



Food and Agriculture
Organization of the
United Nations

SUSTAINABLE
DEVELOPMENT
GOALS

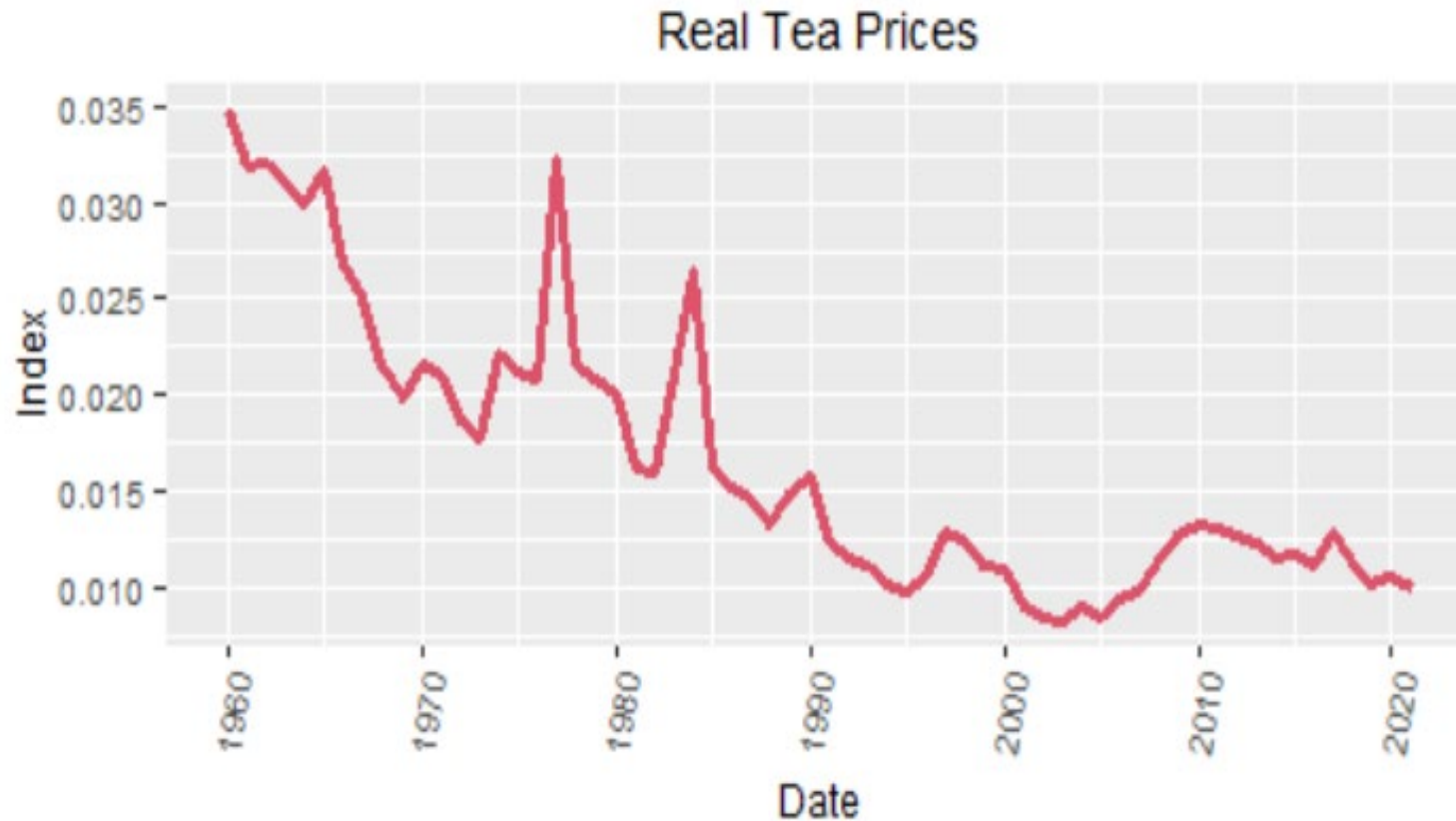
Global Tea Market Situation and Emerging Issues

24th Session of the Intergovernmental Group on Tea

23 February 2022

El Mamoun Amrouk
Senior Economist, Markets and Trade Division, FAO

What do tea prices tell us?

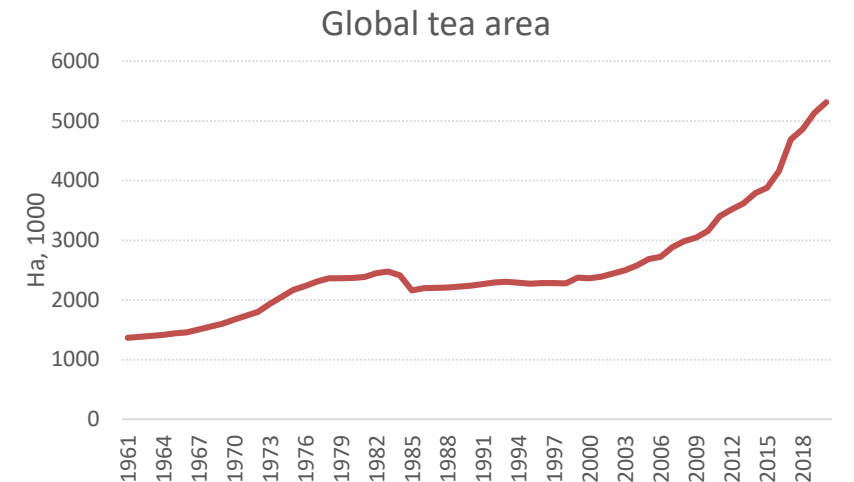
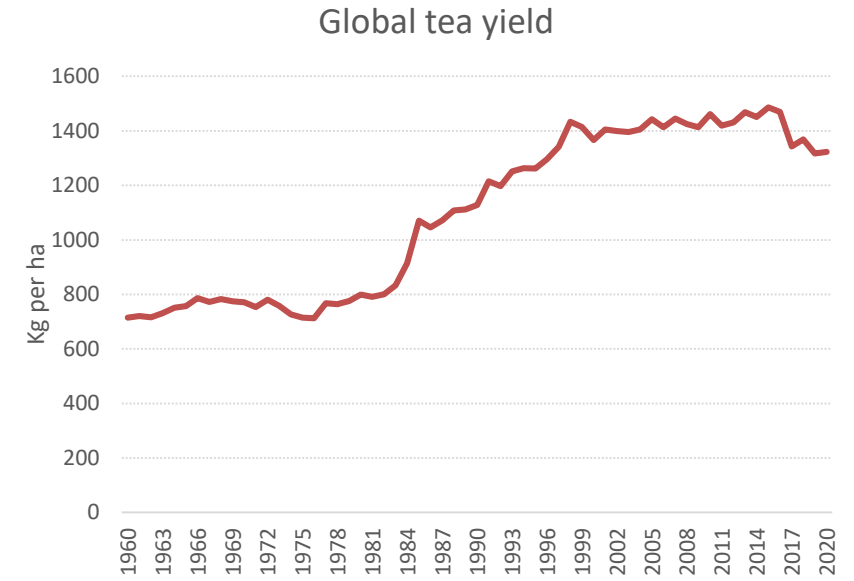


- Prices of tea expressed in **real terms** have been declining by 2% p.a. since 1960 and by 2.4% since 2011.
- What are the underlying factors underpinning the price decline?
 - Expansions, productivity, internal and external economies of scale.



The evidence of expansion is clear

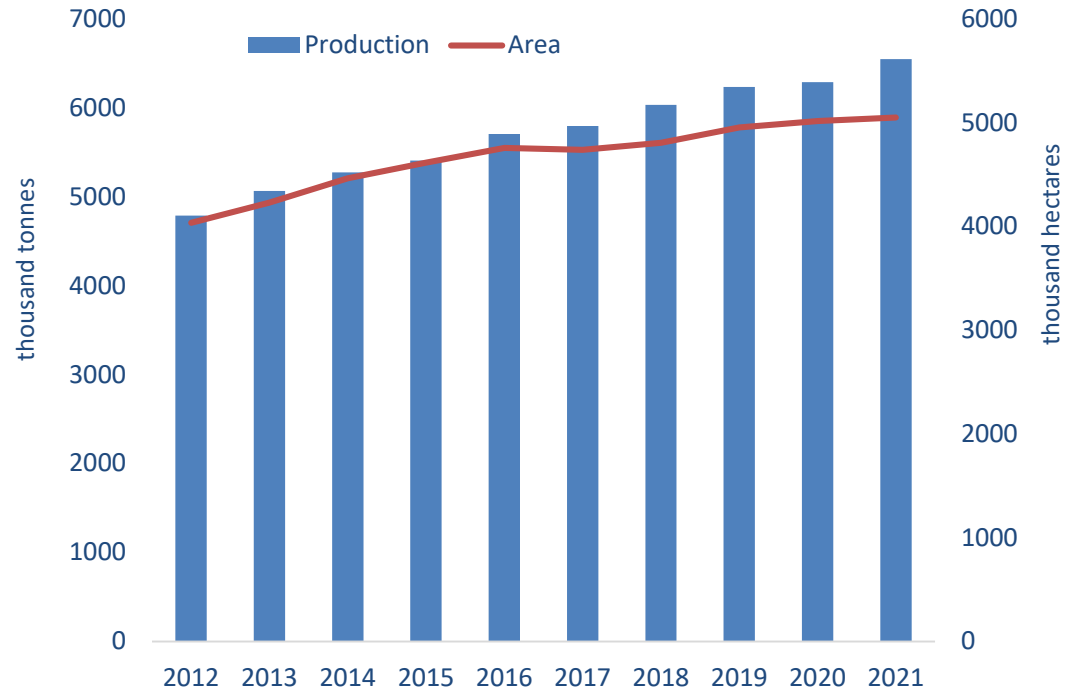
- Tea yields have increased by 1% per year since 1961, but have seen a marked slowdown since 2000.
- Area devoted to tea has increased by 2.31% per year since 1961 and by a significant 4.9% per year since 2011.
- Real returns provide the incentives to expand. Productivity and economies of scales sustain the growth.
 - However, this success is not shared by all, in particular small scale farmers.



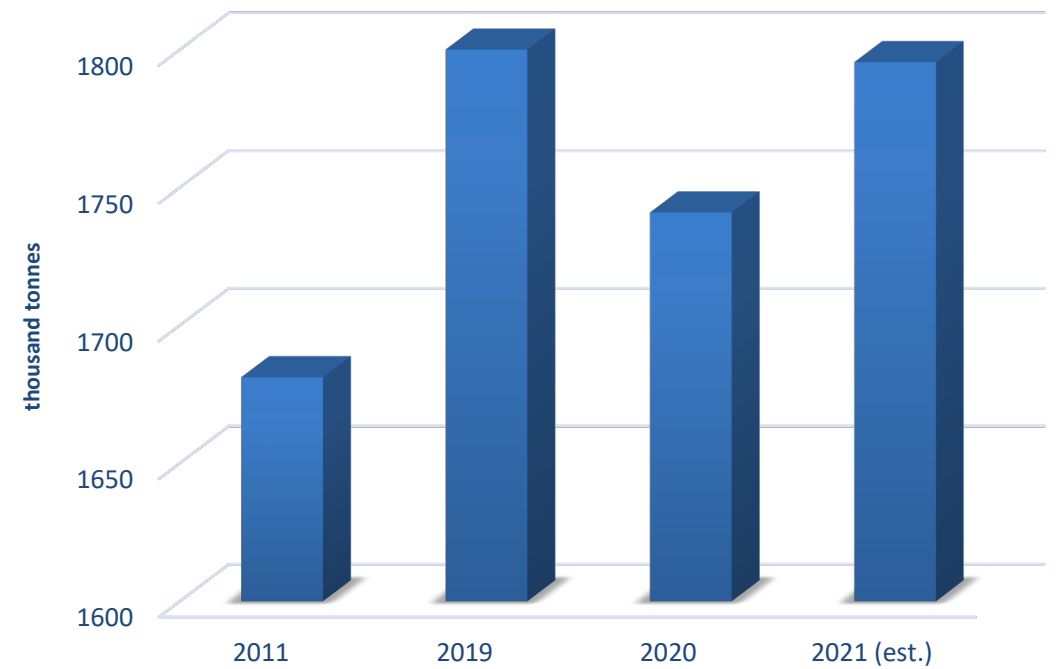


CURRENT GLOBAL MARKET SITUATION

World Tea Production and Crop Area

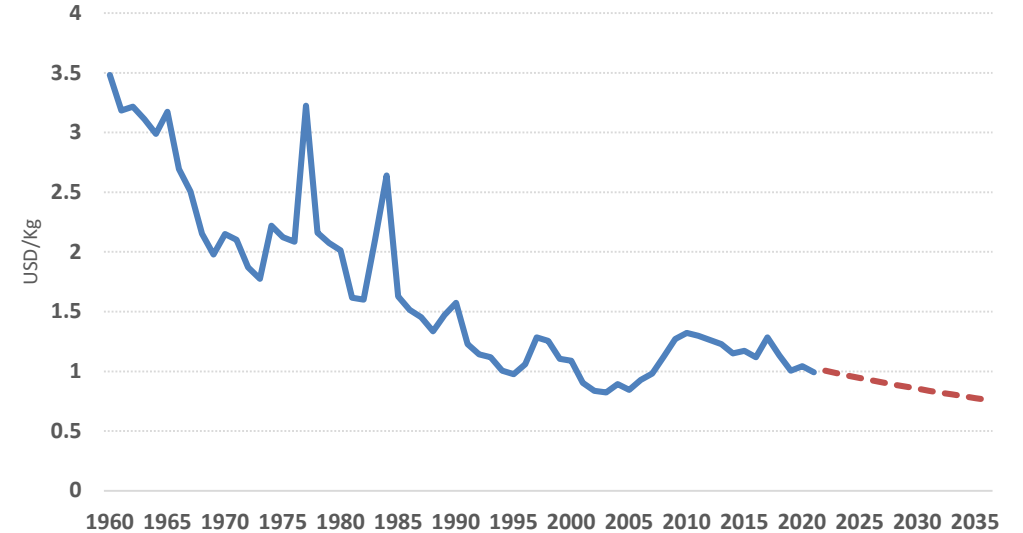
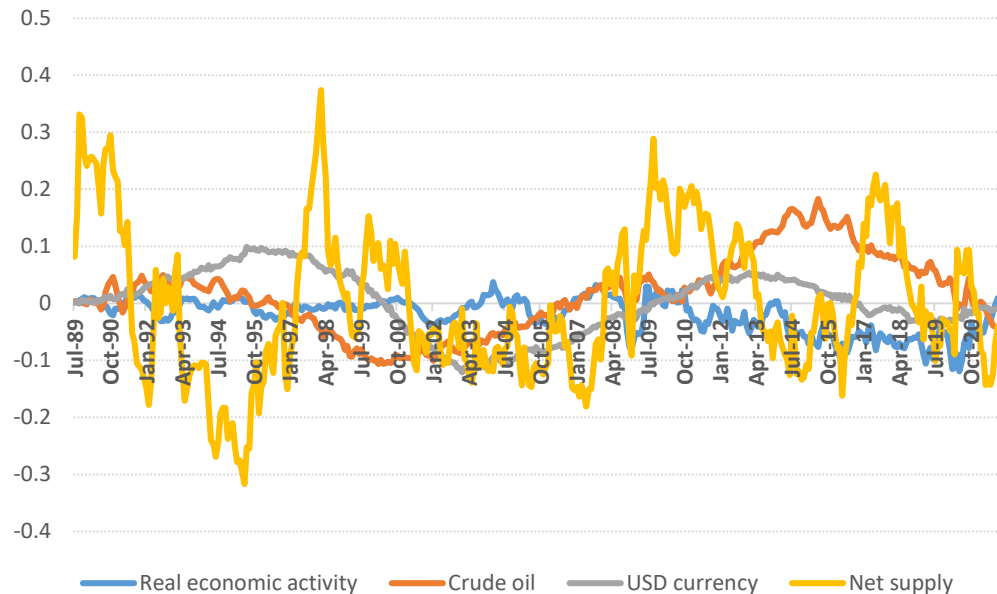


World Tea Exports



Is the declining price pattern likely to continue?

- A volatility decomposition exercise shows that the bulk of the movements in tea prices is caused by shocks specific to the tea market itself, namely shocks to production and consumption.



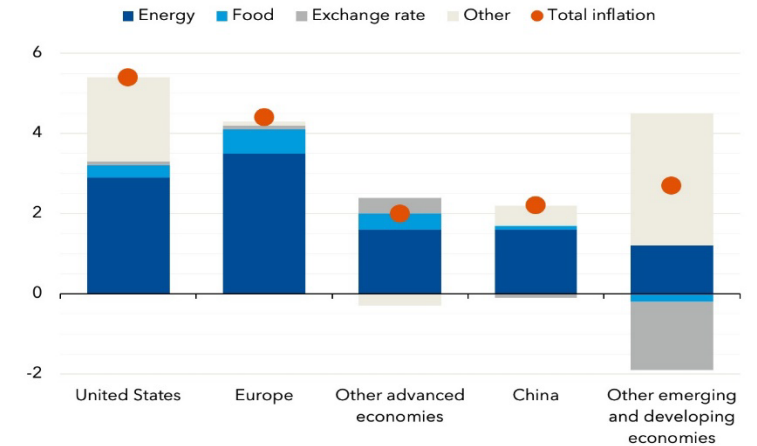


Emerging issues that may change price prospects

- Inflation may surpass central banks target for some time.
 - ✓ producers likely to face a tightening price-cost squeeze
- Interest rates expected to rise, hence pushing up the cost of borrowing.
 - ✓ Investment cost to increase
- Shift in consumers and governments' attitude towards commodity value chains
 - ✓ Commodity value chains to demonstrate their “corporate responsibility”

Price pressures

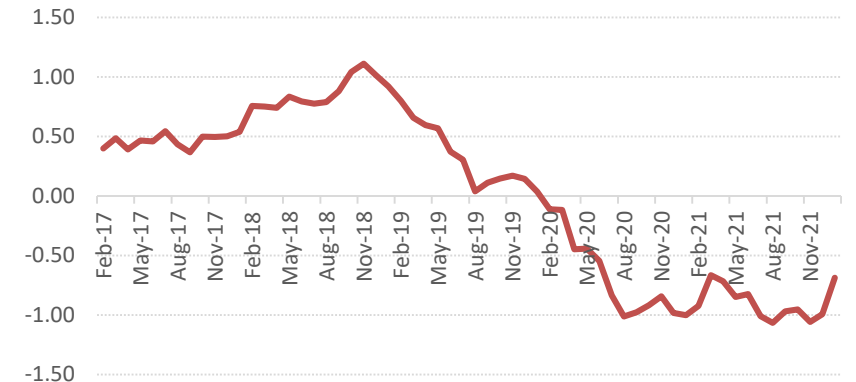
Inflation has risen throughout the second half of 2021, driven by several factors of varying importance across regions. (change in inflation, Dec 2020-latest, percentage points)



Sources: Haver Analytics; and IMF staff calculations. Note: Inflation refers to the year-over-year change in consumer prices from Dec 2020 through the latest data. Exchange rate refers to short-term depreciation-induced inflation using estimates by Carrière-Swallow and others (2021). Sample includes countries with all components available. Purchasing-power-parity weights are used for aggregation.



10-year US treasury: real rates





Suggested Action by the Group

- The sector must sustain its performance by fostering a culture of standards, regulations, traceability, transparency and accountability: **a code of conduct for the sector?**
- Increased attention to sustainability and the resilience of the sector through targeted policies and investment: **a holistic approach to smallholder's livelihood, reach out to other sectors and ministries.**
- Public interventions should be aimed at supporting and expanding external economies of scale: **strengthening market information systems and vertical coordination.**
- Addressing the issue of declining and volatile prices requires **coordinated global actions.** What is needed is not market intervention, but rather market cooperation.