



14 TEA MARKET



Modern tea consumption is rooted in medicinal use in China five thousand years ago. Since, it has become the world's most popular drink (after water), whose industry employs more than 13 million people around the world. Tea grows well at high altitudes and in mildly acidic lands and can therefore be cultivated in areas unsuitable for other crops. Tea is primarily produced in Asia and Africa, with China, India, Kenya, Sri Lanka and Turkey accounting for 76 per cent of global production. Unlike coffee and cocoa, the majority of tea production is consumed locally, in domestic markets. Nevertheless, 44 per cent of global production was destined for export in 2011, worth US\$6.6 billion (Food and Agriculture Organization of the United Nations (FAO), 2013). About one-quarter of trade is destined for Russia, the United States and the United Kingdom (FAO, 2013) (see Table 14.1).

In 2011, 4.7 million metric tons of tea were produced in more than 45 countries on 0.07 per cent of the world's agricultural land.¹ Two million metric tons were exported during the same year through auctions (there is no stock and futures market for tea). The tea supply chain is characterized by vertical and horizontal integration, with a small number of companies controlling the entire tea supply chain, from packing to processing and consumer branding (Van der Wal, 2008).² About 85 per cent of

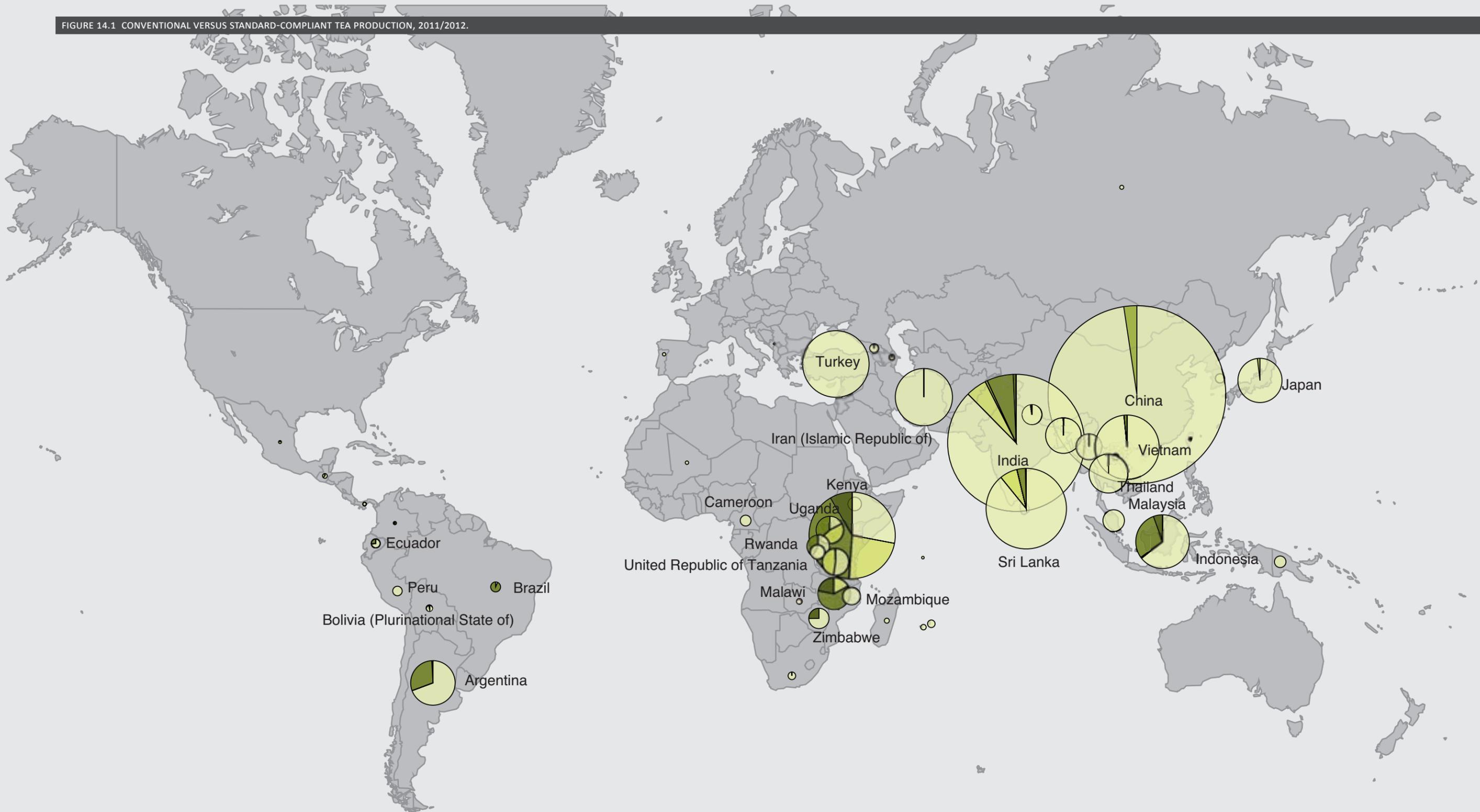
global tea production is sold by multinationals, three of which control one-fifth of the market: Unilever (12 per cent), Tata Global Beverages (formerly Tata Tea, 4 per cent) and Twinings (3 per cent) (Groosman, 2011). As a result, individual tea producers and/or labourers typically have little influence over the conditions of trade. In addition to this disadvantage, other sustainability issues associated with tea cultivation include labour rights, poverty, soil erosion, water management, pest management and deforestation. Major sustainability standards active in the tea sector include Fairtrade International, Organic (International Federation of Organic Agriculture Movements [IFOAM]), Rainforest Alliance, the Ethical Tea Partnership (ETP) and UTZ Certified. Together,³ these initiatives certified or verified 12 per cent of global production by 2011/2012 (see Figure 14.1). Approximately one-third of production is actually sold compliant with voluntary sustainability standards on the international market (or 4 per cent of global tea production and 9 per cent of exports). Kenya, India and Malawi were the biggest producers of standard-compliant tea by volume in 2011/2012. Figure 14.2 breaks this down by standard.

¹ In 2011 the area under tea production was 4,911,622,000 hectares.

² For example, of the main tea packers, Unilever owns brands Brooke Bond (United Kingdom) and Lipton (worldwide), and Tata Tea owns brands Tetley (United Kingdom, Canada, United States), Tata Tea (India) and JEMČA (Czech Republic), among others.

³ Excluding ETP.

FIGURE 14.1 CONVENTIONAL VERSUS STANDARD-COMPLIANT TEA PRODUCTION, 2011/2012.

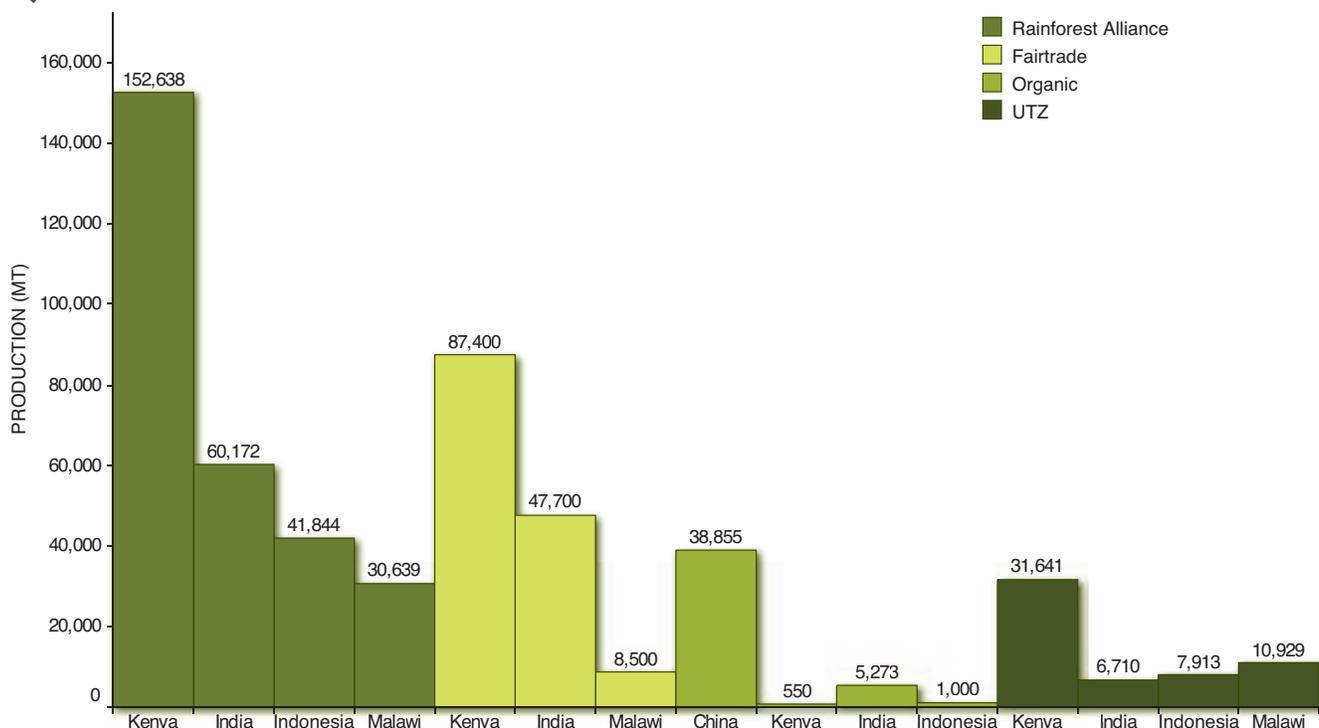


Circle size represents total production volumes; coloured slices represent volumes of standard-compliant tea production. Kenya is the largest producer of standard-compliant tea, while India and China are the largest producers of tea by volume. In Kenya, most of compliant production is Rainforest Alliance certified, whereas most compliant production in China is Organic certified.

Sources: FAO, 2013; FLO, 2012; C. Guinea, Rainforest Alliance, personal communication, May 14, 2013; J. Rijkenberg, UTZ Certified, personal communication, May 15, 2013; IISD, H. Willer, Research Institute of Organic Agriculture/Forschungsinstitut für biologischen Landbau (FiBL), personal communication, August 26, 2013.



FIGURE 14.2 LEADING PRODUCERS OF STANDARD-COMPLIANT TEA BY VOLUNTARY SUSTAINABILITY STANDARD, 2011/2012.



Sources: FLO, 2012; C. Guinea, Rainforest Alliance, personal communication, May 14, 2013; J. Rijkenberg, UTZ Certified, personal communication, May 15, 2013; IISD, H. Willer, FiBL, personal communication, August 26, 2013.

TABLE 14.1 STANDARD-COMPLIANT AND CONVENTIONAL KEY STATISTICS FOR TEA PRODUCTION AND TRADE.

KEY STATISTICS

Top 5 producers (76% of global) (2011)	China (35%), India (21%), Kenya (8%), Sri Lanka (7%), Turkey (5%)
Top 5 standard-compliant producers (81% of global) (2011/2012)	Kenya (40%), India (18%), Malawi (9%) Indonesia (8%), China (6%)
Top 5 exporters (70% of global) (2011)	China (16%), India (16%), Sri Lanka (16%), Kenya (15%), Vietnam (7%)
Top 5 importers (35% of global) (2011)	Russia (9%), United Kingdom (8%), United States (7%), Pakistan (6%), Egypt (5%)
Global production (2011)	4.7 million metric tons
Global exports (2012)	2 million metric tons (44% of production)
Trade value (2012)	US\$6.6 billion
Global area harvested (2012)	3.2 million hectares (0.07% of agricultural area – compare to 25 million hectares for sugar cane, 163 million hectares for rice, 217 million hectares for wheat)
Number of people employed by the tea industry	13 million
Major international voluntary sustainability standards	Ethical Tea Partnership, Fairtrade, Organic (IFOAM), Rainforest Alliance, UTZ Certified
Standard-compliant production (2011/2012)	577,000 metric tons (12% of production)
Standard-compliant sales (2011/2012)	174,000 metric tons (30% of compliant production, 4% of global production, 9% of exports)
Key sustainability issues	Worker health and safety, labour rights, poverty, pest management, water management, soil erosion, deforestation, maintaining biodiversity

Sources: Top 5 producers, top 5 exporters, top 5 importers, global production, global exports, trade value: FAO, 2013; Number of people employed by the tea industry: Groosman, 2011; Top 5 producers of standard-compliant tea, standard-compliant production and sales (2011 data for Fairtrade and Organic, 2012 data for Rainforest Alliance and UTZ): FLO, 2012; C. Guinea, Rainforest Alliance, personal communication, May 14, 2013; J. Rijkenberg, UTZ Certified, personal communication, May 15, 2013; IISD, H. Willer, FiBL, personal communication, August 26, 2013.

14.1 MARKET REVIEW



Market reach

Approximately 577,000 metric tons were standard-compliant in 2012, equivalent to 12 per cent of global production. Sales of compliant production accounted for 9 per cent of global exports during the same year (see Figure 14.3).

Growth

Standard-compliant tea production grew 33 per cent per annum from 2009 to 2012.

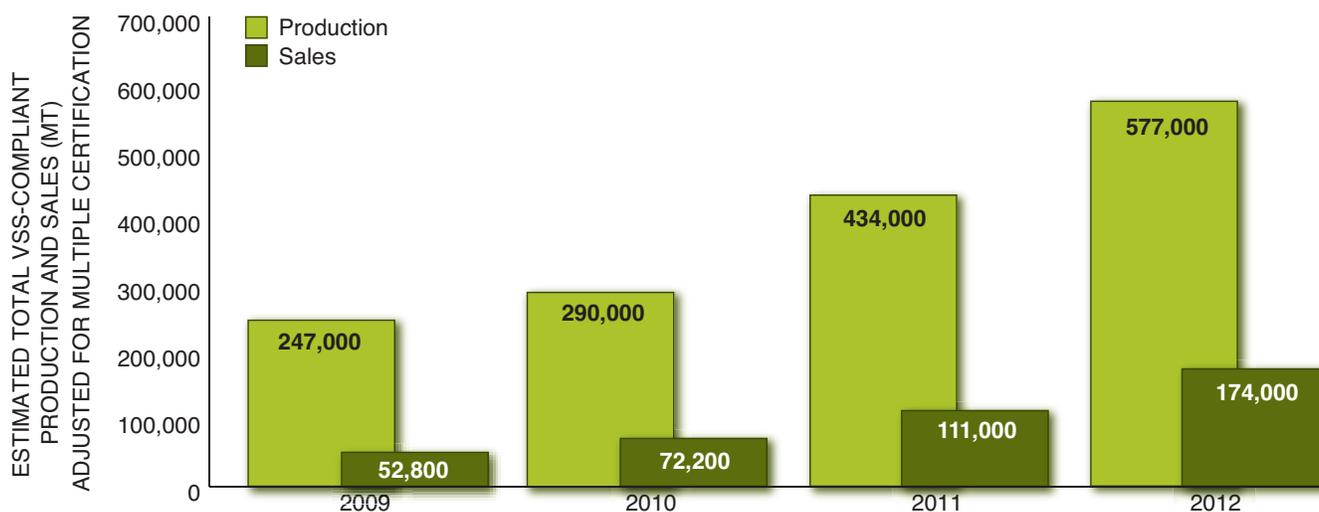
Regional importance

The most important producers of standard-compliant tea production in 2012 were Kenya (40 per cent) and India (18 per cent).

Pricing and premiums

Reported premiums for standard-compliant products range from 1 per cent to over 20 per cent. Lowest premiums have been reported for UTZ Certified tea, while highest premiums have been reported for Fairtrade certified tea.

FIGURE 14.3 GROWTH IN STANDARD-COMPLIANT TEA PRODUCTION, 2009–2012.

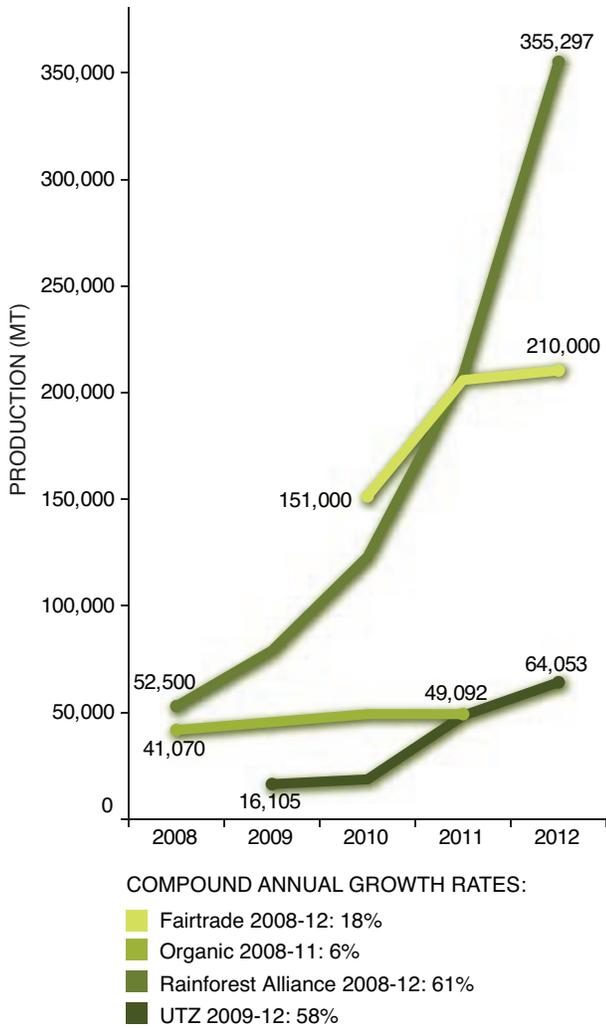


Sources: FLO, 2011b, 2012; C. Guinea, Rainforest Alliance, personal communication, May 14, 2013; J. Rijkenberg, UTZ Certified, personal communication, May 15, 2013; IISD, H. Willer, FiBL, personal communication, August 26, 2013.



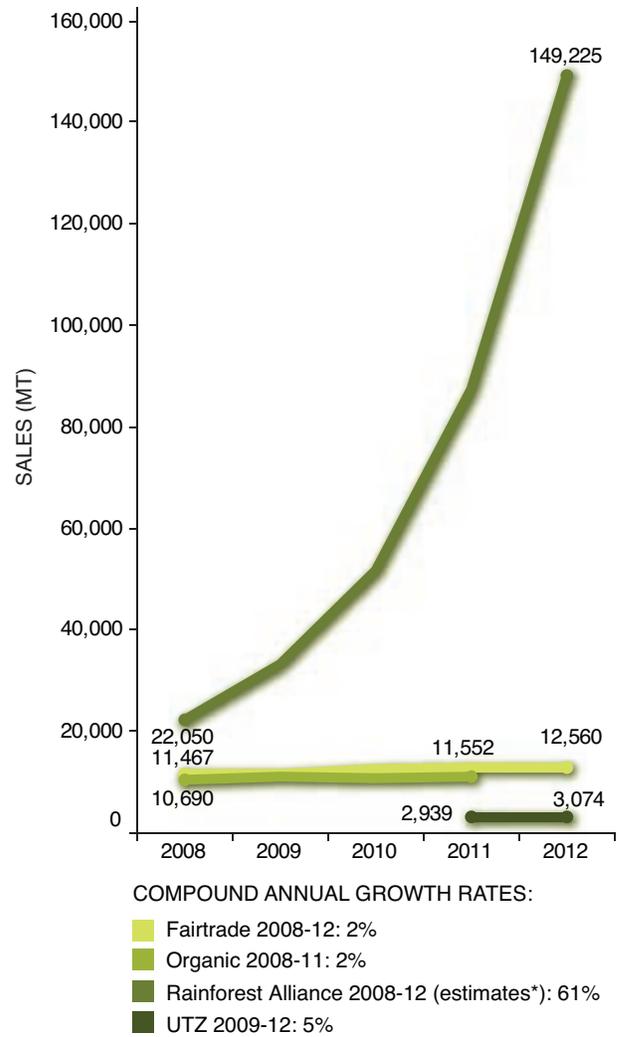
Photo: Neil Palmer (CIAT) / CC-BY-NC-SA

FIGURE 14.4 STANDARD-COMPLIANT FAIRTRADE, RAINFOREST ALLIANCE, ORGANIC AND UTZ CERTIFIED TEA PRODUCTION, 2008–2012.



Sources: FLO, 2011b, 2012; C. Guinea, Rainforest Alliance, personal communication, May 14, 2013; J. Rijkenberg, UTZ Certified, personal communication, May 15, 2013; IISD, H. Willer, FiBL, personal communication, August 26, 2013.

FIGURE 14.5 FAIRTRADE, ORGANIC, RAINFOREST ALLIANCE AND UTZ CERTIFIED TEA SALES, 2008–2012.



*Rainforest Alliance sales data estimated using a multisector, average sales-to-production ratio of 42 per cent.

Sources: FLO 2011b, 2012; C. Guinea, Rainforest Alliance, personal communication, May 14, 2013; J. Rijkenberg, UTZ Certified, personal communication, May 15, 2013; IISD, H. Willer, FiBL, personal communication, August 26, 2013.



14.2 MARKET DEVELOPMENT

In 2012, 577,000 metric tons, or 12 per cent of global tea production, was considered compliant with a global sustainability standard. Rainforest Alliance has seen the largest year-over-year increase in the last two years, with about 190 per cent growth in certified production volumes between 2010 and 2012 and 365 per cent growth in certified land area coverage. Fairtrade International and UTZ Certified have experienced double-digit growth, while Organic production has remained relatively stable over the last few years (see Figure 14.4).

While tea production can impact the environment in a variety of different ways, one of the most challenging issues historically has been that of habitat conversion related to the establishment of tea plantations and tea processing (Clay, 2004). Large areas of highly biodiverse forests have been replaced with single-species (monoculture) tea production over the course of tea's expanding production. Tea drying also requires significant amounts of fuel that in many cases relies on wood, which in turn can put additional pressure on local forests. Although the encroachment of tea plantations in some regions has slowed in recent years, it continues to be a major issue in East Africa today (McLennan, 2011). Aside from loss of biodiversity, such practices can also alter the flow of water, leading to an increase in soil erosion, the loss of wetland habitats and the pollution of rivers and lakes.

Because tea is typically grown using monoculture production systems in a plantation setting, vulnerability to pest infestation is also high, and pesticide application can play an important role in corresponding ecosystem health, as well as worker health and safety. Agrochemicals used in tea production have been specifically associated with respiratory and water-borne diseases (Sivaram, 2008). The drying of tea leaves is responsible for significant levels of energy consumption, especially where outdated machinery is used, as is the case in many developing-country settings (Sustainable Trade Initiative/Initiatief Duurzame Handel (IDH), 2010).

As with other major tropical commodities, the provision of decent wages and working conditions for workers and their communities represents a major issue for the tea sector. With production occurring predominantly on plantations, poverty is primarily an issue at the level of the individual tea worker. Although labour and pay conditions are usually regulated by government in such settings, tea work has historically been considered unskilled and therefore tends to pay lower wages, with reports of tea wages often below a living wage (Oxfam, 2013). As a result, many tea workers living on estates depend on the owners to meet their basic needs such as health care, housing, utilities, access to water and education for their children (Fairtrade Foundation, 2010). The ETP reports that estate workers may face discrimination, harassment, gender inequality, poor living conditions and poor access to health care (ETP, 2011a).

These and other sustainability challenges in the tea sector have driven the development and adoption of various tea-specific standards by Fairtrade, Rainforest Alliance, UTZ, ETP and Organic standards bodies. Significant growth in standard-compliant

production and sales in the tea sector is a relatively recent phenomenon (see Figure 14.4 and Figure 14.5), driven largely by large-scale commitments from major tea manufacturers. One of the advantages of the highly concentrated structure of the market has been the ability of major companies to transition supply to standard-compliant sources relatively rapidly.

As is the case in virtually all agricultural commodities, Organic certified tea has been available since at least the 1970s through a network of national Organic standards bodies. Between 1995 and 2008, Organic tea production and consumption grew between 10 per cent and 20 per cent per annum, arguably paving the way for other voluntary standards to enter the market; however, since 2008, Organic production and sales have tapered off significantly at levels well below 10 per cent per annum. As of 2011, Organic tea production had reached approximately 49,000 metric tons, making it the smallest supplier, by volume, of standard-compliant production. The recent performance of Organic tea is in stark contrast to overall market trends, where standard-compliant tea production and consumption has grown astronomically over the past several years.

Fairtrade certified tea first entered the market in 1993 when Transfair Germany certified its first tea plantation (Reed, 2008). In 1994, Clipper Tea introduced the first Fairtrade certified tea for sale in the United Kingdom (Fairtrade Foundation, 2008). The Fairtrade market has been defined by supply-led growth. While per-annum growth in production over the past several years has been 18 per cent, actual sales growth has hovered around 2 per cent. The mismatch between supply and demand is such that only 6 per cent of total Fairtrade production was sold as Fairtrade tea on the international market in 2012.

Although the markets for Fairtrade and Organic tea have stabilized in recent years, a series of major partnerships between some of the largest tea manufacturers and other voluntary sustainability standards have led to significant growth (see Box 14.1). Perhaps most notably, Unilever, owner of the Lipton brand and the largest tea company globally, has played a leading role in driving the market for certification by committing to source all of its tea products from Rainforest Alliance certified farms by 2020. Tata has committed to sourcing 100 per cent of its Tetley tea brand from Rainforest Alliance certified farms by 2016.

Recent growth in standard-compliant tea production and sales is almost entirely driven by large-scale corporate commitments to sustainable sourcing. Implementation of these agreements involves not only a commitment to source tea applying sustainable practices, but also an investment in capacity building so that sustainable supply is available.

Unilever has committed to source all the tea for its Lipton brand tea bags from Rainforest Alliance certified farms by 2015. By 2020, Unilever aims to have 100 per cent of the tea across all of its brands sustainably sourced.⁴ In 2010, Unilever reached its interim target of sourcing all of its tea for Lipton Yellow Label tea bags sold in Western Europe from Rainforest Alliance compliant farms. As of 2013, 39 per cent of the tea purchased for all of Unilever’s brands is Rainforest Alliance certified, and 75 per cent of Lipton tea bag blends contain Rainforest Alliance certified tea. In order to enable such widespread transformation, Unilever, in collaboration with other partners such as IDH, has also made significant commitments to investing in the transition to sustainable practices across its supply base.

Unilever’s Sustainable Tea Agriculture project in Turkey is one noteworthy example. Being the third-largest producer of tea and the fourth-largest tea market, Turkey is one of Unilever’s main centres for tea production and sales, with over 15,000 farmers in three factories based in the country. To help its producers in Turkey achieve Rainforest Alliance certification, Unilever’s initiative aims to give one-on-one training to tea growers, assisting them

in managing erosion control, waste management, work safety, record-keeping, biodiversity, fertilization and pruning. Unilever collaborates with the Regional Chamber of Agriculture in Turkey for performing soil analysis and corrective measures. Unilever also has plans to provide approximately 5,000 female growers with health services as part of its investment in Turkey.

At the same time, the second-largest tea manufacturer, Tata, has committed to sourcing 100 per cent of the tea under its Tetley Tea brand from Rainforest Alliance certified farms by 2016. By September 2012, Tetley had achieved Rainforest Alliance certification for 50 per cent of its tea (amounting to nearly 20,000 metric tons in 2012). As part of the initiative, Tata foresees the training of over 82,000 smallholder farmers across its major tea growing regions. In 2010, Tetley’s first products containing tea from Rainforest Alliance certified farms became available in the United Kingdom. Tata created the Tetley Farmers First Hand initiative, a Facebook-based social media campaign that encourages a group of smallholder farmers and estate workers who are working toward Rainforest Alliance certification to use their mobile phones to share aspects of their daily lives and give other people the chance to experience their journey to certification (Thorpe, n.d.). It is hoped that this initiative will help increase both tea consumer and producer awareness of tea sourcing and sustainability issues.

4 This percentage includes loose tea and tea from Unilever’s other brands like PG Tips and Brooke Bond.

Company (brand)	Degree of commitment	Target Voluntary sustainability standard	Timeline for implementation
Tata (Tetley)	100% of Tetley branded tea (50% already certified by 2012)	Rainforest Alliance	2016
Unilever (Lipton)	100% of Lipton tea bags	Rainforest Alliance	2015
Unilever (All)	100% of all tea (including loose tea – 36% certified by 2013)	“sustainably sourced”	2020
DE Masterblenders 1753 (Pickwick, All)	40%	UTZ; all brands participate in ETP program	Current
Twining’s (Everyday)	100% of Everyday brand	Rainforest Alliance; all Twining’s brands committed to purchasing through ETP program	2015
Yorkshire Tea (All)	100% (75% already certified by 2013)	Rainforest Alliance	2015

Sources: DE Master Blenders 1753, 2012; Rainforest Alliance, 2013b; Tetley, 2012; Twining’s, 2012; Unilever, 2013; Henderson & Nellemann, 2012.

BOX 14.1 CONTINUED

Although Unilever and Tata have focused their commitments on Rainforest Alliance certification, other large companies such as Finlay, Van Rees, DE Master Blenders 1753 and Apeejay Group have targeted other voluntary sustainability standards such as ETP, Fairtrade and Organic. In 2010, Sara Lee (whose coffee and tea business is now called DE Master Blenders 1753) claimed to be the first company to source UTZ Certified tea, with a purchase of about 2,000 metric tons. The company now sources 40 per cent of its tea from UTZ Certified farms (DE Master Blenders, 2012). The Apeejay Group has had two Fairtrade certified tea plantations in India since 2009 (Apeejay Surrenda Group, 2013). Finlays advertises itself as the largest trader of Fairtrade tea in the world (Finlays, 2011a) and, in addition, has certified most of its farms and estates in Sri Lanka and Kenya according to Rainforest Alliance standards (Finlays 2011b, 2011c). Van Rees claims to ascribe to Rainforest Alliance, UTZ Certified, Fairtrade and Organic practices (Van Rees Group, 2011). In 2010, Twinings began to incorporate Rainforest Alliance-compliant tea into its Twinings Everyday brand, starting with 30 per cent certified content; Twinings has committed to working its way up to 100 per cent certified content by 2015 (Rainforest Alliance, 2013b; Twinings, 2012). Yorkshire Tea has made a similar commitment (Henderson & Nellemann, 2012). Major British supermarkets such as Marks & Spencer have also committed to sourcing all of their house brand teas from Fairtrade certified producers (Marks & Spencer, 2006).

Industry coalitions have played an important role in the sustainability transition of tea for several decades. In addition to ETP (see Box 14.2), another coalition, Tea 2030, was established more recently by a group of tea companies including Tata, Unilever, Yorkshire Tea and Finlay, and later joined by voluntary sustainability standards like Fairtrade International and Rainforest Alliance. The initiative aims to explore how the tea industry could change over the next 17 years and aims to use a collaborative systems approach to solve long-term problems like adapting to climate change, increased demand for water and energy, and competition for land use. The coalition is very young, running its first projects in 2011, but is another example of a collaborative approach to addressing sustainability problems in the tea sector. Given the level of corporate commitments, the market presence of sustainability standards in the tea sector is expected to continue to grow at a rapid pace. While it is clear that Rainforest Alliance will continue to strengthen its leadership position in the supply of sustainable tea globally as Unilever and Tata continue to roll out their programs, growth opportunities remain for other initiatives as well, such as UTZ Certified, ETP and Fairtrade. As a result, we expect total annual market growth to continue at over 20 per cent per annum for the coming several years.

BOX 14.2 THE ETHICAL TEA PARTNERSHIP

The Ethical Tea Partnership (ETP—formerly called the Tea Sourcing Partnership) was established in 1997 by large British tea companies including The Tetley Group, Twinings, Unilever and Finlay. ETP offers an eco-label program and monitoring and certification services for its ETP Global Standards, which are largely sourced from International Labour Organization standards but also include environmental criteria. The organization helps producers prepare for a third-party audit against its standard through monitoring self-assessments, hosting workshops, coordinating training on areas of difficulty, providing frameworks for organizational policies, and generally serving as a resource center for producers regarding the adoption of sustainability standards. The ETP Global Standards are particularly well aligned with the objectives of voluntary sustainability initiatives such as Fairtrade, Rainforest Alliance and UTZ, and often serve as a

“step-up” to these standards. Producers can access the program free of charge, and ETP offers producers training on a number of issues, from improving on-site health and safety, to eliminating discrimination in the workplace, while also helping tea producers adapt to climate change and respond to other global issues such as energy efficiency and market access “for smallholders.” Member companies have to declare all volumes for European, North American, and Australasian markets, paying a levy of 1p per kilogram, or £10 per metric ton (roughly 0.5 per cent over the November 2013 tea auction price in Mombasa of 2.16 per kilogram [IndexMundi, 2013c]).

Source: ETP, 2013.

14.3 MARKET PERFORMANCE



TABLE 14.2 IMPORTANCE OF VOLUNTARY SUSTAINABILITY STANDARD (VSS) TEA PRODUCTION AND SALES RELATIVE TO THE GLOBAL MARKET.

	VSS production (mt)	VSS production market share of global production	VSS production market share of global exports	VSS sales (mt)	VSS sales market share of global production	VSS sales market share of global exports
Fairtrade	210,000	4%	11%	12,560	0%	1%
Organic	49,192	1%	2%	11,552	0%	1%
Rainforest Alliance	355,297	8%	18%	*177,649	3%	8%
UTZ Certified	64,053	1%	3%	3,074	0%	0%
Global VSS production / sales (mt, %), adjusted for multiple certification	577,000	12%	29%	174,000	4%	9%

*Estimates.

Sources: FLO, 2012; FAO, 2013; C. Guinea, Rainforest Alliance, personal communication, May 14, 2013; J. Rijkenberg, UTZ Certified, personal communication, May 15, 2013; IISD, H. Willer, FiBL, personal communication, August 26, 2013.

Fairtrade International

Fairtrade tea sales more than doubled in 2008, with Sainsbury's and Co-operative's own-brand ranges switching to 100 per cent Fairtrade. More recently, Waitrose and Super Unie have done the same; however, growth in overall sales of Fairtrade tea has been relatively tepid over the past four years, registering an annual sales growth of only 2 per cent per annum (2008–2012) (see Figure 14.7 and Table 14.4).

Fairtrade certification primarily occurs from Asian and African countries such as India, Kenya, Sri Lanka, Tanzania, China and Malawi, where over 93 per cent of total sales of Fairtrade tea are made (see Figure 14.6 and Table 14.3). Kenya and India alone account for over half of the total number of Fairtrade workers, production capacity and sales.

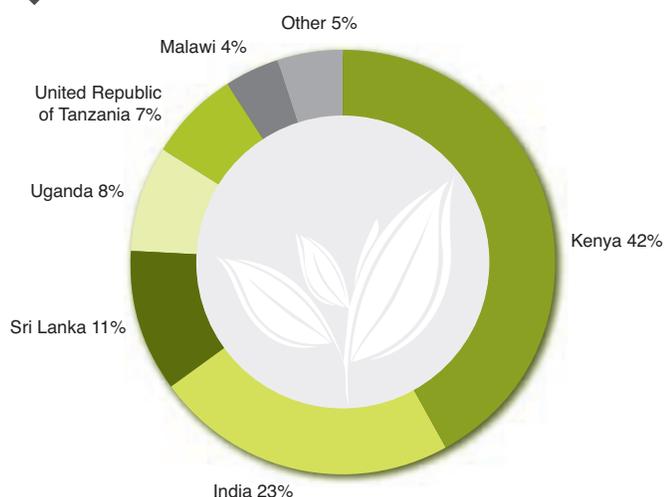
Currently, about 6 per cent of total Fairtrade certifiable production is being sold as Fairtrade produce on the market today, and Fairtrade sales volumes seem to have plateaued in the last few years despite substantial growth in total certifiable volumes in 2011 (33 per cent growth year over year). As of 2012, Fairtrade certified tea sales accounted for 0.6 per cent of global trade (see Table 14.2

for all standards' production and sales relative to global production and exports).

Although Fairtrade sales have slowed in recent years, looking ahead there may be opportunity for growth in specific countries or regions where major companies see Fairtrade as a useful tool to help improve livelihoods of workers and smallholders through minimum price mechanisms. Fairtrade is also attractive to companies wanting to deepen their commitment to tea supply chains and looking beyond certification to climate adaptation and mitigation, which are key issues in tea production.⁵

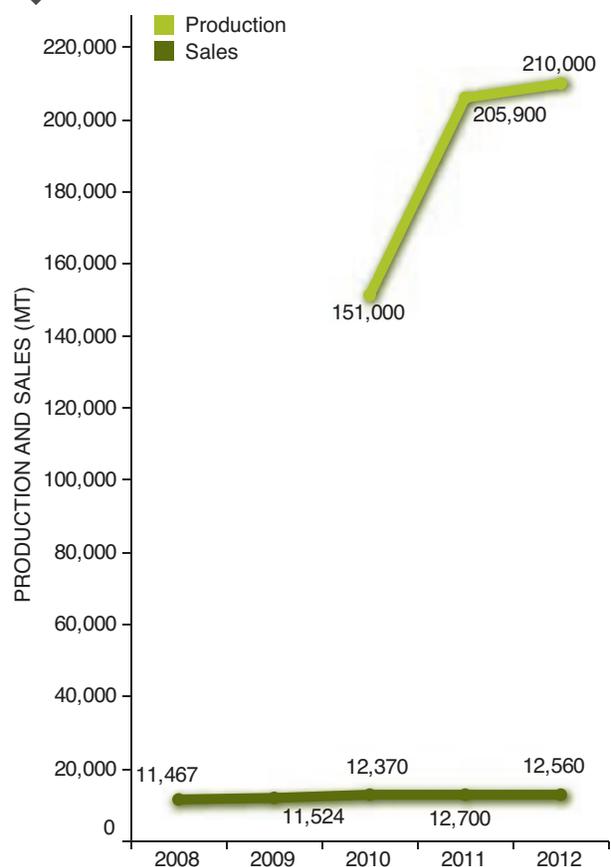
5 In 2013, Fairtrade began working on a project in East Africa with Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) and others to look at how tea companies can best respond to changes in climate. Fairtrade is also working on defining living wages in certain industries and countries via a partnership with Goodweave and SAI, and is also working with other voluntary sustainability standards. The organization hopes that these activities will allow it to take advantage of emerging sources of growth.

FIGURE 14.6 FAIRTRADE TEA PRODUCTION BY COUNTRY, 2011.



Source: FLO, 2012.

FIGURE 14.7 FAIRTRADE TEA PRODUCTION AND SALES, 2008–2012.



Sources: FLO, 2011b, 2012.

TABLE 14.3 FAIRTRADE TEA PRODUCTION AND SALES BY COUNTRY, 2011.

	Production (mt)	Sales (mt)
India	47,700	3,700
Kenya	87,400	4,200
Malawi	8,500	2,200
Sri Lanka	23,200	800
Tanzania	15,000	900
Uganda	16,100	no data
Other	8,000	900
Total	205,900	12,700

Source: FLO, 2012.

TABLE 14.4 FAIRTRADE TEA PRODUCTION, SALES AND AREA HARVESTED, 2008–2012.

	Production (mt)	Sales (mt)	Area harvested (ha)
2008	no data	11,467	no data
2009	no data	11,524	no data
2010	151,000	12,370	72,000
2011	205,900	12,700	83,300
2012	210,000 (est.)	12,560	no data

Source: FLO, 2012.

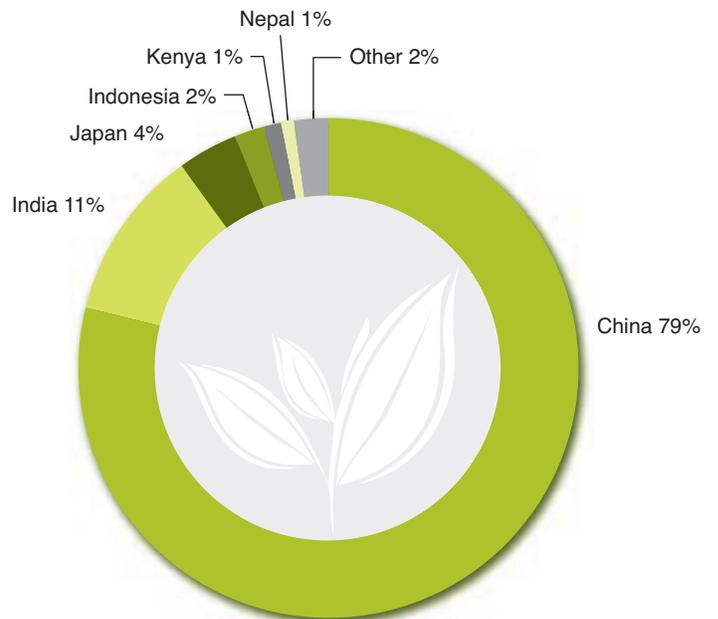
International Federation of Organic Agriculture Movements (IFOAM, or “Organic”)

Organic certified tea is grown in 21 countries throughout Latin America, Africa and Asia, including Iran, and thus represents greater world coverage for certified tea production than the other voluntary sustainability standard (see Figure 14.8 and Table 14.5). However, Organic standards represent the smallest share of all sustainable tea production volumes certified on a global scale. In addition, the majority of Organic tea is produced in three countries: China (38,000 metric tons; only a small fraction for export and no data for the local organic market), India (5,200 metric tons) and Japan (1,800 metric tons), which together accounted for more than 90 per cent of total Organic production volumes in 2011.

Organic certified tea production grew 21 per cent per annum during the period from 2004 to 2009 (Potts et al., 2010). Since then, production has tapered off, growing at 6 per cent per annum over the last four years. Sales of Organic tea grew at an estimated 3 per cent per annum over the same time period (see Figure 14.9 and Table 14.6). As of 2012, global Organic tea production accounted for 1 per cent of global production and 2 per cent of global exports (see Table 14.2 for all standards’ production and sales relative to global production and exports).

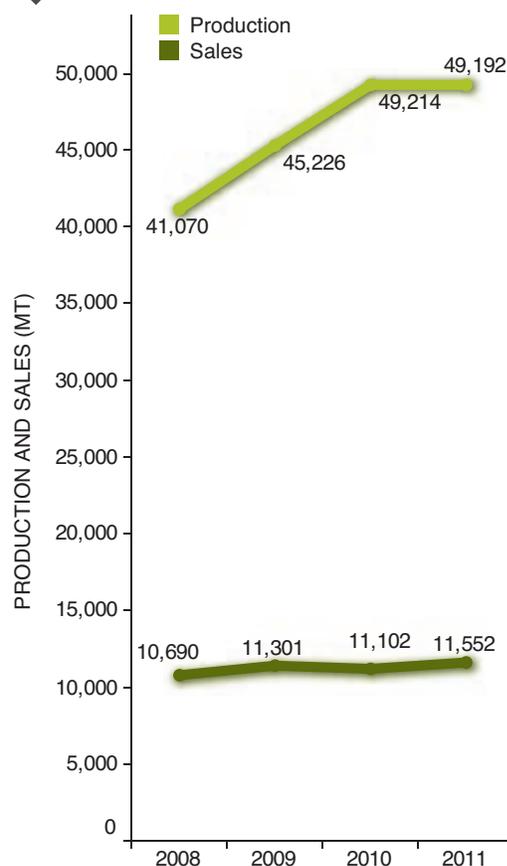
Notwithstanding the data constraints in the Organic tea sector, it is clear that both production and sales are not increasing on par with overall growth of sustainability standards on the market. The high level of concentration in tea manufacturing and the tendency for the major tea manufacturers to partner with more mainstream-oriented initiatives has left the Organic tea market with highly constrained market growth potential. As a result, we expect Organic tea sales to continue at the current and modest rates of 3 per cent per annum for the foreseeable future.

FIGURE 14.8 ORGANIC TEA PRODUCTION BY COUNTRY, 2011.



Source: IISD, H. Willer, FiBL, personal communication, August 26, 2013.

FIGURE 14.9 ORGANIC TEA PRODUCTION AND SALES, 2008–2011.



Source: IISD, H. Willer, FiBL, personal communication, August 26, 2013.

TABLE 14.5 ORGANIC TEA PRODUCTION, SALES AND AREA HARVESTED, 2011.

	Production (mt)	Sales (mt)	Area harvested (ha)
Argentina	30	0	20
Azerbaijan	2	2	3
Bangladesh	250	200	500
Bolivia (Plurinational State of)	41.5	40	200
China	38,855	4,000	52,000
Georgia	10	10	10
Guatemala	180	150	360
India	5,273	3,000	10,000
Indonesia	1,000	900	1,700
Iran (Islamic Republic of)	20	20	10
Japan	1,810	1,600	1,500
Kenya	550	500	300
Mexico	80	70	80
Myanmar	10	10	20
Nepal	400	400	900
South Africa	10	10	10
Sri Lanka	100	100	200
Taiwan	100	100	200
Thailand	70	60	80
United Republic of Tanzania	200	200	300
Vietnam	200	180	200
Total	49,192	11,552	68,593

Source: IISD, H. Willer, FiBL, personal communication, August 26, 2013.

TABLE 14.6 ORGANIC TEA PRODUCTION, SALES AND AREA HARVESTED, 2008–2011.

	Production (mt)	Sales (mt)	Area harvested (ha)
2008	41,070	10,690	69,504
2009	45,226	11,301	71,003
2010	49,214	11,102	67,833
2011	49,192	11,552	68,593

Source: IISD, H. Willer, FiBL, personal communication, August 26, 2013.

Rainforest Alliance

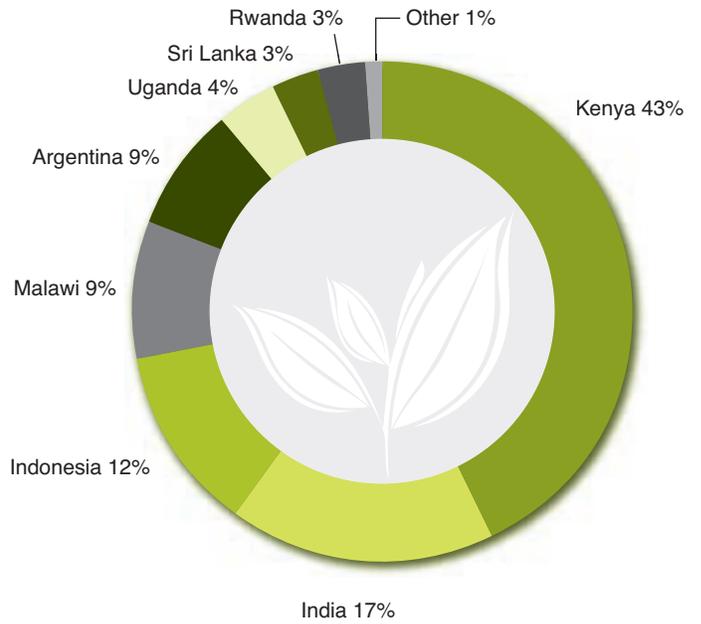
Rainforest Alliance, due largely to its partnership with Unilever, has undergone rapid growth in certified tea production and land area over the last few years, with annual production volumes growing by a factor of 10 from 2008 to 2012, and land area certified growing at an even faster rate during the same time period (see Figure 14.11 and Table 14.8).

In 2012, more tea was certified under the Rainforest Alliance standard than any other voluntary sustainability standard, with 355,297 metric tons of tea certified, representing 7.6 per cent of world tea production and 18 per cent of global exports. Its coverage in terms of volume produced is about 1.5 times that of Fairtrade, its closest competitor in the tea sector. Rainforest Alliance is active in 11 countries across Latin America, Africa and Asia but is concentrated in five countries, where 88 per cent of Rainforest Alliance tea is produced: Kenya (152,638 metric tons), India (60,172 metric tons), Malawi (30,639 metric tons), Indonesia (41,844 metric tons) and Argentina (28,772 metric tons). Kenya and India alone represent nearly two-thirds of total Rainforest Alliance compliant tea production and land area (see Figure 14.10 and Table 14.7).

Rainforest Alliance has managed to negotiate partnerships with Tata, Unilever and Twinings, giving it a major platform for growth in the coming decade. Based on these commitments and current growth rates, we expect Rainforest Alliance certified tea production to reach more than 500,000 metric tons by 2015, equivalent to more than 10 per cent of global production and 25 per cent of global exports.

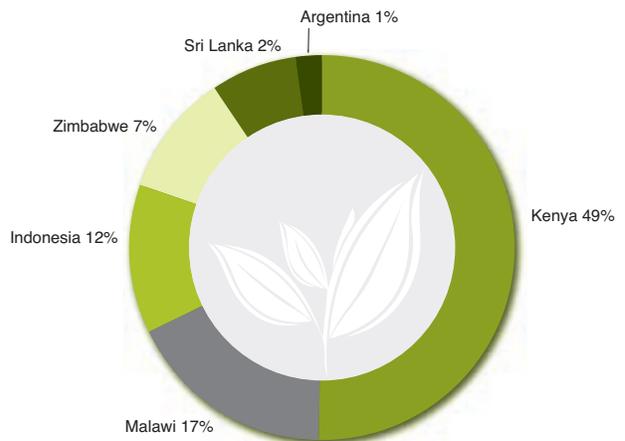


FIGURE 14.10 RAINFOREST ALLIANCE TEA PRODUCTION BY COUNTRY, 2012.



Source: C. Guinea, Rainforest Alliance, personal communication, May 14, 2013.

FIGURE 14.11 RAINFOREST ALLIANCE TEA PRODUCTION, 2008–2012.



*Rainforest Alliance sales data estimated using a multisector, average sales-to-production ratio of 42 per cent.

Source: C. Guinea, Rainforest Alliance, personal communication, May 14, 2013.

TABLE 14.7 RAINFOREST ALLIANCE TEA PRODUCTION AND AREA HARVESTED, 2012.

	Production (mt)	Area harvested (ha)
Argentina	28,772	6,356
Brazil	3,286	455
Ecuador	700	532
India	60,172	34,844
Indonesia	41,844	21,737
Kenya	152,638	64,988
Malawi	30,639	9,883
Rwanda	10,106	3,645
Sri Lanka	11,022	8,014
Uganda	13,018	3,292
Vietnam	3,100	1,165

Source: C. Guinea, Rainforest Alliance, personal communication, May 14, 2013.

TABLE 14.8 RAINFOREST ALLIANCE TEA PRODUCTION AND AREA HARVESTED, 2008–2012.

	Production (mt)	Area harvested (ha)
2008	52,500	no data
2009	78,500	no data
2010	123,007	33,345
2011	207,898	50,824
2012	355,297	154,911

Source: C. Guinea, Rainforest Alliance, personal communication, May 14, 2013.

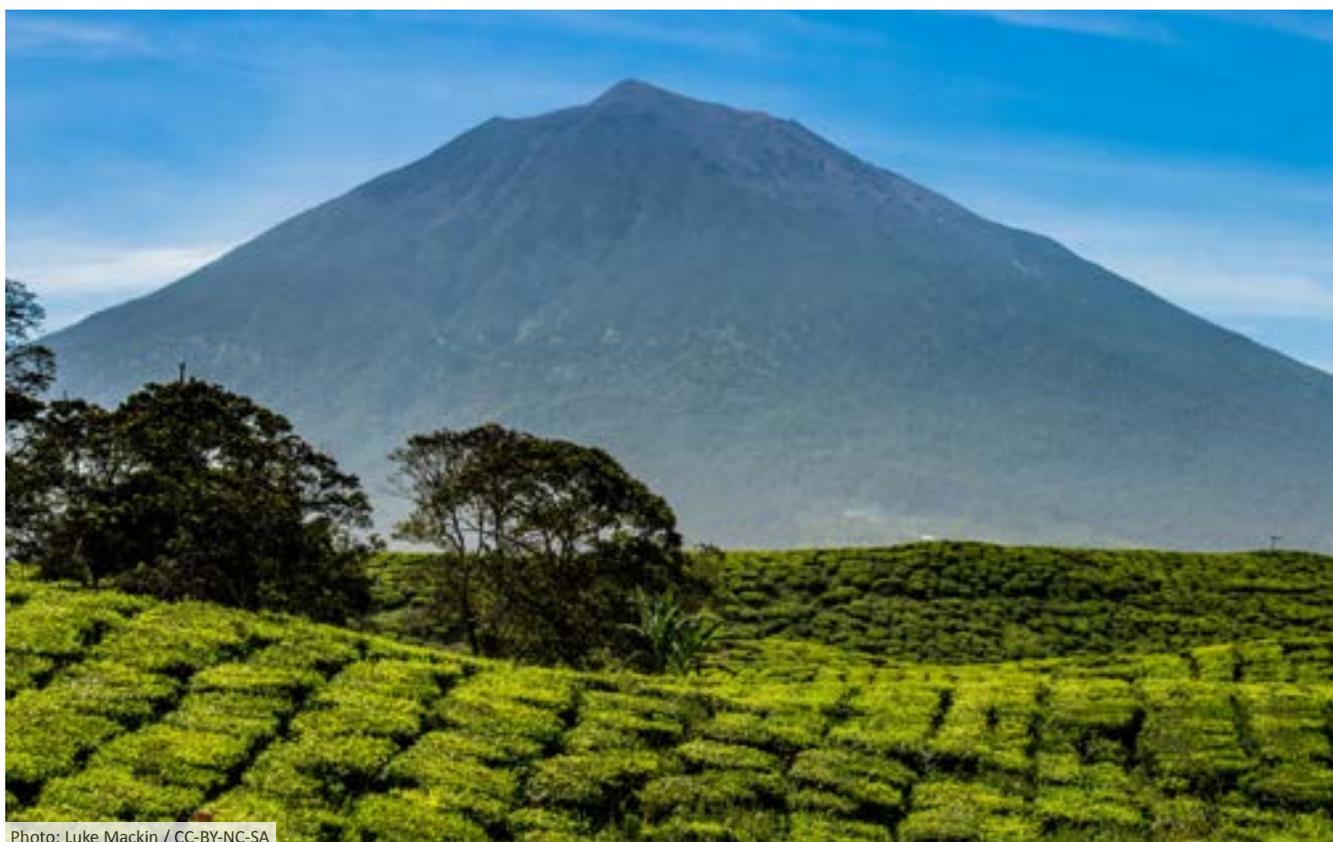


Photo: Luke Mackin / CC-BY-NC-SA

UTZ Certified

Tea is a relatively new product area for UTZ. With the first UTZ Certified tea being produced for the market in 2009, the organization has yet to develop a significant market for its product. Although production has grown at a relatively fast pace since the 2009 launch, at an average of 58 per cent per annum, its sales have grown at a much more modest rate of 5 per cent per annum. As of 2012, less than 5 per cent of UTZ Certified production was actually sold as UTZ Certified on the market, signalling significant oversupply (see Figure 14.13 and Table 14.10).

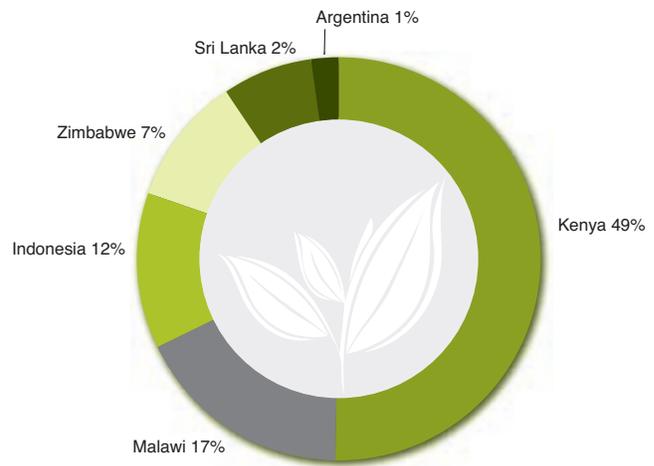
UTZ Certified tea is grown in nine countries across Africa, Asia and Latin America, with a particular concentration in Africa, where 47,147 metric tons were produced in 2012, accounting for 74 per cent of UTZ Certified tea production (see Figure 14.12 and Table 14.9).⁶ However, in terms of nominal coverage, UTZ Certified accounts for a smaller fraction of total certifications made by other schemes. For example, whereas total UTZ Certified land under tea cultivation around the world accounts for 32,885 hectares, Fairtrade certified land area is about 1.5 times larger, while Rainforest Alliance's coverage is about 6.4 times larger. Nevertheless, the supply of UTZ Certified tea grew a total of 300 per cent between 2009 and 2012, reaching 64,053 metric tons.

According to UTZ's own estimates, the greatest demand opportunities for its tea program are for teas sourced from Kenya, Zimbabwe and Sri Lanka. Globally, UTZ estimates that demand for UTZ Certified tea will increase over 25 per cent by 2015, from 3,000 metric tons in 2012 to 4,000 metric tons in 2015.⁷ Quantities demanded could be higher due to supply development opportunities in China, India and Japan, while demand for South African rooibos also appears to be rising.

6 By way of contrast, less than 66 per cent of Fairtrade certified tea and 58 per cent of Rainforest Alliance compliant tea were sold from Africa as a share of total produce sales.

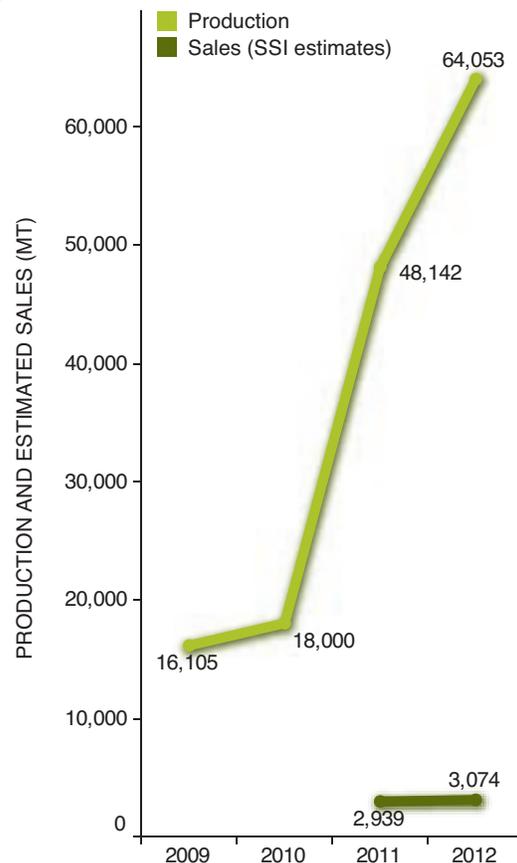
7 See UTZ Certified (2013e), which also provides a historical analysis of 2003–2012 sales and global market trends.

FIGURE 14.12 UTZ CERTIFIED TEA PRODUCTION BREAKDOWN BY COUNTRY, 2012.



Source: J. Rijkenberg, UTZ Certified, personal communication, May 15, 2013.

FIGURE 14.13 UTZ CERTIFIED TEA PRODUCTION AND SALES, 2009–2012.



Source: J. Rijkenberg, UTZ Certified, personal communication, May 15, 2013.

TABLE 14.9 UTZ CERTIFIED TEA PRODUCTION, AREA HARVESTED AND SALES, BY COUNTRY, 2012.

	Production (mt)	Area harvested (ha)	Sales (mt)
Argentina	810	205	259
Colombia	187	51	0
Kenya	31,641	16,404	24
Malawi	10,929	4,089	1,636
Sri Lanka	1,272	1,900	34
Vietnam	14	6	0
Zimbabwe	4,577	1,687	134
India	6,710	4,610	244
Indonesia	7,913	3,932	631
South Africa	no data	no data	112
Total	64,053	32,885	3,074

Source: J. Rijkenberg, UTZ Certified, personal communication, May 15, 2013.

TABLE 14.10 UTZ CERTIFIED TEA PRODUCTION AND SALES, 2009–2012.

	Production (mt)	Sales (mt)
2009	16,105	--
2010	18,000	--
2011	48,142	2,939
2012	64,053	3,074

Source: J. Rijkenberg, UTZ Certified, personal communication, May 15, 2013.





Table 14.11 shows the percentage of total national production produced in compliance with one or more major voluntary sustainability standard in 2012, for the world's 15 largest tea producers. The penetration of sustainability standards in the tea sector is relatively broad on a geographical basis, with each of the 20 top tea producing countries in the world producing tea in accordance with one or more voluntary sustainability standard. Moreover, three of the top six producing countries (India, Kenya and Sri Lanka⁸) have the presence of all four voluntary sustainability standards (see Figure 14.14; also see Figure 14.15 for largest standard-compliant production by continent). Notably, China, the largest tea producer, with annual production volumes representing 35 per cent of global tea production, is only covered by the Organic standard, which accounted for an estimated 0.3 per cent of the country's production in 2012. In contrast, Kenya, the third-largest producer in the world, has the largest certified production volumes, with 23 per cent of production certified Fairtrade, 40 per cent Rainforest Alliance and 8 per cent UTZ Certified. Approximately 0.2 per cent of Kenyan tea production is certified Organic.

Rainforest Alliance's recent and rapid growth in tea certification has led to a remarkable transformation in the penetration of standard-compliant production across the tea sector more generally. As of 2012, Rainforest Alliance certified production represented over 25 per cent of total tea produced in the following major tea producing countries: Indonesia (29 per cent), Argentina (30 per cent), Malawi (59 per cent) and Uganda (37 per cent). Fairtrade has about 45 per cent penetration in both Uganda and Tanzania. Of all the voluntary sustainability standards, Organic has the widest geographical coverage but weakest penetration on a market-by-market basis. However, it has made inroads in three major top 10 producing countries (China, Japan and Iran) where

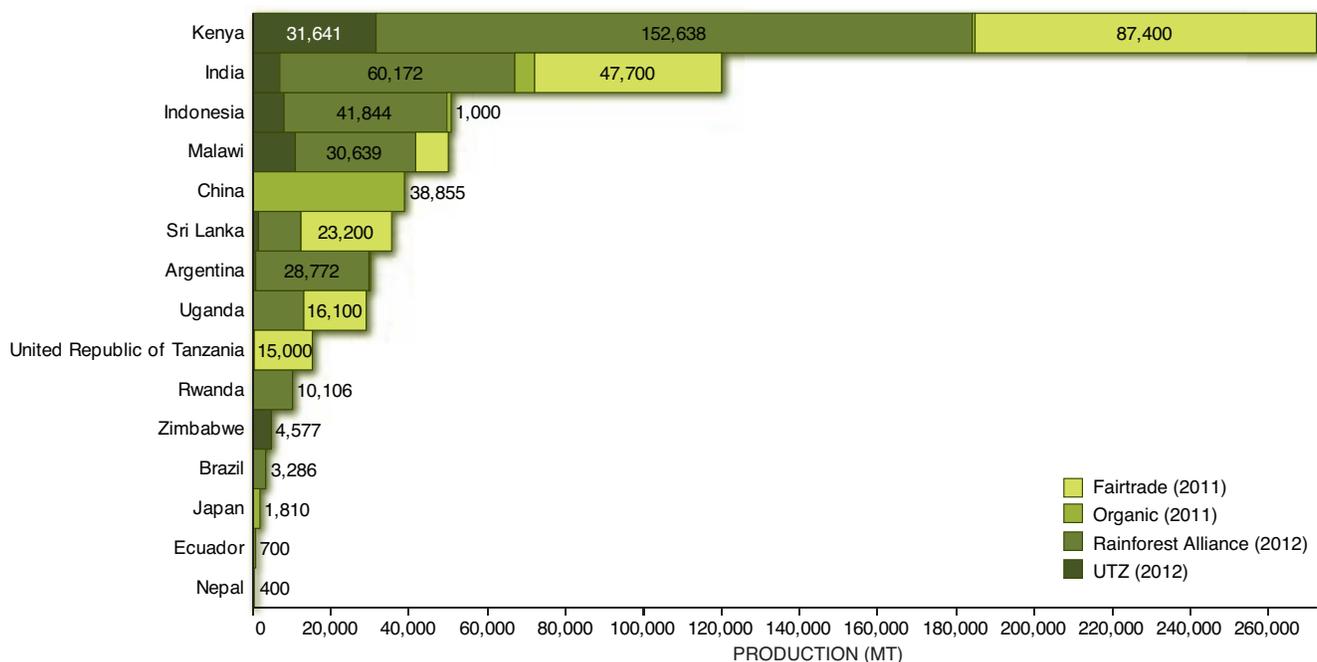
no other voluntary sustainability standards have penetrated and thus presents the potential for greater market expansion in these countries, which together represent nearly 41 per cent of global tea production (see Figure 14.16). Rainforest Alliance also dominates in several countries where Fairtrade has little or no presence, including Argentina and Indonesia. Conversely, UTZ Certified has proportional penetration across countries, albeit smaller overall presence due to its relatively recent entry into the sustainable tea market.

As with most commodities, tea sustainability standards show the strongest presence in countries with significant tea exports. This explains the high penetration levels of voluntary sustainability standards across countries like Kenya, Sri Lanka, Vietnam, Indonesia, Argentina, Malawi and Uganda, where approximately 60 to 95 per cent of production is exported abroad. Other top 10 countries in terms of total production, such as China, Turkey, Iran, Argentina and Japan, export less than 20 per cent of their production and have a lower penetration of standard-compliant tea (see Figure 14.17).

Although a significant portion of the global export market for tea remains "uncertified" at present and therefore represents significant low-hanging fruit for the growth of the sustainable tea market, any hope of securing uptake of sustainability standards across the majority of production will almost certainly require strategies that build awareness and markets for domestic consumption of certified products. With the exception of Kenya, the market penetration of voluntary sustainability standards in the top 10 producing countries is low and suggests that there are significant opportunities for further expansion. In particular, major tea producers such as China, Turkey, Vietnam, Iran and Japan have voluntary sustainability standard penetration below 4 per cent and therefore represent major opportunities in this direction. Other top 20 tea producing countries like Thailand, Bangladesh, Myanmar and Malaysia have penetration rates lower than 1 per cent.

⁸ Sri Lanka's Organic production volumes are a mere 100 metric tons and are represented as "negligible" in Table 14.11.

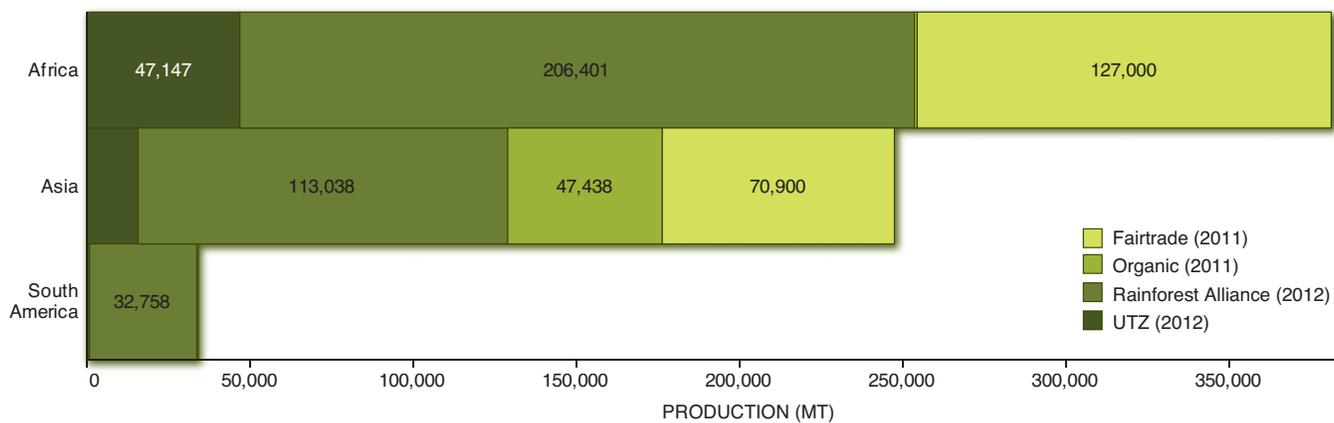
FIGURE 14.14 FIFTEEN LARGEST STANDARD-COMPLIANT TEA PRODUCERS BY COUNTRY, 2011/2012.



Where space permits, data points are visible.

Sources: FLO, 2012; C. Guinea, Rainforest Alliance, personal communication, May 14, 2013; J. Rijkenberg, UTZ Certified, personal communication, May 15, 2013; IISD, H. Willer, FiBL, personal communication, August 26, 2013.

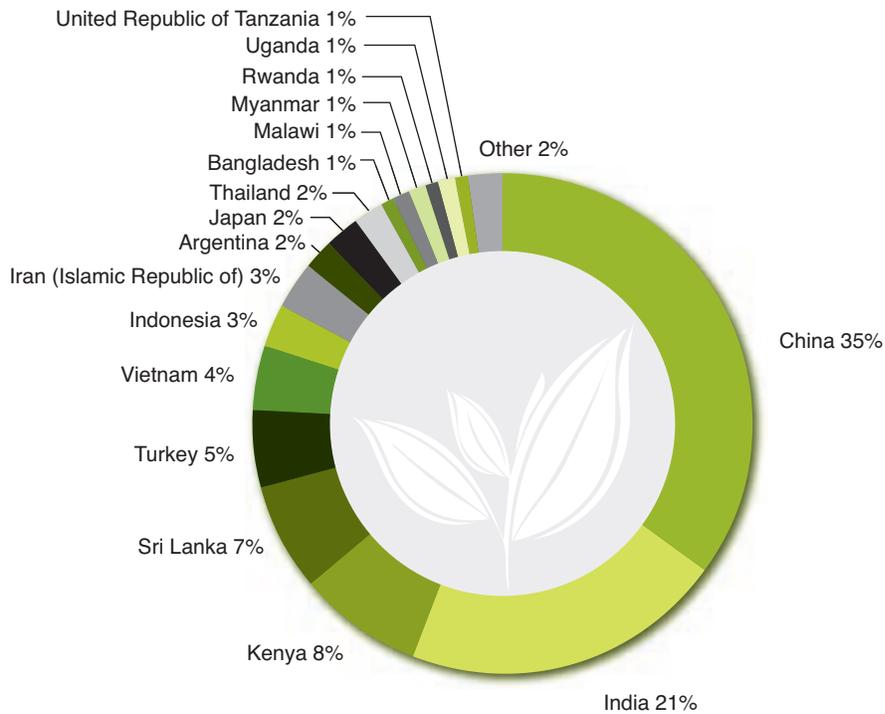
FIGURE 14.15 LARGEST STANDARD-COMPLIANT TEA PRODUCERS BY CONTINENT, 2011/2012.



Where space permits, data points are visible.

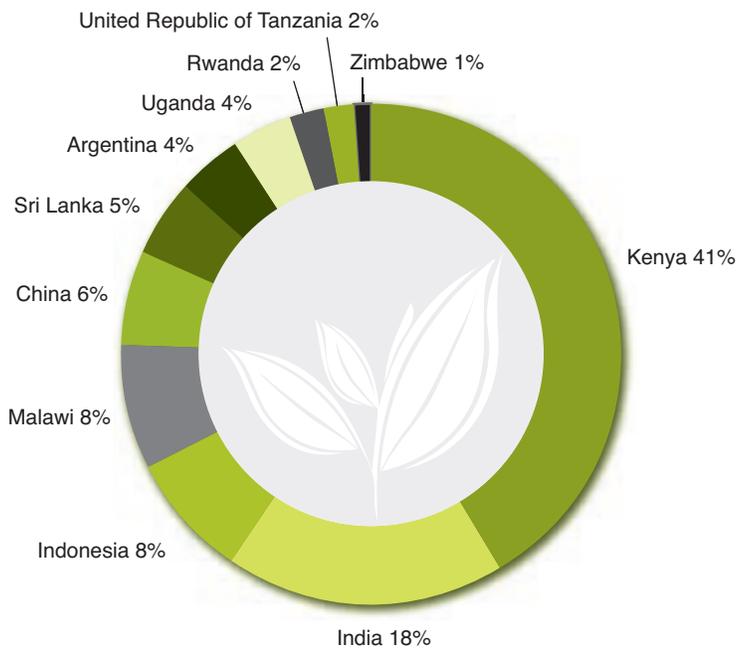
Sources: FLO, 2012; C. Guinea, Rainforest Alliance, personal communication, May 14, 2013; J. Rijkenberg, UTZ Certified, personal communication, May 15, 2013; IISD, H. Willer, FiBL, personal communication, August 26, 2013.

FIGURE 14.16 TOTAL (STANDARD-COMPLIANT AND CONVENTIONAL) TEA PRODUCTION BY COUNTRY, 2011.



Source: FAO, 2013.

FIGURE 14.17 STANDARD-COMPLIANT TEA PRODUCTION BY COUNTRY, 2011/2012.



Sources: FLO, 2012; C. Guinea, Rainforest Alliance, personal communication, May 14, 2013; J. Rijkenberg, UTZ Certified, personal communication, May 15, 2013; IISD, H. Willer, FiBL, personal communication, August 26, 2013.

TABLE 14.11 STANDARD-COMPLIANT PRODUCTION AS A PERCENTAGE OF TOTAL NATIONAL PRODUCTION FOR 15 LARGEST TEA PRODUCERS, 2012.

Dashes represent negligible or no standard-compliant production relative to national production; they may also reflect an absence of data.

	Fairtrade International	Organic	Rainforest Alliance	UTZ Certified
China	-	0.3%	-	-
India	4.9%	0.4%	6.2%	0.7%
Kenya	23.1%	0.2%	40.4%	8.4%
Sri Lanka	7.1%	-	3.4%	0.4%
Turkey	-	-	-	-
Vietnam	-	0.1%	1.5%	-
Iran (Islamic Republic of)	-	-	-	-
Indonesia	-	0.8%	29.4%	5.6%
Argentina	-	-	29.8%	0.8%
Japan	-	2.4%	-	-
Thailand	-	0.1%	-	-
Bangladesh	-	0.4%	-	-
Malawi	-	-	58.9%	21.0%
Uganda	45.7%	-	37.0%	-
United Republic of Tanzania	46.9%	0.8%	-	-

Sources: FLO, 2012; FAO, 2013; C. Guinea, Rainforest Alliance, personal communication, May 14, 2013; J. Rijkenberg, UTZ Certified, personal communication, May 15, 2013; IISD, H. Willer, FiBL, personal communication, August 26, 2013.



Photo: Arne Hückelheim / CC-BY-SA

14.5 PRICING AND PREMIUMS



Premiums for standard-compliant tea have ranged from 1 per cent to over 20 per cent over the past several years. Fairtrade is the only standard within the tea sector that actually fixes price premiums. Perhaps not surprisingly, the premiums associated with Fairtrade tend to be higher than those associated with the other standards systems. In 2013 the Fairtrade price premium was set at US\$0.50 per kilogram sold under Fairtrade terms for Crush, Tear and Curl (CTC) teas and Orthodox dust and fanning grades, which corresponds to a premium of about 20 per cent over mid-2013 prices.⁹ Other Orthodox grade teas receive a price premium of US\$1 per kilogram above the normal commercial price, or approximately 43 per cent over 2013 prices. In 2011, total Fairtrade tea premiums exceeded €6 million (US\$8.3 million¹⁰). The Fairtrade standard dictates that the premium primarily is used for social, environmental or economic development projects, for example in funding schools, medical treatment and community halls. In Malawi, Fairtrade premium monies are used to buy bulk maize when market prices are low so that members can buy at a discount during the dry season when prices are often very high.¹¹ Fairtrade also guarantees a minimum

price for tea producers as a safety net in the event of a collapse in market prices. Between 2008 and 2012, market prices were generally strong, but prices remain volatile (Blas, 2013).¹² Fairtrade minimum prices for tea vary by country, reflecting differences in auction prices and costs of production (see Fairtrade International, n.d.).

Henderson and Nellemann (2011) report that buyers like Unilever paid premiums around €0.08 (US\$0.11) per kilogram of Rainforest Alliance certified tea in 2011, which corresponded to a 5 per cent premium over international prices at the time.¹³ The same source reported that the organization paid premiums as high as 15 per cent for certified tea during the same year.

The global weighted average premium for UTZ Certified tea in 2012 was €29 per metric ton, with an average range of €20 to €59 per metric ton (UTZ, 2013e). This corresponds to a premium of about 1 to 2 per cent over global average tea prices during the same year.¹⁴

9 Based on international market prices of US\$2.30 per kilogram in September 2013.

10 Based on 2011 USD/EUR exchange rate of 0.72 dollars (OANDA, 2013).

11 Thus, Fairtrade premiums may also multiply member benefits by enabling members to save money through bulk buying of fertilizer and foodstuffs (FLO, 2012).

12 For example, auction prices fell 30 per cent between November 2012 and 2013 in Mombasa, Kenya (Obulutsa, 2013).

13 Prices were at US\$3.39 per kilogram (IndexMundi, 2013c).

14 Based on an average tea price in international markets of US\$3.30 (FAO, 2013).



14.6 CHALLENGES AND OPPORTUNITIES



Standard-compliant tea production has grown an average of 33 per cent per annum between 2009 and 2012, reaching 577,000 metric tons in 2012, while sales grew 49 per cent per annum over the same period to reach 174,000 metric tons in 2012. This impressive growth has been driven by commitments from some of the largest tea companies, including Unilever, Tata, Finlay, Van Rees, DE Master Blenders 1753 and Apeejay Group, and various supermarkets.

Most voluntary sustainability standard market growth to date has been led by export-oriented markets. As a result, market penetration rates for sustainable sales have been higher for major tea exporting countries. Among the top five exporting countries, sustainability standards have significant market penetration across Kenya, India and Sri Lanka. China and Vietnam, on the other hand, represent significant untapped opportunities for expanded sourcing of sustainable teas for export markets. Based on current data and trends, we expect more than 80 per cent of global tea exports to be standard compliant by 2020.

With more than half of global tea production destined for domestic markets, building domestic markets for sustainable tea will be key to transforming global tea production toward sustainable practice over the longer term. Thus far, very little penetration has been observed in domestic markets, although Unilever's work in Turkey represents an important effort to break this pattern.

One of the major obstacles facing the transition to standard-compliant production across commodities more generally, but specifically within the tea sector, is related to the existence of local capacity for reaching compliance. As such, government initiatives and partnerships from both producing and consuming countries are playing important roles in facilitating the transition to sustainability in the tea sector. All three of the most important producers of standard-compliant tea, namely Kenya, India and Indonesia, which together account for 67 per cent of global standard-compliant supply, have had their market leadership catalyzed by explicit and intentional government programs (see Box 14.3). Government investment can be expected to continue to play an important role in enabling the transformation of tea production to standard-compliant practices.

Another of the deeper obstacles facing widespread penetration of standard compliance across the tea producing world relates to the high reliance of tea production on domestic markets. To date, very little progress has been made in the development of sustainable tea markets at the local level and therefore represents one of the most significant long-term challenges to the sector. Addressing this challenge will require significant repositioning of the voluntary standards in order to appeal to more local markets.

Investment by public and private entities into capacity building on the ground has allowed a select number of tea producing countries to gain exceptional access to the growing market for sustainable tea. Kenya, India and Indonesia represent 67 per cent of standard-compliant production but only account for 32 per cent of global tea production. Capacity building programs have played important roles in enabling these countries to take market leadership positions.

In Kenya, for example, the global leader in the supply of standard-compliant tea, the Kenya Tea Development Agency (KTDA) has played a major role in building local capacity for serving the growing sustainability market. The KTDA teamed up with Unilever and the UK's Department for International Development for its Farmer Field School project, running the pilot phase from 2006 to 2008. It then worked with Unilever, Rainforest Alliance and IDH in the first phase ("upscaling," from 2009 to 2012), to further transform the Kenyan tea sector through training and certification of 560,000 smallholders toward sustainable production. The program is now in a second phase ("embedding," 2012 to 2015) aimed at embedding sustainability standards across the country in organizational structures by combining Rainforest Alliance training with the Farmer Field School training to maximize impact. The program aims to have a self-sustainable tea economy in Kenya after 2015, including strong market access through Rainforest Alliance (IDH, 2013b; KTDA, 2013).

In India, the UK's Department for International Development has promoted the sustainable livelihoods for Indian smallholder

tea growers and tea workers to achieve fairer terms of trade in their industry in response to a state of oversupply in the tea market and resulting low prices. This initiative aimed to achieve a better understanding of the national and international forces influencing the sustainability of the Indian tea industry.

The Lestari Standard was developed by the IDH Solidaridad and local partner Business Watch, and based on the UTZ standard. The Lestari Standard targets tea production destined for domestic Indonesian consumption, while also helping producers ramp up to international standards like Rainforest Alliance, UTZ or Fairtrade. While national standards are present in other commodity industries, tea presents a particular case. The tea universe is characterized by a global production that is more than double the size of the export market (4.7 million metric tons versus 2 million metric tons in 2011), in contrast to other commodities where voluntary sustainability standards have a strong presence (roughly 15 per cent of coffee and cocoa produced is consumed domestically).

Although not currently an area of major voluntary sustainability standard activity, in Vietnam, the Ministry of Agriculture and Rural Development has signed an agreement with Unilever to create a public-private partnership called the Vietnam Tea Initiative that aims to promote and accelerate sustainable tea production in the country. The initiative aims to raise Unilever's tea procurement from Vietnam from 25,000 metric tons to 30,000 metric tons of Rainforest Alliance certified tea by 2015.

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