INTERGOVERNMENTAL GROUP ON TEA

INTERSESSIONAL MEETING

Report of the Working Group on Smallholders[[1]](#footnote-1)

**Introduction**

Globally, tea smallholder sector covers 70% of the plantation area and produces 60 percent of the global tea production volume; the magnitude of these figure pose as the vital cog to the global tea industry. In the recent years, however, the small tea growers in many producing countries have not been operating profitably, massive conversion of plantation to other crops had taken place and these have threatened the overall **Tea-Sustainability**, a buzz word that is still waiting for its realization.

This serious situation which is engulfing the small tea growers globally should be viewed as a strong wake-up call to the entire industry and to collaboratively establish a comprehensive program or action plan to remedy the situation. The program should initially focus on the small tea growers how they can operate profitably.

**Fundementals**

A review of the smallholder tea sector was first carried out at the 12th Session IGG Meeting in 1997 in Bali, Indonesia. In that review the analysis indicated that then, the welfare of smallholder tea producers was much greater than that of their counterparts in other crops in the countries that the Secretariat surveyed, namely **Indonesia, Kenya, Sri Lanka** and **Tanzania.** The situation has changed significantly since then, and a new comprehensive review should be carried out as soon as possible.

There are more than 400,000 smallholders in **Sri Lanka**who accounts for 76 percent of the tea production volume, produced in 64 percent of the tea plantation area.

In **Kenya**, an estimated of 560,000 smallholders accounts for 62 percent of the total tea production volume, while in **China** and **Vietnam**, the tea production volume is essentially dominated by smallholders. In **Indonesia**, smallholders accounts for 43 percent of the tea plantation area and only 23 percent of the total production volume. In **India**, an estimated of 160,000 smallholders accounts for 26 percent of the national production volume**.**

**Major Issues**

The situation varies from one country to another. In Indonesia and it may also applies in other producing countries, the tea smallholder group constitutes the largest area as well as in other crops. This is very important to the development of the rural economy and the country’s political stability. In consequence, the success of revitalizing the global tea smallholders is paramount importance to most of the emerging markets.

Over the journey of time since the colonials left the tea plantations in emerging markets, the socio-economic situation and culture had changed considerably. It is obvious that the owners and the management of the big tea plantations companies nowadays are required to be more socially sensitive. As time goes by, owning and running tea plantations may become more a combination of business and a *noblesse oblige* than for the sole capitalistic economic purpose, which was maybe acceptable few decades ago.

J.F. Kennedy once said:

**“If a free society cannot help the many who are poor, it cannot save the few who are rich”.**

The emphasis on smallholder development is in line with FAO's strategic objectives and an important millennium development goal (MDG).

**Indonesia** and**Bangladesh** had been granted a financial help from the **Common Fund for Commodity (CFC)** to rehabilitate about 1,400 Ha of smallholders’ tea plantations involving about 1,500 tea farmers. It was a successful project and it was recommended that this program be replicated in other producing countries.

In countries and regions where smallholders do not have collective ownership of factories and government entities do not intervene, the smallholders are left to the vagaries of the middlemen in the imperfect competitive market.

Many governments have attempted to regulate the system of payments to smallholders by privately owned processing factories, against those that are collectively owned as those in Kenya which has been successful.

The Tea Board of India introduced in early 2004 a price-sharing formula based on the Sri Lankan model. The price-sharing formula envisages that the sale proceed is to be shared between the smallholders and the manufacturer-processor in the ratio of 60:40.

I believe there is a need to develop strong partnerships with high quality tea processing factories or directly with the international buyers to enable the smallholders to plug into a high-quality supply chain.

**De-Estating**

Due to a persistent demand of wage hikes and better social benefits that the big plantation companies have to accommodate, the situation may naturally end up in de-estating of the big plantation companies.

In India and maybe in other producing countries, the phenomenon of the fragmentation of large estates (or ownership changes in favor of the workers) has taken place in the restructuring exercises done via government policies, as a process of natural attrition, or by corporate actions.

In Sri Lanka, all privately owned plantations were nationalized by the government in the 1970s. Following a policy change in the 1990s, it was decided to parcel out tea estates belonging to two state-owned companies and hand them over to privately-owned regional plantation companies under a profit-sharing arrangement. In the process of sale and allocation of shares, the government ensured that the workforce was also given an opportunity to hold shares.

At the other end, Tata Tea Limited decided to concentrate on its downstream tea business as an explicit corporate action and proceeded to divest its majority stake in its estates in Munnar, South India, and passed on the majority stake (76 percent) to their 12,000 workers. A new entity, Kanan Devan Hills Plantations Company Private Limited (KDHP), succeeded Tata Tea Limited on 1st April 2005.The estates remained intact and the company continues to be managed professionally. The company is today the largest in South India with 7 estates covering 24,000 hectares and with an annual production of 21 million kilograms. This sense of ownership led to a significant increase in productivity and profits (and dividends to the worker-owners).

There is an earlier example in India of a successful workers’ cooperative in Durgabari in Tripura, North East India, where after the owners abandoned the estates, the workers took over the management team and formed a cooperative. While a good deal of state funding and support has contributed to the success, a strong management team and processes have played a key role as well.

**What are the policy options where existing large tea estates are required to be restructured due to lack of viability?**

If a state intervention or government subsidy is to be minimized and a long-term business viability are to be ensured, the Tata Tea experiment can be suitably adopted. Unfortunately, however, most restructurings have to take place because the concerned estates are financially unhealthy and the assets are in poor condition.

**Conclusion and follow up:**

* Smallholders represent the major part of the tea sub-sector across producing countries with high growth rates in the past decades, even in countries where the corporate estates are still of significance.
* However, due to the small size of their average holding, a high level of transaction cost, limited opportunities for capacity building and varying degrees of institutional support, as well as coupled with poor bargaining power in the green-leaves and input markets, smallholders have not been able to reach the full realization of their true worth and values.
* Policies have to empower and not make smallholders dependent on government-sponsored institutions in the long run. Smallholders need to be well-represented in all institutions that are set up and/or formed.
* In countries that still have a large corporate sector, smallholders may be encouraged to set themselves up in a complementary role and enter into mutually beneficial partnerships. Similar partnerships with large international buyers and organizations encouraging socially and environmentally sustainable tea production could also ultimately benefit **the sub-sector.**

**Finally**

Unlike the ICO (International Coffee Organization), or ICCO (International Cocoa Organization), or OPEC (Organization of the Petroleum Exporting Countries), which is solely producers’ organization, the **Confederation of International Tea Smallholder (CITS)**has decided to include the consuming countries.

It was strongly realized that there are strong interdependencies among those that are involved in the industry, therefore the success of the CITS is dependent on the full support of all value-chains from field to cup.

The IGG meeting then agreed to include the consuming countries’ participation in the CITS. **Canada** was appointed and agreed to take the Vice Chairman position to represent the consuming countries, and **Malawi**as Vice Chairman represents the producers, and **Indonesia** as Chair.

The WG proposed that Indonesia and India were to conceptualize and propose the structure, composition, roles and functions of the confederation, as well as its terms of reference.

1. Submitted by Indonesia. [↑](#footnote-ref-1)