My experience in the tea sector

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INTRODUCTION

I thank Karatina University for organizing the First International Tea Conference with the theme "A Sustainable Tea Industry for Social, Economic and Technological Development", which is relevant in capturing the current issues and concerns facing Kenya's Tea Industry. The Conference is held at a time when the Kenya Tea Development Agency (KTDA), which handles about 60% of Kenya's Tea Industry (from the small-scale tea sub-sector), has just announced its results for the year 2013/2014. The total cumulative payments announced by KTDA are the lowest over the last five years (Ksh 38.2 billion in 2010; Ksh 40.5 billion in 2011; Ksh 45.3 billion in 2012; Ksh 51.3 billion in 2013; and, Ksh 35.5 billion in 2014). This sad scenario is applicable in the entire tea sector.

To sum it up, there is unprecedented alarm and disappointment with the tea payments, in the 2013/2014 year. It has been explained that the tea prices were depressed due to global tea overproduction, leading to a glut in the global markets and political instability in Kenya's key markets in Africa and Middle East. But the tea farmers will not hear any of this and are now venting their anger on their factory boards and the KTDA. The key questions in everybody's mind are: **"How did we come to this sad situation?"** and **"What are the possible solutions in redressing the challenges facing Kenya's Tea Industry?"** I have been in the tea industry for over twenty years and would wish to share my thoughts on these issues.

THE ROLE OF THE TEA INDUSTRY IN KENYA'S ECONOMY

There has been exponential growth in Kenya's Tea Industry over the last 50 years. The area planted with tea increased from nearly 11,000 hectares in 1956 to nearly 200,000 hectares today. The annual quantity of made tea has risen dramatically from 18 million kilograms in 1956 to 369 million kilograms today. Tea supports either directly or indirectly 10% of the country's population. The small-scale sub-sector supports 560,000 farmers.

Tea contributes the highest foreign exchange earnings (26% of the total export earnings) to Kenya's economy. In the 2012/2013 financial year, its contribution was Ksh 114 billion in foreign exchange earnings. If we incorporate the earnings from domestic tea sales, the industry generates nearly Ksh 130 billion annually to the economy. Tea accounts for 4% of the country's GDP and provides employment either directly or indirectly to three million people.

Kenya is the third largest producer of tea worldwide (after China and India; and followed closely by Sri Lanka) and is the highest exporter of black tea (followed closely by Sri Lanka). Therefore, tea is the cash cow and the prime agricultural mover of Kenya's economy. It is what wine is to Spain, oil to the Middle East, gold to South Africa and sheep to Australia. It is Kenya's green gold. What affects tea affects Kenya's total economy. Kenya's economy was projected to grow at 5.8% in 2014 but fears have been expressed that this will not be possible due to reduced earnings from tea and tourism.

CHALLENGES FACING KENYA'S TEA INDUSTRY

The following are the key challenges facing Kenya's Tea Industry.

Declining prices

Globally, production is growing at 24% and consumption at 21%. Prices have to drop when the supply outstrips demand.

Low yields

In the small-scale sub-sector, the average yield is 1 kg of green leaf per bush compared to 3.5 kg per bush in the plantation sub-sector.

High production costs

The overall KTDA managed factories net income paid to farmers during the year ending June 2014 was 67% of green leaf payment with 33% taken by production/manufacturing costs. Including the garden husbandry costs, the production cost will go as high as 50%, leaving the farmer with only a paltry net payment.

Low product diversification

Kenya has mainly depended on black CTC tea. These is the tea most hard hit by declining prices. The story would have been different if Kenya were to export orthodox, green and other tea products.

Low value addition

A total of 90% of Kenya's tea is exported in bulk with only 10% exported in value-added form (blended, branded and packaged in consumer packs). Export of tea in bulk denies the country of revenue, employment and potential technology development for the industry (Sri Lanka with almost the same volume of tea exports as Kenya, exports nearly 50% of its tea in value added form and realizes nearly double the earnings compared to Kenya).

Reliance on few export markets

Over 75% of Kenya's tea is exported to five key markets, namely; Pakistan, Egypt, UK, Sudan and Afghanistan. Among the top ten global tea importing countries are the Russian Federation, United Arab Emirates, USA, Germany and Iran, yet Kenya sells very little tea in those countries. Most of these countries usually buy black orthodox tea which Kenya produces in very small, negligible quantities. Had the KTDA managed factories changed to orthodox tea manufacturing a few years back, they would not have been as hardly hit by the current syndrome of declining tea prices.

Multiplicity of taxes and levies

There are 15 types of taxes and levies charged either directly or indirectly on the Tea Industry. The most talked about today is AD Valorem Levy which is charged at the rate of 1% of the sale price at the point of sale. All the key taxes and levies are shouldered by the producer, thereby reducing considerably the producers' earnings. The farmer in Kenya finances the Tea Board of Kenya, now Tea Directorate, and also the Tea Research Foundation of Kenya. These institutions should be funded by the Government albeit as a small subsidy to the tea industry.

Low domestic consumption

The irony with Kenya is that while it is the third biggest tea producer in the world, it is ranked No. 58 among the of tea consuming countries. As for China and India, besides being the top tea producing countries, they are also among the top tea consuming countries. **What measures do**

we need to take to improve tea consumption in Kenya to hedge against times of slump in global tea prices? The tea annual consumption per capita in Kenya is 0.47 kilogram per person per year, while the per capita in Turkey (the top consuming country) is 7.52 kg. Other top countries are Morocco-4.34 kg, Ireland-3.22 kg, Mauritania-3.22 kg, and United Kingdom-2.74 kg. Interestingly, some countries which do not grow tea in Africa have a higher consumption per capita than Kenya for instance Seychelles-2.08 kg, Gambia-1.19 kg, Botswana-1.13 kg and Zimbabwe-1.05 kg. Kenya should aggressively promote tea consumption among her own population alongside promoting it elsewhere because charity begins at home.

THE WAY FORWARD

The above stated challenges are not new in the Tea Industry. They have been mentioned in almost every gathering seeking solutions to the challenges facing the industry. They were, indeed, comprehensively addressed in the 2007 report of the Tea Industry Task Force. But, the key question is **Why haven't these challenges been successfully addressed?** The following are some of the recommended solutions to the outlined challenges.

1. The UN FAO IGG on Tea (The United nations-Food and Agriculture Organization Inter-governmental Group on Tea) recommends the adoption of ISO 3720 as a minimum quality standard towards the elimination of low quality tea exports which would help to improve the world tea balance. This does not appear to have addressed the challenge of over-supply as the producing countries aim to expand tea areas in order to spread the cost of production across greater volume and improve margins thereby aggravating the position. The key question is: **who will supervise the other to reduce the over-supply?**

2. Resist over-reacting to occasional high prices (particularly in respect to expansion of the land under tea) as this is usually only a temporary syndrome in the global market trends. The "adding up" effect will have devastating consequences to the world tea economy.

3. Reduce the production costs. The production cost in all cost centres ranging from energy to labour has been rising over the years. Taking into account the garden management and husbandry costs, the production cost to the farmer is about 50% of the gross earnings. Arising from this situation, one cannot evade the disturbing question of whether it will still continue to be economically viable to grow tea. South Africa was once a tea growing country but had to abandon it due to the cost of production. **Is this where Kenya is heading to in the long term?**

4. The UN FAO IGG on Tea recommends strict compliance to Maximum Residue Levels (MRLs) to weed out poor quality Tea from the market. Kenya should continue producing high quality tea to sustain the overall competitiveness of its Tea. The country should upscale compliance to ethical tea standards (for instance Fair Trade and Rain Forest Alliance) and increasingly adopt organic tea farming. The KTDA managed companies should continue with fine plucking (two leaves and a bud) to sustain the quality of their Tea as their distinct competitive edge in the over-flooded tea supply market. Quality will always sell even in the flooded global market.

5. Diversification of tea products along the entire value chain from the garden to the shelf. At the garden level farmers should consider either through replantation or rehabilitation of their gardens newer clones with research-proven health and other competitive attributes such as the purple tea (Clone 306). Kenya should diversify from black CTC and branch more into black orthodox and green and silvery (white) Tea, including speciality and organic Tea, where there is a better market demand.

6. Reduce the multiplicity of taxes and levies in the Tea Industry and offload the farmer from the burden of most of the taxes and levies on the industry. All other key agricultural industrial commodities (for example coffee and sugar cane) have enjoyed Government subsidy while the tea farmer bears the entire load on taxation. The tea farmer may at some stage collapse and abandon the industry.
7. Enhance tea value addition through blending, packaging and branding of Kenyan Tea for the global markets. The task force report of 2007 on the Tea Industry in Kenya recommended the enactment of an Agricultural Products Value Addition Bill to create the enabling environment and fiscal incentives to promote value addition of tea and other agricultural products. The report also recommended the establishment of a Tea Development and Value Addition Revolving Fund to provide soft credit for tea value addition initiatives. It is unfortunate that seven years down none of this has been done. The Government of Kenya has declared its intention to commercialize agriculture and the enactment of this bill is key to the realization of this noble goal.
8. Need for enactment of a Geographical Indications (GIs) Bill to protect and promote the competitiveness of premium Kenyan tea brands and other products on basis of their locations of origin. This recognizes that a given quality, reputation or characteristic of a product is attributable to its geographic origin. Our world famous Gathuthi tea should be branded and marketed as such all along the market value chain. India and Sri Lanka have in place the necessary legislation to promote tea value addition and the competitiveness of their tea brands.
9. Classify tea as food item and zero-rate VAT on tea to stimulate demand by making it more affordable to the local consumers. This was recommended in the *Tea Industry Task Force Report*. The other way to stimulate tea consumption is to encourage and support a national tea drinking culture.
10. Increase funding for promotion of Kenya tea so as to diversify the export market outlets. Special attention will need to be given to establishment of markets within Africa as Africa has today some of the highest economic growth rates. Greater funding will also need to be directed to research development for the Tea Industry, particularly in the fields of market research and trade promotion. Historically, tea research in Kenya has focused more on production (with impressive results) and it is time to now accord greater research attention to issues of trade and marketing.
11. Consistently and continuously sensitizing and educating tea farmers, preparing them for price shocks occasioned by the vicissitudes of the global tea trade. Tea farmers should never be taken by shock when prices drop drastically.
12. Improved governance of the Tea Industry, particularly in the small-scale sub-sector. A number of measures were recommended in the 2007 Tea Industry Task Force Report to strengthening governance of the small-scale sector – such as reducing the number of factory company directors, limiting their terms of office, and delinking factory directors elected to the management agencies from being factory directors. The tea farmers feel disappointed when they do not see any governance changes even during a time of plummeting prices. It was recommended in the Task Force Report of 2007 to have a detailed study by an independent consultant to look into the governance of the small-scale sub-sector: this has never been done. There is urgency to review the governance of the small-scale tea sub-sector in order to arrest the growing despondency by the farmers on the management of the sub-sector.

13. Additionally, there is need of a strong producers lobby group to lobby on the interests of the producers who appear to be the under-dogs of the industry. The tea industry in Kenya operates in a very disjointed manner quite unlike the position in India and Sri Lanka which have strong tea associations to lobby their governments on matters of interest to the industry. Besides having a strong producers lobby group, it is time for all Kenyan tea stakeholders to come together to form a Kenya Tea Association to lobby the Government on the interests of the Tea Industry. Otherwise, they will all go down the drain together. Kenya was instrumental in the formation of the International Tea Producers Forum and needs to continue its active participation in this important international producers' lobby group and in all other global tea bodies.

CONCLUSION

Owing largely to the diminishing returns due to supply outstripping demand, there is need for the National Government, and in consultation with all Tea Industry stakeholders working closely with the County Governments, to spearhead a comprehensive review of the Tea Industry to make it more profitable and rewarding to all its stakeholders (and particularly to the producers) and in the best interests of the national economy. It is gratifying to note that the National Government, in liaison with the County Governments, is in the process of finalizing a National Tea Policy to guide the Kenya's tea industry.

The Government also needs to fast-track the implementation of the key recommendations of the *Tea Industry Task Force Report of 2007*; particularly in respect to enactment of an Agricultural Products Value Addition Bill, the Geographical Indications of Goods Bill and the establishment of Tea Development and Value Addition Revolving Fund.

All too often there is an alarm when prices hit rock bottom as happened in 2006, when the Government appointed the task force to look into the future of the Tea Industry, only for such concern to dissipate when prices pick up. It is important to note that tea prices have been on a downward slide over the last two decades and the situation is likely to worsen as production continues to rise without commensurate demand. The time for change is now; otherwise it will be too late to turn back the tide.

Parting shot:

- "An ounce of practice is worth more than tons of preaching." (Mahatma Gandhi)
- "It is not the strongest of the species, nor the most intelligent, that survives. It is the one that is the most adaptable to change." (Charles Darwin)
- "To change is difficult; not to change is fatal." (Anonymous)