bulk of its food and often faces food shortages. These food shortages played a large role in the political violence that Kenya experienced in 2007.
- 10.3.2 Further, these food shortages are another factor in Kenya's decision to seek extra revenue in the form of duties placed on tea imported in to Kenya for the purpose of re-export.
- 10.3.3 Faced with a lack of food security the Kenyan government has also instated programs to boost production capacity and export earnings from tea to offset the cost of importing its food. This policy is in conflict with environmental experts who say that Kenya faces an unpredictable environment at best for growing tea at its current rate.
- 10.3.4 The top destinations for Kenyan tea are Egypt, Pakistan, the United Kingdom, Afghanistan, Sudan and the United Arab Emirates.

10.4 Kenya Tea Legislation

- 10.4.1 The Tea Board of Kenya (TBK) was established in 1950. It monitors growing capacity and provides licensing and registration for processing factories, growers, buyers, brokers and packers.
- 10.4.2 The Tea Amendment Act 2010 provided an expanded mandate for the TBK by giving it responsibility for the promotion and marketing of Kenyan tea in external and domestic markets.
- 10.4.3 Further, the Act designated a new form of funding for the TBK and ended direct taxes on the production and sale of tea in favour of a value based tax. Under this

scheme the TBK raises revenue by placing an annual value-based tax on property used for the production and sale of tea.

- 10.4.4 This new form of revenue is intended to allow the TBK to hedge against the risks facing Kenya's tea sector and to prevent quality degradation and allow for product diversification.
- 10.4.5 The Kenyan tea sector remains in a large part liberalised with major freedom and growth in the private sector. Further, the Kenyan government in conjunction with the private sector exerts a great deal of pressure on tea producers/exporters from neighbouring countries.

10.5 Tea Supply Chain

- 10.5.1 Kenyan tea growers are well positioned to send their product to Mombasa for direct sale or to be sold at the weekly Mombasa Tea Auction.
- 10.5.2 The Mombasa Tea Auction is held every Monday except on public holidays when it is held the day after.
- 10.5.3 Further, Kenyan tea growers benefit from an established infrastructure for the purpose of processing green tea leaves in to black tea and sending the finished product to Mombasa
- 10.5.4 The following are estimated distances between major tea growing areas and Mombasa; Aberdares - 600 km, Kericho - 800 km, Nandi - 800 km, the Kisii Highlands 800 km.
- 10.5.5 The transport of goods from these regions depends on a major highway connecting Nairobi and Mombasa, the A109 or Mombasa Rd. The A109 runs along the same line as the Nairobi-Mombasa railway.
- 10.5.6 While road networks in the countryside are undeveloped and unreliable smallholder growers benefit greatly from the Kenya Tea Development Agency which manages 63 factories throughout the country on their behalf.

10.6 Key Tea Companies

Eastern Produce Kenya Ltd
James Finlay (Kenya) Ltd
Kaisugu Ltd
Kapchebet Tea Factory Ltd
Kenya Tea Development Agency Ltd
Kibwari Ltd
Kipkebe Ltd
Kiptagich Tea Estate Ltd
Maramba Tea Factory Ltd
Nandi Tea Estates Ltd

Ngorongo Tea Company Ltd
Nyayo Tea Zones Devt. Corporation
Siret Tea Company Ltd
Sotik Highlands Tea Estate
Sotik Tea Company Ltd
Unilever Tea Kenya Ltd
Williamson Tea Kenya Ltd

10.7 Associations

Kenya Tea Development Agency
Kenya Tea Growers Association
Tea Board of Kenya

11. TANZANIA

11.1 Tea Growth and Production

11.1.1 Tanzania has 22,721.55 hectares of land growing tea for commercial use. Of this land 11,272.10 ha are under the care of estate holders and 11,449.45 ha are run by small holders.

11.1.2 Tanzania is currently only using five per cent of its 44 million hectares of arable land for agribusiness.

11.1.3 According to a 2011 report written by the U.S. Department of Commerce the agricultural sector in Tanzania suffers from a huge unmet need for irrigation technology and an unmet need for adequate storage facilities.

11.1.4 The agriculture industry employs 80 per cent of the population in Tanzania.

11.1.5 Tea is grown in three regions in Tanzania: the southern highland zone (Mufindi, Njombe, Rungwe districts), the northeast zone (Lushoto, Korogwo, and Mukeza districts) and the northwest zone (Bukoba and Muleba districts).

11.1.6 Teas from Tanzania fetch high prices at auction because of their rich taste and golden-red hue. This sort of colouring is attractive to buyers who are seeking a good blending tea.

11.1.7 According to the Tanzania Tea Board there are 19 “primary” processing factories and five licensed blending and packing factories.

11.2 Tea Exports

11.2.1 Tanzania is the fourth largest exporter of tea in East Africa and it is the country’s fifth largest export crop.

11.2.2 In 2009-2010 Tanzania earned 56.97 million from tea export earnings which accounted for less than a quarter of a per cent of GDP and 1.49 per cent of total export earnings.

Country	'000 Metric Tons	Value of tea exports (\$)	Value of total exports (\$)	% of total exports	GDP (Real) (\$)	% of GDP
Tanzania	26	56.97 million	3.809 billion	1.49	23.295	0.24

11.2.3 Tea yields in Tanzania are low in comparison to other East African countries which is a result of small holder tea plantations being unfamiliar with the use of fertilisers. In 2010 the Tanzanian government began to subsidize small holder purchases of fertiliser which should help to increase output in the near-term.

11.2.4 Fifty per cent of Tanzanian tea is exported to Kenya for the Mombasa Tea Auction. One-fifth of Tanzanian tea is consumed in the domestic market while the

remainder is sold directly to buyers in the United Kingdom, South Africa, Pakistan, the United Arab Emirates and Poland.

- 11.2.5 As an EAC member with easy access to domestic markets in COMESA and EAC countries, the Tanzanian tea sector should be able to take advantage of reduced and non-existent import tariffs on tea.

11.3 Tanzania Tea Legislation

- 11.3.1 According to a U.S. Department of Commerce 2011 report, the Tanzanian tea sector presents one of the better opportunities for foreign investors in the country.
- 11.3.2 The Tanzania Tea Authority (TTA) was established in 1968 and dominated the tea sector throughout the supply chain. The TTA was responsible for purchasing tea from smallholders, setting prices, and processing tea at government factories.
- 11.3.3 The tea sector in Tanzania underwent a major liberalisation program in the early 1990s; however, heavy regulation in the form of export controls still hinders investment in the industry.
- 11.3.4 The Tea Act No. 3 1997 established the Tea Board of Tanzania essentially renaming the Tanzanian Tea Authority and adjusting its mandate. This led to a loosening of price controls and the sale of government owned factories to private investors.
- 11.3.5 Today, smallholder growers are still supported by the government in a policy that has seen considerable success in recent years with around one-third of Tanzania's tea being produced by smallholders.
- 11.3.6 Fifty per cent of Tanzanian tea is farmed by smallholder plantations and price controls are in place to encourage small holders to continue growing tea.
- 11.3.7 Only companies which own tea processing factories in Tanzania qualify for tea export permits. Imports of tea in to Tanzania are restricted to those imports coming from other East African countries.
- 11.3.8 The Tanzanian government is engaged in a process to boost production, processing and marketing based on performance factors. The strategy of the Tanzanian Tea Board will be laid out in their upcoming "ten-year plan" and should further reduce the mandate of the Tea Board.

11.4 Tanzania Tea Supply Chain

- 11.4.1 Tanzania has three major deep-sea ports located at Dar-es-Salaam, Tanga, and at Mtwara. Tea leaving processing plants in Tanzania can reach one of these ports as well as Mombasa via rail or road. Further, processing plants in Tanzania have road and rail access to the domestic markets in neighbouring southern African countries.
- 11.4.2 The tea sector in Tanzania currently lags behind Uganda and Malawi in export earnings in part because of the inadequate transport infrastructure that is available to smallholders.
- 11.4.3 Private estates provide their own transportation and processing facilities and are not dependent on public infrastructure.

11.4.4 Tea processing plants in the Iringa region are located in close proximity to the Tazara rail line and to a paved highway leading directly to Dar-es-Salaam. The region boasts the highest concentration of processing factories as well as highway access to export markets in southern Africa.

11.4.5 Tea processing plants in the Tanga region are located in close proximity to the deep sea port at Tanga and the auction house in Mombasa. Tanga has direct access to the North East railway line leading to Mombasa and to a paved road leading to the Tanzania-Kenya border town of Moshi. Further, processing plants in the Tanga region have easy access to Dar es Salaam by road/rail/sea.

11.4.6 Tea processing plants in the Mbeya region have direct access to southern African markets via the Tazara railway and to Dar es Salaam via the Tazara railway and by paved highway.

11.4.7 Tea processing plants in the Kagera region are in close proximity to domestic markets in the Great Lakes region.

11.5 Key Companies

Bombay Burmah Trading Corporation Ltd.

East Usambara Tea Company Ltd

Kagera Tea Company Ltd

Kibena Tea Ltd

Kisigo Tea Company Ltd

Mohammed Enterprises Ltd

Mufindi Tea Company Ltd

New Mponde Tea Factory Ltd

Unilever Tea Tanzania Ltd

Wakulima Tea Co. Ltd

11.6 Associations

Tanzania Tea Board

Tanzania Smallholder Tea Development Agency

Tea Association of Tanzania

12. BURUNDI

12.1 Tea Growth and Production

12.1.1 There are around 300,000 smallholder tea farmers in Burundi which has a population of about 8 million.

12.1.2 Smallholder plantations account for around 75 per cent of the area allocated to tea production in Burundi. Smallholder tea farmers are currently required to sell their product to the Burundi Tea Board (OTB). This is currently in dispute and is being adjudicated by an independent agency in Burundi.

12.1.3 The average yield for smallholder plantations is around 4 tons/ha compared to 4.8 tons/ha for factory estates.

12.1.4 A privatisation process began in 2007 and today there are seven privately held companies which compete with the Burundi Tea Board. The Burundi Tea Board owns five processing factories and purchases its tea from smallholders.

- 12.1.5 There are six tea producing regions in Burundi; Teza, Rwegura, Tora, Ijenda, Buhoro, and Mwaro with an OTB processing facility in each region except for Mwaro.
- 12.1.6 Out of approximately 995,000 hectares of arable land 8,000 hectares were used to farm tea in 2009.
- 12.1.7 Tea in Burundi is grown at altitudes of 1,500-2,000 metres. Tea harvesting takes place year round in Burundi but peaks during the two rainy seasons from February to May and from September to November.
- 12.1.8 Like its neighbour Rwanda, Burundian tea has the potential to fetch high prices at auction due to a combination of high altitudes, and unique soil composition.
- 12.1.9 However, the quality of Burundian tea has been driven down because of the government's failure to institute quality controls in its processing factories.

12.2 Tea Exports

- 12.2.1 Burundi is the sixth largest exporter of tea in East Africa behind Rwanda. In 2010 Burundi earned U.S. \$ 17.5 million dollars from tea exports which accounted for 1.17 per cent of GDP and 21 per cent of total export earnings.

Country	'000 Metric Tons	Value of tea exports (\$)	Value of total exports (\$)	% of total exports	GDP (Real) (\$)	% of GDP
Burundi	7	17.5	81.7 million	21	1.489	1.17

- 12.2.2 Aside from the influence of the Burundi Tea Board, the tea industry in Burundi suffers from a lack of well-maintained machinery at OTB managed factories and plantations. Further, the industry lacks associations for bringing together private factories and smallholders, as well as the public infrastructure necessary to maintain the production of high quality finished teas.
- 12.2.3 However, if the dispute between the OTB and the rest of the tea industry is resolved in favour of the on-going privatisation process, and there is increased private sector investment Burundi has the potential to develop a position in the market for direct sales of specialty teas.

12.3 Burundi Tea Legislation

- 12.3.1 Despite deregulation of the industry in 2007 which allowed seven private companies to compete with the Burundi Tea Board (OTB) the OTB still monopolizes all aspects of the tea supply chain in Burundi today.
- 12.3.2 Private tea companies, smallholders, and the OTB are currently involved in a dispute involving the OTB's refusal to allow smallholders to sell their raw tea leaves to private factories.
- 12.3.3 The resolution of this dispute should provide a good indicator for the future of the privatisation of the tea industry in Burun.

12.3.4 Despite privatisation reforms tea prices are still set by the OTB. In order to export Burundian tea businesses need to enter in to a contract with the OTB or with one of the seven private tea companies in Burundi.

12.3.5 Having consistently ranked at the bottom of the World Bank's "Ease of Doing Business Index" Burundi has tried to change its reputation by providing incentives to businesses and investors. Unfortunately, these efforts are hampered by the realities of the way that civil officials operate in Burundi and those wishing to operate a business there still face a maze of bureaucratic requirements and high costs.

12.4 Tea Supply Chain

12.4.1 The infrastructure development necessary in order to benefit further private enterprise in Burundi's tea industry is massive.

12.4.2 Eighty per cent of Burundi's tea exports are sold at the weekly Mombasa Tea Auction.

12.4.3 Four of Burundi's five largest tea trading partners are located in East and Central Africa; Kenya, Tanzania, the Democratic Republic of the Congo, and Chad. Oman is the second biggest importer of tea from Burundi.

12.4.4 Exporters of tea to Mombasa rely on the main highway connecting Bujumbura with Kampala (689 km) where there are direct highway and rail networks which connect to Mombasa (1,135 km).

12.4.5 Tea exporters transporting by truck and/or rail to Mombasa face an average transport time of 20 days.

12.4.6 Tea bound for the port of Dar es Salaam can be transported from the port of Bujumbura to Kigoma, Tanzania across Lake Tanganyika. At the port of Kigoma goods are transported to the deep-sea port of Dar es Salaam by rail.

12.5 Key Tea Companies

Office du The du Burundi
Prothem-Usine S.A.
Complex Burundo Hollandis
Caspian SA
Camellia

12.6 Associations

East African Tea Trade Association
Burundi Investment Promotion Agency
Burundi Revenue Authority

13. MALAWI

13.1 Tea Growth and Production

13.1.1 Tea from Malawi is particularly sought after for blending purposes because of the red colour it produces when brewed.

13.1.2 Private tea estates account for 93 per cent of production in Malawi.

- 13.1.3 Eight out of ten Malawians rely on agribusiness and there are approximately 10,000 smallholder tea farmers there.
- 13.1.4 During peak harvest periods the private tea estates employ a work force of 50,000 in a population of 14.9 million.
- 13.1.5 According to the Food and Agriculture Organization of the United Nations tea occupies 20,712 hectares of land in Malawi.
- 13.1.6 Eighty-five per cent of land which produces tea in Malawi consists of commercial plantations across 44 estates. Twenty-one of these estates are owned by Eastern Produce Malawi, a subsidiary of the agribusiness giant Camellia.
- 13.1.7 The major tea producing regions in Malawi are in the southeast of the country in the Mulanje and Thyolo districts.
- 13.1.8 Tea is harvested year round in Malawi but peaks during the period from December to April.

13.2 Tea Exports

- 13.2.1 Malawi is the second largest exporter of tea in East Africa after Kenya. The crop is Malawi's second biggest foreign-exchange earner after tobacco.
- 13.2.2 In 2010 Malawi earned U.S. \$ 79.4 million from tea export earnings which accounted for 1.57 per cent of GDP and 8 per cent of total export earnings.

Country	'000 Metric Tons	Value of tea exports (U.S. \$)	Value of total exports (U.S. \$)	% of total exports	GDP (Real) (U.S. \$)	% of GDP
Malawi	59	79.4 million	990.1 million	8	5.053 billion	1.57

- 13.2.3 Given favourable environmental conditions in the long term the tea industry in Malawi can look forward to an increase in domestic consumption among other East African countries.

13.3 Malawi Tea Legislation

- 13.3.1 Malawi has a 100 year history of commercial tea production and is a regional leader in the agribusiness today because of a favourable business climate for the large multinational corporations who are well established there.
- 13.3.2 The 1990s brought economic liberalisation to the Malawian economy and the tea industry benefited from an increase in quality and from infrastructure investment on behalf of the European Union.
- 13.3.3 In 1998 the Malawian government eliminated export taxes on tea and according to the World Bank tea export taxes continue to be insignificant in size.
- 13.3.4 Tea exporters do require an export license which can be obtained from the Ministry of Industry and Trade, and a certificate of quality which can be obtained from the Malawi Bureau of Standards.

- 13.3.5 The government's role in the tea industry is minimal and unlike its regional competitors there are no government or quasi government institutions with a specific mandate for regulating or promoting the industry. Instead, the Tea Association of Malawi (TAML) acts as a regulator and promoter on behalf of private companies and smallholders.
- 13.3.6 After the failure of smallholder tea associations established by the government new tea marketing and development associations were formed in 2007 on behalf of private estates and smallholders.
- 13.3.7 Smallholder members of these associations sell their produce directly to private estates and boast a combined membership of over 9,000.
- 13.3.8 Unlike tobacco and maize the Malawian government does not provide subsidies for smallholder tea production and does not set prices.

13.4 Tea Supply Chain

- 13.4.1 The tea industry in Malawi benefits from its own weekly tea auction which has been operating in the town of Limbe in Blantyre district since 1970.
- 13.4.2 One-third of Malawi's tea exports are sold at the Limbe auction while two-thirds are directly sold to buyers.
- 13.4.3 The top six importers of Malawian tea are the United Kingdom, South Africa, Kenya, Pakistan, the United States, and the Netherlands.
- 13.4.4 As a landlocked country tea exporters face high transport costs. The industrial capital of Malawi is located in the city of Blantyre where Malawi Railways provides transport services to the deep-water port at Nacala (800 km).
- 13.4.5 Twenty-six per cent of Malawi's tea is exported to South Africa. Exporters of Malawian tea to South Africa have the option of transport via the port at Nacala or by 22 hour truck drive to Johannesburg (1698 km).

13.5 Key Tea Companies

Conforzi Plantations Ltd
Kawalazi Estate Company Limited
Makandi Tea & Coffee Estates Ltd
Satemwa Tea Estates Ltd
Small Holder Tea Company (STECO)
Eastern Produce Ltd. (Camellia)

13.6 Associations

Tea Association of Malawi
Eastern Outgrowers Trust
Sukambizi Association Trust

14. CONCLUSION

- 14.1 East Africa produces the highest quality black tea in the world and has the ability to dramatically increase its production capacity.
- 14.2 If this increase in production is to occur it will have to be met by public sector investment in transport infrastructure. Without improvements in transport

infrastructure East African tea producers outside of Kenya will struggle to compete with the increased capacity of South East Asian producers.

- 14.3 East African tea producers garner significant benefits from the Mombasa Auction System in the form of a transparent market price and direct access to the port of Mombasa. However, East African producers will have to decide whether or not to continue using the Mombasa auction as the main outlet for their tea.
- 14.4 In the near future advances in technology will allow producers to inform buyers of the quality of their harvest in real time and to agree on a price without having to send it to the Mombasa Auction.
- 14.5 As domestic demand for tea continues to rise in East Africa, producers will have an alternative market for their tea that is characterised by less expensive transport costs.
- 14.6 Further, if the Kenyan government continues to increase costs for tea importers to make up for losses in revenue, East African tea producers will have another incentive to try and market their tea directly to buyers in foreign markets.
- 14.7 Aside from threats to the Mombasa Auction system the East African tea industry faces a major impediment in the form of environmental degradation which threatens to decrease the amount of land suitable for growing tea.
- 14.8 In facing these challenges the role of governments will be to provide incentives for investment in transport infrastructure, and to ensure that current production levels are not threatened by environmental degradation.