TEA SUPPLY CHAIN
RESEARCH INDEX

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1. POTENTIALS AND CHALLENGES:

- **Diversification of markets:**
  There are growing domestic and international markets for quality green tea. In the export section, niche markets for specialty teas, organic and fair-trade products are worth further exploration.

- **Lack of quality teas:**
  As demand for green leaf is outstripping supply, farmers pay little attention to quality plucking. This may result in a deteriorating quality of Vietnamese tea which already has a mediocre reputation on the international market, where it is used mainly as filler tea.

- **Need for organization and representation of farmers:**
  Although farmers are presently in a good bargaining position due to the current demand for green leaf, this situation could change in the future. Farmers are neither prepared nor organized to meet such a challenge. They need to join together horizontally in producer associations or cooperatives and improve vertical links to factories and trading companies, in order to receive timely market information and quality requirements.

- **Reduction of processing factories:**
  As several processing factories do not seem to be making enough profit, a market adjustment will take place, with a phaseout of government subsidies. This will directly affect workers in the processing factories, as well as tea farmers who might again have to compete for sales of their green leaves to factories.

- **Transparent price formulation:**
  The present system of price formulation by larger companies is lacking transparency. The proposed introduction of an auction system could help to improve this situation. An independent association which offers proper services to its members would also be an asset.

- **Improvement of linkages:**
  Binding contracts which can be enforced would increase planning security for all stakeholders in the supply chain and improve linkages.

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**I. OVERVIEW:**

In 2013, tea registered retail current value growth of 8%, which was more than one percentage point higher than in 2012. Despite the poor economy in Vietnam, the category still enjoyed healthy growth thanks to stable demand for tea from Vietnamese consumers. Drinking tea is part of Vietnamese culture, with tea being popular across all age groups. Furthermore, the increase in unit prices, as well as the higher living standards has resulted in higher consumption of premium products. As a result, the category continued to record high current value growth in 2013.
2. TEA SUPPLY CHAIN

Producers of tea were traditionally large estates, but the numbers of smallholders are rising rapidly.

Processing (drying, fermenting and/or cutting of tea leaves) is carried out in processing plants. Estates usually have their own plant or one located nearby. Smallholders often need to travel.

Trade between producers and buyers usually takes place at auctions, facilitated by brokers. Brokers communicate information regarding supply and demand, and indirectly determine the price of tea.

Tea companies (also called packers/blenders) buy the tea through brokers. Although the processed tea technically is a finished product, downstream stages such as blending, packing and marketing are the most profitable.

Retail: Direct links between buyers and tea packers are often established, making access by smaller companies or local producers/proessors more difficult.

Consumers: Roughly 3/5 of the world production is consumed locally in the producing countries. Only 2/5 is consumed in non-producing countries.

3. COMPETITION LANDSCAPE

In 2013, Vinatea maintained its leading position in tea with a 31% retail value share, followed by Unilever with a 13% value share. A long-established position in the market, good reputation and extensive experience and knowledge about Vietnamese consumers were the main reasons for the success of Vinatea. Furthermore, the company possessed a very wide and diversified product portfolio in tea that caters for different consumer needs. However, the company saw its market share fall by one percentage point in 2013. Tougher competition and growth of rivals such as Unilever were the main reasons for this declining share.

4. PREDICTION

Over the forecast period, off-trade volume sales CAGR of tea is expected to grow by less than 3%. This growth is lower than the historic off-trade volume CAGR of over 3%. This slowdown in forecast rate is mainly due to the fact that Vietnamese tea market is already in the maturity stage.
II. TEA PRODUCTION:

1. SOURCE OF MATERIAL

Vietnam finished tea types are mostly produced from domestic source of materials. To better meet the source of tea materials, Vietnam tea sector has planned to expand region of producing tea in many localities, as follows:

Lam Dong is one of the leading areas in terms areas, yield, production volume of fresh tea with 75 tea processors with capacity of 1 ton fresh buds/day and over 750 basis green tea processing crafts with a total designated capacity of 1,200 tons of fresh buds/day. With over 80 years of development, tea has rooted in Lam Dong. Currently the province has more 26,000 ha tea growing area with a capacity of 7 tons/ha. Each year, Lam Dong reached approximately 162,000 tons production of tea leaves, accounting for nearly 27% of the national tea. Earnings per hectare in Lam Dong is highest nationwide, over 280 million / ha / year.

At present, Thai Nguyen province has more than 17,000 ha out of 20,000 ha of tea for trade. In 2013, the yield is 109 kg/ha and the total production is about 185,000 tons per year. Thai Nguyen is combined of many tea-specialized areas: Tan Cuong, La Bang, Trai Cai, Khe Coc, etc.

In Ha Tay, with the target of building trade nam Ba Vi tea, the locality has set up policy of expanding the production region. To widen tea garden, it is planning Ba Trai tea production area in order to meet the demand of processing 2,700 ton of dried bud tea per annum. In addition, province also plans Minh Quang tea region, Khanh Thuong tea region which can produce from 1000 tons to 1200 ton of dried bud tea per annum;

Together Ha Tay, Nghe An province is also building a tea specializing area in Anh Son district for the purpose of poverty alleviation. Currently, Anh Son has totally reached 9488 tons in 2013.
In 2007, Phu Tho province continues to instruct tea companies and tea processing companies to apply method above and investment in depth into growing new tea. Tea area of Phu Tho province is nearly 15,720 ha, accounting for about 12% of Vietnam tea and ranking fourth nationwide. The average yield is close to 84 kg /ha with the yields over 117,000 tons of tea leaves. Tea tree is planted in 90% of communes and towns in the district of Thanh Son, Tan Son, Thanh Ba, Doan Hung, Ha Hoa ... 

Now the municipal tea development program has two projects: AFD tea development project managed by the Municipal Department of Planning and Investment; and ABD tea project managed and developed by Municipal Department of Agriculture and Rural Development by deploying supporting information and techniques for the peasants, and lending for new growth, intensive cultivation and tea processing.

### Tea Area (000ha)

- 0.0 to 0.0
- 0.1 to 0.1
- 0.2 to 0.2
- 0.3 to 0.3
- 0.4 to 2.5
- 2.6 to 24.8

Source: ADB

**TEA AREA IN VIETNAM**
**2. PRODUCTION VOLUME**

Tea growing has been practised in Vietnam for over 3,000 years, and has shown a tremendous growth spurt over the last decade. Vietnam’s tea-growing area expanded from 67,000 ha in 1998 to over 114,000 ha in 2011 (FAOSTAT, 2013) and its output has increased by 153% in only 10 years’ time. Vietnam now ranks sixth in the world in terms of cultivation area and in terms of volume produced. Tea production is labour intensive and the industry provides jobs in remote rural areas where millions of livelihoods depend on tea picking and processing.

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>1,467,467</td>
<td>1,640,310</td>
<td>1,700,000</td>
</tr>
<tr>
<td>India</td>
<td>991,180</td>
<td>966,733</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Kenya</td>
<td>399,000</td>
<td>377,912</td>
<td>369,400</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>282,300</td>
<td>327,500</td>
<td>330,000</td>
</tr>
<tr>
<td>Turkey</td>
<td>235,000</td>
<td>221,600</td>
<td>225,000</td>
</tr>
<tr>
<td>Vietnam</td>
<td>198,466</td>
<td>206,600</td>
<td>216,900</td>
</tr>
<tr>
<td>Indonesia</td>
<td>150,000</td>
<td>142,400</td>
<td>150,100</td>
</tr>
<tr>
<td>Japan</td>
<td>85,000</td>
<td>82,100</td>
<td>85,900</td>
</tr>
</tbody>
</table>

Source: Statista, FAO Statistics Division 2013

MAIN TEA-PRODUCING COUNTRIES (PRODUCTION IN TONS)

In 2013, the tea production industry has shown an increase in both quality and quantity. The total area for tea is 114.1 thousand hectares, the same as last year. However, the production has reached 921.7 thousand tons, 1.3% increase compared to 2012, according to the Annual report of Agriculture and Rural Development.

**3. COST, TURN OVER AND NET INCOME**

<table>
<thead>
<tr>
<th></th>
<th>2013</th>
<th>2012</th>
<th>2011</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total cost per ha (USD)</td>
<td>564</td>
<td>504.1</td>
<td>1,404.5</td>
<td>365.7</td>
</tr>
<tr>
<td>Fertilizer</td>
<td>429.1</td>
<td>332.4</td>
<td>892</td>
<td>216.1</td>
</tr>
<tr>
<td>Pesticide</td>
<td>73.2</td>
<td>116.3</td>
<td>288.1</td>
<td>63.7</td>
</tr>
<tr>
<td>Pruning</td>
<td>61.7</td>
<td>55.4</td>
<td>224.4</td>
<td>85.9</td>
</tr>
<tr>
<td>Turnover</td>
<td>2,782.25</td>
<td>1,969.5</td>
<td>1,789.4</td>
<td>1,501.3</td>
</tr>
<tr>
<td>Productivity (kg/ha)</td>
<td>9,700</td>
<td>11,606</td>
<td>10,498</td>
<td>8,725.5</td>
</tr>
<tr>
<td>Net profit (USD/ha)</td>
<td>2,216</td>
<td>1,465.4</td>
<td>385.9</td>
<td>1,135.6</td>
</tr>
</tbody>
</table>

(*) There was a drop in productivity in 2013 because some of the old tea bushes were replaced with the new tea variety (LDP1 and PH11). It will take at least three years before these new bushes will give tea.

Source: A win-win situation for both farmers and private companies by Vredeseilanden/VECO

COST, TURN OVER AND NET INCOME IN PHU HA (PHU THO)
III. DOMESTIC CONSUMPTION

Drinking tea has been a longterm habit of Vietnamese, and that becomes a fine traditional custom. Most of Vietnamese households use tea to treat their guests or just for their and their family's demand. On average, a person consumes 0.2kg/month and 2.4kg tea per annum. With about 90 million of population nationwide, domestic consumption demand is very great.
IV. TRADE

1. EXPORT VOLUME

According to the 2013 report of Agriculture and Rural Development Department, the export volume in December only has reached 10 thousand tons, valued 16 million USD, which combines a total of 138 thousand tons and 222 million USD in value for the whole year.

Source: therichest.com

THE WORLD TOP 5 TEA EXPORTERS 2013

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Volume (MT)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Kenya</td>
<td>396,641</td>
</tr>
<tr>
<td>2</td>
<td>Sri Lanka</td>
<td>318,329</td>
</tr>
<tr>
<td>3</td>
<td>China</td>
<td>299,799</td>
</tr>
<tr>
<td>4</td>
<td>India</td>
<td>203,207</td>
</tr>
<tr>
<td>5</td>
<td>Vietnam</td>
<td>104,700</td>
</tr>
</tbody>
</table>

2. EXPORT MARKET

Compared with this of last year, there is a decrease of 6.3% in volume and 1.3% in value. Tea export to Pakistan, Vietnam’s largest customer, has fell off 8.57% in volume and 3.66% in value. The value of tea exports to Taiwan has risen 2.95% while decreased 0.95% in volume in the first 11 months this year.

Source: General Department of Custom and Vinanet
3. EXPORT PRICE:
The average export price of tea in the first 11 months of 2013 has reached 1,617.9 USD/ton, 5.9% higher compared to the average price of 1,526.8 USD/ton last year. While the volume of tea exports was equal to the volume from the same period last year, export value rose 4.1 per cent thanks to the surging price of tea on global markets, the ministry said, adding that the $1,526 per tonne benchmark price for tea was 4.4 per cent higher than last year's figure.

In contradiction to the rising tea prices on the world market, real primary producer prices have fallen dramatically over the last three decades. This is because tea trading and distribution remain dominated by a few international companies that benefit from stable retail prices. Processing factories and traders receive most of the profits, whilst prices for farmers remain low. Another reason for the low prices is the low quality of Vietnamese tea.

4. IMPORT:
Characteristics of Vietnam tea production industry mainly services for export targets, therefore, tea import volume into Vietnam is very few. Majority of local consumption is mainly handmade tea kinds without clear trade name and almost all is to directly retail to consumers, the remain is local kinds of tea with familiar brand names of Vietnam such as Kim Anh, Thai Nguyen tea etc. One more factor which makes tea volume imported Vietnam few is that taste of local tea consumption is not high.
V. DISTRIBUTION CHANNEL

Tea materials consumed at home is distributed by tea producers, wholesale and retail agents, especially system of selling tea in bags.

Source: The Value Chain for Tea in Vietnam: Prospects for participation of the Poor

THE CHANNEL FOR WORKER AND CONTRACT FARMERS

Source: The Value Chain for Tea in Vietnam: Prospects for Participation of the Poor by ADB

THE CHANNEL FOR UNLINKED FARMERS
VI. VIETNAM TEA OUTLOOK

- Reorganize Vietnam tea industry by establishing a State Management Agency, tentatively called “Coordinating Committee” to consistently and effectively manage the tea production industry.

- Conduct planning of tea growing regions in order to improve productivity, quality and safety of fresh tea material. Set up a new team to control pesticide’s use.

- Rearrange, consolidate and reduce processing plants so that the processing plants must have the raw material areas and must strictly apply the good manufacturing practice (GMP) process. Announcing the list on the official website of the Association.

- Developing and promoting domestic consumption.

- Keep the quantity and increase quality, focus on special tea

**SOURCES:**
1. Tea Sector overview by Michael Groosman
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