



**T · E · A**

Tea Exporters Association  
Sri Lanka

# NEWSLETTER

4Q 2017

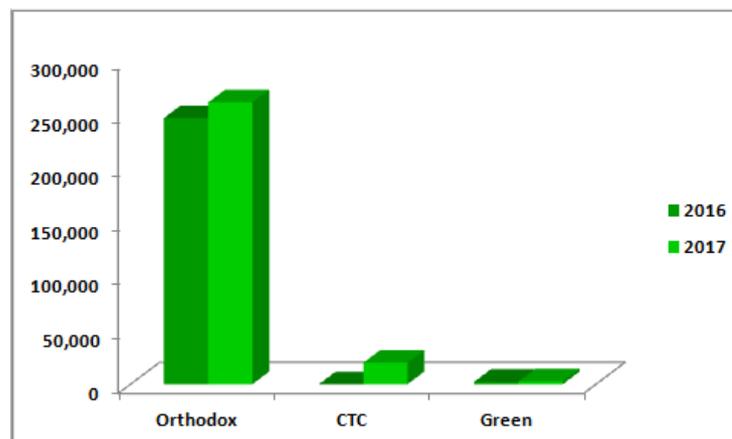


## Sri Lanka Tea Production - January to November 2017

Sri Lanka tea production for the month of November 2017 totalled 24.7 million kg compared to 27.7 million kg recorded in November 2016 showing a decrease of 2.94 million kg. In analyzing the situation for January - November 2017, total production of 283.3 million kg is a growth of 17.9 million kg as against 265.3 million kg for January - November 2016 period. On a cumulative basis all elevations show a growth YOY with Low grown sector in particular showing a growth of 14.5 million kg.

The January - November 2017 CTC tea production totalled 19.7 million kg showing a gain of 3.1 million kg vis-à-vis 16.6 million kg of January - November 2016. On a cumulative basis too all elevations have shown a gain. The green tea production in the first eleven months reached 2.5 million kg, an increase of 0.367 million kg over the same period in 2016. The relevant tea production figures are appended below.

	2016	2017	Change%
Orthodox	246,637	261,089	6.09
CTC	16,628	19,796	19.37
Green	2,128	2,495	17.24
Total	263,394	283,380	7.60



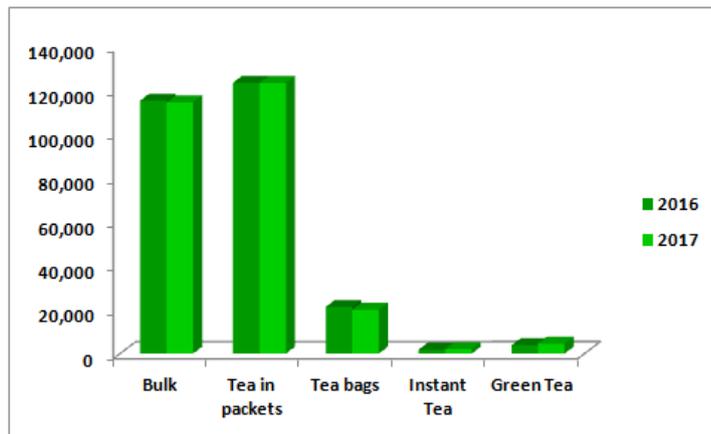
## Sri Lanka Tea Exports - January to November 2017

Tea Exports for November 2017 totalled 23.6 million kg showing a gain of 3.2 million kg vis-à-vis 20.4 million kg of November 2016. All main categories of exports i.e. bulk, packeted tea and tea bags have shown a growth YOY. However on a cumulative basis, January - November 2017 total tea exports of 265.01million kg show a marginal decrease of 1 million kg over the volume of 266.1 million kg recorded during the same period in 2016.

The export of tea in packets has remained static whilst bulk/ tea bags have shown a decrease during the period under review. Meanwhile total revenue realized for January - November 2017 of Rs. 213.8B show a gain of Rs.45.4B vis-à-vis Rs. 168.4B of January - November 2016. It is also noteworthy that Rs. 213.8B is the highest revenue derived out of tea exports improving on the previous best of Rs. 212.5B recorded in 2014 which was for a calendar year. Further, this also has resulted in the FOB value for January - November 2017 to realize Rs. 807.12 vis-à-vis Rs. 632.81 of January - November 2016 recording a substantial gain of Rs.174.31.

The tea export performances in the first eleven months are summarized below.

	2016	2017	Change %
Bulk	115,516	114,762	(0.86)
Tea in Packets	123,714	123,635	(0.08)
Tea in Bags	21,303	20,031	(6.10)
Instant	1,794	2,037	13.50
Green	3,832	4,551	18.76
Total	266,159	265,016	(0.41)



## TEA holds Members Evening

TEA celebrated the annual " Members Evening " on Saturday, 9th December 2017 at the Colombo Swimming Club with the presence of a large gathering including its' members, tea producers , tea brokers etc . The event was sponsored by Peoples Bank. Dr. Rohan Pethiyagoda, Chairman of SLTB, Ms. Aruni Goonetillke, Head of Corporate Banking of Peoples Bank, Mr. Anselm Perera, Chairman of CTTA , Mr. Sunil Poholiyadda, Chairman of PA, Mr. U. K. Harith Ruwan Ranasinghe, Chairman of SLTFOA were among the invitees.

Mr. Jayantha Karunaratne, Chairman of TEA in his welcome address thanked Mr. Hemasiri Fernando, Chairman of Peoples Bank for sponsoring the TEA Members Evening and stated that, the new relationship would open more business opportunities for the Peoples Bank.



## Tea Prices may remain firm

The tea crop figures available for Sri Lanka, India, Kenya, Malawi and Bangladesh up to October 2017 indicate that short fall in world supply of black tea would exceed 50 million kg by end of the year and may continue till around middle of 2018. The tea production in India, Turkey, Iran etc would be restricted in the first quarter of 2018 due to the winter condition and therefore, any increase in the world supply of black tea may take place from around second quarter of next year subject to favorable weather conditions for the production of tea. The reduced availability of tea is likely to support the high prices of tea at all tea auction centers at least till the end of first quarter of 2018.



## India to send cargo to Russia through Iran

India will start export of container cargo to Russia via Iran from January 2018 according to a top government official of India. This mode of shipments will be done as India moves forward to operationalize international corridor INSTC. The move, is reported, would cut down cargo transport time by half to nearly 17 days, from the earlier 35 days, using just the sea route saving money as well. India will shift its first export consignment via Bandar Abbas to Russia and will probably transit through Azerbaijan and then reach Russia, reports indicate.

International North-South Transport Corridor (INSTC) is a multi-mode network of sea, rail, and road route for moving freight among India, Russia, Iran, Europe and Central Asia. The proposed 7,200-km long corridor is expected to increase trade connectivity among major cities of Mumbai, Moscow, Tehran, Baku, Bandar Abbas, Astrakhan and Bandar Anzali.

India also plans to send seven shipments of wheat to Afghanistan through Iran's southeastern Chabahar Port by the end of January, Reuters has previously reported. India launched a trade route to Afghanistan via Iran by shipping its first consignment of wheat to Afghanistan on October 29, bypassing longtime rival Pakistan. The new route may also be used for shipping tea to Iran and Russia.



## Russian Economy to improve in 2018

An international research agency forecasts that Russia is expected to benefit from an improvement of global macroeconomic conditions embodied by a world growth reaching 3 percent YOY both in 2017 and 2018, after achieving 2.9 percent YOY in 2016. This improvement has a threefold impact; a better synchronization of national economic cycles, a rebound of global trade and highly supportive monetary policy and financial conditions.

These three factors will coalesce into moderately firming commodity prices (oil prices to increase to \$ 56 per barrel on average in 2018) and a moderate appreciation of the ruble against the U.S. dollar. The recovery in Russian exports is expected to continue in 2018, albeit at a more moderate pace: +\$26 billion after +\$60 billion in 2017.

In this environment, domestic Russian factors will represent another tailwind on the back of accelerating credit, easing of monetary policy and strengthening confidence in both the consumer and corporate sectors. These positive factors will offset the negative impact of international economic sanctions, which will become less and less relevant in discouraging inward foreign direct investments. All in all, Russia's GDP is expected to accelerate to 1.5 percent YOY in 2017 and 1.9 percent YOY in 2018, after a contraction by -0.2 percent YOY in 2016.

After a period of contraction, the economy is now more stable and many businesses are now considering making new investment and expansion. Even during a time of growth and positive economic indicators for key sectors business owners need to be cautious. Payments due are frequently a business' major asset so a late or non-payment could put a company at serious financial risk and can create problems throughout an entire supply chain.



## Kenya Tea Production to rise by 20% by 2020

Kenya tea production is expected to rise about 20% by the end of the decade, as farmers harvest from new bushes, according to the industry regulator. Output is projected to jump to 500,000 MT in 2020 from a projected 412,000 MT in 2017, after a drought damaged plants in most growing areas. Most regions in Kenya received below 75% of their seasonal long-term average rain between March and May, according to the nation's meteorological department.

There is a lot of replanting of tea by farmers, which could see the country hitting 500-million kg most probably by 2020 according to the regulator. Farmers have been replacing old bushes with high-yielding clones. The nation grew a record 473,000MT of tea in 2016, which earned the country 120-billion shillings (\$1.16bn) of export revenue.

To encourage more production, the Kenyan government is facilitating the participation of small processing and packaging companies at international trade shows. Last year, 30 small-and-medium-sized enterprises exported 50,000 MT of tea, about 10% of overall shipments, according to the Tea Directorate. Most Kenyan exports are handled by multinational companies such as Unilever through the Mombasa auction.

A fifth of the companies trading at the Mombasa auction, mainly multinationals, account for 80% of the business, according to the East African Tea Traders Association. The nation's Export Promotion Council is "aggressively promoting" tea, alongside agro-processing, flowers, leather and textiles to boost exports.



## Nestle sells off tea brands in North America

Nestle has sold two of its tea brands in North America as the world's biggest food maker presses ahead with reshaping its business to focus on new consumer trends and healthcare. Private equity firm Fireman Capital Partners said has linked up with Dunn's River Brands to buy the Sweet Leaf Tea and Trade winds businesses from Nestle North America. The deal, which was for an undisclosed sum, is expected to be completed by the end of the year.

Nestle has embarked upon an overhaul of its brands and strategy as it seeks to overcome sluggish growth in its traditional businesses. Earlier this month, the Swiss company announced the purchase of Canadian vitamin maker Atrium Innovations for US \$ 2.3 billion, its fourth purchase in recent months. It has bought Sweet Earth vegetarian foods and Blue Bottle coffee in September and Chameleon Cold-Brew coffee in November as it adjusts to a market where customers favour smaller, independent brands.

## Indian Tea Delegation to visit China

The Tea Board is planning to send a tea-trade delegation to China early next year, most likely to be in February 2018. The delegation would visit Beijing and Shanghai and plan to meet the Chinese authorities, participating in buyer-seller interactions as well as tea-sampling.

Just as there has been an increasing trend for consuming green tea in India as a health drink, the trend in China is just the opposite. Youth there, are showing an increasing preference for black tea. The Indian delegation is hoping to target the growing demand for black tea in China.

There is scope of India increasing its exports as there is a market for premium teas and black tea based beverages in China, a senior Tea Board official has stated .China imported 6.4 million kg of black tea from India in the first 10 months of 2017 valued at Rs. 115 crores, at the average price of Rs. 180.80 per kg.



## India to Promote Tea Consumption among the youth

The Indian tea industry has set a target to achieve 1 kg per capita consumption within a span of 10 years. At present, the per capita consumption of tea in the country is approximately 730 gm. The industry is targeting the youth to boost the domestic tea consumption. As in USA, the younger generation appears to prefer tea in cold form and other non conventional forms of the beverage.



The Indian Tea Association states that more than half the people in the age group of 17 – 24 years drink tea less than once a day. Tea has to be promoted among them as a lifestyle drink in both cold and hot forms. By 2030, 60% of the Indian population will be below 35 years and this is going to be a huge market for tea. The tea production in the country in 2017 is expected to be 1,280 million kg, of this 200 – 230 million kg would be exported.

## China Tea Consumption

The growth of Chinese tea market has slowed down from a growth rate of 18% in 2010 to 6 % by 2016. In year 2016, the Chinese tea production increased by 3% YOY. The growth was slower than expected due to bad weather and cold temperature at the beginning of the year that significantly damaged the tea crop.

The retail sale of tea is expected to be stable in both volume and value in the next 5 years. There is a steady demand from traditional tea drinkers with improved purchasing power and increasing awareness of health benefits of tea. It is expected that consumers are likely to go for high quality tea.

The retail value of Chinese tea market is approximately USD 20 billion. The annual growth rate of the value was 9.4% during 2012 – 2017 periods. Tea accounts for over 26% in Chinese domestic beverage market in terms of volume. It is also reported that China coffee market is increasing by about 15% – 20% every year.



## Indian Tea firms work out hedging mechanism

Tea companies in the Dooars-Assam area have proposed hedging in tea auctions. The proposal, which is yet to be placed before the Tea Board of India, allows sellers and buyers to set prices in auction centers. If the price falls below that set by the producer, a swap broker will sell the tea and pay the differential to the estate owner. If the price is higher than the producer's listed price, the garden will have to pay the differential to the broker.

According to the Indian Tea Association (ITA), this will help mitigate market volatility and help tea producers as well as swap brokers to make profits. On the other hand, buyers can pre-plan their purchase requirements and will know exactly how much they need to pay for a future order. "In the current auction system, the selling price is often lower than the cost of production. In the export market also, owing to currency volatility, a similar thing might happen. The swap option will eliminate this," said Azam Monem, chairman of the ITA.



Tea prices rose by one per cent between January and October to \$3.01 a kg but fell by 1.6 per cent in rupee terms to Rs. 196.35 per kg. Tea prices in auction centers are now hovering around Rs 134 a kg, which barely makes up for production costs. Around 60-65 per cent of India's annual 1,200 million kg tea output is routed through auction centers. Industry executives said some tea companies had experimented with futures trading. However, it was not successful because tea was "too complicated a commodity". "In tea, futures trading can work for between 3 and 12 months against the norm of 3-5 years," an estate owner said. ITA has appointed a consultant to draw up the methodology for the swap option and it will be put to the test in Kolkata, India's largest auction centre. The ITA has approached brokers in the Multi Commodity Exchange (MCX) to play the role of swap brokers.

TEA wishes Merry Christmas and  
Happy New Year!!!

May this Christmas be bright & cheerful  
and may the New Year begin on a prosperous note!



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