



T · E · A

Tea Exporters Association
Sri Lanka

NEWSLETTER

3Q 2017



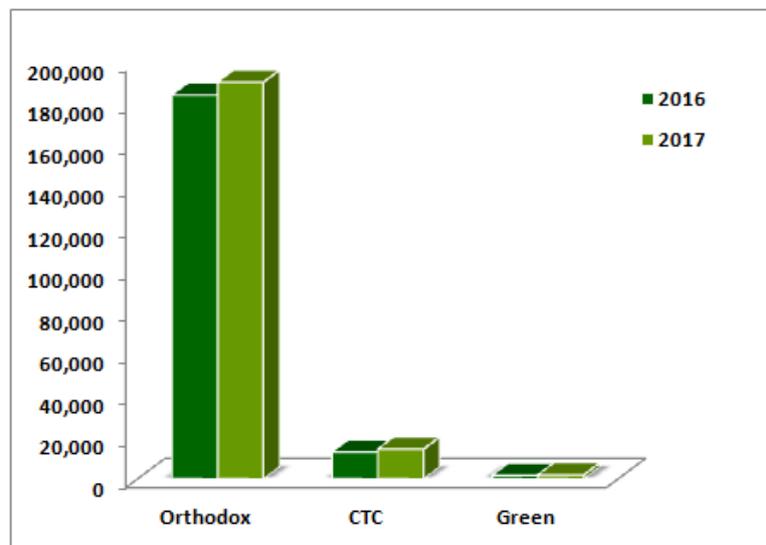
Recovery in Tea Production -2017

Sri Lanka Tea Production for the month of August totaled 24.6 million kg indicating a gain of 1.4 million kg compared to 23.2 million kg recorded in August 2016. High Grown tea has remained static whilst Medium Grown has shown a marginal gain with Low Grown tea showing a fairly significant gain compared to August 2016.

Cumulative tea production for January – August 2017 period totaled 206.9 million kg vis-à-vis 199.0 million kg of January – August 2016 showing a gain of 7.9 million kg. On a cumulative basis for January – August 2017, High Grown teas have shown a marginal decrease whilst medium and Low Grown teas show a growth YOY.

When analyzing the CTC production, August 2017 totaled 1.9 million kg vis-à-vis 1.5 million kg of August 2016, thus showing a gain of 0.36 million kg. All elevations have shown a gain YOY with High and Medium grown teas showing a fairly significant gain. The January – August 2017 cumulative CTC production totaled 14.3 million kg compared to 12.8 million kg registered in January – August 2016 showing a gain of 1.47 million kg. The relevant tea production figures for the 8th month period are given below.

| | 2016 | 2017 | Change% |
|----------|---------|---------|---------|
| Orthodox | 184,511 | 190,735 | 3.37 |
| CTC | 12,854 | 14,319 | 11.40 |
| Green | 1,659 | 1,919 | 15.65 |
| Total | 199,024 | 206,973 | 3.99 |



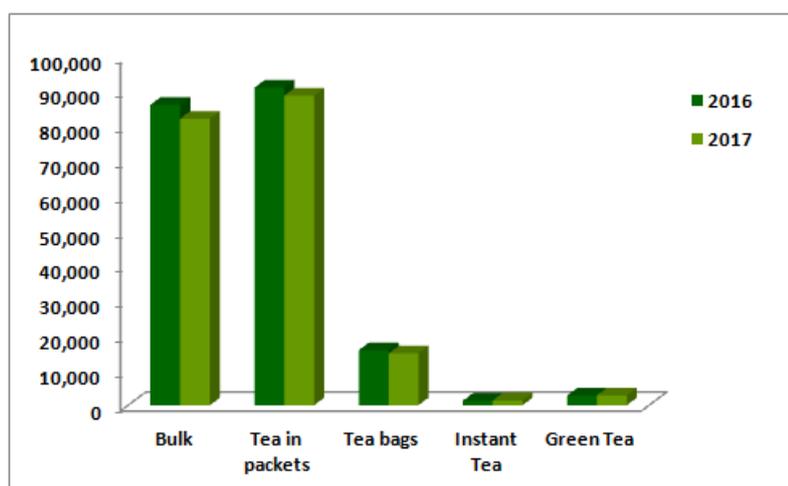
Tea Export revenue hits USD 1 Billion

Sri Lanka Tea Exports for August 2017 totaled 24.8 million kg showing a marginal deficit of 0.3 million kg compared to 25.1 million kg recorded in August 2016. All main categories of exports i.e. tea bags, packets and bulk tea have shown a marginal decrease compared to the corresponding month of 2016. The total revenue realized for August 2017 of Rs. 20.1 billion, shows a significant gain of Rs. 4.3 billion against the Rs.15.8 billion achieved in August 2016. This also has resulted in the FOB value for August 2017 realizing Rs.810.93 as against Rs. 630.37 of August 2016 showing a gain of Rs.179.63 per kg.

The cumulative exports volume of 190.1 million kg for the period January – August 2017, is a deficit of 7.2 million kg compared to 197.3 million kg exported during January – August 2016 period. It is noteworthy however that revenue of Rs.152.5 billion realized for January – August 2017 show a significant gain of Rs.31.7 billion against the revenue of Rs.120.8 billion achieved in January – August 2016. Consequently the FOB value per kg too gained Rs.189.6 to realize Rs.802.02 compared to Rs.612.42 of January – August 2016. In terms of foreign exchange, the revenue achieved up to August 2017 equals to USD 1 billion. It is estimated that year end tea export revenue would reach the USD 1.5 billion mark.

Turkey has retained the No.01 position as the largest importer of Ceylon Tea for the period January – August 2017 followed by Russia and Iraq. Other noteworthy importers are Iran, U.A.E and Libya. China and Azerbaijan too have shown a growth YOY when compared to the same period of 2016. The relevant export figures for the 8th month period are given below.

| | 2016 | 2017 | Change % |
|----------------|---------|---------|----------|
| Bulk | 86,225 | 82,229 | (4.63) |
| Tea in Packets | 91,145 | 88,853 | (2.51) |
| Tea in Bags | 15,800 | 14,852 | (6.00) |
| Instant | 1,322 | 1,394 | 5.44 |
| Green | 2,831 | 2,862 | 1.09 |
| Total | 197,323 | 190,190 | (3.6) |



2017 Annual General Meeting

The 2017 Annual General meeting of Tea Exporters Association is scheduled for Friday, 20th October 2017 at the Oak Room, Cinnamon Grand from 6.30 pm onwards. One of the features of the event will be rewarding the Tea Manufacturers who have excelled in Tea Production. Three winners from each elevation will be selected from the nominations received from the members. TEA would like to see all members wearing the TEA tie for the AGM. Mr. Sanje Widyaratne, Chairman of walters Bay, USA will deliver the Key Note address.

Market Information

1. Outlook for MENA Region - 3RD Q 2017

The economic growth in the GCC and MENA Region is expected to recover in 2018. The price of oil surpassing US\$ 50 per barrel will be a major contributor. The political uncertainties, ravaging civil wars and Islamic extremism, feud with neighboring Qatar, weaker economic growth etc have combined to constrain the economic development in the Region.

The security situation in Turkey has improved drastically and the political stability regained. It has edged-out Russia to emerge as the leading Ceylon Tea importing nation. While direct exports from Sri Lanka to Trabzon for domestic consumption have grown, off-takes to Mersin Free Zone for re-export to Northern Iraq and Syria has also performed well. A similar performance is expected from Turkey even during the third quarter. Mainland Iraq which absorbs a much lower quality of tea than Kurdistan operated strongly at the lower end of the auction and will continue to stabilize the bottom. The delays in receiving payments from Iran are a matter of concern and directly co-relates to the dip in performance.

The trade needs to note that, Vietnam teas are increasingly blended with Ceylon's as a price reducer in Iraq while India is at an advantage in Iran with the barter agreement for oil against a basket of products and services to circumvent the payment difficulties. With re-exports to Iran slowing down, Ceylon Tea imports by UAE have declined. A similar trend is expected to continue. With the recommencement of oil sales directly by the Libyan Stat Oil Company during second half 2016, the purchase of Ceylon tea momentum also increased. The pattern is on-going in 2017 as well.



While the situation in Syria remains pathetic, Lebanon has done remarkably well. Jordan and Saudi have maintained its Ceylon Tea inventories despite severe challenges from Kenya and Vietnam. Sustaining market share will not be easy at the prevailing high price levels for Ceylon Tea.

The tension in the Middle East / Gulf and North African Region is bound to continue during the second half of 2017 as well as into the 2018. The future stability of the Gulf Cooperation Council (GCC) which remained solidly united in the past is now at stake.

It may not be a surprise if the geopolitical boundaries in the MENA countries are redrawn within the coming years. Today Iran and Turkey as well as Saudi and UAE have emerged as regional powers. The political influence by Iran on Syria, Iraq Yemen and Lebanon is incredible. Similarly Saudi plays a leading role in the Gulf and few North African nations where Qatar has fallen-out and Oman always remained independent. The role of Israel in this equation cannot be forgotten but the Middle Eastern Policy of USA and Russia is still somewhat blurred. In such an environment, what is certain in the MENA countries is only the uncertainty. Despite all the chaos in the Arab World, 55% of Ceylon Tea off-takes are still absorbed by MENA Region.

(Courtesy- SLTB Office in Dubai)

2. Outlook for Russia/CIS Region - 3rd Q 2017

The Russian economy is projected to rebound from a deep recession on the back of stronger oil prices, higher wages and lower interest rates, which will boost household consumption and business investment. Consumer price inflation and interest rates continue to decline, fostering both investment and consumption. Business sentiment is improving, and investment is rising after a contraction that lasted almost three years. Consumption is picking up on the back of higher real wages, although household confidence is still weak. Unemployment rate has declined further and is now about 5.5%. Rising wages and falling unemployment have also brought poverty rates down slightly. However, the upturn is fragile as it rests mainly on the rebound of commodity prices. Most structural and policy obstacles to higher sustainable growth remain in place.

The new sanctions imposed by USA in August 2017 punish Russia for alleged meddling in the US presidential election and military interventions in Ukraine and Syria. The sanctions target among other things Russia's energy sector by limiting or prohibiting US firms from financing and working on some Russian energy projects. The bill is wide-ranging and lists 12 sanctions that can be imposed, include freezing assets such as property, revoking visas and banning exports from the US to those sanctioned.



Though the stabilization of Russian Ruble is experienced with better prospects, the high cost of Ceylon Tea in Colombo tea auction will hamper the sourcing of Ceylon Tea especially for local packaging industry in Russia which currently absorbs nearly 80% of Sri Lanka's tea exports to Russia in bulk form. In this context, Indian and Vietnam teas at very lower price are being sourced by the Russian packers. This trend is expected to be continued to the second half of the year as well. Also, before the new round of sanctions against Russia, the Ruble was traded between 56-58 per US Dollar. However, a depreciation of Ruble against US Dollar is anticipated by the end of this year. This situation may lead to the lowering the importation of Ceylon Tea to Russia. Based on these grounds, the imports of Ceylon Tea by Russia could be projected between 30-35 Million Kilos by the end of 2017.

It is expected that US sanctions against Russia will have ripple effects in the CIS Republics which have strong trade relationships with Russia. Just after the imposing of sanction against Russia, the Kazakh Tengi has started to depreciate which will cause severely for the price-hike of imported goods in Kazakhstan.



In Ukraine, the macroeconomic stability has been restored and Ukraine appears to be on the road to recovery. A more stable exchange rate has helped to bring inflation under control (down to 12.4 per cent last year and projected to be 6 per cent next year). Output is now increasing for the first time since 2012, with a growth of 2 per cent last year, expected to rise to 2.8 per cent this year and more than 3 per cent in 2018. Renewed growth and lower inflation has, in turn, allowed battered living standards to start recovering. Real wages increased by 11.6 per cent in 2016. The Ukrainian government has also set out a path to long-term fiscal sustainability through a mix of spending cuts and tax reforms.

With these new developments and stability of Ukraine economy, the Ceylon Tea export to the Ukraine market increased from 4.4 million kilos in 2015 to 5.3 million kilos in 2016. The escalating tea prices in Colombo Auction will hinder the significant intake of Ceylon Tea by Ukraine during this year. However, it can be projected that a volume of around 4.5-5.0 million kilos of Ceylon Tea will be destined in Ukraine by the end of this year.

(Courtesy - SLTB Office in Moscow)

3. India targets Chile market

India is aiming to break new ground in its tea exports with an entry into Chile where it had recently taken a delegation. The existing preferential trade agreement with the Latin American country is being seen as a major catalyst in this foray. The 21 million-kg Chilean tea market is currently dominated by Argentina and Sri Lanka, with some re-traded teas also being sent from some European countries. Indian presence is virtually non-existent.



The Preferential Trade Agreement which gives an 80% margin of preference to tea will help neutralize the freight costs to Latin America, which were also on a downswing now. It may be mentioned here that the PTA signed in March 2006 and was expanded in September. Under the expanded PTA, Chile has offered concessions to India on 1,798 tariff lines with Margin of Preference ranging from 30% to 100%. India has offered concessions to Chile on 1,031 tariff lines with MOP ranging from 10% to 100%. Among Latin American countries, Chile is one of the leading trading partners of India.

4. Saudi Tea Imports reach 36 M Kg in 2016

The foreign trade statistics published by Saudi Department of Statistics revealed that the kingdom has imported 36,741 MT of tea in 2016. It is observed that total tea imports have gone up by about 16% during the last four year period. Black tea accounts for 34,390 MT or 94% of the total tea import volume with green tea having a share of 6% or 2,351 MT. The category wise tea imports are:

| | |
|------------------|---------------|
| Black Tea | MT |
| Tea bags | 17,818 |
| Tea Packets | 9,944 |
| Bulk Tea | 6,628 |
| | <u>34,390</u> |
| Green Tea | MT |
| Tea packets | 372 |
| Bulk Tea | 1,979 |
| | <u>2,351</u> |

It is estimated that, less than 10% of total tea imports are re-exported to neighboring countries while the balance 90% plus are for the domestic use. Among the supplying countries UAE has a share of 36% in Saudi tea imports followed by Sri Lanka (14%) and Kenya (13.5%) in the second and third places. India (11%), Vietnam (4.7%) and China (3%) are the other major suppliers of tea to Saudi Arabia. Tea imports from UAE mainly consist of Lipton tea sourced from Unilever Gulf Plant located in Jebel Ali free zone in Dubai.



5. Turkey gifts tea machinery to Pakistan

Turkey has gifted an automatic tea-processing plant to Pakistan to support tea cultivation based on modern technology, Pakistani media has reported. Turkish Ministry of Food, Agriculture and Livestock sent the plant that would be made operational by April next year. The plant would have the capacity to process 400 kilograms to 500 kilograms of tea per day. It would be set up in the country's first tea garden in Mansehra district, located 70 kilometers from capital Islamabad.

According to the official statistics, Pakistan spent around \$220 million on tea imports during first six months of 2017. The country's tea imports have increased by over 325 percent in the last 20 years. Tea cultivation suffered a huge set back in the country when one of the largest tea gardens spread over 186 acres was destroyed during a military onslaught against Taliban affiliated militants in the scenic valley of Swat in 2009.



6. USA Tea Sales to hit USD 9 Billion



Tea sales in USA have shown a strong growth in 2016. A recent research carried out by "Packaged Facts" has revealed that the value of tea market has exceeded USD 7 billion by end of last year. The retail sale value is expected to reach USD 9 billion by 2020. The growth will come from ready to drink tea (RTD) and refrigerated tea driven by recognition of health benefits of tea and shift towards tea from carbonated soft drinks. The top five brands accounted for 56% of the all teas sold in the retail sector but most of the industry's innovation still come from small players who introduce new ingredients and flavours that attract consumers.

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