

May 2010



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Продовольственная и
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COMMITTEE ON COMMODITY PROBLEMS

INTERGOVERNMENTAL GROUP ON TEA

Nineteenth Session

New Delhi, India, 12 – 14 May 2010

STATEMENT ON BEHALF OF THE DIRECTOR-GENERAL OF FAO



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STATEMENT ON BEHALF OF THE DIRECTOR-GENERAL

Distinguished Delegates, Observers, Ladies and Gentlemen,

On behalf of the Director-General of FAO, Mr Jacques Diouf, I am very pleased to welcome you to the Nineteenth Session of the Intergovernmental Group on Tea. Mr Diouf has requested me to extend warm greetings to all the delegations and to express sincere appreciation to the Government of the Republic of India for hosting this important Session and for extending their warm hospitality to all of us. On his behalf, I would particularly like to thank the Ministry of Commerce and Industry and the Tea Board of India for providing the excellent facilities for the session and the work of the Group.

Delegates have travelled to India from tea producing and consuming countries around the world to participate in this session. Their presence underlines the fundamental role of the Intergovernmental Group as a forum to build and maintain a continuous dialogue on the major policy and market issues pertinent to the world tea market.

Since the last Session of the Intergovernmental Group on Tea in May 2008, a number of important developments have taken place in the global tea markets, the most notable being the unprecedented rise in tea prices eclipsing at a record USD 3.18 per Kg in September 2009 for black tea. After long periods of sustained growth, black tea production actually declined from 2007 to 2009 while consumption grew, at the global level, underpinning the strong prices. Although higher prices are good news for tea growers as they enhance income of rural families who rely on tea as their main source of daily subsistence, it is important to resist any over reaction through further expansion in producing areas. It is crucial to keep in mind that profitable returns can only be achieved by bringing about a more permanent balance between supply and demand. Given current conditions, projections carried out by the Secretariat suggest that if expansion is resisted demand and supply would be relatively in equilibrium in the medium term.

The first item of the agenda requests delegates to review the current market situation and medium term outlook for tea. The discussions will be based on comprehensive and updated information on the world tea economy provided by the Secretariat on the basis of the returns from questionnaires. Delegates are requested to update market information pertaining to their country, and discuss possible strategies for the sustainable development of the world tea economy.

In order to enhance the modelling capacity necessary to produce medium term outlook for the world tea market, the Secretariat has prepared a document that examines some of the main characteristics of the new FAO model and its application to policy analysis and discusses how member countries can participate in this process. The Secretariat will also demonstrate the use of its viewer that has been developed for the IGG members. The Secretariat requests that members provide focal points to work with the Secretariat on an ongoing basis as endorsed in the Group's Action Plan to further improve the accuracy of the

FAO Tea Model and generate meaningful medium term projections for discussion at its sessions, or at regular intervals determined by the Group.

As for its ongoing review of market developments, the Group had acknowledged that expanding consumption in producing countries with large population and low per capita tea consumption was the most effective way in achieving sustainability of the global tea economy, given the near saturation of consumption levels in traditional tea markets. For this Session, the Tea Boards in major producing countries have been requested to prepare and present market developments in their countries, based on the methodology endorsed by the Group including China, India, Indonesia, Kenya and Sri Lanka, for consideration by the Group.

In regard to the sustainability of the world tea economy, the Secretariat has prepared three studies for the consideration of the Group. These include: the preliminary analysis of the impact of high tea prices on the global tea economy; analysis of the impact of rising cost of land and labour on cost of production; and sustainability of smallholder tea production in the United Republic of Tanzania.

The holding of the Eighteenth Session in May 2008 coincided with the unprecedented rise in food prices, which led to the Group requesting the Secretariat to conduct a study to assess the impact of high food prices on the world tea economy. However, preliminary findings of the Secretariat indicated a limited impact of high food prices on tea. On the supply side there was little or no reversion from tea to basic food crops in response to the rise in food prices, and on the demand side there was little or no substitution effect, and tea accounted for an insignificant component of the CPI basket of goods in most tea consuming countries. However, while carrying out this preliminary study, the Secretariat found that a more significant factor impacting the global tea economy was the rising tea prices. Therefore, a document has been prepared for your discussion on the short and medium term impact of the recent increase in international tea prices, using the FAO World Tea Model.

Also at its last session, the Group cautioned that although prices had increased, the cost of production had also risen in many countries, mostly because of high oil prices and labour cost. Therefore, the net gain in prices was not as large as originally expected. Thus, for its Action Plan, the Group requested that an analysis be undertaken on the impact of rising oil prices and labour on the cost of production of tea. In discussions with the various tea boards before the preparation of the provisional agenda, the Secretariat was informed that oil prices were no longer an issue, as prices had declined significantly since the last session, and instead the rising cost of land has become a major cost component. Therefore, it was suggested that the analysis be carried out on the impact of land and labour on the cost of production of tea. A presentation will be made by the Tea Board of India on this topic.

A continuing major concern of the Group has been the achievement of sustainability of tea smallholders. Hence, a document has been prepared by a Secretariat resource person examining the key drivers influencing the performance of smallholder tea productivity, using an asset based model to assess stocks and flow of assets of smallholder tea producers in Tanzania relative to non-tea producers. The information provided could be useful in assessing smallholder tea development in other countries. In addition, possible alternatives for the sustainability of smallholder tea production, including a discussion on the costs and benefits of third party voluntary standards, is examined. There will also be a presentation from the United States, a major importing and consuming country, regarding the social responsibility, good manufacturing practices, concern for the environment and developing marketing point of differences that will contribute to the sustainability of tea producers.

With the complexities of the issues involved in the development of production, consumption and trade of tea globally, several Working Groups were created under the auspices of the Intergovernmental Group on Tea to examine these issues in greater detail and recommend policy options and strategies for consideration by the IGG. Hence, progress

reports of these Working Groups will be presented at this session. These include the reports of the Working Groups on Maximum Residue Levels (MRL); on Trade and Quality; and on Geographical Indications (GI).

The Working Group on MRLs has been focussing on compliance with regulations, and working towards achieving global harmonization of MRL regulations. A sub-group of the Working Group has also been involved in examining the existing methodology of measuring residues in the tea brew, risk assessment and solubility of chemicals for establishing MRL.

At its last session the Group reaffirmed its commitment to implement ISO 3720 as a minimum quality standard for tea exports and recognized that the critical issue was to develop common mechanisms to verify and ensure full application of standards. Mr Lalith Hettiarachchi, the Chairman of the Sri Lankan Tea Board and Chairperson of the Working Group will table a status report in consultation with the Co-chairpersons.

As for the Working Group on GI, the trend towards establishing GI had intensified in recent years and while there were merits to seeking protection of GI for teas produced in developing countries, the trade-off between the costs involved and the improved returns expected needed to be carefully evaluated. At this session, progress reports of the Working Group on GI will be tabled, as well as a presentation from the Representative of the World Intellectual Property Organization (WIPO) on the registration systems that could be used to protect GIs abroad, particularly the two that the organization was administering, namely: protection of appellations of origin and their international registration under the Lisbon Agreement; and protection of trademarks, notably collective and certification marks, through their international registration under the Madrid Protocol.

As customary, the Group will have the opportunity to discuss project proposals that have been submitted to the IGG on Tea in its role as the International Commodity Body (ICB) designated by the Common Fund for Commodities (CFC) for consideration and submission of project to the CFC for funding. Delegates are asked to review CFC project updates and consider profiles for submission to the Common Fund for Commodities for financial support. In an effort to improve the quality of proposals and reduce the time necessary to get projects approved, the Group may wish to form an expert panel to review proposals to ensure quality and facilitate the timely submission to the CFC.

Lastly, draft terms of reference for a working group to review the *present and future roles of the international commodity bodies (ICB)*, have been drawn up and these will be presented to the Committee on Commodity Problems (CCP) at its 68th Session on 14-16 June 2010. Therefore, this may be an opportunity for the Intergovernmental Group on Tea to review its own roles and functions, with the view to improving them. Current Rules of Procedure and Terms of Reference of the Group, as well as draft terms of reference of the CCP working group will be circulated and delegates are invited to put forward their recommendations.

Distinguished delegates and observers, you have a challenging schedule ahead of you. In closing, on behalf of the Director-General of FAO, I wish you a very constructive and fruitful discussion.

Thank you.