SMALLHOLDER TEA FARMING AND VALUE CHAIN DEVELOPMENT IN CHINA

Intersessional Meeting of the Intergovernmental Group on Tea
Rome, 5-6 May 2014

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Acknowledgement

The presentation is based on the ongoing research project by FAO and Chinese Academy of Agricultural Science (CAAS) titled: “Study on Smallholder Market Participation and Value Chain Development in China”

Overall Research Objectives

- Provide evidence based analysis on China's experience, achievement, and constraints and challenges in market development

- Analyse the determinants of smallholder market participation

- Analyse the government policies and market development with inclusive growth

- **Value chain analysis for selected commodities: wheat, rice, maize, pork, mutton, beans, and tea.**

Contents of this presentation

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Overview of the Tea Production and Industry in China

Tea Output in China

No.1

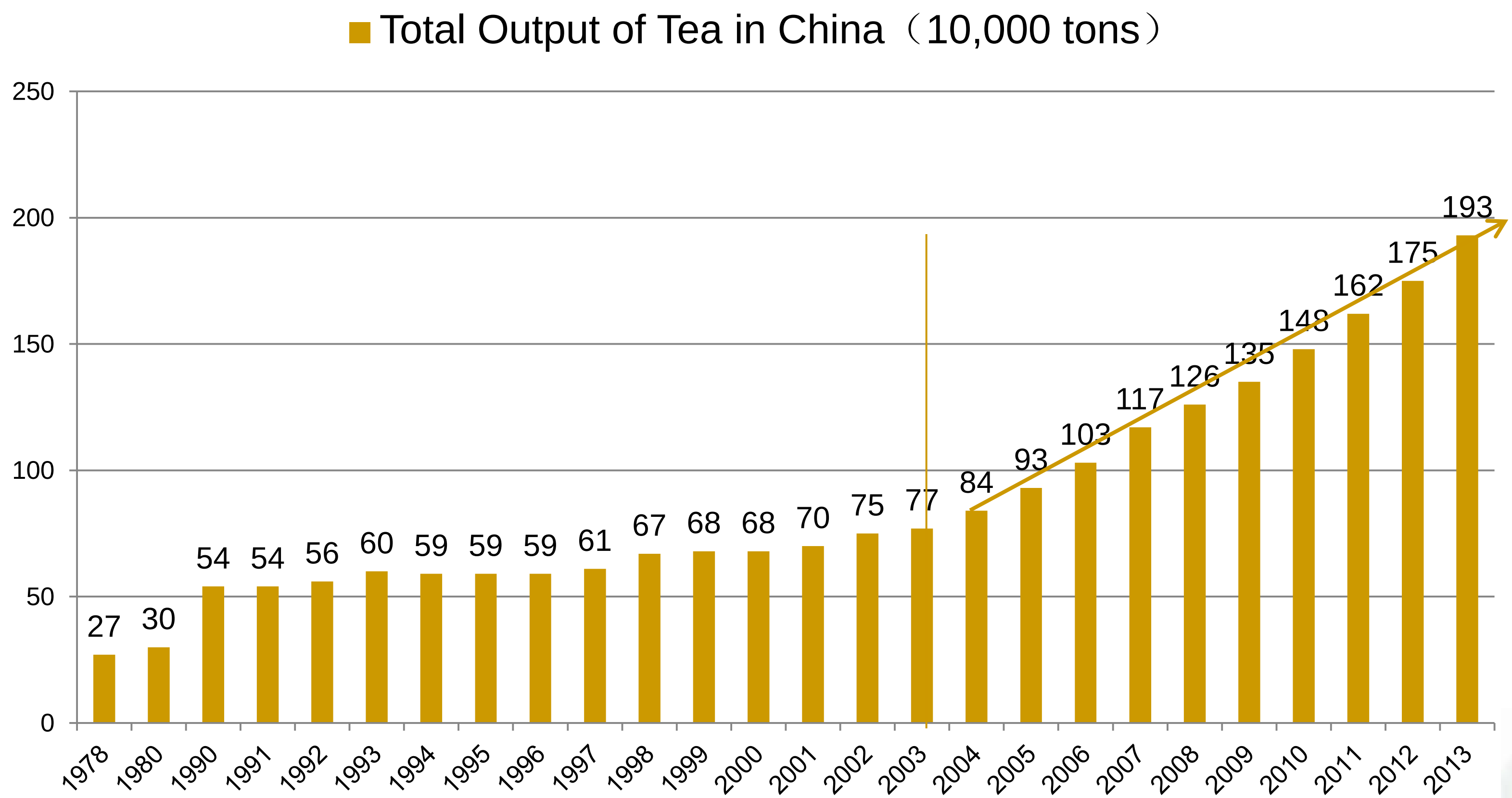
- China is the world's largest tea producer

1.93 million tons

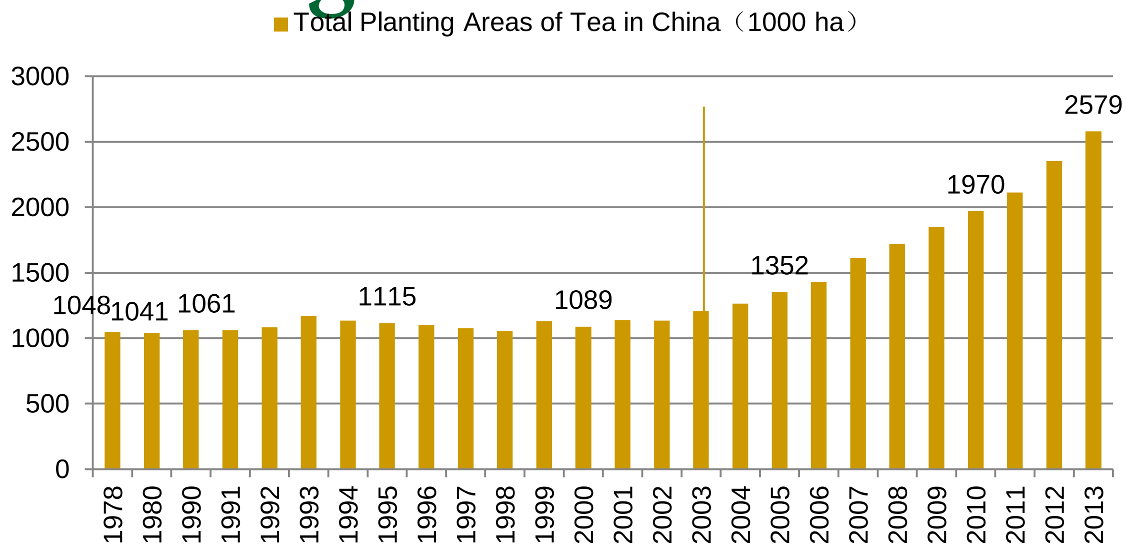
- Total output of tea in China in 2013

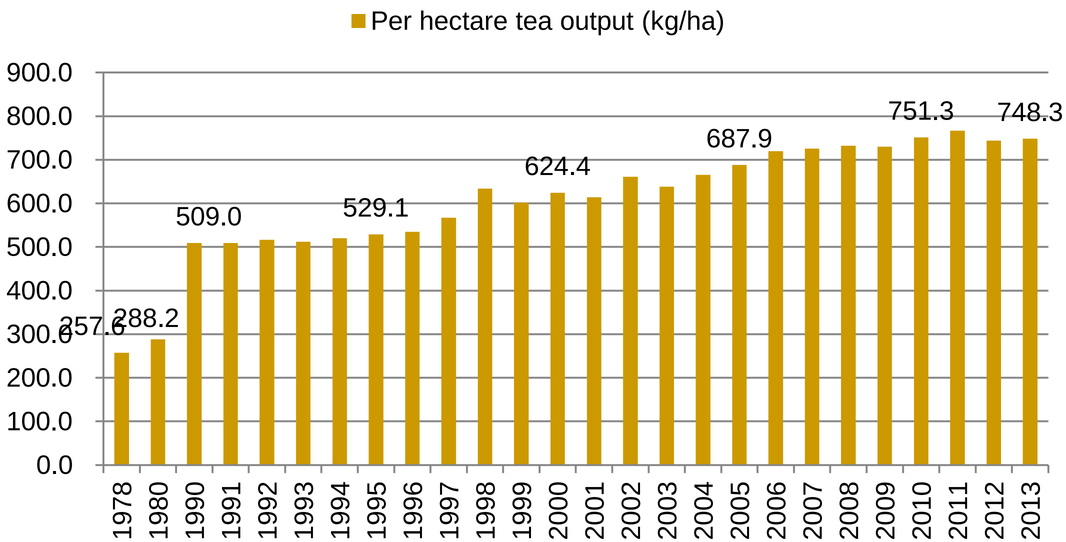
614.8%

- Tea output increased by 614.8% from 1978 to 2013



Planting Areas and Yield





- Tea output increase is due to:
  - Increasing plating areas
  - Increasing yield
- Technical improvement plays an important role in tea industry development

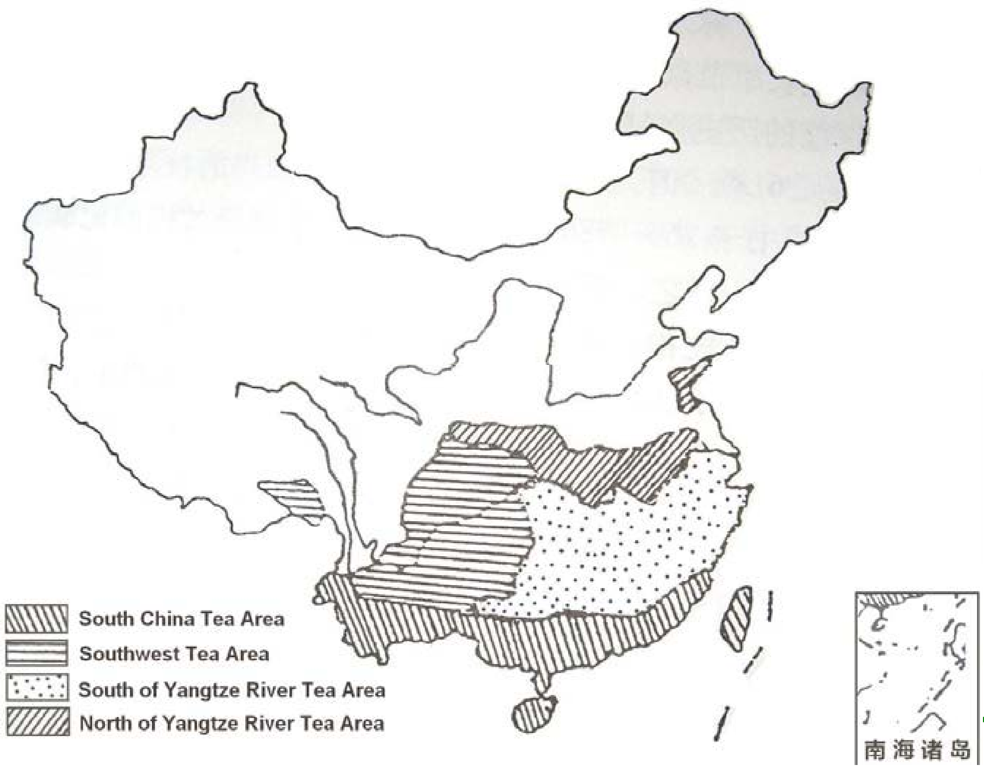
Tea Producing Areas

- Main tea producing counties:

  Tea production in 2012 (1,000 tons)

China	India	Kenya	Sri Lanka	Turkey	Viet Nam	Iran	Indonesia	Argentina
1700	1000	369.4	330	225	216.9	158	150.1	100

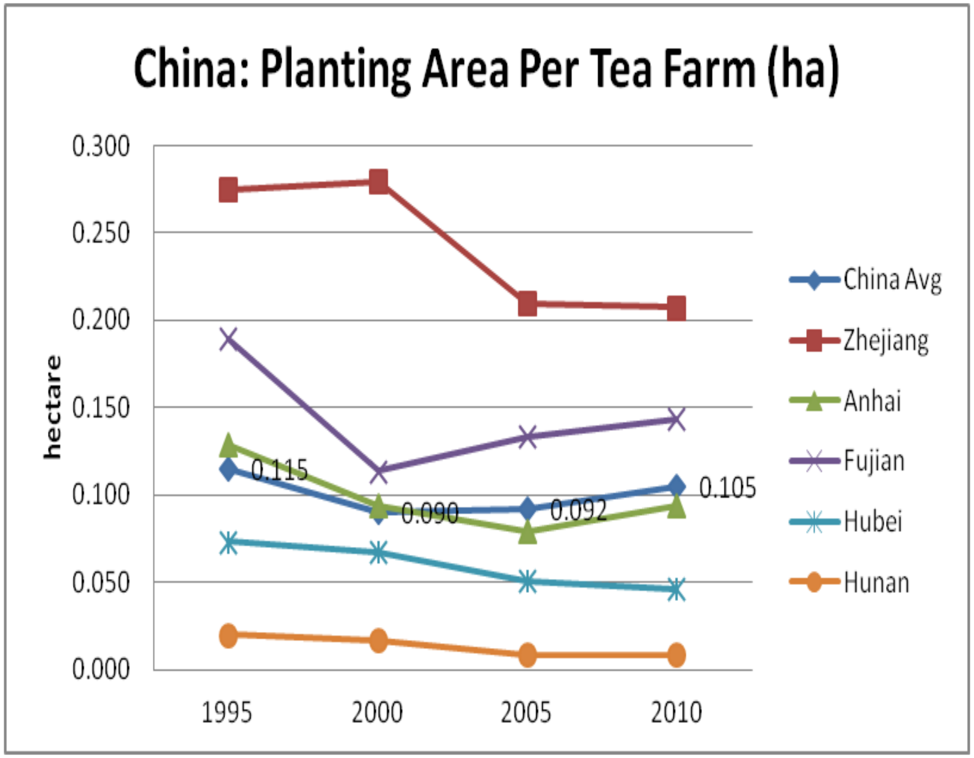
Source: FAOSTAT

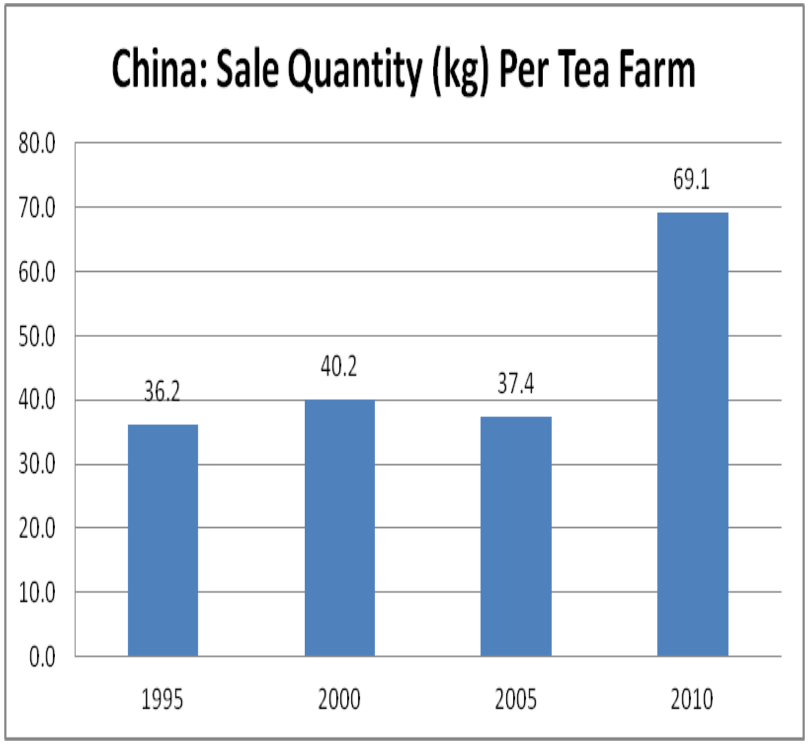


- Since 2005, China overtook India and became the world's largest tea producer.
- Four main tea planting areas in China:
  - South China;
  - Southwest China;
  - South of Yangtze River;
  - North of Yangtze River
- Biggest tea planting area: Yunnan Province
- Largest tea production: Fujian Province
- More than 2/3 of the tea is consumed in the domestic market.

Characteristics of Tea Growers (a)

- China has the largest tea growing population of about 80 million
- Tea production remains a small family business in China
- Per HH tea area in less then 0.3 ha., and in declining



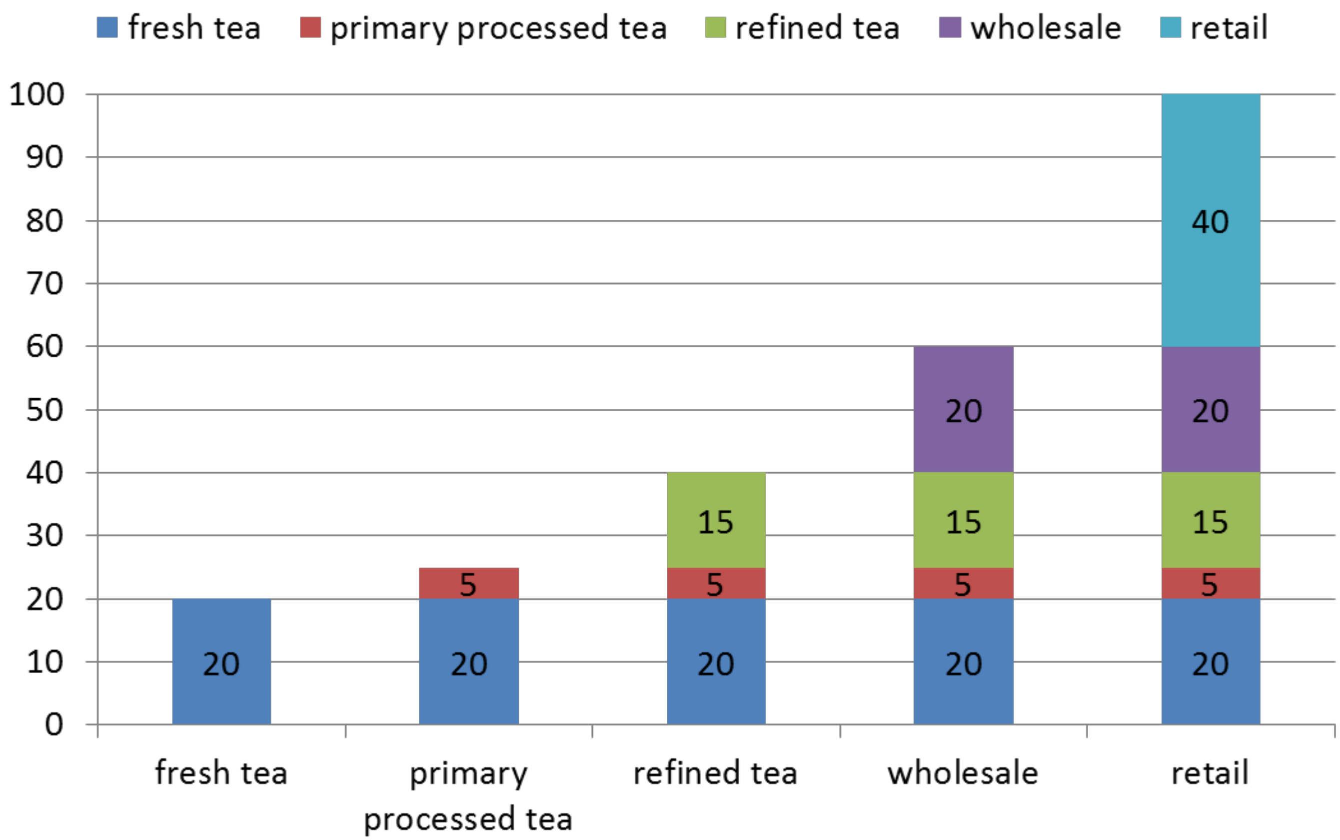


Characteristics of Tea Growers (b)

- Due to small in size, no equivalent power in bargaining with companies in market
- Labor Intensive, low labor productivity, and high labor cost
- Weak tea growing skills
- Different type of tea planting modes
  - Traditional mode– individual small farms
  - Cooperative mode– farm cooperated
  - Industrialization mode- tea company centered

2 Value Added and Farmer’s Income

Value Added in Different Process along Tea VC



Percentage of value added in different process of tea industry in China (%) based TRI

Profits in Different Process

- 55.1% of the surveyed companies get the highest profit from Retail.

Highest profit process	Percentage of companies (%)
Production	22.4
Wholesale	13.6
Retail	**55.1**
Others	4.2

Data Source: TRI survey data

HH Net Income of Tea and Non-tea Farmers (real price in 1980)

- Non-Tea Farmer has 25% higher net income compared to Tea Farmer in 2010, on average in China .

	Gross net income	Household Operating	Local Wage	Remittance (out of county)	Land compensatory	Other
Non-Tea Farmer	6,049	2,042	951	1,853	376	826
Tea Farmer	**4,821**	1,585	416	**2,109**	96	616
NTF/TF in %	**125%**	129%	229%	88%	393%	134%

Data Source: Calculated based on RCRE/MOA Survey Data

Income of Different Types of Tea Growers

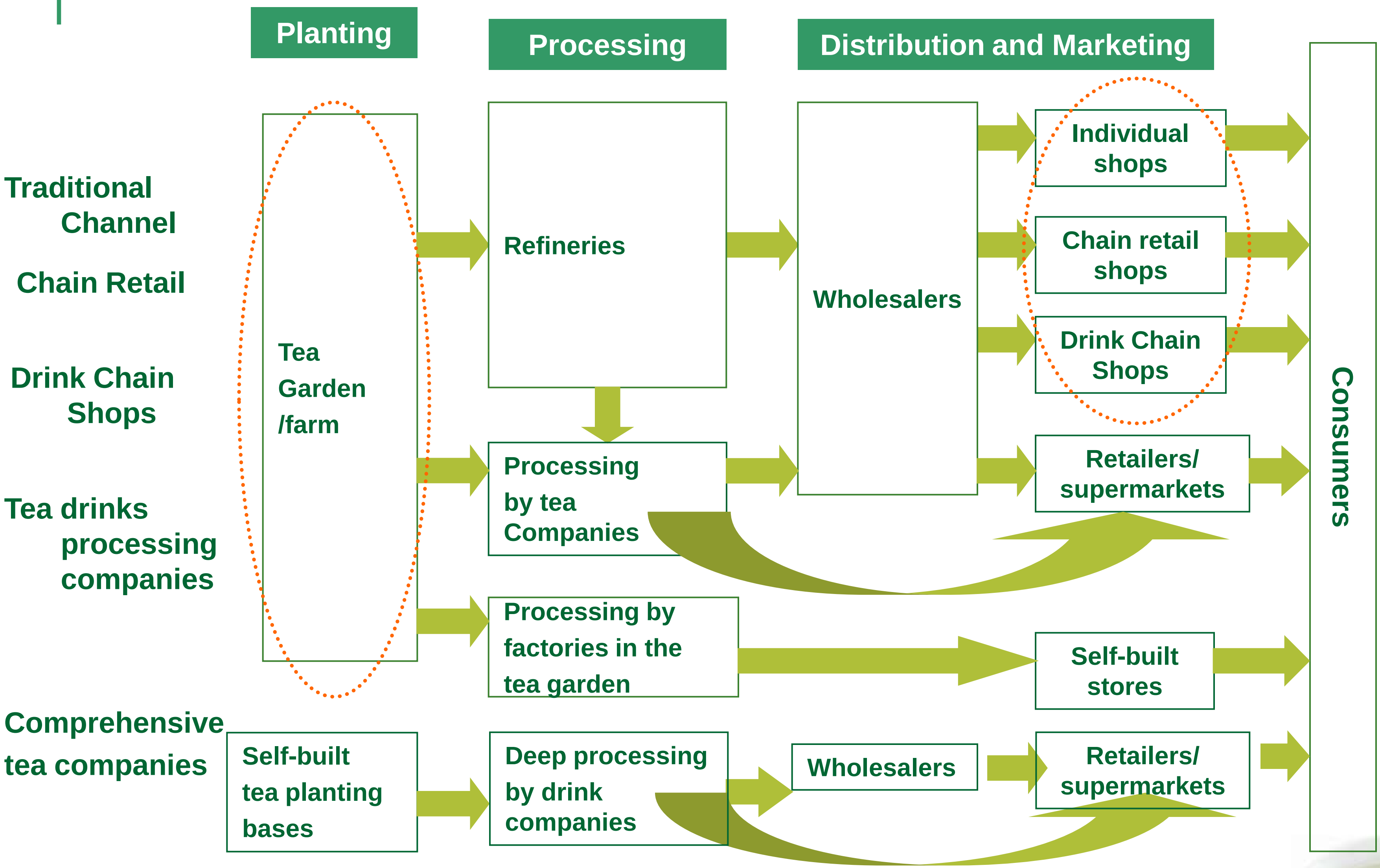
- There are huge income difference between different types of tea producers, depending on location and farm size in China

	Fresh leaves	Self- Processed Tea	Tourism service	Annual Income (US$)
Genuine	x	x	x	10,362-32,383
Full-time	x	x		648-10,362
Part-time	x			259-648

Data Source: Social Resources Institute

3 Market Integration and inclusive value chain development in China

Tea Value Chain in China



Integration of Chinese Tea Industry in China(a)

- **Tea Companies Emerging Vertically Integrate the Upstream and Downstream of Tea Industry in China**
  - Significantly change the tea cultivation methods from conversional tea garden planting to the ecological tea garden planting
  - Quality of the fresh leaves can be improved significantly

No of Contract between Tea Growers and Tea Company in Fujian Province

	2002	2008
No of contracts	80,870	207,359

Integration of Chinese Tea Industry Chain (b)

- **Fast growing of tea growers to develop their own tea processing facility**
  - Integration of tea growing and processing into one
  - Popular for genuine tea growers in the famous tea areas
  - Increasing grower's market participation and income

Selling Channels of Tea Grower in 2013

Channels	2013 (total hh 254)	
	No. of household	percentage
①Sale on the tea markets	109	42.9%
②Sale to tea companies	36	14.2%
③Sale to local big companies	69	27.2%
④through cooperatives	34	9.1%
⑤Sale directly	5	1.9%
other		

Data source: TRI survey data

4 Role of Government and Civil Society Organization in China

Roles of Government

- **Legal framework**
  - Rights and interests of tea growers and workers
  - Environment
  - Product quality and safety
- **Standards and certification**
- **Tax**
- **Subsidy**
- **R&D and Training**

Growing
- MOA: industrial development, cooperatives building, tea growing skills promotion, import and export of agricultural means of production
- Tea Bureau /Office: provision of policy information to tea companies and growers and organization of tea-related associations

Proce-ssing
- AQSIQ: inspection of tea quality, licensing of tea manufacturing, and standardized certification
- MOA: supervision of quality of tea products and organization of certification

Distribu-tion
- ACFSMC: development of cooperatives and administer its affiliated tea import and export companies
- SAIC: examination of tea quality, illegal business activities (counterfeit trademarks, geographical indications, deceptive advertisement, etc.)

Market
- MOFCOM: drafting and management of tea production plans, supervision of tea import and export
- SAIC: market supervision and law enforcement
- AQSIQ: food safety certification of tea import and export

Role of Government

- In recent years, the government is expanding and strengthening the tea industry to make it a pillar industry for local economy and build local capacity to alleviate poverty
  - Support specialized tea growing communities, leading tea townships and households
  - Expand the area in west China
  - Accelerate the process of standardization
  - Build partnership between leading companies and growers
  - Encourage growers to develop specialized economic cooperatives

Government Support Policies

- Policies by
  - central government
  - provincial government
  - local governments
- Policies:
  - Tax reduction: VAT reduction
  - Subsidies: direct subsidies and input subsidies
  - Financial support to tea growers and companies
  - R&D and extension/training
  - Support to cooperatives (mainly tax reduction benefit)
  - Market information

Roles of Civil Society Organizations

Tea Trade Association

- Promote local tea brands
- Collect and release market information
- Formulate and implement rules
- Balance local supply and sale
- Organize tea trade fairs
- Provide training in tea production, certification and technology
- Offer policy recommendations to government on behalf of companies

Tea Cooperative

- promoting tea technologies and building brands, raising overall profitability of the industry
- Most cooperatives are initiated by companies, and major leaders are from companies or government, rights of tea growers in the cooperative remain to be questioned.

Tea Growers Association

- technical consultation, training, brand building and marketing
- stabilizing distribution channels, setting price, protecting interest of tea growers
- tea growers can hardly be part of decision making process

China's Grassroots NGOs

environmental protection, rural development or fair trade

5 Summary and Conclusions

Summary and Conclusions

1. Smallholder tea production increase, but mainly by area expansion

2. Weak in producing technology and low productivity

3. Low income, but with big variations in tea grower income

4. Rapid market integration upstream and downstream

5. Government support is the key for tea VC development