SMALLHOLDER TEA FARMING AND VALUE CHAIN DEVELOPMENT IN CHINA

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

Cheng Fang, Economist, Trade and Markets Division, FAO
Yanjiong Wang, Tea research Institute (TRI), CAAS. China
Xuebian Zhang and Jieqi Huang, Ag Info Institute (AII), CAAS, China
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

1. Overview of the Tea Production and Industry in China
2. Value Added and Farmer’s Income
3. Market Integration and Inclusive Tea Value Chain Development in China
4. Role of Government in China
Overview of the Tea Production and Industry in China
Tea Output in China

- China is the world’s largest tea producer
- Total output of tea in China in 2013: 1.93 million tons
- Tea output increased by 614.8% from 1978 to 2013

Total Output of Tea in China (10,000 tons)
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
Main tea producing counties:

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 than 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
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.

<table>
<thead>
<tr>
<th>Highest profit process</th>
<th>Percentage of companies (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Production</td>
<td>22.4</td>
</tr>
<tr>
<td>Wholesale</td>
<td>13.6</td>
</tr>
<tr>
<td>Retail</td>
<td>55.1</td>
</tr>
<tr>
<td>Others</td>
<td>4.2</td>
</tr>
</tbody>
</table>

Data Source: TRI survey data
Non-Tea Farmer has 25% higher net income compared to Tea Farmer in 2010, on average in China.

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

Data Source: Calculated based on RCRE/MOA Survey Data
There are huge income difference between different types of tea producers, depending on location and farm size in China.

<table>
<thead>
<tr>
<th></th>
<th>Fresh leaves</th>
<th>Self- Processed Tea</th>
<th>Tourism service</th>
<th>Annual Income (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Genuine</td>
<td>x</td>
<td>x</td>
<td>x</td>
<td>10,362-32,383</td>
</tr>
<tr>
<td>Full-time</td>
<td>x</td>
<td>x</td>
<td></td>
<td>648-10,362</td>
</tr>
<tr>
<td>Part-time</td>
<td>x</td>
<td></td>
<td></td>
<td>259-648</td>
</tr>
</tbody>
</table>

Data Source: Social Resources Institute
Market Integration and inclusive value chain development in China
Tea Value Chain in China

**Planting**
- Traditional Channel
  - Tea Garden/farm
- Drink Chain Shops
  - Processing by tea Companies
- Comprehensive tea companies
  - Self-built tea planting bases

**Processing**
- Refineries
  - Processing by factories in the tea garden
- Deep processing by drink companies

**Distribution and Marketing**
- Wholesalers
  - Self-builts stores
  - Retailers/supermarkets
- Individual shops
  - Chain retail shops
  - Drink Chain Shops
  - Retailers/supermarkets
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 conventional 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**

<table>
<thead>
<tr>
<th></th>
<th>2002</th>
<th>2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of contracts</td>
<td>80,870</td>
<td>207,359</td>
</tr>
</tbody>
</table>
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

<table>
<thead>
<tr>
<th>Channels</th>
<th>No. of household</th>
<th>percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>① Sale on the tea markets</td>
<td>109</td>
<td>42.9%</td>
</tr>
<tr>
<td>② Sale to tea companies</td>
<td>36</td>
<td>14.2%</td>
</tr>
<tr>
<td>③ Sale to local big companies</td>
<td>69</td>
<td>27.2%</td>
</tr>
<tr>
<td>④ through cooperatives</td>
<td>34</td>
<td>9.1%</td>
</tr>
<tr>
<td>⑤ Sale directly</td>
<td>5</td>
<td>1.9%</td>
</tr>
<tr>
<td>other</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Data source: TRI survey data
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

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

  - Distribution
    - 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

- 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 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
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