



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

Продовольственная и
сельскохозяйственная организация
Объединенных Наций

Organización de las
Naciones Unidas para la
Alimentación y la Agricultura

منظمة
الغذية والزراعة
للأمم المتحدة

COMMITTEE ON COMMODITY PROBLEMS

INTERGOVERNMENTAL GROUP ON TEA

TWENTY-THIRD SESSION

Hangzhou, the People's Republic of China, 17-20 May 2018

EMERGING TRENDS IN TEA CONSUMPTION: INFORMING A GENERIC PROMOTION PROCESS

I. INTRODUCTION

1. This document aims to encourage a discussion on generic tea promotion initiatives and to inform related policy efforts. It is composed of five main sections. The overview in Section I is followed, in Section II, by a description of the “Tea markets: main trends and consumption renewal”. Section II also provides an analysis of recent developments in the tea market with a focus on emerging consumption trends. Section III discusses “Untapped opportunities on the tea market at individual country and global levels”. Section IV calls for “Harnessing untapped opportunities through investing in a tea generic promotion strategy”. Section V concludes the paper with an overview of “Major concerns on generic promotion: funding, benefits and sustainability”. The data used in this CRS are based on the FAO Intergovernmental Group on Tea (IGG-Tea) database as well as other sources providing market intelligence for global and local tea markets.

II. TEA MARKETS: MAIN TRENDS AND CONSUMPTION “RENEWAL”

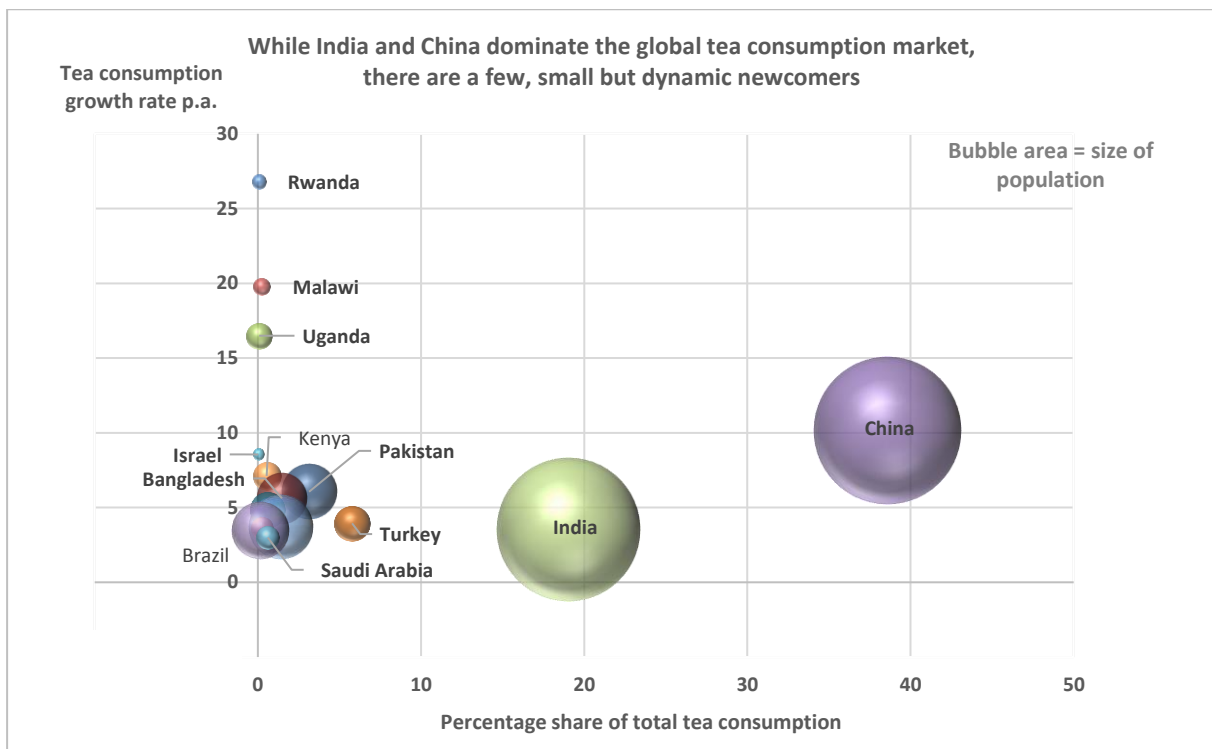
2. Over the past decades, the global tea industry has seen rapid growth, with a growing number of consumers globally as well as in many national markets. For 2016, FAO pegged global tea production at 5.73 million tonnes. Production continues to be dominated by a handful of countries comprising China (43 percent), India (22 percent), Kenya (8 percent), Sri-Lanka (5 percent) and Turkey (5 percent). Total imports have reached a volume of 1.84 million tonnes. The European Union was the largest importer in 2016, accounting for 18 percent of global tea shipments, followed by the Russian Federation (9 percent), Pakistan (9 percent), the United States of America (7 percent), Egypt (5 percent), the United Arab Emirates (4 percent), Morocco (4 percent) and the Islamic Republic of Iran (3 percent).

*This document can be accessed using the Quick Response Code on this page;
an FAO initiative to minimize its environmental impact and promote greener communications.
Other documents can be consulted at www.fao.org*



3. Between 2007 and 2016, tea production has grown by an average annual rate of 4.4 percent. During the last decade, the top five producers have all seen production growth (in volume terms), with China and Turkey registering the highest growth rates at 8 and 4 percent, respectively.
4. Global consumption of tea stood at 5.53 million tonnes in 2016, rising from 5.08 and 5.29 million tonnes in 2014 and 2015, respectively. Between 2007 and 2016, consumption has risen at an annual growth rate of 4.5 percent. Three quarters of the global production are consumed locally, suggesting an important role of major producing countries in the current expansion of the demand. The increase in consumption has been driven by population growth, urbanization and rising incomes, particularly in emerging and developing economies.
5. While global tea consumption is dominated by large markets, such as China and India, which account, respectively, for a share of 38.6 percent and 19.0 percent, there are some small but rapidly growing markets that have expanded well above the world's average annual growth rate of 4.5 percent over the last decade. Three countries, Rwanda, Malawi and Uganda, reached the highest annual growth rates between 2007 and 2016, increasing, respectively, by 26.8 percent, 19.8 percent and 16.5 percent. China, the largest consumer, reached an average growth rate for the decade of 10.1 percent, followed by Israel (8.5 percent), Kenya (7.1 percent), Pakistan (6.1 percent), Bangladesh (5.6 percent) Libya (5.1 percent), Malaysia (4.9 percent), Germany (4.8 percent), Turkey (3.9 percent), Indonesia and Nepal (3.7 percent), India and Brazil (3.5 percent) and Saudi Arabia (3.0 percent) (Fig. 1).

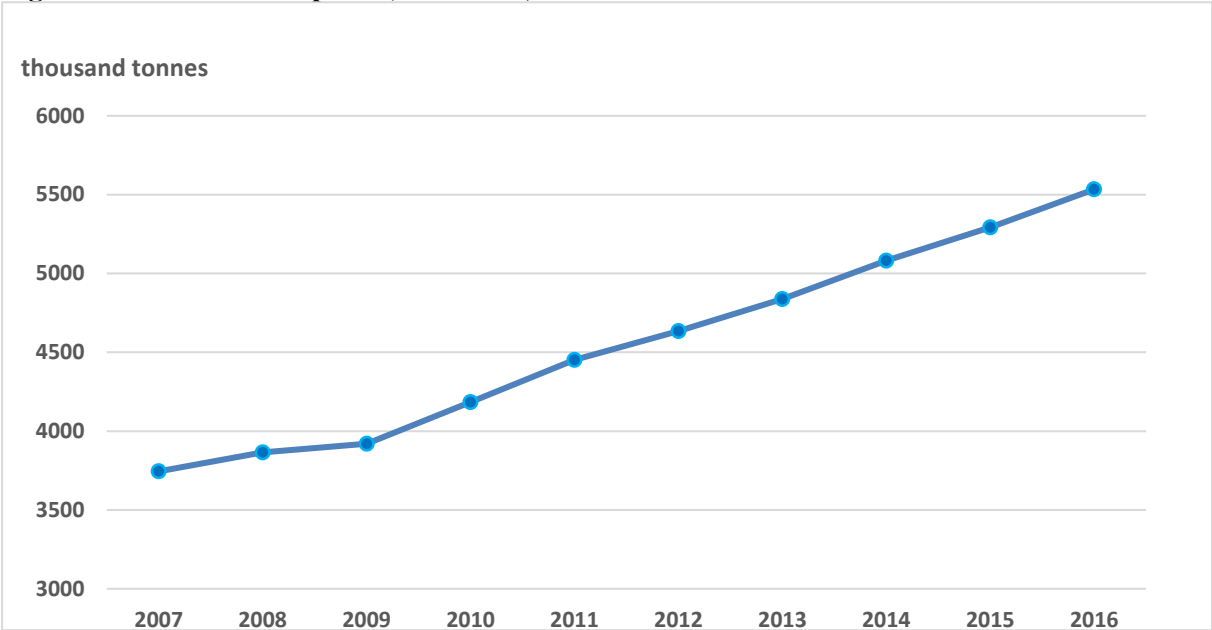
Fig. 1: Tea – Consumption growth rate (2007–16) vs. share of global consumption (2016)



Source: IGG/Tea Secretariat

6. The Global tea market has seen average growth rates of more than 5 percent p.a. between 2007 and 2016 (Fig. 2). Developing and emerging economies have been driving the expansion of the demand, with East Asia, Africa, Latin America and Caribbean, and the Near East leading the expansion. The more mature European market, by contrast, as well as other developed countries have witnessed declining volumes.

Fig 2: World tea consumption (2007–2016)



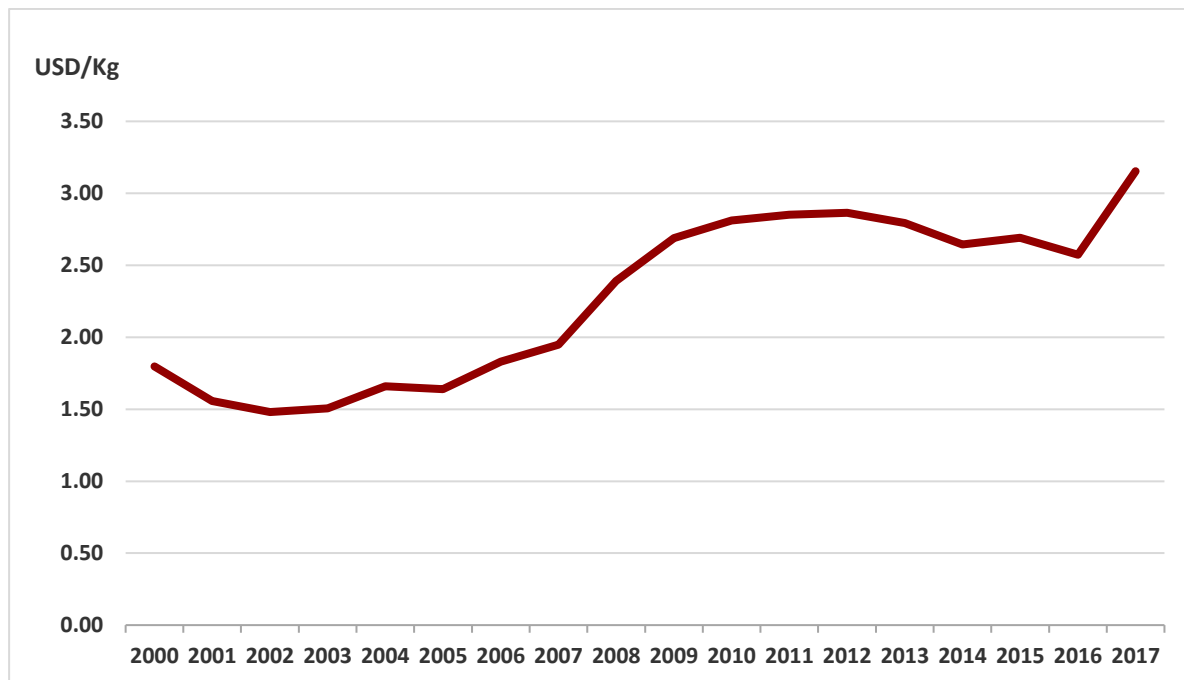
Source: IGG/Tea Secretariat

7. Robust economic growth in a number of developing nations, such as China, India, and Russia, has created a large middle class with a preference for premium tea blends and brands, often upgrading their purchases from unpackaged tea to packed and bagged specialty varieties.

8. As a result, tea prices as measured by the FAO tea composite price (Fig. 3), continued to rise over the past decade, while prices for other beverages declined. This trend is forecast to continue. The World Bank, for instance, foresees a moderate increase in average tea auction price from USD 2.80 in 2017 to USD 2.81 in 2018, to 2.83 in 2019 and 2.84 in 2020.

9. In tandem, the global tea market is expected to expand. Persistence Market Research (PMR) projects an expansion of the global market, of 5 percent p.a.¹ between 2016 and 2024, reaching a total value of USD 21.33 billion, compared with USD 14.45 billion in 2016.

¹ Growth rates in these documents are defined as Compound Annual Growth Rates (CAGR)

Fig. 3: FAO Tea Composite Price

Source: IGG/Tea Secretariat

10. The global tea market expansion is characterized by growing premium and super-premium segments and related health and wellness expectations. Growth in these segments more than offsets declining volumes in black tea, mainly in developed markets.

11. The drive for innovation is evident as consumers increasingly demand natural and organic ingredients, in diversified blends, flavours and environments. There is also growing interest in higher quality speciality teas with particular flavours. In parallel, green, as well as herbal and fruit teas are gaining popularity in different markets, especially in Europe, owing to real or perceived health benefits. At the same time, public interest in organic, locally sourced, specialized premium teas has also intensified. Innovation and “premiumization” are characterising a market, which attracts a growing number of young customers and an emerging middle class.

a. Innovation and new health-driven consumption trends

12. New market trends suggest a move by consumers from a range of different beverages to tea. These trends include a surge of new, value-added products such as ready-to-drink (RTD) fruit and flavoured teas and an expansion of green tea consumption outside Asia. The drivers behind this trend include a heightened perception of tea as a healthy alternative as well as the inroads made by teabags in developing and emerging markets, where consumption has traditionally been based on loose leaves.

13. The popularity of RTD tea has particularly been favoured by the desire to find substitutes to carbonated drinks. Other important drivers of growing RTD consumption include rising wages and rapid urbanisation, leaving less time and causing higher opportunity costs to prepare tea. Global revenues in the RTD tea and coffee market were estimated at approximately USD 69 billion in 2011 and are expected to have reached USD 125 billion by the end of 2017, growing at an annual rate of 10.9 percent between 2012 and 2017.

b. From decades of “commoditization” to current “premiumization”

14. Over the past three decades, the tea market has been characterized by a commoditization process, accompanied by a steady downward pressure on prices and an upward pressure on production

costs. This is changing. Today's consumers are willing to spend more on the teas they consume with a move towards more expensive, premium products. Overall, there is rising demand for green teas, black tea fusions, fruit/herbal as well as RTD teas, in general signs of a shift towards premium products.

15. The shift towards premium teas is also reflected in the rising market values at the regional level. Europe, the world's most important import region saw its overall market value rising by 5.1 percent p.a. between 2011 and 2016, while volumes of apparent tea consumption declined over the same period by - 3.0 percent p.a., largely reflecting the region's move towards quality and specialty teas.

c. Young people and their quest for a personal experience with a fashionable product

16. Young people, representing a major and rapidly growing segment of the market, are continuously searching for personal experiences with fashionable products. This includes the integration of gourmet quality tea into their overall lifestyles. For some segments, tea demand has become a conspicuous form of consumption. Many enjoy specialty teas and show great interest in learning about a beverage that is consumed in the sophisticated environment of specialty teashops or/and exclusive restaurants, hotels and cafés.

17. The growing retail sector is also catering for new preferences by offering a range of teas from different origins, with a variety of different flavours, often coming in unusual combinations and customized varieties. Consumers and operators are engaged in a "global revolution in tea culture" including beverage-based foodservice concepts, new and healthier culinary options and a rise of "out-of-home" consumption, driven by new, major retail outlets.

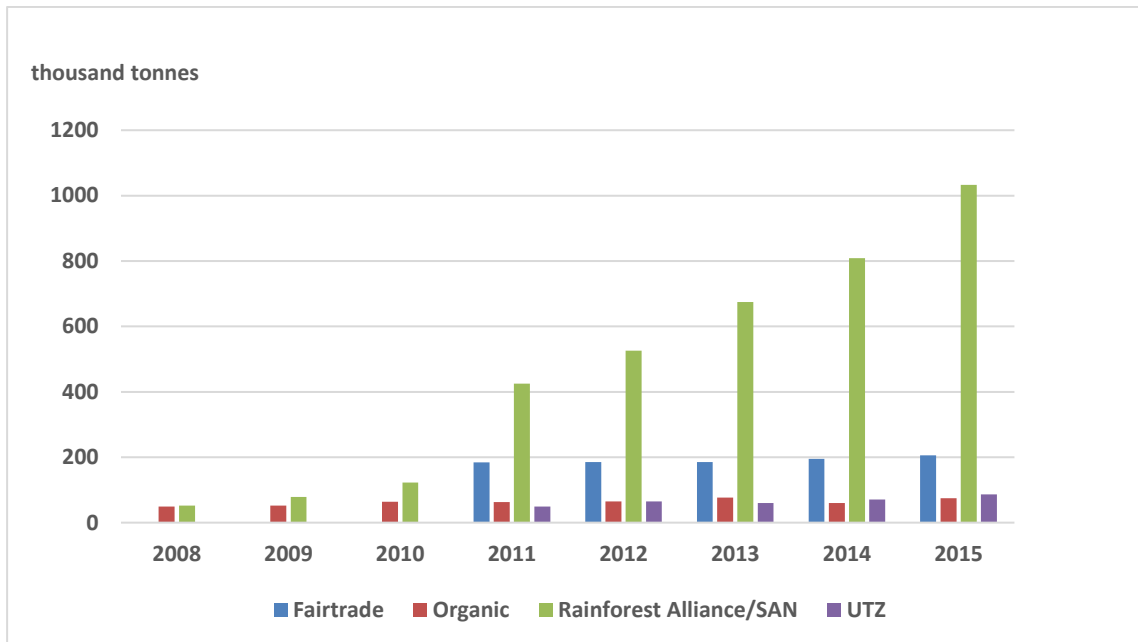
18. Faster and more convenient ways of preparing tea are also driven by new consumption gadgets and forms of packaging. Numerous alternatives to the traditional teabag have been developed. Some alternatives, such as instant teas, are becoming increasingly customary. Alternatives to the classic teabag such as tea sachets or capsules for coffee machines are promoting consumption, further helped by the emergence of experimental teas and new flavours.

d. Rising per capita income and the middle class in emerging economies drive consumption growth

19. Current tea consumption growth is being reinforced by rapid growth in per capita incomes, particularly in emerging economies. A growing, increasingly urban, and young population segment entering the middle class is prepared to consume more and to pay for premium tea products. These changes have the potential to develop into a stronger and longer trend, which could characterise global tea consumption patterns for decades.

e. Emerging call for sustainability supported by a transparent industry and value chains

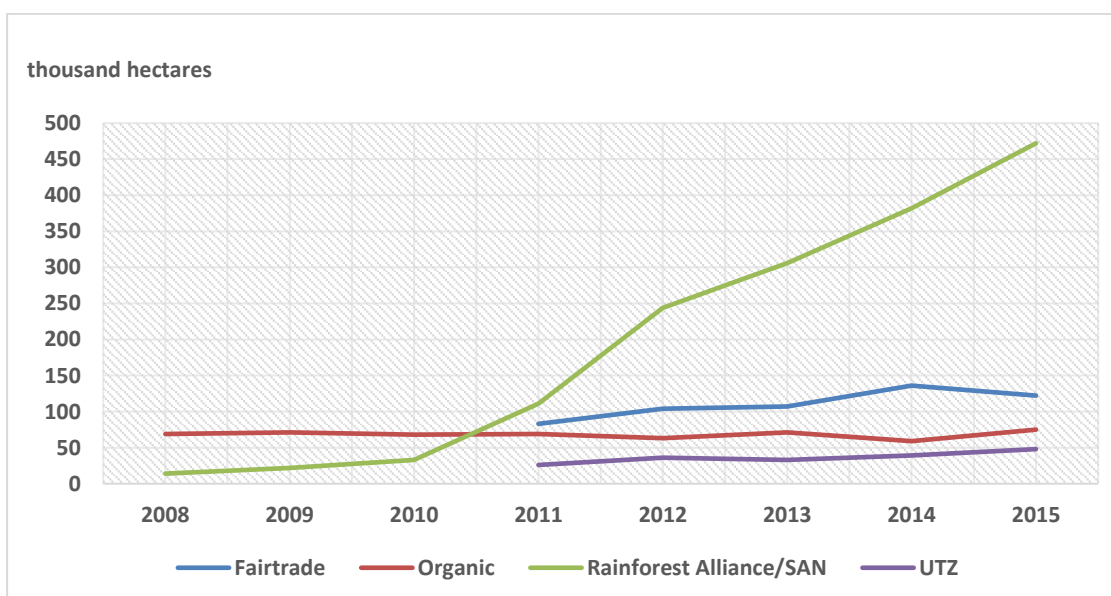
20. Modern tea consumers pay attention to health and well-being but that is not all: just like for other consumer items, they seek and pay for environmental, social, economic and ethical attributes in selecting their tea varieties. This has led to a greater importance of sustainability issues in the food and beverage industry in general and the tea sector in particular. These concerns for food safety and health as well as social and environmental sustainability have also underpinned the need to ensure traceability and quality controls. This has resulted in rapidly rising production levels (Fig. 4) and certified areas (Fig 5) under sustainability standards.

Fig. 4: Tea production by standards (2008–2015)

Source: ITC, IISD, 2017

21. In responding to these demands, large companies are stepping up their commitment to social and environmental values, driving up the market share of certified tea. Most sustainability schemes cover issues related to social values and working conditions in tea cultivation, as well as standards for food safety and environmentally friendly production.

22. Fairtrade International, Organic, Rainforest Alliance/Sustainable Agriculture Network (RA/SAN) and UTZ, representing four combined voluntary standards, certified more than 538 000 hectares in 2015. The proportion of the VSS-certified area amounts to an average of 16.5 percent of the global tea area.

Fig. 5: Certified tea area by standards (2008–2015)

Source: ITC, IISD, 2017

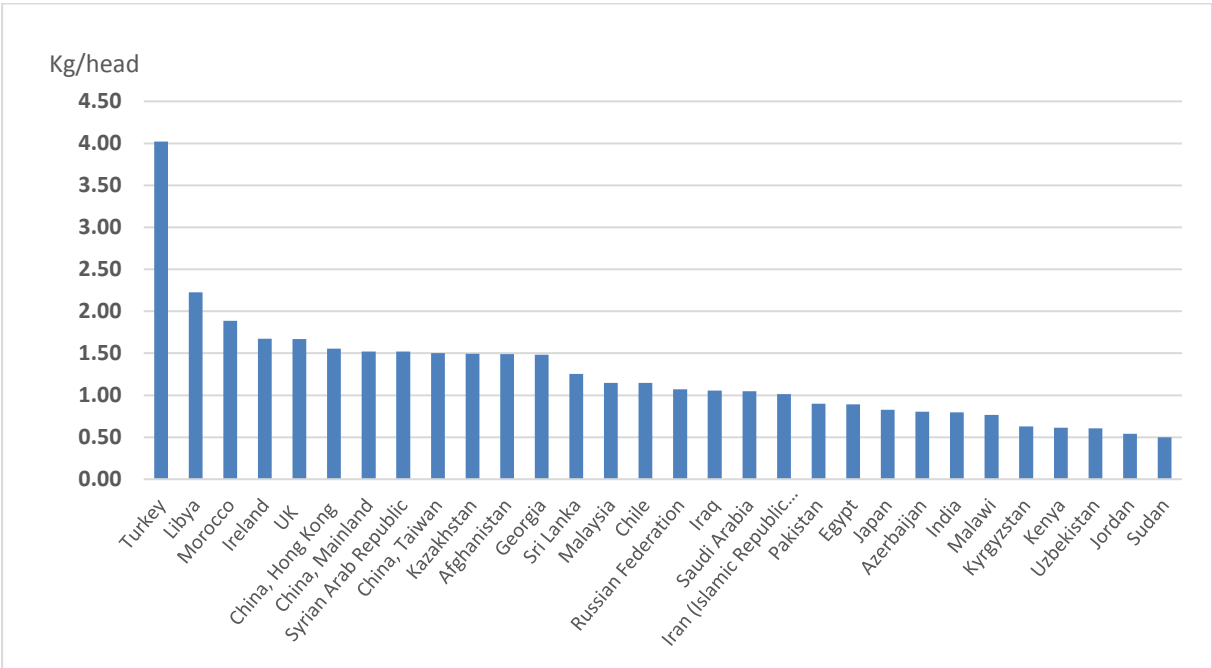
23. Most industry “majors” are now engaged in sustainable sourcing. Some of them have committed to reach 100 percent sustainability-compliant sourcing Mainstreaming sustainability is also driven by the desire to address the sector’s exposure to climate change, inter alia, visible in an increasing number of climate mitigation and adaptation initiatives.

III. UNTAPPED OPPORTUNITIES IN TEA MARKETS AT INDIVIDUAL AND GLOBAL LEVELS

24. Although 75 percent of all teas produced globally are locally consumed, there is still an untapped demand potential in producing countries, most of which still have low per capita consumption levels. For example, in Kenya, the top tea exporter, domestic consumption only accounts for a fraction of production. More generally and across nearly all countries in Africa, domestic consumption only accounts for a small share of production.

25. Another defining feature of the tea market is the high concentration of consumption across countries. For instance, the top 12 of the 30 most important consuming countries have consumption levels above the group’s average. The other 18 countries have per capita consumption levels well below the group’s average, indicating a vast untapped market potential. When compared to the country with the highest per capita tea consumption (Turkey), the remaining top 29 tea consumers show even larger gaps and catch-up potential, with per capita consumption levels that are on average as much as 70 percent below that of Turkey (Fig. 6).

Fig. 6: Top per capita tea consuming countries in 2016



Source: IGG/Tea Secretariat

26. Some markets offer particularly large untapped potentials. Rural markets in India and RTD markets in China are two cases in point. India’s lower-income consumers offer a considerable market for unpackaged tea, which is typically priced below its branded and bagged equivalent. Unpackaged tea is particularly appealing to India’s vast low income and largely rural consumer segments. Overall, and despite its well-known tea culture, India does not rank among the top tea consuming countries on a per capita basis. The country stands just slightly ahead of France and the United States of America.

27. In addition and going forward, India's tea market could still shift from unpackaged to packaged teas. Currently, unpackaged tea still accounts for more than 50 percent of the overall market. It is estimated that there are still between USD 2 and 2.5 billion in yet untapped tea sales, indicating a significant opportunity for tea manufacturers.

28. China's RTD market also promises significant growth prospects. Per capita consumption levels are still low, reaching only one quarter of those in Hong Kong and one-third of those in Taiwan. The Chinese mainland market was pegged at about USD 29 billion in 2015. With rising per capita consumption levels, the country is set to drive the global RTD market, which is currently valued at over USD 50 billion.

29. The shift from unpackaged to brand and specialty tea varieties is driven by several factors in India, China and many other emerging economies. These include rising incomes and an emerging middle class, rapid urbanisation, busy lifestyles and time pressures. More consumption and the demand for sustainable produce are also driving investments. The rising investment volumes are increasingly accompanied by more sustainability-conscious investments.

IV. HARNESSING UNTAPPED OPPORTUNITIES: INVESTING IN GENERIC TEA PROMOTION

30. A number of efforts are underway to tap into the remaining potential of the global tea market. Generic promotion is an important element of these efforts. The basic thrust of generic tea promotion is to expand the overall market demand and foster tea loyalties, while countering competition from other beverages, mainly through raising public awareness of the health benefits of tea.

31. At a general level, generic promotion is a joint effort of different producers aiming to raise the consumption of a given or a few similar products. As such, these efforts are in contrast with brand marketing, which aims to expand the market share of a selected firm and/or its specific products. Successful generic advertising boosts demand by attracting new consumers and by enticing existing consumers to increase their purchases or to pay a higher price. It can also make demand less price-responsive, thus promoting product loyalty when prices rise. Generic promotion is particularly recommended where individual producers are unable to differentiate their products either for technical or economic reasons.

32. Generic tea promotion typically builds on health benefits and aims to promote sales of all types of teas. It can cover both the promotion of domestic consumption and exports. It can support innovation, create quality products and/or promote the health benefits of tea.

33. A combination of outlets including media networks, local televisions and radios, advertising space in consumer magazines and newspapers as well as outdoor billboards can help boost tea consumption. Promotion can also include tea education and tea culture development, trade shows as well as direct contact with commercial buyers. Television is the preferred advertising medium for low-priced, convenience tea, targeting wide audiences and building on a memorable combination of visual and auditory messages.

a. Major characteristics of the tea industry: paving the way towards more effective promotion

34. The tea value chain is characterized by a high level of vertical and horizontal integration, with a small number of companies controlling the entire supply chain. Also, the chain is less fragmented and shorter, with the three largest companies controlling one-fifth of the global market. Estimates show that 70 percent of global tea production is sold through auctions with brokers playing the crucial role of linking producers and buyers. Brokers also offer a key node for channelling communication messages within the industry.

b. Foster tea education and culture while strengthening quality assurance

35. Tea education and global tea culture development remain key in fostering generic promotion of tea. Tea education and tea culture development promote links between tea consumption and the gastronomic culture in European countries such as Italy, France, Switzerland and Belgium, building on the traditional role of sommeliers and other food retail actors in order to expand tea consumption opportunities in these mature markets.

c. Research in support of a credible message

36. Research supporting the health benefits of tea can play a key role in conveying demand-enticing messages to customers. Research geared towards both developing new varieties/products and reinforcing production and marketing efficiency should be mainstreamed in the promotion approach. Funding research programmes along these lines can enhance the industry's social corporate responsibility. The visibility of advertisement efforts can be strengthened by developing partnerships with major institutions engaged in health research and development and by lobbying international organizations involved in issues related to health and development.

V. MAJOR CONCERNS ON GENERIC PROMOTION: FUNDING, BENEFITS AND SUSTAINABILITY

37. Concerns have been raised about the effectiveness of generic advertising programmes, their costs and benefits and the equitable distribution of their returns between different stakeholders.

38. Owing to the public nature of generic messages, funding for such arrangements has historically led to a "free-rider" problem, with producers gaining benefits from generic promotions without contributing to their funding. The risk of "free-riding" leads to frequent debates over who should pay for and who would benefit from generic promotion as well as on how the related costs and benefits could be equitably shared among stakeholders.

39. Industry collective funding of generic promotion using clear and consensual assessments can overcome the "free-rider" problem and help ensure that producers share the costs in proportion to the benefits. Inclusive and mandatory participation should serve as the basis for sponsored advertising campaigns of the industry. Legislation supporting generic research and promotion at national level will provide a strong foundation for the industry's action.

40. Generic tea promotion also needs to provide useful information about the product, including nutritional and recipe information. The industry further needs to remain conscious of price effects arising in the context of short-run supply rigidities.

41. In the long run, increased tea consumption may lead to rising demand for variable farm inputs, such as fertilizer or pesticides and put additional pressure on natural resources. Successful generic tea promotion would need to mainstream sustainability concerns in its long-term strategy.

42. Also the risk of eroding brand loyalty should not be overlooked as it might affect the willingness to pay for a generic promotion. A cost-effective generic promotion strategy needs to build on an inclusive dialogue within the industry and a consensus on the message to be conveyed. Such an arrangement will, in turn, require capacity and awareness building initiatives within the tea industry.