

July 2005



منظمة الأغذية  
والزراعة  
للأمم المتحدة

联合国  
粮食及  
农业组织

Food  
and  
Agriculture  
Organization  
of  
the  
United  
Nations

Organisation  
des  
Nations  
Unies  
pour  
l'alimentation  
et  
l'agriculture

Organización  
de las  
Naciones  
Unidas  
para la  
Agricultura  
y la  
Alimentación

E

## COMMITTEE ON COMMODITY PROBLEMS

Sixty-sixth Session

Rome, April 2007

### REPORT OF THE SIXTEENTH SESSION OF THE INTERGOVERNMENTAL GROUP ON TEA Bali, Indonesia, 20 – 22 July 2005

#### Table of Contents

	Paragraphs
I. INTRODUCTION	1 - 3
II. ORGANIZATIONAL MATTERS	4 - 5
A. ELECTION OF CHAIRPERSON AND VICE-CHAIRPERSONS	4
B. ADOPTION OF PROVISIONAL AGENDA AND TIMETABLE	5
III. MARKET DEVELOPMENT AND OUTLOOK	6 - 14
A. CURRENT MARKET SITUATION AND MEDIUM-TERM OUTLOOK	6 - 11
B. MARKET STUDIES FOR PAKISTAN AND THE NEAR EAST	12 - 14
IV. FACTORS AFFECTING DEMAND	15 - 21
A. VALUE CHAIN ANALYSIS OF SELECTED TEA MARKETS	15 - 16
B. APPLICATION OF PRICE TRANSMISSION ANALYSIS ON SELECTED TEA MARKETS	17 - 18
C. PROMOTION ACTIVITIES	19 - 21

---

V. INTERGOVERNMENTAL ACTION	22 – 34
A. REPORT OF THE WORKING GROUP ON MAXIMUM RESIDUE LEVELS (MRLs)	22 – 25
B. COMMON FUND FOR COMMODITIES PROJECT UPDATES AND PROPOSALS	26 – 28
C. REPORT OF THE INTERNATIONAL TEA BUSINESS CONFERENCE	29 - 33
VI. ACTIVITIES IN OTHER ORGANIZATIONS	34
VII. OTHER MATTERS	35 – 36
A. ANY OTHER BUSINESS	35
B. DATE AND PLACE OF THE SEVENTEENTH SESSION	36

	Page
LIST OF DOCUMENTS	7

## **I. INTRODUCTION**

1. The Intergovernmental Group on Tea held its Sixteenth Session in Bali, Indonesia, from 20 – 22 July 2005. It was attended by 95 delegates from the following member countries: Bangladesh, Canada, China, Germany, India, Indonesia, Islamic Republic of Iran, Italy, Japan, Kenya, Libya, Malawi, Philippines, Sri Lanka, Tanzania, Uganda, United Kingdom, United States of America and Vietnam. Observers from the Common Fund for Commodities and the International Tea Committee also attended. A list of participants was distributed as document CCP:TE 05/Inf. 3.
2. The Session was formally inaugurated by His Excellency Dr Anton Apriyantono, Minister of Agriculture of the Republic of Indonesia. The statement of the Director-General, Mr Jacques Diouf, was delivered on his behalf by Mr David Hallam, Chief, Raw Materials, Horticultural and Tropical Products Service, Commodities and Trade Division, and the Session was opened by Mr H. Streichert (Germany), First Vice-chairperson of the Fifteenth Session.
3. The Group expressed warm appreciation to the Government of Indonesia and particularly to the Tea Association of Indonesia 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 Ms Delima Darmawan-Azahari (Indonesia) as Chairperson. The Honourable Peter Kyalo Kaindi (Kenya) was elected as First Vice-chairperson, while Mr Hagen Streichert (Germany) was elected as Second Vice-chairperson. No Rapporteurs were elected as the Group resolved that the Secretariat should draft the Report.

### **B. ADOPTION OF PROVISIONAL AGENDA AND TIMETABLE**

5. The provisional agenda (CCP:TE 05/1) and the provisional timetable (CCP:TE 05/2) were adopted after having inserted item IV.C. Report of the International Tea Business Conference (ITBC).

## **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 05/2, CCP:TE 05/CRS 4 and CCP:TE 05/CRS 6. The medium term outlook to 2014 incorporated revisions given to the Secretariat after its last Session in Sri Lanka in 2003, where these medium term projections were first considered.
7. The Group noted the continuing imbalance between supply and demand and expressed concern at the implied continuing pressure on international tea prices which was expected to persist and even increase into the medium term. The Group was informed that where national currencies had appreciated against the dollar, as in India, the adverse effects of declining international prices were exacerbated.
8. The Group took note of the different estimates of world tea output, imports and exports from different sources, notably the lower estimate of 2004 production but higher estimate of 2004 exports indicated by the International Tea Committee. Several delegates took the opportunity to update the information relating to their particular countries: in Indonesia, for example, production

had in fact declined in 2004, while the latest estimates of Kenyan exports were higher than previously expected. Some delegates suggested revisions to the projections of production and consumption: for example, Sri Lanka indicated that production and exports may not achieve their projected levels.

9. Some concern was expressed that estimates of production and trade from different sources can differ significantly, and the Secretariat was encouraged to assess and try to reconcile apparent discrepancies between Secretariat data and those from other sources. It was noted that collection and dissemination of accurate and timely tea market information was an important role of the Group and necessary for the enhancement of market transparency. However, the Group recognized that some of its members had not responded to the Secretariat's requests for statistical information. All members were urged to provide the Secretariat with adequate, accurate and up-to-date information promptly when requested. The Secretariat was encouraged to explore alternative means of gathering tea market information and the scope for collaboration with other agencies involved in the collection and dissemination of such data, including the International Tea Committee.

10. Delegates offered their views on the scope for and nature of possible actions to address the threat of continuing market imbalance and achieve sustainable development of the world tea economy. It was agreed that development strategies would need to be tailored to the specific circumstances of individual countries. The Group recognized that action to expand consumption was central to any development strategy. Promotional efforts should continue to emphasise the health benefits of tea consumption, a message which had already been instrumental in stimulating tea consumption in a number of countries. The scope for significant expansion of tea consumption in producing countries in particular was also stressed.

11. However, action to stimulate consumption alone was not regarded as sufficient. Delegates suggested a range of additional measures. The conditions of access to international markets needed to be considered, and measures taken to reduce prohibitive tariffs on tea and a range of non-tariff barriers in a number of importing countries. Measures to raise the quality of tea traded internationally were also considered desirable. Delegates indicated that producing countries needed to maximise their returns from existing market opportunities through increased efficiency in production and marketing. At the same time concern was expressed at the high costs of compliance with the proliferating and demanding product standards imposed by importing countries. Tariff escalation and concentrated market structures were seen as constraints on development of value-added products. The relatively weak bargaining position of smallholder producers in the tea value chain and their correspondingly small share of final tea prices was mentioned. Finally, concern was expressed that further increases in production and exports would put additional pressure on prices, and some delegates suggested the possibility of supply management.

## **B. MARKET STUDIES FOR PAKISTAN AND THE NEAR EAST**

12. The Group discussed studies of tea markets in Pakistan, Egypt, the Islamic Republic of Iran and Turkey with the assistance of document CCP:TE 05/3 prepared as requested at the 15<sup>th</sup> Session. The Group noted the market opportunities these countries presented especially as their trade and marketing regimes are liberalized, opening them to increased competition from imports. However, the extent to which these opportunities will be realised will also depend upon the rate of economic growth.

13. The Group welcomed the market studies and offered suggestions of further markets to be addressed. Given the scope for expanding tea consumption in certain major producing countries it was suggested that these might be an appropriate focus for further work. The United Arab Emirates, Iraq and China were also mentioned, although no firm recommendations were made.

14. It was further suggested that while the largely statistical market analyses of this type were helpful in identifying trade opportunities, more detailed market research studies of consumer attitudes might provide more specific guidance to the design of market development programmes in the countries concerned. However, the high cost of such research was recognized, and there would be a need to explore potential sources of funding. These might include the private sector which would benefit from the information provided.

#### **IV. FACTORS AFFECTING DEMAND**

##### **A. VALUE CHAIN ANALYSIS OF SELECTED TEA MARKETS**

15. The Group examined this agenda item with the assistance of documents CCP:TE 05/4 and CCP:TE 05/CRS 3. The Group noted that the studies on value chain analysis and on price transmission were “works-in-progress”. Without the necessary data that were requested from member countries in order to carry out a detailed and comprehensive value chain analysis, the document provided a generalized examination of tea export performance across countries. It considered the activities involved in marketing a product and how upgrading a particular activity could enhance export market returns and market share. The Group noted that the methodology used in the documents could serve as a template for future work on value chain analysis by the Group.

16. In noting the quantitative results concerning upgrading and downgrading countries, it was suggested that those countries with apparently better export performance, such as Sri Lanka, Kenya and Uganda, should share their experience, particularly on the impact of value addition and quality improvement. The Group was informed that quality improvement began at harvesting. If good quality leaves were plucked then the quality of tea made would be good. In addition, with the diversity and packaging of speciality teas, the residual “lower quality” leaves were significant and several countries had introduced measures to remove these leaves from the market. Value addition experiences were also shared with the Group. The Secretariat was requested to research further into the factors influencing export performance and to facilitate the exchange of information on this subject among member countries.

##### **B. APPLICATION OF PRICE TRANSMISSION ANALYSIS ON SELECTED TEA MARKETS**

17. The Group examined the extent of price transmission between export and producer levels and its implications with the assistance of documents CCP:TE 05/5 and CCP:TE 05/CRS 5. The Group noted that the nature of price transmission from the international tea market to tea markets in India, Kenya and Sri Lanka was assessed by testing for co-movement, speed of adjustment and the presence of asymmetric response. On average auction markets in India, Kenya and Sri Lanka and the international reference price follow a similar trend in the long run, although in the shorter term the national prices deviate from it.

18. The Group noted that national prices in all countries co-moved with the FAO Composite Index and are integrated with the world reference, indicating that transaction costs and market distortions do not inhibit the complete pass-through of price signals thus providing information that results in efficient outcomes at least in the long run. The asymmetry arising in Sri Lanka may be the result of the greater proportion of value added teas packed in Sri Lanka which were not as price responsive as “bulk” teas. Also, the reference prices reflected a high content of CTC teas while Sri Lanka produced mainly orthodox teas. The Group encouraged members to provide the relevant information to the Secretariat in order that more detailed analysis could be conducted.

##### **C. PROMOTION ACTIVITIES**

19. The Group considered this agenda item with the assistance of documents CCP:TE 05/6, CCP:TE 05/6/Corr.1, CCP:TE 05/CRS 1 and CCP:TE 05/CRS 8. The Group carefully examined

all available information regarding the use of the Tea Mark. The context in which the Group was required to take a decision on the future of the Tea Mark was that the tea industry worldwide had at its disposal a valuable and unique body of knowledge concerning the health aspects of tea consumption. This authoritative body of scientific information was generated under the US\$4.6 million programme that represented a landmark in international commodity cooperation. In addition, another valuable tool, the Tea Mark, was placed at the disposal of the tea industry. Under the programme, considerable resources were devoted to the development of the Mark and the actual registrations cost about US\$60 000. The Tea Mark was currently registered in more than 50 countries accounting for about 55 percent of global tea imports. Most registrations would be in effect at least until 2008. Four required renewal in 2005. However, despite the excellent progress in registrations, little use had been made of the Mark, and a number of delegates expressed doubts as to its current value as a promotional tool.

20. The Group was requested to decide on the future of the Mark, and three options were considered: i) to terminate all work on the Mark immediately; ii) to discontinue renewal of the Mark as registrations expired; iii) and to sell the Mark. Several delegates indicated that they had to consult with their governments before deciding. In any case, no decisions, including its possible sale, could be made on the future of the Mark without consultation with the Common Fund for Commodities as the major sponsor of the original project.

21. The representative of the Common Fund for Commodities stated that the Fund's position regarding the Tea Mark remained unchanged. As the co-owner, the Common Fund for Commodities should be consulted before any possible decision is made on the future of the Tea Mark.

## V. INTERGOVERNMENTAL ACTION

### A. REPORT OF THE WORKING GROUP ON MAXIMUM RESIDUE LEVELS (MRLs)

22. The Group considered this agenda item with the assistance of documents CCP:TE 05/7 and CCP:TE 05/CRS 7. The Group was informed by a member of the Joint Meeting on Pesticide Residues (JMPR) about the procedures required in establishing maximum residue limits by the Codex Alimentarius Commission (CMC). The Group noted that the steps required in generating data to support the establishment of MRLs for tea included the following:

- The producing countries should seek support from chemical companies for data generation and submission to JMPR.
- The producing countries should define the chemicals for which data should be generated. In other words, which pesticides were commonly used, what data were already available and what further data still needed to be generated. The countries should prioritize pesticides for which there were no MRLs, or for which there were old MRLs for pesticides still being used. Finally, data were also needed for pesticides which were illegally used and had to be registered at national level.
- Normally, residue data from eight trials *according to good agricultural practice* (GAP) were necessary for the recommendation of MRLs, including no more than one declining study. JMPR had made recommendations on tea based on less than eight trials. Lower number of trials according to GAP conducted under good laboratory practices (GLP) should not limit data submission.

23. Several delegates expressed the view that MRLs should be set on *tea brew* rather than leaves, as this was the form in which tea was consumed. In addition, the cost of conducting field trials was considered to be high, causing possible delays. The Group agreed that cooperation was needed between producers and importers to generate the data required and address the challenges arising from recent MRL regulations in major importing countries. To this effect, the Group supported and acknowledged:

- the considerable efforts of the producing countries in preparing and collating MRL data for submission for expert consultation; and
  - the “global initiative for pesticide management in tea” for consuming countries to “harmonize” the approach to legislators on tea MRLs,
24. Specifically, the Group recommended that:
- India (Dr T.C. Chaudhuri) and the United Kingdom (Dr A. Scott) co-lead the Working Group to coordinate, prioritize and accelerate the submission on behalf of the industry for pesticide MRLs for tea;
  - Dr Chaudhuri and Dr Scott be actively supported in this role by at least one executive nominee from the main producer countries; and
  - the FAO Secretariat would help in all practical ways possible.
25. The Group further recommended that a meeting of producers, to be coordinated by India, should be held in the next month or two, followed by an expert consultation to be facilitated by the Secretariat and which would involve all stakeholders, as well as Codex Alimentarius, the European Commission and other standards-setting bodies.

## **B. COMMON FUND FOR COMMODITIES PROJECT UPDATES AND PROPOSALS**

26. The representative of the Common Fund for Commodities informed the Group of progress with the project on organic tea production in India and China which the Executive Board approved in 2004. The Group welcomed the information that the documentation for this project was now being finalized.
27. Two new project proposals were presented to the Group by Indonesia:
- *Improving smallholder bargaining position through product improvement and partnership* (document CCP:TE 05/ CRS 10); and
  - *Implementation of integrated plant production of tea bio farming through promotion of tea as a health product* (document CCP:TE 05/CRS 11).
28. Both project proposals were endorsed by the Group for forwarding to the CFC for evaluation.

## **C. REPORT OF THE INTERNATIONAL TEA BUSINESS CONFERENCE**

29. The Group received the report of the International Tea Business Conference (ITBC) held 18-19 July 2005, immediately prior to the 16<sup>th</sup> Session of the Intergovernmental Group on Tea. The conclusions and agreed follow-up actions from the conference were summarized in document CCP:TE 05/CRS 9.
30. In presenting the report, the Chairman of the ITBC highlighted the persistent problems of oversupply in the world tea market and consequent pressure on prices, and noted that responses to this must involve either expansion of demand and/or reduction of supply to achieve market balance. With respect to the former objective it was suggested that promotional campaigns, perhaps in major producing countries, should be mounted, while with respect to the latter, it was suggested that tea falling below specified quality standards – specifically ISO 3720 – should be eliminated from world trade. The agenda for agreed follow-up action prepared by the ITBC and set out in its report was endorsed by the Group.
31. With respect to the imposition of a minimum quality standard for tea, India proposed the following resolution:
- Any product from the leaves of Camellia sinensis (L) O Kuntze, commercially known as tea, in bulk form and value added products, namely packet tea, tea bags and flavoured tea produced for sale within the country or exported to other countries or imported from other countries should*

*conform to the minimum specifications as laid down under the International Standard ISO 3720 for black tea and parallel standards under development for green tea as modified from time to time.*

32. The resolution was unanimously supported by the members of the Group present, and it was agreed that a deadline would be set for the formal endorsement of the resolution by *all* members of the Group. The Secretariat was requested to circulate the text of the resolution to all members of the Group.

33. It was noted that while some countries already had mechanisms in place for the elimination of low quality teas from their exports, others did not, and a mechanism to implement the resolution in all producing countries would need to be devised. The desirability of support from the importing countries was noted. However, it was acknowledged that it was not practical to seek to control the types of tea purchased by importing companies in a free market environment, and the onus would have to be on exporting countries to prevent low quality teas reaching the market. It was agreed that a working group would be established to identify appropriate and feasible mechanisms. Indonesia was requested to take the lead in organising this working group. Delegations from importing countries agreed to promote the scheme in their respective tea associations.

## **VI. ACTIVITIES IN OTHER ORGANIZATIONS**

34. The representative of the Common Fund for Commodities (CFC) made a short statement on the role and activities of the Fund and the progress of various projects related to tea. He noted specifically the successful conclusion of the project on generic promotion based on the health benefits of tea consumption.

## **VII. OTHER MATTERS**

### **A. ANY OTHER BUSINESS**

35. The representative of the Indonesian Smallholders' Association made a statement on the widening price spread between producer and retail prices for tea and the need to involve smallholders representatives in discussions in international fora on the global tea economy. It was suggested that in future sessions of the Intergovernmental Group, space might be found, perhaps in side-events, for discussions of smallholder concerns.

### **B. DATE AND PLACE OF THE SEVENTEENTH SESSION**

36. The Group was informed that the date and place of the Seventeenth Session would be determined by the Director-General of FAO in consultation with the Chairperson. It noted with appreciation the offer of Kenya to host this Session.



## LIST OF DOCUMENTS

### Pre-session documents

CCP:TE 05/1	Provisional agenda and agenda notes
CCP:TE 05/2	Current market situation and medium-term outlook
CCP:TE 05/3	Tea market studies: Egypt, Islamic Republic of Iran, Pakistan and Turkey
CCP:TE 05/4	Upgrading in the international tea sector: a value chain analysis
CCP:TE 05/5	Application of price transmission on selected tea markets
CCP:TE 05/6	Possible approaches to generic promotion of tea and the use of the Tea Mark
CCP:TE 05/6/Corr.1 (Corrigendum)	Possible approaches to generic promotion of tea and the use of the Tea Mark
CCP:TE 05/7	The Joint FAO/WHO Meeting on Pesticide Residues (JMPR) Process of Evaluation for the Estimation of Maximum Residue Levels (MRLs): Tea

### In-session documents

CCP:TE 05/Inf. 1	Information note on arrangements
CCP:TE 05/Inf. 2	Provisional timetable and list of documents
CCP:TE 05/Inf. 3	List of delegates and observers

### Conference Room Series (CRS) documents

CCP:TE 05/CRS 1	Possible approaches to generic promotion of tea and the use of the Tea Mark
CCP:TE 05/CRS 2	Tea market studies: Egypt, Islamic Republic of Iran, Pakistan and Turkey
CCP:TE 05/CRS 3	Upgrading in the international tea sector: a value chain analysis – reference tables
CCP:TE 05/CRS 4	Tea compendium
CCP:TE 05/CRS 5	Tea price transmission – technical appendix and tables
CCP:TE 05/CRS 6	Current market situation and medium-term outlook – reference tables
CCP:TE 05/CRS 7	Report of the Working Group on Pesticide Residue on Tea
CCP:TE 05/CRS 8	Legal issues on the use of the Tea Mark
CCP:TE 05/CRS 9	Conclusion and agreed follow-up action of the International Tea Business Conference (ITBC)
CCP:TE 05/CRS 10	Improving tea smallholder bargaining position through product improvement and partnership – fast-track project proposal to be submitted to the Common Fund for Commodities
CCP:TE 05/CRS 11	Implementation of integrated plant production of tea bio farming through promotion of tea as a health product – proposal to be submitted to the Common Fund for Commodities