

INTERGOVERNMENTAL GROUP ON TEA  
INTERSESSIONAL MEETING   
Washington, DC, USA  
17-18 September 2012

Working Group on Smallholders1

# Introduction

The emerging importance of the smallholder sub sector is widely recognized. At the 20th session of the Intergovernmental Group on Tea (IGG/Tea), which was held in Colombo, Sri Lanka, on 30 January – 1 February 2012, a Working Group (WG) on Smallholders was formed, and Indonesia was to chair to:

* Develop the WG’s terms of reference;
* Review and update the status of smallholder involvement in the global tea economy.

In consequence, we herewith share some thoughts for discussion at the Inter-session IGG on Tea in Washington DC on the 17 - 18 September 2012.

# Preamble

In tea producing countries worldwide, smallholder sub sector is an important segment and sometimes is the dominant contributor to the production. Further, development and expansion of the sub sector in most countries during the preceding decades is remarkable with ever increasing shares to national production.

In most instances, smallholders are “primary producers” producing green leaf for sale to a processing unit and the first link in the value chain. In some communities, the development of the sector is constrained by the limitations in the holding size. Lack of proper legal ownership to the land, poor credit worthiness, and inadequate infrastructure facilities in remote areas are some other issues faced by smallholders in some countries.

Various community initiatives and government interventions are undertaken in producing countries for the development of the smallholder sub sector. Some of these initiatives are exemplary and could provide insight for possible development interventions in other tea producing countries.

# Facts and figures

* **Sri Lanka:** Almost 400 000 smallholders, who account for 70 percent of tea production, produced in 64 percent of the tea producing area. Between 1994 and 2005, tea area under smallholders increased by 48 percent.
* **Kenya:** It is estimated that 560,000 smallholders account for 62 percent of total tea production. Between 2001 and 2010 production area under smallholders expanded by 34 percent, from 85 511 ha to 115 023 ha.
* **Vietnam:** Between 2001 and 2010, the production area expanded by 30 percent, from 101 884 ha to 132 000 ha.
* **China:** Between 2001 and 2010, the production volume growth in smallholders has been significant. The tea area under smallholders increased by 73 percent from 1.1 million ha to almost 2 million ha.
* **Indonesia:** Smallholders account for 43 percent of the tea producing area and 23 percent of production. Tea area has decreased by 30 000 ha during the last decade, it was mostly converted to other crops, particularly rubber and palm oil.
* **India:** The world’s second largest tea producing country as well as the largest producer and consumer of black tea. It is estimated that 160 000 smallholders account for over 26 percent of its production, an increase from 11 percent.

Considering this information, it is apparent that there are significant input of the Tea smallholders contribute to each country’s macro-economic trend.

# Challenges

There are a number of problems engulfing tea producers. However, wage factor is the most imminent threat and is universal in nature. Wages represent the biggest cost component in tea production and due to the overall economic indication trend globally, wages, have so far been always on the rise. In consequent, tea producers generally have difficultiesto make ends meet.

To pay workers at minimum wage in the smallholders sector in Indonesia is not obligatory, although it is mandatory for the privately and Government owned plantation companies. The demand to apply minimum wage can come from the Government, the workers union, NGO’s, or their combination. Exacerbating the already dire situation are the certifications required by certain markets which have increased the cost of production without the corresponding appreciation in the selling price.

Though the plantation companies are more than willing to pay even higher than the required wage level, the selling price, could not justify or support the intention.

It is a catch-22 situation for the producers. During the past two decades when supply outstripped demand which impacted the market negatively, the efforts of the producers to get a higher price to neutralize the wage hike, is like fighting a losing battle.

In the event that the selling price increases because of quality improvement or supply drop due to drought or disease, the demand of higher wages is compounding while the revenues is more or less the same. This situation has made it difficult for the growers to set money aside to invest in garden upkeep or to rehabilitate the factories. In consequent, the gardens are not well maintained, and the machineries do not run efficiently. To the producers, it is like a dagger constantly hanging over their head, as there is no room for error.

On the other hand, the tea downstream industry has its own battle-field too. While they competefiercely against other beverages, they also compete one against another. The manufacturers or brand owners need to be more aggressive in their promotion, which is costly, and be competitive at the retail price at the same time. To our observation, the immediate thought comes to the manufacturers’ mind to neutralize it, is asking for lower tea price. To bargain on packaging materials, promotional, or other costs, comes later. So in the end, the smallholders, particularly, and the growers as a whole, who are at the lowest level of the value chain, are to absorb the cost.

If we would like to see a steady flow of (good) tea to the end-users, a longer term of a mutually benefiting relationship and better margin distribution should be established to ensure a win-win situation for both the producers and the manufacturers.

Nevertheless, despite all the above mentioned problems, tea, which has been around for 5 000 years, will continue to be the most consumed beverage after water globally. The continued discovery of health aspect of tea will only boost the consumption, thus creating a bigger demand.

Therefore, albeit the challenges confronting the global tea industry, somehow tea will always be available. One way or another, the problems will find their own solution. Nevertheless, rather than letting the situation finds its own solution with its possible unpredictable casualties, it would be good if we can contribute thoughts in a way that the real players in the value chain will benefit.

# Food for thought and discussion

* For packers like Unilever and Dilmah, their ownership in tea plantations presently are negligible compared to two decades ago. The plantations has changed ownership, but this was only passing the buck.
* The KTDA (Kenya Tea Development Agency) has shown success, with consistent good management, and follow through of its vision, they may serve as a good model for others to follow suit.
* Sri Lanka has a long established smallholders law and Act which is a good reference; China and Vietnam’s vast smallholders organization must have some merits. We need to identify the strengths of each.
* Joint effort by the tea producing countries is needed not only to empower the smallholders but also the other group producers who are now facing challenges.
* If there is still no solution to combat the wage problem elaborately explained above, is it time that a new model of owning and managing tea plantations be discovered?
* Would it answer the wage problem if the privately and government owned tea plantations were relinquished and smallholders cooperatives were put in place to run them?
* What are the outcomes of privatization in Sri Lanka?
* Tata Tea relinquished their tea estate to its employees a few years back. How are they doing?
* Should bought leaves factories be integrated and owned jointly with tea smallholders. The present system of factories – smallholders relationship where each is positioned as buyer and seller – so far has no satisfactory, impartial regulatory system.
* Should theTea Boards of all tea producing countries hold a meeting to create a global tea vision and mission?
* Would FAO be an arbitrator and establish synergies between the International Tea Producer Forum (ITPF) and the various tea consuming countryorganizations?

# Terms of Reference of the Working Group on Smallholders of the IGG on Tea

* 1. Study and document contributions of the tea smallholder sub sector to the economy of each country viz.a.viz. the tea industry as a whole over the last twenty years.
  2. Study and document the contributions of net income from tea to improvement in living standards of tea smallholders.
  3. Collate information on smallholders profiles, including extents under cultivation with size class categories, age profile of tea lands, yield levels etc.
  4. Collate demographic data on smallholders in each country.
  5. Identify and assess roles played by related stakeholders in the value chain.
  6. Study and document available mechanisms for development of smallholders sector in each country.
  7. Study and document existing challenges and issues in the smallholdings sector.
  8. Study and document the impact of scarcity of labour in the smallholders sector.
  9. Develop recommendations on the future road map for the sustenance of the sector.