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para 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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## I. INTRODUCTION

1. At its last session, the Intergovernmental Group on Tea recognized the importance of continued monitoring and evaluation of tea markets, particularly potential growth markets. Hence, the Group requested that the Secretariat study the tea markets of Pakistan and selected Near Eastern countries, the selection of which would of necessity be limited by the resources available to the Secretariat. This document presents information on the tea markets of Pakistan and three countries in the Near East, namely Egypt, the Islamic Republic of Iran and Turkey. All are importing countries, except Turkey which is a net exporter, and are ranked among the top ten global consuming countries, with yearly per capita consumption, ranging from around 0.75 kg to 2.1 kg. 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. MARKET CASE STUDY: PAKISTAN

### A. SUPPLY AND DEMAND TRENDS

2. Pakistan relies almost exclusively on imports to satisfy its internal consumption, which was 109 000 tonnes in 2003 (Table 1). It is the world's third largest tea importing country, behind the Russian Federation and the United Kingdom. Kenya is the dominant supplier of tea to this market, accounting for 66 percent of Pakistan's import requirements in 2003. Despite being the world's largest tea producer and third largest exporter, and having an extensive common border with Pakistan, India only supplies 3 percent of Pakistan's imports. However, a significant quantity is reportedly smuggled into Pakistan from India. Other suppliers include Bangladesh, China (green tea) and Indonesia. Market shares of teas from Kenya, China and India have increased considerably over the last ten years at the expense of Bangladesh and Indonesian teas.

3. Apparent consumption in Pakistan was 109 000 tonnes in 2003, the seventh largest in the world. Annual consumption figures have varied considerably each year, due to the unreported smuggled quantities across its borders, mostly 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. Legal imports indicate consumption levels ranging from a low of 85 400 tonnes in 1997 to a high of 119 700 tonnes in 1999, with an annual average consumption over the 10 years between 1994 and 2003 of 108 000 tonnes. Per capita consumption based on reported data indicates a declining trend in recent years with a slight recovery to 0.71 kg in 2003, a level below that of the 1990s but still above that in many other important consuming countries.

4. The recent thawing of relations has benefited the tea trade between India and Pakistan. An agreement was reached with Pakistan in 2001 allowing preferential access of up to 10 000 tonnes of tea from India per year and was amended in 2004 to 25 000 tonnes over the period 2004/5 to 2006/7. Similarly, Sri Lanka is seeking to expand its trade in tea under the recently concluded Free Trade Area Agreement with Pakistan.

**Table 1 – Tea imports, exports and consumption in Pakistan: 1994-2003**

Year	Imports (‘000 tonnes)	Total consumption (‘000 tonnes)	Per capita consumption (Kg)
1994	116.1	114.6	0.84
1995	116.6	109.0	0.87
1996	114.8	114.8	0.89
1997	85.4	85.4	0.64
1998	111.6	111.5	0.82
1999	119.7	119.7	0.86
2000	111.4	111.4	0.78
2001	106.8	106.8	0.73
2002	98.0	98.0	0.65
2003	109.0	109.0	0.71

Source: FAO.

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

5. Pakistan is a developing country market with a per capita GDP of US\$ 2 100 in 2004. Growth of its economy has picked up in recent years and was estimated at 5.5 percent in 2004 with a relatively low inflation rate of 2.9 percent. Although it is an extremely price sensitive market dominated by bulk CTC<sup>1</sup> teas, there is a small market segment for high quality teas. In 2003, the population of Pakistan was estimated to be 154 million, 66 percent of whom lived in rural areas, where tea consumption was highest. Tea is the most popular and cheapest beverage in Pakistan, but is increasingly facing competition from other beverages.

6. Import duties and other taxes have been declining and can be expected to encourage an increase in imports from a wider range of countries. In July 2004 Pakistan reduced the import duty on tea from 20 percent to 10 percent, sales tax was reduced to 15 percent and income tax to 2 percent.

## **III. MARKET STUDY: EGYPT**

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

7. Egypt is the largest market for tea in the Near East. Consumption in 2003 was 77 400 tonnes (Table 2), almost entirely sourced from imports. Kenya is the main supplier of tea to Egypt, accounting for some 62 percent of total tea imports in 2003. Shipments from Kenya have increased rapidly in recent years, from 8 121 tonnes in 1990 to 47 800 tonnes in 2003. A further increase in shipment to 63 600 tonnes is provisionally reported for 2004. Apparent consumption also continued to increase, from an average of 68 000 tonnes in 2000-2002 to 77 400 tonnes in 2003 with a per capita consumption of more than a kilogramme, well above many other major consuming countries (Table 3). The majority of imports is in bulk for repackaging and blending inside Egypt. Imports of retail-packed teas have remained low. Tea packaging plants are located in Cairo, Alexandria, Port Said, in the free zone areas, in the Delta area and Upper Egypt.

<sup>1</sup> Cut tear and curl – a tea processing technique quite different to the normal orthodox teas.

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

Year	Imports (‘000 tonnes)	Exports (‘000 tonnes)	Consumption (‘000 tonnes)	Per capita Consumption (Kg)
1994	57.2	0.2	57.0	0.98
1995	80.0	0.1	79.9	1.30
1996	65.0	0.3	64.7	1.04
1997	77.9	0.2	77.7	1.10
1998	65.5	0.3	65.2	1.00
1999	73.3	0.3	73.0	1.10
2000	71.7	0.9	70.8	1.04
2001	56.4	0.7	55.7	0.81
2002	79.0	1.4	77.6	1.10
2003	79.0	1.6	77.4	1.06

Source: FAO.

## B. FACTORS AFFECTING THE DEMAND FOR TEA

8. Lack of substantial progress on economic reform since the mid 1990s has limited annual GDP growth to between 2 and 3 percent from 2001 to 2003, when per capita GDP was estimated to be US\$ 4 000 with incomes higher in urban areas than in rural areas.

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

- the reinstatement of food subsidies on some products in September 2003;
- the removal of monopolistic control on imports from state-owned companies in 1994/95, encouraging the rapid growth of private sector trade;
- a reduction in import tariffs under the Common Market for Eastern and Southern Africa (COMESA)<sup>2</sup>, which gives a comparative advantage to Kenya in particular, over the previous main supplier, Sri Lanka. Import duties range from 30 percent to 60 percent, ad valorem. In addition to the customs duties, Egypt applies a sales tax and a service charge on tea imports.

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

11. 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 CTC grades, with Kenya CTC dust grade having about 75 percent of the Egyptian tea market. Consumers in Upper Egypt and rural areas purchase mainly medium and low quality tea.

<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.

12. A survey carried out for FAO in 1995/96 reported that tea consumption in Egypt was highest in rural areas, where some 60 percent of the population was found. Per capita consumption levels were also indicated to typically be highest in rural areas. There was, however, some variation in this as per capita expenditure was indicated to be highest in the Port Said urban area. The survey also showed that consumption was higher in the older age groups; rural consumers preferred tea because it was the cheapest beverage; and tea quality was an important factor in competition between individual brands. Drinking preferences also varied, 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) preferred lighter teas.

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

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

13. Iran is a tea producing country which relies on substantive imports to supplement its production to satisfy its considerable consumption needs. Production has varied over the past 10 years, averaging 57 000 tonnes annually (Table 3). However, output in the past five years has trended downwards, as Government assistance to producers declined. The tea produced is considered to require blending with imported teas before packaging for consumers.

14. Similarly, both imports and exports have varied, with imports reaching a high of 47 000 tonnes in 2000. Additionally, large quantities are reportedly smuggled into the country, suggested to be as high as 30 percent of legal imports, largely due to the quantitative restriction on imports. Surplus blends are usually exported, peaking at 21 200 tonnes in 2000, but have since declined to 4 500 tonnes. Consumption has trended downward from the high of 97 600 tonnes reached in 1997, to 78 000 tonnes in 2003. Per capita consumption has also been high, averaging 1.23 kg per capita in the last 6 years with 1.21 kg in 2003.

15. 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. Current import tariff for bulk and packaged tea is 4 percent of the cif price and a commercial profit tax of 11 percent for green tea and 31 percent for black tea. Import tariff for tea bags is 30 percent of cif price. Additionally, a requirement that 2 kg of Iranian tea be blended with every 1 kg of Indian tea imported has also been relaxed. The main 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. With the removal of the import ban, India has been making increased efforts to boost exports of orthodox tea to Iran.

**Table 3 – Tea imports, exports and consumption in Iran: 1994-2003**

Year	Production (000 tonnes)	Imports (000 tonnes)	Exports (000 tonnes)	Consumption (000 tonnes)	Per capita consumption (Kg)
1994	55.6	20.6	1.0	75.2	1.20
1995	54.4	31.2	0	85.6	1.40
1996	62.1	27.3	0	89.4	1.45
1997	69.3	36.0	7.7	97.6	1.63
1998	60.6	33.0	7.7	85.8	1.32
1999	61.7	38.0	18.3	81.4	1.24
2000	49.9	47.0	21.2	75.6	1.14
2001	51.2	40.0	10.0	81.2	1.21
2002	51.5	41.0	8.2	84.3	1.24
2003	50.0	32.5	4.5	78.0	1.21

Source: FAO.

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

16. Iran is 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 recently. Per capita GDP was estimated at US\$ 7 000 in 2004 with a real growth rate of about 6 percent per annum, driven by high oil prices. Most economic activity is controlled by the state, and private sector activity is typically small-scale. Inflation is estimated to be 16.4 percent.

17. Iran's population in 2003 was estimated to be 69 million with an estimated growth rate of just over 1 percent per annum. The majority (about two-thirds) of the population lives in urban areas. Some 30 percent of the labour force was engaged in the agriculture sector (2001 data).

18. The import duty for bulk tea used in blending and packaging with lower quality locally produced teas is low at 4 percent of the landed price. Value added teas, such as tea bags, attract a higher tariff of 30 percent. 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: TURKEY**

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

19. Turkey is the sixth largest producer of tea in the world, with an output peaking at 199 000 tonnes in 1999, but it declined to 155 000 tonnes in 2003. The Government provides a price subsidy to producers to maintain income levels. The subsidy is in the form of a minimum fixed price of TRL<sup>3</sup> 460 000 (US\$ 0.31) per kg plus an incentive Government payment of TRL 65 000 per kg. Turkey is also an important consumer, ranking fifth globally. Consumption in 2003 was 153 000 tonnes and predominantly based on domestic production. Annual consumption has varied considerably year by year as shown in Table 4, ranging from a low of 101 900 tonnes in 1995 to the high of 199 500 tonnes in 1999. Average consumption from 1994-2003 was 140 300 tonnes.

<sup>3</sup> Turkish lira.

**Table 4 – Tea imports, exports and consumption in Turkey: 1994-2003**

Year	Production (000 tonnes)	Imports (000 tonnes)	Exports (000 tonnes)	Consumption (000 tonnes)	Per capita consumption (Kg)
1994	134.4	1.2	5.2	130.4	2.1
1995	102.7	1.5	2.3	101.9	1.62
1996	114.5	2.3	4.0	112.8	1.76
1997	139.5	2.4	19.1	122.8	1.88
1998	177.9	2.4	17.5	162.8	2.46
1999	199.2	4.8	4.5	199.5	2.97
2000	138.8	4.8	6.4	137.2	2.01
2001	142.9	5.4	4.8	143.4	2.07
2002	142.0	1.5	4.9	138.7	2.08
2003	155.0	5.0	7.0	153.0	2.38

Source: FAO.

20. Turkey has one of the highest per capita consumption levels in the world. After a decline to 2.01 kg in 2000, from its highest level of 2.97 kg in 1999, per capita consumption has steadily increased to reach a level of 2.38 kg in 2003. This is two to five times the level of other major consuming countries, with the exception of the United Kingdom.

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

21. 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 in many sectors. In 2004, per capita GDP was US\$ 6 700, inflation was 25.3 percent and unemployment 10.5 percent plus considerable underemployment. The population was estimated to be more than 71 million with a growth rate of 1.1 percent. About 70 percent of the population lived in urban areas.

22. Import duty is currently 145 percent, with value added taxes of 18 percent on bulk tea and 8 percent on retail-packed teas. Tariff levels are expected to decline as Turkey moves to meet requirements for entry to membership of the European Union, encouraging increased imports.

## **VI. MARKET OUTLOOK AND MARKET GROWTH OPPORTUNITIES**

23. The four countries covered in this brief analysis have considerable similarities. All are markets which have a tradition of tea usage and have relatively high per capita consumption levels. Egypt and Pakistan, and to a lesser extent Iran, rely on imports to meet their demands, while Turkey is a large producer. As the population and income expand in these countries, consumption will grow, but competition from other beverages will place restrictions on this growth.

24. The governments in these countries have 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. As government control declines, greater opportunity will be realised by the private sector to respond to market demands. 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 of and uses for tea.

25. 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. Liberalization 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.

26. 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.