



منظمة الأغذية
والزراعة
للأمم المتحدة

联合国
粮食及
农业组织

Food
and
Agriculture
Organization
of
the
United
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Organisation
des
Nations
Unies
pour
l'alimentation
et
l'agriculture

Продовольственная и
сельскохозяйственная
организация
Объединенных
Наций

Organización
de las
Naciones
Unidas
para la
Agricultura
y la
Alimentación

COMMITTEE ON COMMODITY PROBLEMS

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REPORT OF THE NINETEENTH SESSION OF THE INTERGOVERNMENTAL GROUP ON TEA New Delhi, India, 12 – 14 May 2010

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I. INTRODUCTION

1. The Intergovernmental Group (IGG) on Tea held its Nineteenth Session in New Delhi, India, from 12 – 14 May 2010. It was attended by 100 delegates from the following member countries: Argentina, Canada, China, Germany, India, Indonesia, Japan, Kenya, Malawi, Nepal, Nigeria, Russian Federation, Sri Lanka, United Kingdom, United Republic of Tanzania and United States of America. These countries account for almost 90 percent of world tea production and 85 percent of global tea trade. The following Observers also attended: World Intellectual Property Organization (WIPO), Common Fund for Commodities (CFC), International Tea Committee (ITC) and the Tea Research Foundation of Central Africa. A list of participants was distributed as document CCP: TE 08/Inf.4.
2. The session was formally inaugurated by the Minister of State for Commerce and Industry, Shri Jyotiraditya M. Scindia. The Minister, in his statement (CCP: TE 10/CRS 16), reiterated the role of the IGG on Tea, which provides the platform for intergovernmental consultation for production, consumption, trade and price of tea and facilitates a regular appraisal of the global market situation for policy framing. The statement of the Director-General, Mr Jacques Diouf (CCP: TE 10/CRS 15), was delivered on his behalf by Mr Alexander Sarris, Director, Trade and Markets Division.
3. The Group expressed warm appreciation to the Government of India, and particularly to the Tea Board of India, for the hospitality provided to delegates and for the opportunity to meet and strengthen international cooperation and interaction among major tea exporting and importing countries.

II. ORGANIZATIONAL MATTERS

A. ELECTION OF CHAIRPERSON AND VICE-CHAIRPERSONS

4. The Group elected Mr Ashok K. Mangotra (India), Additional Secretary, Ministry of Commerce and Industry, as Chairperson. The Group elected Mr Joseph P. Simrany (USA) as First Vice-Chairperson and Honourable Japhet Kareke Mbiuki (Kenya) as Second Vice-Chairperson.

B. ADOPTION OF PROVISIONAL AGENDA AND TIMETABLE

5. The provisional agenda (CCP: TE 10/1) was adopted as presented. The provisional timetable (CCP: TE 10/Inf.2) was adopted.

III. MARKET DEVELOPMENT AND OUTLOOK

A. CURRENT MARKET SITUATION AND MEDIUM TERM OUTLOOK

6. The Group reviewed the current market situation and medium term outlook with the assistance of documents CCP: TE 10/Inf.3 and CCP: TE 10/CRS 8. Several delegates took the opportunity to update information pertaining to their countries for both, the current market situation, as well as insights on medium term projection patterns.
7. The Group noted that while an attempt has been made to assess black and green tea separately, information on green tea was relatively limited, particularly on prices. Therefore, it was difficult to carry out a meaningful market analysis on the economic factors impacting supply and demand of green tea. However, the terms of reference of the proposed mechanism for coordinating work on the World Tea Model could be expanded to include generation of data and assumptions (policy, agronomic, social and economic) to include those related to green tea.

8. The Group noted that world black tea prices, as measured by the FAO Tea Composite Price, strengthened significantly since the last session of the Intergovernmental Group on Tea in May 2008, as market fundamentals continued to improve. After long periods of sustained growth, black tea production actually declined, by 0.64 percent, from 2007 to 2009, while consumption grew by 0.57 percent at the global level during the same period. The depreciation of the US dollar against currencies of major tea importing countries also helped shore up aggregate demand. In 2007, world tea prices began a slow but sustained increase, underpinned by strong demand worldwide, particularly in emerging economies. Consequently, the FAO Tea Composite Price rose from an average of USD 1.95 per kg in 2007 to USD 2.39 per kg in 2008, reaching a record USD 3.18 in September 2009, the highest level since the FAO Tea Composite Price was created in 1989. Prices retreated in early 2010 but continue to be high by historical standards.

9. With respect to price transmission to consumers, there was a distinct difference between developed and developing country markets. Although the FAO Composite Price increased by 13 percent in 2009, transmission at the retail level in developed countries was 5 percent at supermarkets across Europe because of intense competition in the beverages market. By contrast, in developing countries a larger share of the price increase was transferred to consumers averaging about 12 percent during the same period.

10. Another important development, the Group noted, was the increase in export earnings in 2009 at the global level, positively affecting rural incomes and household food security in tea producing countries. For instance, earnings from tea exports accounted for about 35 percent of total agricultural export receipts in Kenya and covered the country's entire import bill, while in Sri Lanka exports of tea accounted for 50 percent of agricultural export revenue and paid for about 60 percent of Sri Lanka's food import bill.

11. The Group further noted that in the medium term, the projections suggested that supply and demand of black tea will be in equilibrium in 2019, which would promote relatively stable prices at slightly higher than the historical average over the past decade. Therefore, an over reaction to high prices, particularly in terms of expanding growing areas, should be avoided, while efforts by the Group to expand demand and diversify products into other segments of the market should be encouraged.

B. FAO WORLD TEA MODEL

12. The Group reviewed the FAO World Tea Model with the assistance of document CCP: TE 10/2. The Group noted the revision made by the Secretariat to upgrade the model and urged countries to provide required technical recommendations and feedbacks to the Secretariat. The Group suggested that workshops be organized to examine in more detail the concepts and approaches underlying the Model.

13. The Secretariat also presented to the Group an Excel based program which would enable member countries to view the results generated by the Model, and introduce amendments to projections as necessary. These changes would be sent to the Secretariat for generating the medium term outlook to be presented at the IGG sessions. The Group agreed to provide focal points, ideally with a background in statistics and/or economics, to work with the Secretariat in the formulation of the medium term outlook for tea. The Secretariat informed the Group that the tea database would be made available to members for their own use. Some delegates underlined the importance of working with reliable and consistent data through increased role of members in generating the projections. It was noted that while FAO would continue to utilize data from the Member Governments, the ITC and the institutions in the respective countries from which it in turn obtained data, would ensure data convergence and consistency.

C. MARKET DEVELOPMENTS IN SELECTED COUNTRIES

14. The Group considered this agenda item with the assistance of documents CCP: TE 10/CRS 19-24. From its analysis of market demand in previous sessions, the Group had acknowledged that expanding consumption in producing countries with large populations and low per capita tea consumption was the most effective way in achieving sustainability of the global tea economy given the near saturation of consumption levels in traditional markets. In welcoming the country reports from India, China, Indonesia, Kenya and Sri Lanka, the Group recommended that the presentations become a regular item of the IGG agenda, but they should be shorter and focus on market developments.

IV. FACTORS AFFECTING DEMAND

A. PRELIMINARY ANALYSIS OF THE IMPACT OF HIGH TEA PRICES ON THE GLOBAL TEA ECONOMY

15. The Group deliberated on the short-run and long-run implication of the recent increase in tea prices on the world tea economy with the help of document CCP: TE 10/3. The Secretariat informed the Group that although the simulation results confirmed tea consumption was responsive to price changes, particularly in importing countries, the response was muted. Therefore, in order to maintain its market share, efforts should be made to maintain the price competitiveness of tea relative to other beverages. The long-run supply elasticity at the global level was estimated at 0.4, slightly higher than previous estimates, with the largest supply response expected in Eastern Africa, and to a lesser extent in China. In regard to export earnings, although a significant increase was expected to occur in major exporting countries, it was noted that rising production costs, notably for land and labour, were likely to limit net gains. Import quantities, on the other hand, were expected to decline for some countries, as a result of higher prices. The Group suggested that further analysis be carried out to assess the determinants of supply response in the long-run, particularly decisions related to new plantings and replanting and endorsed future research:

- To revise the Group's estimates of demand and supply elasticities in collaboration with member countries; and
- The specification of supply equations for both estates and smallholders to assess smallholders' share in total supply response.

B. ANALYSIS OF THE IMPACT OF RISING COST OF LAND AND LABOUR ON COST OF PRODUCTION

16. The presentation by the Indian Tea Association (ITA) on behalf of the Tea Board of India was in response to the brief entrusted by the IGG to examine issues related to land and labour – as two key factors of production – and their impact on cost of production. It was apparent that land availability was a major constraint and corporate sector growth in North India had been minimal over the last two decades while the small grower sector had mushroomed since 2000. Land laws in North India were also severely restrictive in specifying land use conditions. The presentation highlighted the impact of land and land-related levies on North Indian tea estates and the need to provide greater flexibility to allow alternative crops to secure long term economic viability of the tea sector.

17. Tea cultivation and processing were highly labour-intensive and constrained by several rigidities in regard to preserving mandated labour strength. The Plantation Labour Act and other labour legislations cast an array of responsibilities with significant cost implications. Cost of employment comprising: a) direct wage and wage related costs; and b) welfare costs, constituted 50 percent of the total cost of production. The rapidly changing economic environment had led to

concerns over availability of labour, particularly during the peak plucking season and resultant need to look at mechanization in tea estates.

C. SUSTAINABILITY OF SMALLHOLDER TEA PRODUCTION IN THE UNITED REPUBLIC OF TANZANIA

18. The Group examined this agenda item with the assistance of documents CCP: TE 10/4 and CCP: TE 10/CRS 3. The Group acknowledged that smallholder contribution to tea production was important and was growing in countries like India. It was noted, however, that the costs of production for smallholders were not fully analysed, and it was something that should be further examined in order to better understand the sustainability of the system. A delegate noted that these sustainability standards could be seen as market distortions and contribute to asymmetry of information between producers and buyers. The Group noted that the cost of compliance outweighed the benefits of sustainability standards. The need for harmonization of sustainability standards was reiterated by several delegates, but it was noted that harmonization may be difficult. However, a delegate noted that several NGOs seemed willing to engage collaboratively so that it might be possible to negotiate for harmonization. It was suggested by the industry that the creation of a voluntary common code of conduct could benchmark good practices to be administered and operated by the industry, but the need for a new organization to monitor compliance at this point in time was questioned. Finally, it was reiterated that there should be some effort to create an electronic forum for the exchange of information amongst IGG members about the issues that were debated.

The “secret” to sustainability of the global tea industry

19. From a consuming country’s perspective, the global tea industry seemed to be currently in a very good position and poised for a period of unprecedented growth as a result of: health benefits, consumer relevance, natural image, fighter of obesity and exotic appeal. However, success was not guaranteed as the industry remained vulnerable to: fear of pesticides, concern for food safety, social welfare and environmental issues. Consequently, the industry must be vigilant in addressing all these issues to ensure that they did not interfere with the growing popularity of tea.

V. INTERGOVERNMENTAL ACTION

A. REPORT OF THE WORKING GROUPS ON MAXIMUM RESIDUE LIMITS (MRLs) AND RESIDUES ON TEA BREW

20. The Group considered this agenda item with the assistance of documents CCP: TE 10/5, CCP: TE 10/CRS1, CCP: TE 10/CRS2, CCP: TE 10/CRS14 and CCP: TE 10/CRS18. The Group noted that the targets of the Action Plan adopted at the Eighteenth Session had been achieved and the following progress was made on: a) ensuring tea was compliant with regulations (led by India and UK); and b) investigating the residues in tea brew (led by China and India).

21. Ensure tea was compliant with regulations:

- Following a number of meetings with regulatory bodies, opportunities for submission of applications for MRLs were identified and a large number of submissions made in consuming and producing countries;
- EPA published an MRL for Acetamiprid in tea (50ppm);
- The stakeholders had broadened to include a number of chemical companies which were in discussion on identifying opportunities for improving compliance and the replacement of chemicals which might not be sustainable in the medium term;
- A module for data generation was developed with the assistance of Codex Alimentarius for MRL computation;

- Data was submitted to Codex for five compounds and were in an advanced stage for fixation of MRLs;
- Producer countries met in February 2009 (Kochi) and reviewed the current challenges; and
- China, India, Kenya, Malawi and Sri Lanka established work programmes with regulators and chemical companies to develop MRLs for both existing and newer pest management systems.

22. In recommending the continuation of the Coordinators of the WG on MRLs, India (Dr T.C. Chaudhuri) and the UK (Ms Katie Donnelly) and its *modus operandi*, supported by the executives and the FAO Secretariat (CCP:TE 06/9, paragraph 25), the Group recommended that the following action plan be implemented:

- Ensuring tea was compliant with regulations:
 - (i) Immediate action plan:
 - The coordination, prioritization and acceleration of submission on behalf of the industry for pesticide MRLs in tea;
 - The provision of field trial data by tea producing countries for submission;
 - The identification and carrying out of field trials on alternative pest management systems to replace those that were proving to be unsustainable in the medium term;
 - The involvement of all stakeholders, as well as Codex Alimentarius, the European Commission and other standards setting bodies, by the Working Group on MRLs;
 - The pursuance of other activities to broaden the group on stakeholders to ensure alignment;
 - This would be supported by activities noted in CCP: TE 08/9 paragraph 23.
 - (ii) Strategy review
 - Set up a small committee including China, India, Kenya, Sri Lanka, Canada, EU, USA to review the current plan and in discussion with the FAO Secretariat define a strategy to obtain its vision.

23. There was continued discussion on the desirability of achieving global harmonization of MRL regulations.

24. Investigating the residues in tea brew:

A meeting was held at the FAO in Rome (May 2009) to finalize the action plan which included:

- Publication of the methodology for tea brew for the establishment of MRLs in tea brew;
- Organized the collection of data on tea brew as well as leaf for the same sample; green tea trials carried out in China and black tea trials in India;
- Investigated the legal considerations for establishing MRLs by this method; and
- Consulted appropriate international agencies (e.g. JMPR, Codex Alimentarius and National authorities).

(i) Proposal document:

- Prepare and submit to Codex

25. The representative from the Codex Alimentarius Secretariat drew the Group's attention to the status of Codex standards and MRLs under the Sanitary and Phytosanitary (SPS) Agreement under the World Trade Organization (WTO) and indicated that if the Group wished to change the

policy of the establishment of MRLs for tea, member governments should present a discussion paper to the Codex Committee on Pesticide Residues (CCPR) describing scientific basis, reasoning and implications why MRLs for tea should be established on the tea brew.

26. It was recommended that the residue in tea brew for analysis of the brew be investigated by the WG under the leadership of China (Prof Chen) with the assistance of India (Dr T.C. Chaudhuri) and the United States (Mr Joseph Simrany).

(ii) Action plan:

- Legal consideration for establishing MRLs of various pesticides in tea by considering the situation during the brewing process;
- To establish one or two common methods for the determination of black and green tea after a further ring test;
- To conduct the experiment on the transfer rate of various pesticides used in tea production;
- To conduct the risk assessment of pesticide in made tea during the brewing process according to the above investigation on the transfer rate of various pesticides; and
- To put forward a suggestion on how to establish pesticide MRL in made tea in considering the transfer rate of pesticide from made tea to brew for discussion.

27. A CFC funding guideline were circulated to producing countries which could be used to submit proposals for supporting trials and data collection.

B. REPORT OF THE WORKING GROUP ON TEA TRADE AND QUALITY

28. The Working Group on Tea Trade and Quality presented its report with the assistance of document CCP: TE 10/CRS 7. The Group recognized the value of mapping the progress being made by producing countries towards the ISO 3720 as a benchmark and requested that this analysis be continued in order to track progress towards a universal standard. The Group recommended that the Working Group:

- Obtain the current status of adopting or implementing ISO 3720 minimum quality standard for tea trade from all producing member countries;
- Collate details from tea producing countries with respect to the points at which implementation of ISO 3720 was monitored (or local equivalent);
- Analyze the methods of testing adopted to monitor the ISO 3720 minimum quality standard by different countries and determine the parameters of analysis and cut-off percentages for ISO 3720 standard in each producer nation; and
- Work towards prevailing upon consumer nations to come on board and recognize the origin of tea complying with ISO 3720 by expressing special support to sourcing more teas from these producing countries.

C. REPORT OF THE WORKING GROUP ON GEOGRAPHICAL INDICATIONS

29. After considering the progress report of the Working Group on GIs and the difficulty in benchmarking the status of each member, the Group noted that work on GIs was very country-specific and therefore recommended the dissolution of the Working Group. All future work on GIs, including the economic impact assessment on trade, might be directed to the Secretariat. Technical assistance required from WIPO might be addressed to WIPO through the Secretariat.

30. A presentation of the Darjeeling GI was made by a representative of the Tea Board of India (CCP: TE 10/CRS 27).

31. The representative of WIPO gave an update on the latest developments concerning the international protection system for GIs and AOs under various of the treaties that WIPO administers, notably the Lisbon Agreement for the Protection of Appellation of Origin and their International Registration and the Madrid Protocol for the International Registration of Marks. He highlighted the different protection systems that existed for GIs and AOs, both at the national and international level, and the criteria applying under these systems for obtaining protection for GIs and AOs as well the differences in scope of protection. He further informed that requests for technical assistance that delegations might wish to seek on GIs could be addressed either directly to WIPO or through the FAO Secretariat.

32. The Group recommended that an intersessional meeting of the Working Groups be held in 2011.

D. INTERNATIONALLY COORDINATED ACTIONS ON TEA DEVELOPMENT PROJECTS

33. The project implementing agencies of the Organic Tea Project in China and India, and the Project Executing Agency (PEA) of the project on the Development of smallholder tea cultivation in Bangladesh and Indonesia presented their status reports to the Group. The Group noted with satisfaction the progress made in the implementation of these projects currently under its supervision.

34. Before considering new project proposals, the Group noted and agreed to the Secretariat's proposal that an expert panel be established representing producers from each continent and a representative from a consumer country. The delegates from Argentina, China, India, Kenya, Sri Lanka and Tanzania requested to be on the panel.

35. The Group then endorsed the three new proposals submitted in documents CCP: TE 10/CRS 5, 6 and 9. Three further profiles were submitted to the Group for endorsement from China, Malawi and India (CCP: TE 10/CRS 18, 25 and 26). However, the Group recommended that these proposals be submitted to the newly created expert panel for review.

E. INTERGOVERNMENTAL ACTION PLAN

36. The Group agreed to the following action plan to be carried out before the next session:

Tea Model

- Countries were to provide focal points, ideally with a background in statistics and/or economics, to work with the Secretariat in the formulation of the medium-term outlook for tea;
- Expand the terms of reference of the focal points to include generation of data on green tea; and
- Organize workshops to examine in more detail the concepts and approaches underlying the Model.

Market reports

- Prepare market reports for presentation at the 20th session focussing on market development and domestic consumption.

Factors affecting demand and supply

- Carry out further analysis to assess the determinants of supply response in the long-run, particularly decisions related to new plantings;
- Revise estimates of demand and supply elasticities in collaboration with member countries; and
- Define specification of supply equations for both estates and smallholders so as to assess smallholders' share in total supply response.

Interactive electronic forum

- Create an electronic forum for the exchange of information amongst IGG.

Working Groups

- The action plans of the Working Groups on MRLs, on Residues in Tea Brew and on Tea Trade and Quality are in the relevant sections of this report.

Other

- Carry out an economic impact assessment of GI on trade;
- Coordinate technical assistance required from WIPO; and
- Conduct a follow up study on risk management relevant to tea.

VI. ACTIVITIES IN OTHER ORGANIZATIONS

37. The Group was informed of activities in the CFC and ITC by the respective representatives.

VII. OTHER MATTERS

A. ANY OTHER BUSINESS

Present and future role of the Intergovernmental Group on Tea

38. The Group reviewed its terms of references and rules of procedure as well as the draft terms of reference of the Working Group of the Committee on Commodity Problems. The Group stressed that the work of the IGG should not only continue, but be strengthened through additional resources. Delegates from consuming countries stressed the importance of the continuation of the Group's work, and a delegate suggested that a strategic review be on the agenda of the next session. Given the limited time available for in-depth discussion on the agenda item, the Group urged members to submit formal proposals and comments on the draft terms of reference of the CCP Working Group to review IGGs to the Secretariat before 31 May 2010.

Institutions and policies for managing the production and marketing risks for tea

39. As tea production is subjected to the vagaries of weather and other uncertainties, the need to manage risks for tea is considered to be of great importance. The Secretariat prepared a presentation for consideration of the Group (CCP: TE 10/CRS 13). The Group noted practical risk management instruments in the tea economy as presented in the document and requested that the Secretariat carry out a follow-up study and include risk management in the agenda of the next session.

Electronic auction for tea

40. The Group noted that India was the first country in the world to successfully start an electronic auction for tea. The software was designed by NSE-IT under the active guidance and funding of the Tea Board of India. The needs and suggestions of all stakeholders including buyers, brokers and sellers were taken into consideration while designing the software which was dynamic, user-friendly and could be customized according to the needs of the individual auction centres; 5 of the 6 major auction centres were fully electronic and 1 was 50 percent operational. More than 200 million kg of tea had been sold through the electronic route. The Group was informed that the introduction of the web-based electronic auction would help broad basing buyer participation, involvement of all stakeholders, and access to the electronic platform. The bid history and auction sale information was now readily available. The transaction time had been reduced and the pre and post auction activities had been integrated into the auction platform. The Group was also informed that the electronic auction made the bidding process transparent, faster and helped in "fair price" discovery. In the future, it might be possible to have a single all-India tea auction and full electronic settlements.

B. DATE AND PLACE OF THE TWENTIETH SESSION

41. The Group noted the expressions of interest from Indonesia, Malawi and Sri Lanka to host the Twentieth Session of the IGG. However, Indonesia and Malawi graciously withdrew in favour of Sri Lanka. The Group was unanimous in recommending to the Director-General that the Twentieth session be hosted by Sri Lanka in 2012. Nevertheless, the exact date and place of the Twentieth session will be determined by the Director-General in consultation with the Chairperson.