



T·E·A

Tea Exporters Association
Sri Lanka

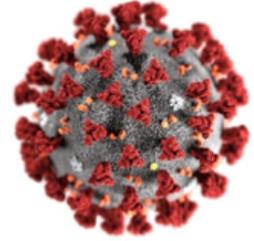
NEWSLETTER

1Q 2020



Tea Exporters Weather the Storm

Tea industry faced an unprecedented challenge in its 152 years history with the declaration of curfew and lock down of the country from 20th March onwards due to COVID 19. The offices were closed, factories were shut down, production of goods came to a virtual standstill and the economy started sliding down with no tourists, no exports and reducing foreign remittance etc. When all other industries were struggling to overcome the initial shock one industry that bravely faced the challenges was the tea industry.



With the support of the government, it took only a week for the tea producers to put their production units back in to action while in two weeks brokers, exporters and producers under the CTTA came up with a brand new model for sale of tea as the outcry auction was not possible due to health regulations. Despite being not familiar with an electronic sale system, exporters rose to the occasion by concluding the first ever E-auction on 4th April 2020, an achievement for all stakeholders. The tea sector became the only functional export industry in the country that has continued to keep its' workforce and meet their remunerations without any break.

The management wishes to thank all members of TEA for their support to keep tea export sector moving under this difficult period. The association took up many issues initially faced by the exporters with the respective authorities and happy to note that most of them were resolved enabling them to continue with business. TEA especially thanks the Ministry of Plantation Industries and Sri Lanka Tea Board for their untiring efforts in resolving tea exporters' issues. The COVID 19 has created many challenges and opportunities for the tea industry. With the news of people would drink more black tea to improve their immune system, we are confident that tea export sector will bounce back to the pre-corona level within few months.

Sri Lanka Tea Production - January to March 2020

The country's tea production in March and first quarter has declined to lowest level in many decades.

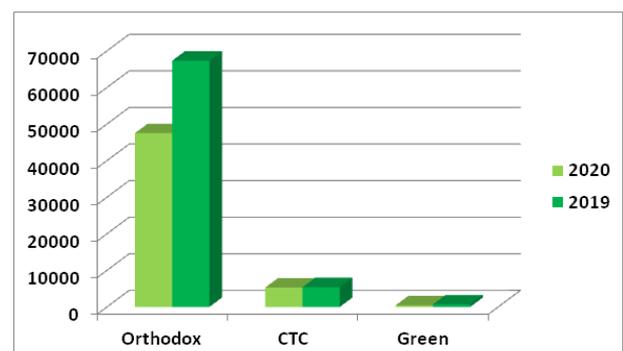
Tea crop in March amounted to 13.2 million kg down by 53% from a year earlier. All three elevations have shown a significant decrease in production YOY.

The cumulative tea crop in the first quarter (January-March) was 53.26 million kg, down by 20.16 million kg against the volume of 73.42 million kg from the corresponding period of last year. Similarly, all elevations have shown a decrease with the highest dip recorded from the Low Grown elevation followed by Mediums and High Grown areas.

CTC production for March was 1.4 million kg down by 0.5 million kg from March 2019. On a cumulative basis, January-March 2020 total of 5.3 million kg shows a marginal decrease of 0.09 million kg compared with 5.4 million kg last year.

Category	Volume-MT		
	2020	2019	Variance
Orthodox	47,504	67,318	-19,814
CTC	5,320	5,408	-88
Green	446	699	-253
Total	53,269	73,425	-20156

(SLTB)



Sri Lanka Tea Exports - January to March 2020

Sri Lanka's tea exports suffered a major blow in March recording the lowest-ever shipment and sharp dip in value as COVID-19 mitigation measures caused disruption to trade.

Tea export volume in March amounted to 13.8 million kg, down by 12.6 million kg or by 47 %, the lowest ever since April 2009. This decline is mainly due to the disruption to work during the latter half of the month on account of the COVID-19 issue.

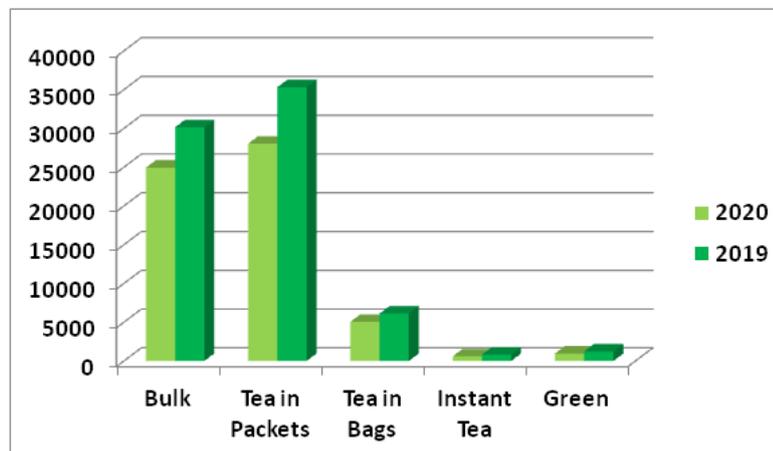
The January-March 2020 exports amounted to 59.5 million kg, down by 14.1 million kg from the corresponding period of last year. The main categories of exports on a cumulative basis showed a decrease as well compared to the corresponding period of 2019.

The FOB value for the period January-March 2020 of Rs. 826.39 was a decline of Rs. 21.18 per kilo from a year earlier.

Among the major importers of Sri Lankan tea, Iraq has secured the No. 1 position followed by Turkey and Russia. Iran was in the 4th place whilst Azerbaijan, Chile, Saudi Arabia, China and Syria are the other noteworthy importers during the period under review.

Category	Volume-MT		
	2020	2019	Variance
Bulk	24,934	30,140	-5206
Tea in Packets	28,031	35,309	-7278
Tea in Bags	5,052	6,127	-1075
Instant Tea	594	819	-225
Green	968	1,228	-260
Total	59,579	73,624	-14045

(SL Customs)



TEA AGM 2020

The 2020 AGM previously scheduled for 28th August 2020 has been postponed due to COVID 19 related health regulations. A new date will be notified in due course.



Change of Directors

The Committee of Management at the meeting on 27th April decided to appoint Mr. Lushantha De Silva as a vice Chairman of TEA filling the vacancy created by Mr. Ravi Gunaratne who left M/s Anverally Sons Pvt Ltd to take over duties as Managing Director of Vanrees Ceylon. Mr. Ganesh Deiayanagam was appointed as the successor to Mr. De Silva as the Treasure of the association. The new Board of Directors will function until the next AGM.

Kenyan Tea do better in 1Q 2020

The tea production in the month of March reached an all-time high figure of 55.73 million kg as against the volume of 26.46 million kg registered in March last year. The cumulative tea production for January-March 2020 period was 156.56 million kg compared to 106.29 million kg recorded in the same period last year. The good weather with long rains has contributed for this growth in tea production.



Kenyan tea exports in the first quarter of 2020 stood at 128.87 million kg, down by about 9 million kg when compared with 137.21 million kg of first quarter last year. The drop in demand from certain key markets like Egypt and Pakistan and disruptions and restrictions in other markets due to COVID 19 were the main reasons for drop in exports.

The average tea prices at the Mombasa tea auction in the first quarter of 2020 was USD 2.13 per kg as against USD 2.20 per kg in the same period last year. The lower prices are attributed to increase in supply and depressed demand from key markets. Although the country performance in tea exports and auction price realization is somewhat lower than last year, it has performed better than many other tea producing countries in the 1st quarter 2020.

Iran approves re-naming the currency

The head of Iran's Central Bank announced on Monday the 4th, that the nation's currency was set to be re-named and re-valued. Long called the rial, Iran's money will soon likely be called the Toman, and an impressive four zeros will be shaved off all denominations. What was previously 10,000 rials will become one Toman under the plans, which were approved Monday, 4th May by the Iranian parliament.



The bill to remove four zeros from the national currency was approved by lawmakers, reported Iran's news agency ISNA. The plan still needs to be approved by powerful clerics, but according to the Central Bank chief, Iran will take two years to "pave the way for the change."

Vietnam Tea Exports down in 1Q 2020

Vietnam suffered a reduction of tea exports in the first quarter of this year due to the impact of the COVID-19 pandemic, according to the Ministry of Agriculture and Rural Development.

Its tea exports in the first quarter declined by 2.5 per cent in volume to 26,000 tonnes and by 19 per cent in value to US\$37 million compared to the same period last year. Of which, exports reached 9,000 tonnes of tea in March, earning \$12 million.

According to the Vietnam Tea Association, the COVID-19 pandemic had greatly impacted many key export markets of Vietnamese tea. Especially, the tea exports to Taiwan, mainland China and Russia mostly stopped.

Meanwhile, partners in other markets asked to reduce prices or delay deadlines to receive tea exports and even cancel contracts. Local enterprises have been not been able to sign new export contracts.

The ministry said in the first two months of this year, Pakistan, Russia, Taiwan, Indonesia and the US were the five major export markets of Vietnam's tea products, accounting for 74.5 per cent of total national tea export value.

Average export tea price in the first two months reached \$1,481 per tonne, down 13.5 per cent compared to the same period in 2019.

The tea exports to China, one of the largest export markets for Vietnamese tea last year, dropped sharply in the first two months due to restrictions in customs clearance in China during the COVID-19 pandemic and Lunar New Year holiday. Tea exports from Vietnam to China in the two months fell by 54.1 per cent in volume to 364 tonnes and by 87.4 per cent in value to \$427,000 year on year.



COVID 19 changes retail sale in China

The magnitude of the novel coronavirus contagion is altering consumer behavior globally. Prior to the crisis, market researchers estimated China's annual growth at 8.7% through 2025. Revenue, which was projected to increase 11.4% year-over-year, contracted dramatically during the first quarter.

- Quarantines and government-ordered closures of coffee shops and tea rooms in China, Italy, Germany, France, and the US threaten the essence of a "third place." These popular gathering places were shuttered at precisely the moment companies ordered millions to work at home, isolated and fearful. Universities idled students; transit terminals lay barren, malls vacant. Stock market values nose-dived and consumer spending slowed. The mass layoffs and economic recession that follows will upend the retail segment as we know it.
- Online order, payment, and on-demand delivery all surged. The out-of-home segment approaches 75% of sales in China where food delivery apps have an estimated 335 million users. Beverage outlets that were closed to walk-in customers teamed with delivery services, including Alibaba, Meituan Dianping, and Didi Chuxing. Thousands of out-of-work restaurant employees were redeployed as delivery workers. The to-go lessons learned in China are now evident in the US, where Starbucks closed its dining rooms and is partnering with Uber Eats to expand delivery to 48 states before May.
- Rather than layoffs, companies engaged in aggressive marketing on WeChat by enlisting idled-at-home employees. Workers increase sales by engaging customers and sharing special offers via WeChat and other social circles.



- Smart IoT (internet of things) coffee makers and sophisticated vending machines, some robotic, are sterile, enclosed, and do not require consumers to interact with potentially contaminated surfaces or people. Chains are racing to install the latest versions which feature facial recognition technology while lowering payroll, rental fees, and overhead.

- Per capita consumption of coffee at 0.08 kilos is low in China, less than 5 cups per person per year compared to the average 240 cups consumed by coffee drinkers in western countries (the US average is 400 cups, Finns drink 1,495). Chinese consumers currently spend only \$6.31 per person per year on coffee. Expect that average to climb due to in-home preparation that spiked as 500 million people learned to cope with rigidly enforced stay-at-home curfews.

In China, the immediate threat has ebbed, but economic recovery will take time. Industrial output dropped 13.5%, and retail sales declined by 20.5% in 60 days. Demand for electrical power decreased by 20%, and joblessness rose to 6.2% in February. China Daily reported that the economy contracted by 3.9% during the first three months of 2020. China was running at about 70% capacity by March, but the manufacturing sector will soon encounter soft demand as the rest of the world combats the contagion. Exports that plummeted 17% during January and February have yet to recover.

Instant coffee remains the largest coffee segment in China, accounting for \$8.3 billion in sales, according to market research firm Statista. The number of coffee shops in China has increased by 52,000 since 2017, and there is evidence that coffee drinkers are becoming more habitual as they shift from afternoon to enjoying a morning brew, market research firm Jing Data states.

Specialty coffee is more often served black and priced from \$4.25-5.70 (RMB30-40). According to JingData sales of take-away coffee increased by 60% between 2017 and 2018. Nearly 70% percent of past-day coffee drinkers report their coffee of choice was instant, down from 90% in 2010. However, most customers accustomed to less bitter, low-cost soluble coffee, are unwilling to pay more than \$2.85-4.25 (RMB20-30) per cup, writes JingData.

Turkey Tea harvest hit by labour shortage

The country's tea-growing industry, centered on the slopes running down to the Black Sea, faces disruption to the first harvest of the year this month from the coronavirus pandemic.

Plantations in the northeastern provinces of Rize, Trabzon, Artvin and Giresun produce around 260,000 tons of tea annually, most of it sold domestically to slake the thirst of Turks who each consume an average of 3.5 kilos of tea every year.



Like much of the Turkish economy, tea producers are fighting to cope with the downturn caused by the outbreak, which hit Turkey as it was struggling to recover from a recession last year that followed a currency crisis in 2018.

The sector has come under added pressure due to restrictions as seasonal tea pickers will not be able to travel to harvest the crop.

Every year tens of thousands of casual workers flock to the Black Sea, many from neighboring Georgia and Azerbaijan, but also from other parts of Turkey. Their absence means tea producers face the prospect of a large part of the crop lying unpicked.

In addition, some 50,000 tea farmers were unable to prepare their fields for the harvest, according to a researcher at Istanbul's Marmara University.

"Tea cultivation cannot be carried out under these conditions and this year will go down in history as a year of loss and damage in terms of the harvest," she said.

Across the Black Sea region, some 1.2 million farmers, factory workers, traders and their families make their livelihood from the tea industry.

One of the province's leading employers is Caykur, the state-owned producer that supplies around 60 per cent of Turkey's tea. The company, which was absorbed into Turkey's sovereign wealth fund three years ago, buys tea from some 200,000 independent farmers.

"We have no information that Caykur has conducted a study on this issue," said, a farmer from Trabzon. "In short, there are no tangible steps taken anywhere to prepare for the season. There's uncertainty and despair."

A spokesman for the Tea Farmers' Union also criticized the lack of action. "It's impossible for our region not to be affected economically," he said. "Although the people of our region mainly get their income from tea, all kinds of tradesmen will be affected by the disruption.

Without support from Ankara, local authorities have developed schemes to save as much of the crop as possible.

The Rize, council had hired locals to harvest around half the 30,000 tons that would usually be picked during three harvests between May and September.

In this way, both the problem of tea producers will be solved and it will be an important development for the employment of people living here.

Having faced a 70 per cent rise in tea prices over the last five years, the blow to the industry is likely to further increase the cost of Turks' daily brew.

The failure to harvest this year will make it difficult to meet even domestic demand said the researcher. "Tea prices, which have been hiked twice in a row this year, will increase even more if the producer cannot go to the field."

Indian tea exports suffer from COVID 19

Drop in production due to Covid-19 pandemic, nation-wide lockdown, besides governmental restrictions, may lead to a loss of huge foreign currency earnings as India used to export tea to more than 30 countries, experts said.

According to economists and experts, delayed start of various works in the tea gardens, including plucking and processing, besides government enforced restrictions, are among the key reasons to give a blow to export of tea in over 30 countries.

North Eastern Tea Association (NETA) says" Exports of Indian tea may get affected. The Out Of Home (OOH) consumption is almost negligible due to the ongoing lockdown and it would continue even after partial relaxations of lockdown."



"There was no harvesting of tea leaves for three weeks followed by skiffing of more than 35 per cent of tea bushes. And now, only 50 per cent of the workforce is allowed to work by the government due to the coronavirus pandemic. Therefore the crop loss may be much more than what was estimated," told IANS.

The NETA has done a SWOT analysis of Assam tea industry due to the lockdown impact and related issues, to study both positive and negative attributes, determining how best to sustain in this difficult time. "It would take some more time for the supply chain to stabilize. Huge liquidity crunch is facing tea producers. The total revenue loss from March 23 to April 14 is to the tune of Rs 1,218 crore.

The crop loss in March and April would continue till May because of the necessity of skiffing of overgrown leaves due to lockdown. The total crop loss would be about 80 million kg. The tea gardens have resumed operations from April 15 with 50 per cent workforce. Therefore, both the crop and the revenue losses would further increase.

"If the government provides financial aid to the workers of the tea industry it would be a twin benefit - boost the morale of the workers and indirectly help the industry," told IANS.

Most of the 850-odd tea gardens in the northeastern states, mostly in Assam (800) and Tripura (54), have started plucking and processing from mid-April after weeks of disruption in work due to the lockdown.

Of India's total tea production of 1,325.05 million kg last year, 720 million kg came from Assam, which on an average produces 52 per cent of India's total tea.

Saudi Arabia triples value added tax (VAT)

Saudi Arabia's state news agency announced that VAT will increase from 5% to 15% as of 1 July, while the cost of living allowance will be suspended from 1 June 2020.

The oil-rich nation has seen its income plummet as the impact of the pandemic has forced down global energy prices.

The kingdom first introduced VAT two years ago as part of efforts to cut its reliance on world crude oil markets.

The allowance of 1,000 riyals (\$267; 245 euros) per month to state employees was introduced in 2018 to help offset increased financial burdens including VAT and a rise in the price of petrol.

"These measures are painful but necessary to maintain financial and economic stability over [the] medium to long term and overcome the unprecedented coronavirus crisis with the least damage possible," finance minister said in the statement.

The announcement came after state spending outstripped income, pushing the kingdom into a \$9bn (£7.2bn) budget deficit in the first three months of the year.

That's as oil revenues in the period fell by almost a quarter from a year earlier to \$34bn, pulling down total revenues by 22%.



At the same time Saudi Arabia's central bank saw its foreign reserves fall in March at their fastest rate in at least two decades and to their lowest level since 2011.

How the increased VAT will impact consumer spending will have to be seen from next month. In general prices of all food products would go up with the new VAT but it is believed that it will not have a significant impact on tea sale as Saudi has a high per capita consumption of tea in the region. Any short term adverse impact may be on the top end of the tea market and specialty tea shop sale.

(Sources- Print Media, Web News)