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Status of Nepalese Tea Trade in Global Market

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Abstract: *The development of tea industry in Nepal took momentum after the private sector involved in tea market. Nepal is rich in the ecosystem and bio-diversity with tremendous agricultural opportunities wherein tea is grown as among the major cash crops. Tea business has been emerging as a potential export trade of Nepal. The growth and expansion of this sector has been steadily progressive with increased competitiveness and market orientation. An attempt has been made in this article to elucidate the challenges and opportunities faced by tea exporting businessman and trend of tea trade in global perspective. The tea industry has entered into the global market inviting cumbersome challenges and greater potentialities. Nepal's membership into the WTO has been increase competition and possibilities in the tea sector. The provisions of various WTO related rules, regulations and obligations has demanded reforms regarding the productions and marketing practices in the industry. The maintenance of standards and quality under the law of WTO has been compulsory for the export / import trade of tea. The country has to cope with Sanitary and Phytosanitary, Technical Tariffs Regulations, Standards and self guards etc. provisions. There have been both challenges and opportunities in tea business for Nepal. The country has to be able to exploit the opportunities for promotion and development of tea business. Had there been appropriate technologies, research and good marketing practices, country would have enjoyed a lot of monetary advantages out of tea business. The absence of advanced and appropriate technology, good human resource, lab facilities have created challenges to tea businessmen for doing business at global level. Because of these challenges, Nepal has to export high quality leaf tea to India at a very cheap price.*

I. INTRODUCTION

The establishment of Illam tea estate in Illam in 1863, eastern part of Nepal and Soktim tea estate in the plain started tea business in Nepal. Nepal produces two types of tea: Orthodox tea in the hills from Chinese clones and cut, Tear and curl (CTC) tea in the plains from

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Assamese variety plants. Out of the total tea production, there has been 30 per cent orthodox and 70 per cent CTC tea. Nepal Tea and Coffee Development Board (NTCDB) has recorded that there has been production of 1976749 kg of orthodox tea and 13190994 kg of CTC tea in 2006-007[1]. Nepal has imported tea costing to NRs 1,10, 00,000 from India and exported tea costing to NRs 12, 27, 98.246 in 2006/07. Nepal being located between the two giant producers and marketer of the tea, India and China, has a small space in the global context. In spite of this there is a great possibility of expansion of the market in the days ahead.

II. OBJECTIVES OF THE STUDY

The main objective of the present study is to highlight the status of Nepal's tea trade in the global scenario, before and after the entry of Nepal into World Trade Organization as its member. In order to achieve the objective, the following attempts have been made:

i. To shed light on the problems of Nepalese tea industry.

ii. To find out the current trends of import and export of Nepal tea.

iii. To assess the WTO related issues affecting to tea industry.

iv. To identify the opportunities and challenges for tea sector in the context of Nepal's membership into the World Trade Organization (WTO).

III. SIGNIFICANCE OF THE STUDY

The tea industry is vital part of Nepalese agriculture. It considers taking steps in the development and promotion of this sector in the international market. It requires inspiration and guidance from the stakeholders to increase its export and develop market globally. As the study has covered various issues related with tea business, it significantly helps to policy-makers, traders, industrialists and others to formulate and implement their business strategies.

IV. LIMITATION OF THE STUDY

The study has tried to show the total tea production and its export at international market in between 1996-97 to 2006-07. It has covered only for the period of ten years. There have been constraints of time in collecting information beyond 2007, and the study has been successful to collect data for the period of the above-mentioned ten years only.

V. STUDY APPROACH, METHODOLOGY AND ANALYSIS

The present study has used both primary and secondary data. For the collection of primary data, a set of questionnaire was prepared and forwarded to the planters and

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1 "A glimpse of Nepal's Foreign Trade "Trade and Export Promotion Centre, October 2007, p7.

processors, importers and exporters of tea for their response; while for the collection of secondary data, various journals, reports and papers, Nepal Tea and Coffee Development Board and other international reports have bee used.

Altogether, there have been 233 active stakeholders in the tea sector. For the purpose of convenience, only 30 units of samples were considered for the study. The sample size coves to be the 12.87 percent of the population.

Current Situation of the Nepalese Tea Industry

The tea business is emerging as a potential export item of Nepal. Its cultivation has been extending in a commercial way under active participation of the private sectors even with small farmers. The involvement of private sector in this trade has been encouraging.

The area under tea cultivation is estimated to be 16420 hectares in 2006/2007. There exist 134 tea gardens with 40 processing factories. Out of 40 factories, 25 processing factories are CTC and 15 processing factories are for orthodox tea. There are more than 85 tea estates scattering over different parts of the country. The tea production for the year 2006/07 has been 1,51,67,743 kg[2] and has exported tea worth of NRs 40,00,00,000[3] for the same year

Table 1 : Total Tea Production in Kgs

Year	Private Sector	NTDC (Govt. Sector)	Small Holder	Total
1996/97	180000	925942	180000	12,85,942
1997/98	1946455	603136	468980	30,18,571
1998/99	3777857	796881	418242	44,12,980
1999/2000	3577857	496881	1010499	5085237
2000/001	5189579	-	1448503	66,38,082
2001/002	5864720	-	16353855	75,18,575
2002/003	6478000	-	1720000	81,98,000
2003/004	7714669	-	3956535	11,65,1204
2004/005	7789893	-	4816188	12,60,6081
2005/006	8443907	-	5244330	1,36,88,237
2006/007	9340656	-	5826989	1,51,67,743

Source : NTCDB

The table 1 reveals that there has been increasing trend in tea production capacity of the country. It shows that both private and small holders sector have increased capacities to increase their production in a progressive way. It indicates that Nepal could meet the rising international demand for both Orthodox and CTC tea of Nepal.

Nepalese Tea Market

Nepal is already self-sufficient for CTC Tea and about 90 per cent of the Orthodox tea Nepal exports to different countries. The present status of Nepalese tea export remained as a small share of only about 0.2 per cent of the total tea export[4].

2 Tea A Tea, Annual Journal 2065

3 Nepal Tea and Coffee Development Board

4 Market Intelligence and International Standards for Tea and Pashmina. A Report by Nepal Chamber of Commerce, February 2008

The demand for Orthodox tea on the overseas market has been increasing. With a view to meet increasing demand in the overseas, the government has formulated an ambitious plan to increase the production level of orthodox tea for more than 16million kg within the year 2010-11. The private sector as well has been promoting the Nepal tea in international markets particularly in Europe and Japan. Nepalese Orthodox tea manufacturers and processors, to address the increasing overseas demand, are in the process of acquiring organic certification.

Table 2 : Plantation and Production of Orthodox Tea and CTC Tea in 2006/007

Particular	Production Kg (Orthodox)	Production Kg (CTC)	Total Production Kg
Garden	656600	8684154	9340754
Small Farmer	1320149	4506840	5826989
Total	**1976749**	**13190994**	**15167743**

Source : NTCDB

The table 2 shows that in the year 2006/007 alone, there has been 15167743 kg of total tea production. It can be considered as a progressive result and can be expected that Nepal may be able to meet the rising demand for tea in the year ahead. The recently announced tea policy aims for the production of CTC tea up to 36 million Kg by the year 2010-011 from which 0.6 to 0.65 million kg will be available as surplus to export[5]. This has revealed that Nepal is going to have some surpluses of tea for export and need to do some marketing exercises to take best advantages of tea marketing abroad.

The tea sector trade also has contributed millions of rupees as revenue in national economy. The study has taken some data for import and export of tea for the years 1998/099 to 2006/ 007.

Table 3 : Import and Export of Tea between 1998-99 and 2006-007

Fiscal year	Export (Rs.' 000)	Import (Rs.' 000)
1998/99	30081	27831
1999/2000	25722	73277
2000/001	23084	98000
2001/002	27787	8838
2002/003	53908	468
2003/004	104822	992
2004/005	438771	419
2005/006	98644*	5005
2006/007	123642*	19000

Source : NTCDB

The data does not include export through India. The total export for the year is approximately NRs. 40,00,00,000 as per NTCDB

5 Nepal tea, leaflet published by Agro enterprise Centre/ FNCCI, March 2007

The table 3 shows that there has been some fluctuations in both export and import of tea. However there has been tremendous improvement in export of tea in the year 2005/006 and 2006/007 respectively. In fact, there has been export of tea amounting to NRs. 12,36,42,000 in the year 2006/007 (excluding the export through India) whereas there has been import of tea in Nepal only for NRs. 1,90,00,000 in the year 2006/ 007. It clearly shows that there has been significant Improvement in tea business in Nepal. It also would be good idea to share the information as regard to the major importer of Nepalese tea. To this regard, Pakistan stands first and has imported tea from Nepal amounting to NRs 4,21,81,305 in the year 2006/007 alone. Federal Republic of Germany has been the second major country to import tea from Nepal. It has imported tea from Nepal amounting to NRs. 2,91,61,148 in the year 2006/007. Similarly USA, Malaysia and Canada have been bigger importers of importing tea from Nepal amounting to NRs. 1,36,68,053, NRs. 67, 60,334 and NRs. 51, 66, 854 respectively. The total of 32 countries including India has imported Nepalese tea in the year 2006/007 (NTCDB). It has been encouraging and motivating to Nepal to promote and develop tea business globally. The National Tea Policy has underlined in the year 2000 that it will be exporting 46 million Kg of tea by the end of 2010 A.D.

Nepal also does import tea from various parts of the world. They include CTC, Green tea, Herbal tea. The below would show the import destinations and the percentile of import of tea.

Table 4 : Import Destinations

Country	Percent (%)
India	60.00
Pakistan	20.00
Srilanka	13.33
Bangladesh	6.67
Total	**100.00**

Source : Field survey

The table 4 reveals that 60 percent of the Nepalese tea businessmen do import CTC and other kinds of tea from India while 20 per cent of them from Pakistan. Srilanka has been third largest import destination and that accounts for only 6.67 per cent. It has clearly indicated that major tea importers of Nepal imports CTC tea from India. In fact, Nepal consumes major portion of CTC. Only 5 per cent of orthodox tea has said to be consumed. The table below gives some information about types of tea exported from Nepal.

Table 5 : Types of Tea Export

Tea Type	Percentage (%)
Orthodox	54%
CTC	6%
Green Tea	30%
Other Type	10%
Total	**100%**

Source : Field Survey

The table 5 has clearly shown that Orthodox tea has taken first position in export and that accounts 54 percent. CTC tea stands second in export that accounts 6 percent while Green Tea accounts to only 30 percent in exporting Tea. Other type of tea has taken only 10 percent of share in tea export. The study reveals that there has been major export of Orthodox tea to the international market.

Major Export Destination

Despite India has been one of the major destinations for tea export, NTCDV could not make available the exact data for the export of tea to India. However, the following countries have been identified as the major export destinations for the tea.

Table 6 : Major Export Destination

Country	Percentage (%)
Germany	18.89
USA	16.67
Pakistan	11.11
Canada	7.78
Russia	5.56
Malaysia	4.44
France	3.33
Japan	3.33
United Kingdom	3.33
Australia	2.22
Denmark	2.22
Europe	2.22
Italy	2.22
Mexico	2.22
The Netherlands	2.22
Thailand	2.22
UAE	2.22
Austria	1.11
Czech Republic	1.11
Hong Kong	1.11
Indonesia	1.11
Panama	1.11
Poland	1.11
Syria	1.11

Source : Field Survey

The table 6 shows that Germany has been one of the major export destinations for Nepal and shares 18.89 percent of it while USA occupies second major export destination by sharing 16.67 percent of it. Pakistan stands third major export destination that shares 11.11 percent. Austria, Czech Republic, Hong Kong and others including Syria have been sharing 1.11 percent of Nepalese tea export.

Close International Competitors for Tea Export Business

There have been some countries that have been considered as international tea exporting competitors for Nepal. These countries have been playing a key role in affecting tea export business for Nepal. Nepal has to be more prudent and efficient in competing with them as regards to tea export. The following countries have been identified close international competitors for tea export.

Table 7 : Close International Competitors For Tea Export Business

Country	Percentage (%)
India	46.67
Srilanka	26.67
China	13.33
Bangladesh	6.67
Pakistan	6.67
Total	**100.00**

Source : Field Survey

The study has shown that 46.67 per cent of tea exporters have considered India has been very close international competitor. 26.67 per cent and 13.33 per cent of tea exporters have considered Sri-Lanka and China being second and the third close international competitors respectively. While 6.67 percent of tea exporters considered Bangladesh as fourth lowest and same percent i.e. 6.67 percent of tea exporters identified Pakistan being lowest close international competitor for them.

The Global Tea Market

Today, citizens of the world have considered tea as a normal drink in their daily life. Its popularity in the world has been increasing in the fast pace. Even offering a cup of tea to the visitors has been taken as a way of life. Because of mass approval of tea around the world, its demand has been increasing. To meet such demand, the world tea producers have been putting their efforts to increase productions of tea.

The world tea production was 3420 million Kg in the year 2005. The trend of production has been going up. China has been the first bigger producer with the production of 935 million Kg and India has been the second bigger producer with the production of 928 million Kg[6].

Nepal is still one of the smallest players representing two tenths of a percent of global production. Nepal produced 13688237 Kg in the year 2005/06[7]. In spite of heavy efforts put by the world tea producing countries the world demand for tea has not yet been met.

Nepal's Membership into the Trade Organization (WTO)

The world Trade Organization is the only international organization dealing with the global rules and regulation regarding trade among the nations. It ensures that trade flows as smoothly, predictable and freely as possible. The WTO is the successor to the General

6 Tea A Tea, Annual Journal 2065

7 NTCDB

Agreement on Tariffs and Trade (GATT) established in the wake of the Second World War, in January 1948. Nepal was offered WTO membership in September 2003 during the fourth WTO ministerial meeting at Cancun, Mexico. Nepal became the 147th member of the WTO on 23 April 2004 after ratifying the membership. The sphere of economic policy a host of topics, ranging from trade in goods and services to intellectual property rights. The membership is viewed as a source of opportunities and challenges. In this context a commonly asked question is the implication it has on the economy of Nepal. However, the study has come-up with identification of challenges and opportunities for tea traders in Nepal after being member of WTO.

Opportunities and challenges of tea industry in the context of Nepal's membership into the WTO

Tea has become attractive cash crop with steady international demand. Tea has a potential to benefit large segment of rural population and supportive to national revenue. There are many rules and regulations and obligations Nepal being a member of WTO must follow and there have been direct impacts of them on Nepalese tea industry. However, the following problems and challenges and opportunities have been identified by the business concerned involved in the tea business after post WTO period.

Problems of Nepalese tea sector

The major problems and challenges of Nepalese tea sector can be summarized as follows:

1. Have to compete due to Nepal's common brand name in the foreign market.
2. Lack of Advanced Technology to compete with highly maintained quality.
3. Marketing channel problems.
4. No joint effort to promote the national brand.
5. Production Method and Quality does not meet global standard.
6. No strong commitment from government for the production of tea business.
7. Frequent strikes of labor union that led to less production.
8. India markets Nepalese tea in their own brand names.
9. Lack of laboratory for tea testing.
10. Low production and poor quality they demand.
11. Lack of government support to identify international market.

Opportunities

The major opportunities for Nepalese tea sector can be summarized as follows:

1. New export market can be identified due to the market liberalization.
2. Banks are interested to facilitate easier agriculture and export financing and develop export insurance cover and factoring facilities.
3. Improving/ Expanding bilateral and regional trade and transport agreement to improve exports and cargo facilities with India and Bangladesh.
4. Unique environment and natural weather patterns for better quality.

5. Supports available for obtaining international accepted certifications for new and existing factories.
6. Good brand image including GI could be established as Nepal has premium quality of organic orthodox.
7. Developing a research and training center that can produce new clones and seed stock suitable for the environment of Nepal.
8. Availability of sufficient land for expansion and new plantations.

The challenges and opportunities are to be property analyzed and necessary steps be taken to address them for better results.

VI. RECOMMENDATIONS

The development of tea industry in Nepal took momentum after the private sector involved in tea market. Nepal is rich in the eco-system and bio-diversity with tremendous agriculture opportunities wherein tea is grown as among the major cash crops. Tea business has been emerging as a potential export trade of Nepal. The growth and expansion of tea sector has been steadily progressive with increased competitiveness and market-orientation.

The positive trend of production and export has indicated the potentiality of further extension of tea business in the global scale. The tea industry has entered in to the global market inviting cumbersome challenges and greater potentialities. In the context of Nepal's membership into the WTO there has been increased competition and possibilities of better future in the tea sector.

The provision of various WTO related rules, regulation and obligation; there has been need of reforms regarding the production and marketing tradition and mechanism in the industry. The maintenance of standards and quality under the law of WTO has been compulsory for the export/ import trade of tea. As there have been major international standards set for tea business, Nepal has to formulate and develop effective marketing strategies to cope with such standards and challenges. The following recommendations can be made to ensure effective tea trade in global perspective.

1. Scientific plantation methods should be introduced and focus has to be made on the organic tea cultivation because the international standards restrict the poor quality chemicals/insecticides and pesticides use in tea production.
2. Standards and technical requirements should be assured in the scenario of Nepal as WTO member. The maintenance of the standards helps to built and sustain relationship in the global market.
3. Improvement has to be made in processing of tea developing skilled human resources in the tea industry and establishing the appropriate technology in the production system.
4. The government should make the provisions like subsidy, tax exemption, export promotion schemes for protection and promotion of tea business development.

5. Increase the import of the advance processing technologies and increase the number of processing factories to promote export of tea.
6. The government and concerned stakeholders should keep account of how and what quality of unprocessed tea has been exported to India directly or indirectly.

VII. CONCLUSION

Competitive market, quality products and agreement made on WTO are major challenges to Nepalese tea stakeholders. Provided these challenges are well addressed and be formulated the policy as per international scenario, the future of tea industry in Nepal is very bright. Development of this sector helps not only the farmers and the stakeholder, but also helps strengthening the whole national economy.

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