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de las  
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para la  
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y la  
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## COMMITTEE ON COMMODITY PROBLEMS

### INTERGOVERNMENTAL GROUP ON TEA

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### TEA MARKET STUDIES: EGYPT, ISLAMIC REPUBLIC OF IRAN, PAKISTAN AND TURKEY

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## EXECUTIV SUMMARY

1. Egypt, Iran, Pakistan and Turkey all have a long tradition of using tea. In them tea is an important staple beverage, and an important part of life. Reflecting this, yearly per capita consumption of tea is high. In global terms Turkey is a significant producer; Pakistan and Egypt are important importers; while Turkey, Pakistan and Egypt are ranked in the top ten global consumers.
2. **Egypt** is the largest market for tea in the Middle East & North Africa area, with a consumption in 2003 of 77 400 tonnes. Its total imports have varied, but were at 79 000 tonnes in 2003. With only small exports, Egypt's apparent consumption in 2003 was 77 400 tonnes. This put consumption per capita at 1.06 kg per capita in 2003, well above many other major consuming countries.
3. The **Islamic Republic of Iran** has both a domestic tea industry and imports substantial quantities. Production has averaged 57 000 tonnes annually over the last 10 years. Imports reached a high of 47 000 tonnes in 2000, but have varied widely between years. Additionally large quantities are reportedly smuggled into the country, placing pressure on domestic prices. Consumption in 2003 was 78 000 tonnes giving a per capita consumption of 1.21 kg.
4. **Pakistan** is not a tea producing country but is an important consuming country, being the third largest importer of tea in the world and therefore of considerable interest to the main tea exporting countries. Consumption in 2003 was 109 000 tonnes. In addition to the substantial legal imports, large volumes are smuggled into Pakistan, largely via Afghanistan.
5. **Turkey** is a significant producer of tea, ranking sixth in the world. Production reached 199 000 tonnes in 1999, but has since declined to 155 000 tonnes in 2003. While not a major importer or exporter Turkey is an important consumer, ranking fifth globally. Turkey has one of the world's highest per capita consumption levels, at 2.11 kg per person in 2003.
6. With the exception of Iran, import duties and other taxes on tea in these countries are high, but have been declining. With the reduction of restrictions, the opportunity for exporting to Iran, Egypt, Turkey, and Pakistan should increase. In the case of Turkey moves being made to meet requirements for entry to membership of the European Union will open up opportunities.
7. All of the countries discussed are countries where government has had considerable control on most aspects of the economy, including on the tea sector. All have been making moves to free up their economies, but in most cases progress has been slow. Government control does seem likely to continue to decline, giving greater opportunity for the private sector to react to market demands and compete for the consumer's expenditure. This will mean greater opportunity to actively market tea using all the available marketing tools, including promotion, product diversification, market segmentation, and searching for other forms and uses for tea.
8. As their populations continue to increase, consumption will grow, though at lower rates than previously. If incomes grow, per capita consumption will also be stimulated, but competition from other beverages will continue to place restrictions on this growth in tea consumption. FAO's projections of production and import growth to 2010 suggest that production in Iran and Turkey will grow by 2.3 percent and 1 percent per year annually respectively. Both these are below the rate of growth achieved up to 2000. The rate of per capita consumption growth in Pakistan is projected to increase to 2.9 percent per year.

## I. INTRODUCTION

9. This document presents information on the markets in four countries in the Near East-West Asia region – namely Egypt, Iran, Pakistan and Turkey. Egypt is on the African continent, and together with Turkey and Iran is part of the Near-East, while Pakistan is in West Asia. They have diverse situations – Iran and Turkey are producers; Pakistan, Iran, and Egypt are importers; and Turkey is a small exporter. In global terms only Turkey is a significant producer; Pakistan and Iran are important importers; while Turkey, Pakistan and Egypt are ranked in the top ten global consumers.<sup>1</sup> They are all important in the Near-East and West Asia regions.

**Table 1 – Tea Production, imports and exports: Selected countries 2003**

2003	Production '000 Mt	Imports '000 Mt	Exports '000 Mt
<b>World</b>	<b>3,146</b>	<b>1,554</b>	<b>1,399</b>
India	860	22	176
Sri Lanka	305	305	291
USA	0	94	7
China	791	34	263
Kenya	294	0	269
Russian Fed.	3	169	0
UK	0	157	37
Egypt	0	79	2
Iran	50	33	5
Pakistan	0	109	0
Turkey	155	5	7

10. These four countries all have a long tradition of tea consumption, reflected by a relatively high level of per capita consumption ranging around 0.75 kg to 2.1 kg per year.

11. Although the information available on these markets was limited in most cases, it does provide a general picture of the markets, their situations and potentials.

## II. GLOBAL PERSPECTIVE

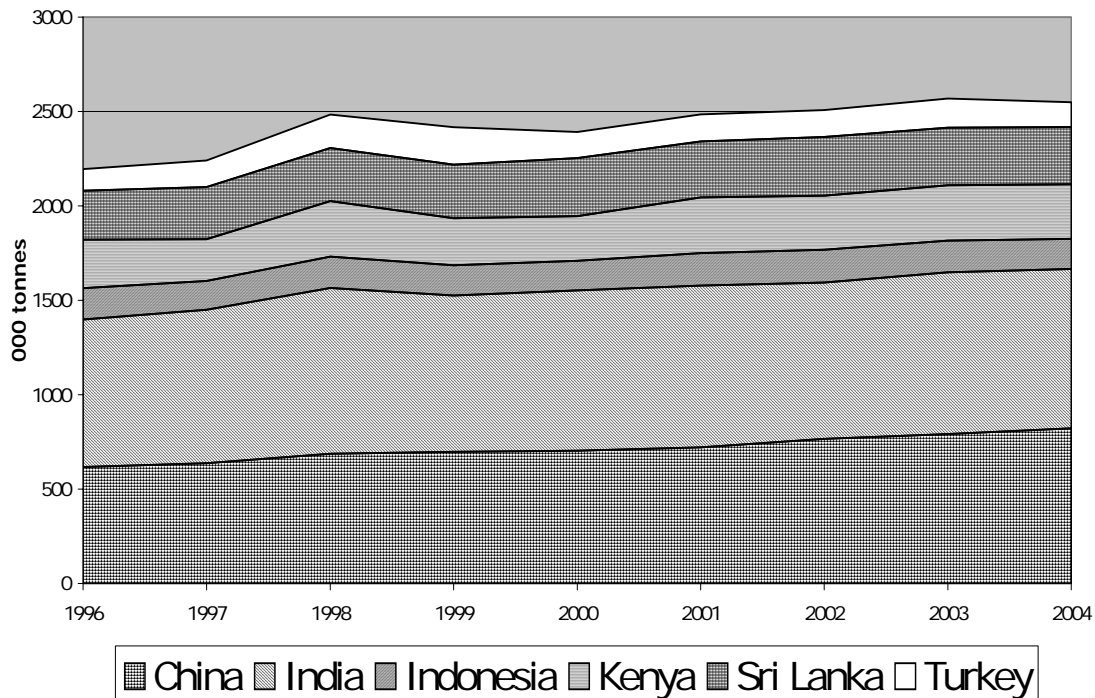
12. World tea production reached 3.2 million tonnes in 2004, up from 2.6 million tonnes a decade earlier. This represents an annual average growth rate of 2.2 percent. Most of the growth was due to increased productivity rather than an expansion in area, as producers sought to reduce marginal costs in order to adapt to depressed prices.

13. The main global producing countries are (in order) India (accounting for about 26 percent of world production); China (26 percent); Sri Lanka (9 percent); Kenya (9 percent); Indonesia (5 percent) and Turkey (4 percent) (Chart 1). Black tea dominates world tea production, accounting for more than 70 percent of the global total in 2004. Green tea production has, however, continued

<sup>1</sup> All data FAO unless indicated otherwise.

to increase its share of the world total, largely due to China's heavy focus on green tea. Some 76 percent of China's production is green tea.

**Chart 1: Tea production by major producers  
1996-2004**

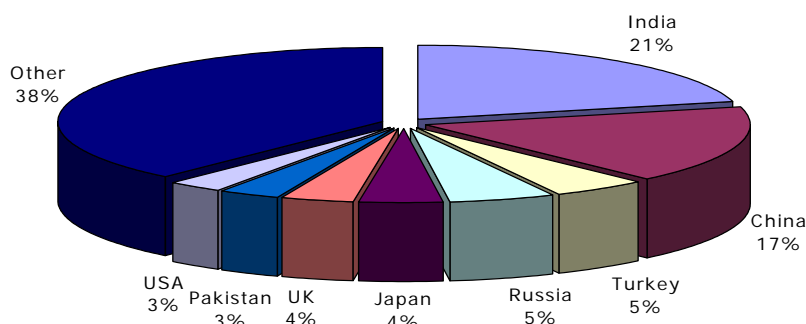


14. Imports are diverse with both developing and developed countries represented. The largest importers, in order of volume imported, are the Russian Federation (11 percent of the world total), UK (10 percent), Pakistan (7 percent), the USA (6 percent) and Egypt (5 percent). Together these five countries account for nearly half of total world imports, which totalled 1.6 million tonnes in 2003.

15. By contrast, exports, as with production, are dominated by developing countries which account for 90 percent of the world total, with the major exporters in 2003 being Sri Lanka (21 percent of the world total), Kenya (19 percent), China (19 percent) and India (12 percent). Together these four countries accounted for 72 percent of the world exports of 1.4 million tonnes in 2003.

16. As well as being significant exporters, India and China are also the two largest tea consuming countries, accounting for 21 percent and 17 percent, respectively, of the global total (Chart 2) in 2003. These were followed by the Russian Federation and Turkey each accounting for 5 percent, United Kingdom and Japan with 4 percent, and Pakistan and the USA with 3 percent.

**Chart 2 - Tea Consumption: Share by main consuming countries 2003 (%)**



### III. MARKET CASE STUDY: EGYPT

#### A. SUPPLY AND DEMAND TRENDS

17. Egypt is not a tea producing country but is the largest market for tea in the Middle East & North Africa area, with a consumption in 2003 of 77 400 tonnes (see Table 1). With no domestic production of its own it relies on imports to meet these consumption needs, with the main supplier being Kenya, which supplied some 62 percent of total imports in 2003 (see Annex Table).

18. Although Egypt's total imports have varied, with a low of 56 400 tonnes in 2001 and a high of 80 000 tonnes in 1995, imports from Kenya have increased rapidly in recent years. Imports from Kenya increased sharply in 1991, doubling from the 1990 level of 8 121 tonnes, and moved rapidly from this level to the 2003 level of 47 800 tonnes.

19. With only small exports, Egypt's apparent consumption in 2003 of 77 400 tonnes was up on the 2000-2002 average of 68 000 tonnes. Annual consumption has varied considerably year on year as shown in Table 2, ranging from a low of 55 700 tonnes in 2001 to a high of 79 900 tonnes in 1995. Average consumption over the 10 years 1994-2003 was 69 800 tonnes.

**Table 2 – Tea imports, exports and consumption in Egypt: 1994-2003**

Year	Imports (*000 tonnes)	Exports (*000 tonnes)	Consumption (*000 tonnes)
1994	57.2	0.2	57.0
1995	80.0	0.1	79.9
1996	65.0	0.3	64.7
1997	77.9	0.2	77.7
1998	65.5	0.3	65.2
1999	73.3	0.3	73.0
2000	71.7	0.9	70.8
2001	56.4	0.7	55.7
2002	79.0	1.4	77.6
2003	79.0	1.6	77.4

**Table 3 – Population and tea consumption in Egypt: 1998-2003**

	Total population (‘000)	Total consumption (tonnes)	Per capita consumption (kg per cap)
1998	65,237	65,200	1.00
1999	66,489	73,000	1.10
2000	67,784	70,800	1.04
2001	69,124	55,700	0.81
2002	70,507	77,600	1.10
2003	71,931	77,400	1.06
<b>Av 1998-2003</b>			<b>1.01</b>

## B. FACTORS AFFECTING THE DEMAND FOR TEA

20. A number of changes have influenced Egypt’s trade and consumption over the past ten years, including:

- the gradual withdrawal of food subsidies under Egypt’s Economic Reform process which included removal of a government subsidy on tea consumption in May 1993. Food subsidies were, however, reinstated on some products in September 2003. As yet it is not clear what the net effect has been on tea consumption;
- tax exemption given to new operations (not just tea) under Investment laws introduced in 1989. Under these, new enterprises are exempt from tax for up to ten years;
- removal of control of imports from state-owned companies, to the private sector in 1994/95. This encouraged the rapid development of the private sector trade, which *inter alia* resulted in increased imports of tea. Imports of packet tea increased to 18 330 tonnes in 1991 but fell back sharply to 152 tonnes over the period to 1996 due to a relaxation of tea packing regulations. While the distribution of packed tea is now largely carried out by the private sector, some state sector wholesale companies still play an important role in tea distribution;
- imports of tea in packets have remained low, with the majority of imports being in bulk for repackaging and blending inside Egypt. Following earlier rules which only allowed the private sector to package tea in some free zone areas in Cairo, Alexandria and Port Said, private firms are now able to freely import and package tea. Tea packaging plants are located in a number of areas such as in Cairo, Alexandria, Port Said, in the free zone areas, and in the Delta area and Upper Egypt;
- a reduction in import tariffs under the Common Market for Eastern and Southern Africa (COMESA)<sup>2</sup>, which favoured imports from Kenya (a member of COMESA) over the previous main supplier, Sri Lanka. There have, however, been trade disputes between Egypt and Kenya, with Egypt retaliating for controls placed on a range of Egyptian exports to Kenya, by imposing restrictions on tea from Kenya.

<sup>2</sup> COMESA members - Angola, Burundi, Comoros, D.R.Congo, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Uganda, Zambia, Zimbabwe.

21. Egypt's population in 2003 was estimated to be 72 million of which 50.4 percent were male and 49.6 female. The population growth rate was estimated in 2004 at 1.83 percent per annum. The majority (about 60 percent) of the population live in rural areas, and agriculture accounts for about 25-30 percent of employment.

22. Lack of substantial progress on economic reform since the mid 1990s has limited annual GDP growth to the range of 2-3 percent in 2001-2003. The annual GDP growth rate in 2004 was 3.1 percent. GDP per capita was estimated to be \$US 4 000 in 2003 with incomes higher in urban areas than in rural areas.

23. Under the Economic Reform process government has been reducing the degree of control over commercial activities held by government-controlled organization. New privatization measures were proposed in late 2003/early 2004, but have yet to be followed through on. The Egyptian pound was floated in January 2003, which affected prices and inflation, resulting in September 2003 in government re-introducing some subsidies on basic foodstuffs.

24. While demand for tea is related to income levels and population growth, a number of other factors also have an important role in consumption. Factors such as drinking habits, age, prices, product supply, and demand for competing beverages such as soft drinks and fruit juices also have an influence. As indicated by the results of the household expenditure and consumption survey carried out in 1995/1996 by the Egypt national information centre, per capita tea consumption is greatest in rural areas despite lower rural incomes (Table 4).

**Table 4: Tea expenditure in urban areas & countryside – Egypt: 1995/96**

Provinces	No. of families	No. of persons	Quantity purchased (kg)	Value (Egyptian pound - L.E.)	kg per capita	L.E. per capita
<b>Urban areas</b>						
Cairo	1962	7959	8468	108396	1.065	13.36
Alexandria	895	3861	3764	44000	0.975	11.4
Port Said	118	450	587	8243	1.304	18.32
Mean	-----	-----	-----	-----	0.897	14.36
<b>Rural areas</b>						
El Dakahlia	297	1277	1193	14480	0.934	11.34
El Sharkia	205	857	661	7793	0.771	9.09
El Bohira	210	1028	1603	16989	1.559	16.53
El Monofia	139	645	736	8664	1.141	13.44
Mean	-----	-----	-----	-----	1.101	60

Source: Egypt national information center special study 1995/96.

25. Tea is amongst the cheapest beverages on the market, a factor that influences its consumption, especially in rural areas where incomes are lowest. Egyptian consumers have moved from consuming orthodox teas imported from Sri Lanka, to buying cheaper CTC grades, with Kenya CTC dust grade having about 75 percent of Egyptian tea market. Consumers in Upper Egypt and rural areas, where incomes are lowest, purchase medium and low quality.



26. A special study carried out in 1995/96 reported that tea consumption in Egypt is highest in rural areas, where some 60 percent of the population is found. Per capita consumption levels are also indicated to typically be highest in rural areas. There is, however, some variation in this as per capita expenditure was indicated to be highest in the Port Said urban area (Table 4).

27. The survey also showed that consumption is higher in the older age groups; rural consumers prefer tea because it is the cheapest beverage; and tea quality is an important factor in competition between individual brands. Drinking preferences also vary, with consumers in Upper Egypt south of the Nile preferring dark strong tea, while those in North Nile (which includes Cairo, Alexandria and Port Said) prefer lighter teas. Duties and taxes on imports<sup>3</sup> tend to be relatively high on teas and can therefore be expected to be reducing imports from some countries. Duties on tea in bulk and packets range from 30 percent ad valorem to 60 percent. Exceptions apply to members of COMESA, who pay no import duty. Thus tea-producing countries, which are COMESA members, such as Kenya, Uganda, and Malawi, benefit over non-COMESA supplying countries. In addition to the customs duties, Egypt applies sales tax (LE 1166.62/tonne) and other charges (e.g. service charge 3 percent) on tea imports.

## **IV. MARKET CASE STUDY: ISLAMIC REPUBLIC OF IRAN**

### **A. SUPPLY AND DEMAND TRENDS**

28. Iran has both a domestic tea industry, centred in Northern Iran, and imports substantial quantities of tea from other countries. Production has varied over the past 10 years, averaging 57 000 tonnes annually, with a high of 69 300 in 1997 and a low of 49 900 in 2000 – although this was still above the level in 1990. Production has been declining over the last five years as many of the small Iranian producers are uneconomic, and government assistance to producers has been declining. The area harvested has varied over the last 12 years averaging about 33 000 ha, with the area reported in 2004 being 30 000 ha.

29. Similarly, both imports and exports have varied, with imports rising in the last few years, and exports rising in the early 2000s and then declining. Imports reached a high of 47 000 tonnes in 2000, but have varied widely between years. Additionally large quantities are reportedly smuggled into the country (suggested to be as high as 30 percent of legal imports), placing pressure on domestic prices. Exports peaked at 21 200 tonnes in 2000 but have since declined to 4 500 tonnes.

30. Consumption has varied, but with a downward trend from the high of 97 600 tonnes reached in 1997. The 2003 level was 78 000 tonnes (Table 5). Average consumption over the 10 years 1994-2003 was 83 300 tonnes. Consumption per capita has been high, averaging 1.23 kg per capita in the last 6 years (Table 6), with 1.21 kg in 2003.

31. Since 1999 between 49 percent and 62 percent of consumption has been from imports, a substantial increase from the proportions in the late 1990s. This is partly a reflection of the decline in domestic production over this period. Imports have also been affected by a ban imposed on imports from India during a period of high unsold domestic stocks. This ban was lifted in early 2004, and tariff levels reduced to 82 cents per kg. Additionally a blending requirement that 2kg of Iranian tea be blended with every 1 kg of Indian tea imported has also been relaxed.

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<sup>3</sup> Source: J. Thomas & Company Limited "Tea Annual Report & Statistics 2003", India.

**Table 5 – Tea imports, exports and consumption in Iran: 1994-2003**

Year	Production (‘000 tonnes)	Imports (‘000 tonnes)	Exports (‘000 tonnes)	Consumption (‘000 tonnes)
1994	55.6	20.6	1.0	75.2
1995	54.4	31.2	0	85.6
1996	62.1	27.3	0	89.4
1997	69.3	36.0	7.7	97.6
1998	60.6	33.0	7.7	85.8
1999	61.7	38.0	18.3	81.4
2000	49.9	47.0	21.2	75.6
2001	51.2	40.0	10.0	81.2
2002	51.5	41.0	8.2	84.3
2003	50.0	32.5	4.5	78.0

**Table 6 – Tea consumption in Iran: 1998-2003**

	Total population (‘000)	Total consumption (tonnes)	Per capita consumption (kg per cap)
1998	64,887	85,800	1.32
1999	65,661	81,400	1.24
2000	66,443	75,600	1.14
2001	67,245	81,200	1.21
2002	68,070	84,300	1.24
2003	68,920	78,000	1.21
<b>Av 1998-2003</b>			<b>1.23</b>

32. The main three suppliers of imports in 2003 were Sri Lanka, which supplied one third of the imports, China and Indonesia. All of these have increased their exports to Iran in recent years (See Annex Table). With the removal of the import ban India has been making increased efforts to boost exports of orthodox tea to Iran.

## **B. FACTORS AFFECTING THE DEMAND FOR TEA**

33. Iran is a poor and underdeveloped country, and is therefore an extremely price sensitive market. Tea is the most popular and cheapest beverage, and is favoured by the poorer rural population. Iranian consumers prefer orthodox tea, but there has been a shift to cheaper CTC teas. The recent lifting of restrictions on Indian teas is expected to encourage greater imports of orthodox teas.

34. The GDP real growth rate is estimated to be 6.1 percent per annum, and GDP per capita is \$US7 000 (2004 estimate). Most economic activity is controlled by the state and private sector activity is typically small-scale. Inflation is estimated to be 16.4 percent.

35. Iran’s population in 2003 was estimated to be 69 million, of which 51 percent were male and 49 percent female. The population growth rate was estimated in 2004 at 1.07 percent per annum. The majority (about two-thirds) of the population live in urban areas. Iran is a country where 30 percent of the labour force is engaged in the agriculture sector (2001 data). Unemployment is 15.7 percent (2002 estimate).

36. Import duties are low into Iran<sup>4</sup>, but other taxes are also placed on tea. The import duty on bulk and packet tea is 4 percent of the c.i.f. price, and 30 percent for tea bags. In addition there is a commercial profit tax of 11 percent on green tea; 31 percent on black tea; and 21 percent on tea bags.

## V. MARKET CASE STUDY: PAKISTAN

### A. SUPPLY AND DEMAND TRENDS

37. Pakistan is not a tea producing country but is, however, an important consuming country, being the third largest importer of tea in the world, behind Russia and the UK. Consumption in 2003 was 109 000 tonnes (see Table 7). Because of this high consumption, and the fact that it has no production of its own it is a market which is of considerable interest to the main tea exporting countries.

38. Pakistan relies on imports to meet all its consumption needs. In 2003 the dominant supplier was Kenya, which supplied 66 percent of total imports (Annex Table). Other important, but much smaller, suppliers were Indonesia, India, China (green tea), Sri Lanka and Bangladesh. Market share has been changing in the last ten years, with Kenya, India and China increasing their shares, while Bangladesh, Indonesia and a number of small African countries have been losing share.

39. Pakistan's apparent consumption in 2003 of 109 000 tonnes placed it seventh in the world. Annual consumption has varied considerably year on year as shown in Table 6, ranging from a low of 85 400 tonnes in 1997 to a high of 119 700 tonnes in 1999. Average consumption over the 10 years 1994-2003 was 108 000 tonnes. Consumption per capita has been declining and at 0.71 kg in 2003 is below that of the late 1990s but still above that in many other important consuming countries (Table 8).

**Table 7 – Tea imports, exports and consumption in Pakistan: 1994-2003**

Year	Imports (‘000 tonnes)	Exports (‘000 tonnes)	Consumption (‘000 tonnes)
1994	116.1	1.5	114.6
1995	116.6	7.6	109.0
1996	114.8	0.0	114.8
1997	85.4	0.0	85.4
1998	111.6	0.0	111.5
1999	119.7	0.0	119.7
2000	111.4	0.0	111.4
2001	106.8	0.0	106.8
2002	98.0	0.0	98.0
2003	109.0	0.0	109.0

<sup>4</sup> Source: J. Thomas & Company Limited “Tea Annual Report & Statistics 2003”, India.

**Table 8 – Tea consumption in Pakistan: 1998-2003**

	Total population ('000)	Total consumption (tonnes)	Per capita consumption (kg per cap)
1998	135,381	111,500	0.82
1999	139,018	119,700	0.86
2000	142,654	111,400	0.78
2001	146,277	106,800	0.73
2002	149,911	98,000	0.65
2003	153,578	109,000	0.71
<b>Av 1998-2003</b>			<b>0.76</b>

40. Despite being a major global producer and exporter, and having an extensive common border with Pakistan, India only supplies 3 percent of Pakistan's imports (although there are reportedly also large quantities smuggled in from India). Contributing factors are the historical and political tensions between the two countries; the related higher duty faced by Indian imports (10 percent versus 0 percent paid by Bangladesh, Sri Lanka, Kenya etc.); limited attention paid by India exporters to Pakistan's market needs; the high cost of transport since most exports use sea freight because of the difficult and dangerous road and rail routes; and efforts by the Pakistan government to discourage higher imports from all sources because of foreign exchange difficulties.

41. In addition to the substantial legal imports, large volumes are smuggled into Pakistan, largely via Afghanistan. This affects the profitability of legal imports. The recent cuts in import duty (see next section) have been in part aimed at reducing the incentive for smuggling, but consumption has not as yet been affected, as retail prices have not declined as a consequence.

42. Recent moves have been made at a government level to improve relations between India and Pakistan. For tea, efforts to encourage increased trade have been made by the country's two tea associations – the Pakistan Tea Association and the Indian Tea Association. The two entered into an Agreement in 2001 for Pakistan to import 7 000-10 000 tonnes per year from India, but political and trade difficulties meant that little effect was felt. In 2004 the two Associations signed another agreement to import 25 000 tonnes over the period 2004/5 to 2006/7. Similarly Sri Lanka is seeking to expand its trade in tea, which will be encouraged if moves towards a Free Trade Area are concluded.

43. In an effort to reduce the foreign exchange demands of imports trials have been conducted on growing tea in Pakistan. These trials have been positive in Northern Pakistan, but it seems that the necessary commercial investment needed to develop a viable industry is unlikely to occur until the political and economic situation improves considerably.

## **B. FACTORS AFFECTING THE DEMAND FOR TEA**

44. Pakistan is a poor and underdeveloped country with GDP per capita in 2004 of \$US2 100. It is therefore an extremely price sensitive market although in addition to the main market which is for CTC teas, there are small market segments for high quality teas. The GDP growth rate is estimated to be 5.5 percent (2004 estimate). Inflation is low at 2.9 percent (2004).

45. Pakistan's population in 2003 was estimated to be 154 million of which 51 percent were male and 49 percent female. The population growth rate was estimated at 1.98 per cent in 2004. Tea consumption in Pakistan is highest in rural areas, where some 66 percent of the population is found. Per capita consumption levels are also indicated to typically be highest in rural areas.

46. As a rural country 44 percent of the Pakistan labour force is engaged in the agriculture sector (1999 data). Unemployment is 7.7 percent. Tea is the most popular and cheapest beverage, and is favoured by the poorer rural population. Despite this, tea is facing small but increasing competition from other, more expensive, beverages.

47. Import duties and other taxes have been declining and can be expected to encourage increased imports from countries formerly facing higher rates, such as India<sup>5</sup>. In July 2004 Pakistan reduced the import duty on tea from 20 percent to 10 percent. The sales tax on tea was reduced to 15 percent and Income tax to 2 percent. Because of the changes, Bangladesh, which receives duty free treatment under Pakistan-Bangladesh free trade agreement, has had its margin over other countries reduced.

## VI. MARKET CASE STUDY: TURKEY

### A. SUPPLY AND DEMAND TRENDS

48. Turkey is a significant producer of tea (Table 9), ranking sixth in the world. Production reached 199 000 tonnes in 1999, but has since declined to 155 000 tonnes in 2003. The harvest area reported for 2004 was 76 700 ha. Producers receive state assistance through a price assistance package which is designed to ensure that growers do not sell their crop at below cost of production. It includes a minimum price of TRL460 000 (\$0.31) per kg plus an incentive government payment of TRL 65 000/kg. This 2004 buying rate is 16.7 percent higher than 2003<sup>6</sup>.

49. While not a major importer or exporter Turkey is an important consumer with a tradition of tea drinking, and ranks fifth globally. Turkey's main trading partner in 2003 was Sri Lanka followed by India (See Annex Table). With relatively small exports, Turkey's consumption is predominantly based on its own production. Consumption in 2003 of 153 000 tonnes was up on the 2000-2002 average of 139 800 tonnes, but has been trending down from the high of 199 500 tonnes in 1999. Annual consumption has varied considerably year on year as shown in Table 8, ranging from a low of 101 900 tonnes in 1995 to the high of 199 500 tonnes in 1999. Average consumption over the 10 years 1994-2003 was 140 300 tonnes.

**Table 9 – Tea imports, exports and consumption in Turkey: 1994-2003**

Year	Production (‘000 tonnes)	Imports (‘000 tonnes)	Exports (‘000 tonnes)	Consumption (‘000 tonnes)
1994	134.4	1.2	5.2	130.4
1995	102.7	1.5	2.3	101.9
1996	114.5	2.3	4.0	112.8
1997	139.5	2.4	19.1	122.8
1998	177.9	2.4	17.5	162.8
1999	199.2	4.8	4.5	199.5
2000	138.8	4.8	6.4	137.2
2001	142.9	5.4	4.8	143.4
2002	142.0	1.5	4.9	138.7
2003	155.0	5.0	7.0	153.0

<sup>5</sup> Source: J. Thomas & Company Limited “Tea Annual Report & Statistics 2003”, India; F.O. Licht, “World Tea Markets Monthly”, August 2004.

<sup>6</sup> F.O. Licht, “World Tea Markets Monthly”, August 2004.

50. Turkey has one of the world's highest per capita consumption levels and although this has been declining from 2.97 kg in 1999 it was still at 2.11 kg per person per year in 2003 (Table 9). This is two to five times the level of other major consuming countries, with the exception of the UK.

**Table 9 – Tea consumption in Turkey: 1998-2003**

	Total population (‘000)	Total consumption (tonnes)	Per capita consumption (kg per cap)
1998	66,221	162,800	2.46
1999	67,254	199,500	2.97
2000	68,281	137,200	2.01
2001	69,303	143,500	2.07
2002	70,318	138,600	1.97
2003	71,325	153,000	2.12
<b>Av 1998-2003</b>			<b>2.27</b>

## B. FACTORS AFFECTING THE DEMAND FOR TEA

51. Turkey is a mix of modern industry and commerce along with a traditional agriculture sector that in 2001 accounted for almost 40 percent of employment. Despite a strong and growing private sector, the state still has a major control and input in many sectors. In recent years the economic situation has been marked by erratic economic growth and serious fiscal imbalances.

52. Real GDP growth has been variable in recent years, but increased recently and exceeded 6 percent in many years. The GDP growth rate is currently at 5.8 percent (2004 estimate), and is projected by Deutsche Bank to average 4.1 percent per year over the period 2006-2020, one of the highest in the world. Current GDP per capita is \$US6 700. Inflation has recently declined from the high double-digit levels to 25.3 percent in 2004. Unemployment is 10.5 percent plus considerable underemployment.

53. Turkey's population in 2003 was estimated to be 71 million, of which 50.4 percent were male and 49.6 female. The population growth rate was estimated at 1.1 percent per annum in 2004. The majority (about 70 percent) of the population live in urban areas.

54. Turkey is a middle-income country, which has a diverse range of market segments, some of which are extremely price sensitive while others are interested in quality and diversity in their teas. Tea is the most popular and cheapest beverage, and is favoured by the poorer rural population.

55. A major factor in Turkey's changing situation have been its economic and legal reforms which have been aimed at allowing it to move to full membership in the European Union (EU).

56. Import duties and other taxes on tea are high into Turkey<sup>7</sup>. The import duty is currently 145 percent, with value added taxes of 18 percent on bulk tea and 8 percent on tea in packets. They can be expected to continue to decline as Turkey moves to meet requirements for entry to membership of the European Union. These reductions are expected to encourage increased imports from countries formerly facing higher rates.

<sup>7</sup> Source: J. Thomas & Company Limited "Tea Annual Report & Statistics 2003", India.

## VII. MARKET OUTLOOK AND MARKET GROWTH OPPORTUNITIES

57. The four countries covered in this brief analysis differ in many respects, but also have considerable similarities. All are markets which have a tradition of tea usage and have relatively high per capita consumption levels. Two – Egypt and Pakistan – are not producers of tea, are large consumers, and therefore rely on imports to meet their demands; while the other two – Iran and Turkey – are large producers who consume the bulk of their production domestically, but also trade moderate volumes. As their populations continue to increase consumption will grow, though at lower rates than previously. If incomes grow, consumption will also be stimulated. Competition from other beverages will, however continue to place restrictions on this growth.

58. All of the countries covered are countries where government has had considerable control on most aspects of the economy, including on the tea sector. All have been making moves to free up their economies, but in most cases progress has been slow. While the change may be slow, government control seems likely to continue to decline, giving greater opportunity for the private sector to react to market demands and compete for the consumer's expenditure. This will mean greater opportunity to actively market tea using all the available marketing tools, including promotion, product diversification, market segmentation, and searching for other forms and uses for tea.

59. In Iran and Turkey domestic producers have been protected by some government policies in an effort to compensate for their poor competitiveness – which has been due to a number of factors, including small producer size, high costs, inefficient production and distribution, and a weak private sector. Less control by government will mean reduced import duties and taxes which will increase opportunities for foreign suppliers, but possibly increase pressure on domestic suppliers in these two countries.

60. With the removal of restrictions, the opportunity for exporting to Iran, Egypt, Turkey, and Pakistan should increase, although this will be closely related to the level of their economic growth. In the case of Turkey, import duties and other taxes on tea are likely to continue to decline as it moves towards membership of the European Union. This will open up opportunities for increased imports from countries formerly facing higher rates. In reverse, this may open up export opportunities for Turkish companies.

61. FAO's projections of production and import growth to 2010 suggest that production in Iran and Turkey will grow by 2.3 percent and 1 percent per year annually respectively. Both these are below the rate of growth achieved up to 2000. The rate of per capita consumption growth in Pakistan is projected to increase from the 0.6 percent per year achieved up to 2000, to 2.9 percent per year (Table 10).

**Table 10 – Black Tea: Actual and Projected Production and Consumption**

Year	Actual 1998-2000	Projected 2010	Growth rate 1998-2000	Growth rate 2000-2010
	('000 tonnes)	('000 tonnes)	%	%
<b>Production</b>				
World	2 146	2 653	1.3	1.9
Iran	63	81	3.1	2.3
Turkey	173	192	2.2	1.0
<b>Consumption</b>				
World	2 214	2 413	2.2	0.8
Pakistan	109	150	0.6	2.9

Source: FAO Current Market Situation and Outlook, Doc CCP:TE 03/2, 2003.





## Annex 1 - Destination of exports by country of origin (cont'd)

TO	From		MALAWI		CHINA		CHINA		INDIA		SRI LANKA		KENYA	
			(Green Tea)		(Black Tea)									
	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003	2002	2003
<i>Thousand metric tons</i>														
China														
Algeria			7.40	8.70										
Benin			0.30	1.70										
Botswana	0.52	0.60												
Gambia														
Kenya	2.60	4.50			1.00	1.30								
Mali			8.70	9.80										
Ghana			4.30	7.40										
Gambia			3.00	4.00										
Morocco			44.20	49.20										
Mauritania			4.10	7.40										
Niger			1.60	2.50										
Nigeria			7.60	5.80										3.00
Senegal			5.60	6.50										
Togo			1.40	2.40										
Tunisia			2.90	3.80					6.30	4.80				0.01
Somalia												2.00	1.60	
Zimbabwe	0.05	0.40												
Other countries	0.60	0.72	21.50	25.10	8.70	8.41	7.19	12.65	26.50	27.30	13.80	3.85		

Source: Sugar and Beverages Group, FAO

Annex 2 – Maps



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Annex 2 – Maps (cont'd)

