

Tea Industry in Nepal and its Impact on Poverty

Submitted by South Asia Watch on Trade, Economics & Environment
(SAWTEE)
Kathmandu, Nepal

2006

Draft Report not for citation

Paper prepared for the project Linkages between Trade Development and Poverty Reduction, implemented by CUTS International.

1. A Brief History of Tea in Nepal

Nepali tea industry owes its roots to the colonization of India by the East India Company. Numerous tea plantations around the hill station of Darjeeling were promoted by the British. Hybrids of tea bushes were introduced in several districts in Nepal - Illam, Taplejung, Panchthar and Dhankuta within a few years after their introduction in Darjeeling and the first tea estates were established in 1863 in Illam and Jhapa. But whereas the Darjeeling tea production soon emerged into a prosperous commercial industry, the Nepalese tea production remained low profile until the 1990s, unable to fulfill domestic demand.

Decades earlier, in 1966, the Nepalese government had established the Nepal Tea Development Corporation. Initially, Nepalese tea leaves were sold to factories in Darjeeling. With time, the Darjeeling tea bushes had become old and along with internal changes in the industry it led to a deteriorating quality of the Indian tea. These conditions made the Nepalese tea leaves a valuable input for the Indian factories. During the last decade tea processing factories have been built and turned Nepalese tea production into a fully commercialized industry. Although, even today some farmers sell their tea to Indian factories as they get a better prices from across the border.

In the early 1990's, large tea plantations run by the government mainly dominated the tea sector. Through reforms in 1993 the state owned National Tea Development Corporation was privatized. Its regulatory functions were handed over to the National Tea and Coffee Development Board under the Agricultural Ministry. To promote the industry further the government launched a new tea sector policy at the end of 2000. This policy seeks to ease access to credit and land for tea producers as well as building human capacity and establish better opportunities for export promotion. A clear priority is also set for which type of tea processing should be promoted.

The goal of this paper is to examine the general trends in Nepalese tea industry, in particular, the changes brought about by the privatization in the early 1990s. The following pages will examine the two distinct types of tea industry, Orthodox and CTC, look into Nepal's export performance and finally attempt to assess the impacts of liberalization on small farmers as well as commercial tea estates.

2. The Two Types of Tea Industries

(i). Orthodox Tea

Orthodox tea is grown in the hills of 6 districts in eastern Nepal, i.e. Illam, Panchthar, Dhankuta, Terathum and new areas of Sindhupalchok and Kaski. The orthodox tea production accounts for 12-15% of total tea production. Its total production amounts to 1500 Tons and covers 6689 hectares of cultivated land. The primary contributors are small farmers who sell their leaves to buyers in nearby factories or to those in Darjeeling.

The climatic conditions in the Eastern hills of Nepal provide ideal conditions for the production of high quality orthodox tea. Another advantage compared to Darjeeling tea is that the bushes are young and produce better quality leaves. Because of the premium price paid to orthodox tea, 96% of it is exported while little is sold domestically mostly in souvenir packages suited for tourists.

Present status in the orthodox industry

Production (Mil. Kg/yr)	1.5
Area / ha	9775
Tea estates	63
Small farmers	18750
Factories	19
Small farmers share in area (percentage)	77
Small farmers % share in production	67.8
Export as % of total production	96

Source: GTZ & handouts and WinRock

More than 18750 farmers derive their livelihood from growing orthodox tea. Although there are 69 tea estates and gardens involved in the production of orthodox tea, almost 70% of the total tea produced comes from small holders. Since virtually all of the orthodox tea is exported at premium prices compared to other kinds of tea, growing orthodox tea has been an important source of income for many farmers in the eastern hilly region.

(ii) CTC Tea

CTC is produced in Terai in the district of Jhapa and covers around 90% of domestic consumption. The CTC grown in Nepal is known to be of average quality. Whereas small farmers form the backbone of the orthodox tea production, it is largely big tea estates which are behind CTC tea production. Most of the tea estates have their own processing factories and some use bought leaf factories to manufacture tea. It is estimated that around 66576 workers are employed by the tea estates as pluckers, factory workers and in other functions. Many of the daily-wage workers are landless and live at the estates on a permanent basis.

Present status of the CTC industry

Production / tons	13000
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Area (ha)	8951
Tea estates and gardens	94
Small farmers	8744
Factories	25
Small farmers % share in area	26.62
Small farmers % share in production	28.6
Export as % of total production	40
Workers	50000

Source: handouts, NTCDB & GTZ

In both type of industries, CTC and Orthodox, the Nepalese tea industry has undergone large expansion during the last decade and has been an important source of employment. A Tea Policy came into force in 2000, which prioritized orthodox tea production given its natural qualitative advantage. INGOs like the GTZ and WinRock are currently supporting orthodox tea promotion (marketing, branding, code of conduct and technical trainings). However, the coverage may be inadequate and there is a need for further assistance to many more farmers. The sector is facing a number of problems with inadequate infrastructure, excess use of chemicals, low-skilled labor, and a lack of well-planned strategy for upgrading the production process as well as marketing the finished good.

3. Nepal's Export Performance in Tea

Until 2003, the volume of tea exported annually from Nepal was around 80-100 tons, after which the tea sector saw an exponential rise in exports of more than a thousand percent, largely as a result of liberalization carried out ten years earlier. However, the value of tea per ton was more or less constant until 2002 when it started to decline. If one calculates from the figures below, the value per ton in 2002 was \$ 4487.5 whereas in 2004 it had declined to only \$ 1206 per ton.

Over the last 10 years, Nepal has become increasingly self reliant on tea and import of CTC has decreased substantially. Initially the import of CTC was meant to cover domestic demand, but has now has been substituted by domestic production. Compared to the value of exported tea the value of imported tea has decreased in the beginning of the 2000, but then recovered in 2004. The value in 2001 was \$ 2215/ton, which decreased to \$1165/ton in 2003, but rose to \$ 2412/ton in 2004. Therefore, in 2004 Nepal paid more than twice as much per tons for its imported CTC tea to cover domestic consumption than it received for its exported CTC surplus production.

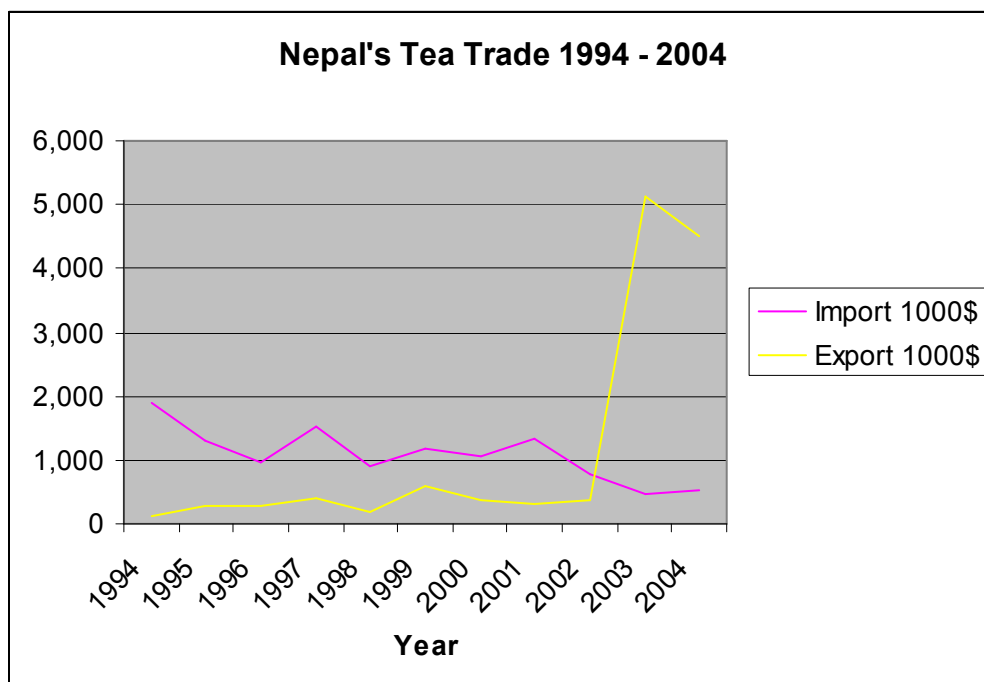


Figure: Total Exports and Imports 1994 – 2004

Source: FAO 2006 (The figures are consistent with those presented at the Tea Board homepage.)

Despite the relatively positive growth figures Nepal’s tea export is still very small and only makes up 0.2% of the worlds total tea export. And whereas the value of the world’s total tea export has had a negative growth rate of -1% per year between 1999 and 2003, Nepalese tea export has grown by 70% per year in value during the same period.¹

According to WTO/UNCTAD’s COMTRADE figures from 2004, Nepal traded 3597 tons of black and green tea, 3481 tons of black (fermented) tea and 116 tons of green tea.

The tables below provide an overview of Nepal’s total tea export in 2004, as reported by importing countries. The figures however do not show whether the tea is orthodox or CTC. There is also an inconsistency in data. For example, figures by Nepal Trade Promotion Center show that Nepal only exported 421 tons of Black tea in 2004/5, which is far from the 3481 tons illustrated below. Here, we rely on the data submitted by importing countries in place of what is collected by Nepalese authorities.

¹ Source: International Trade Centre

Importers of Nepal green tea (package not exceeding 3 kg)	Export value in \$ 1000	Export Quantity in tons	Unit value in \$/tons	Export Growth In value between 2003-2004 5, p.a.
India	118	100	1,180	
Germany	110	9	12,222	36
USA	12	1	12,000	0
Total	240	110	2,182	112

Note the big difference in unit price when sale goes to Germany and to the USA compared to export to India. The tea exported to EU & USA is most likely to be orthodox tea whereas the tea sold to India is CTC.

Importers of Nepali black tea(package not exceeding 3 kg)	Export value in \$ 1000	Export Quantity in tons	Unit value in \$/tons	Export Trend in value betw 2000-2004 % p.a.	Export Trend in quantity between 2000-2004 % p.a.	Export Growth In value between 2003-2004 5, p.a.
India	2,005	1,769	1,133	127	112	423
Germany	289	41	7,049	110	91	58
Japan	23	2	11,500	24	23	109
Total	2,317	1,812	1,279	117	110	302

The top two importers for Nepali black tea are India and Germany, same as with green tea. Similarly, per unit value of tea exported is much lower (\$1,133) compared to the tea exported to Germany (\$7049) and Japan (\$ 11,500).

Importers of Nepali black tea(package exceeding 3 kg)	Export value in \$ 1000	Export Quantity in tons	Unit value in \$/tons	Export Trend in value betwee '00-'04 % p.a.	Export Trend in quantity between '00-'04 % p.a.	Export Growth In value between '03-'04 5, p.a.
India	1,556	1000	1,556	85	74	-27
Pakistan	728	631	1,154			-25
German	163	23	7,087	9	-3	-50
Netherlands	72	13	5,538			
Japan	19	1	19,000	-15	-28	5
Total	2,548	1,668	1,527	59	65	-27

Extracted from the tables above Nepalese export went to 7 countries in 2004.

India	2869 tons	\$1,290/ unit
Pakistan	631 tons	\$1,154/ unit

Germany	77 tons	\$8,777/ unit
Holland	13 tons	\$5,538/ unit
Japan	3 tons	\$15,252/ unit
Belgium	2 tons	\$5,000/ unit
US	1 ton	\$12,000/ unit

From the table above, we can infer that the more expensive orthodox tea is being exported to Europe and the cheaper CTC tea is being exported India and Pakistan. Nepal clearly receives a much better price for its tea in Europe, Japan and the US than it does on the Indian market. Nepal could do better by selling its tea to overseas markets, including Russia who is one of the major importers of CTC. However, one of the problems mentioned with sales to Europe is that there is a lack of coordinated and planned market strategy, where all tea is collected and not sold in piece meal. For example, a major obstacle for Nepalese tea industry identified in the GTZ market analysis was that German buyers were not interested in buying small portions of tea. Similar problems seem to occur in the CTC industry when orders come from Russia and US – the demanded amount cannot be met. Initiatives are being done now by tea grower’s association to try and collect the tea in big containers in order to fulfill bulky demands.

4. Privatization and the Subsequent Increased Participation of Small Farmers

At the present, the tea sector in Nepal consists of private producers, both large-scale tea estates and small-holders. It was not always so. Prior to the reforms initiated in 1993, there was a government monopoly in producing, processing and regulating the tea industry. With the coming of multi-party democracy in 1990, a concerted push was made to liberalize all sectors of Nepali economy to invite private participation in sectors previously reserved for the government owned corporations. As a result, the National Tea Development Corporation (NTDC) was dissolved and its assets privatized (with some lingering suspicions on the transparency of the process). Nevertheless, privatization of the tea business, along with reforms aimed at boosting the sector has increased the size of the sector significantly.

As a part of an effort to promote Nepalese tea industry, the government in 2000 formulated the National Tea Policy. The primary goals of the policy were to provide financial incentives for encourage investment, ease the availability of land required to for plantations, develop institutions to foster export, market Nepalese tea and maintain quality. Additionally, the policy aimed to establish training centers to enable small farmers to participate in growing tea.

The liberalization of the tea sector has brought about some noticeable changes. Currently, there are an estimated 136 large tea plantations, which accounts for 70% of land used for growing tea. Small farmers, who mainly live in the hills and produce orthodox tea, cultivate the remaining 30% of land. Most of the tea is consumed domestically with around 25 % being exported (3597 tons out of the total 14500 tons). Nepal currently aims at increasing the production and export of green tea, which is non-fermented and linked to health benefit. With a view at increasing production, new

districts like Kaski, Dolakha, Sindhupalchowk, Solu and Nuwakot have become involved in tea production.

Trend in Area Used for Production: That Nepalese Tea industry is growing in size is demonstrated by the graph below which shows the total land used to grow tea in Nepal. During 1994/95, 3,100 hectares was used for the purpose of growing tea. By 2003/2004, the area had increased to slightly more than 15000 hectares. The five-fold increase in total land used for tea production shows that tea has come to be taken as an attractive sector to invest in with prospects of high returns.

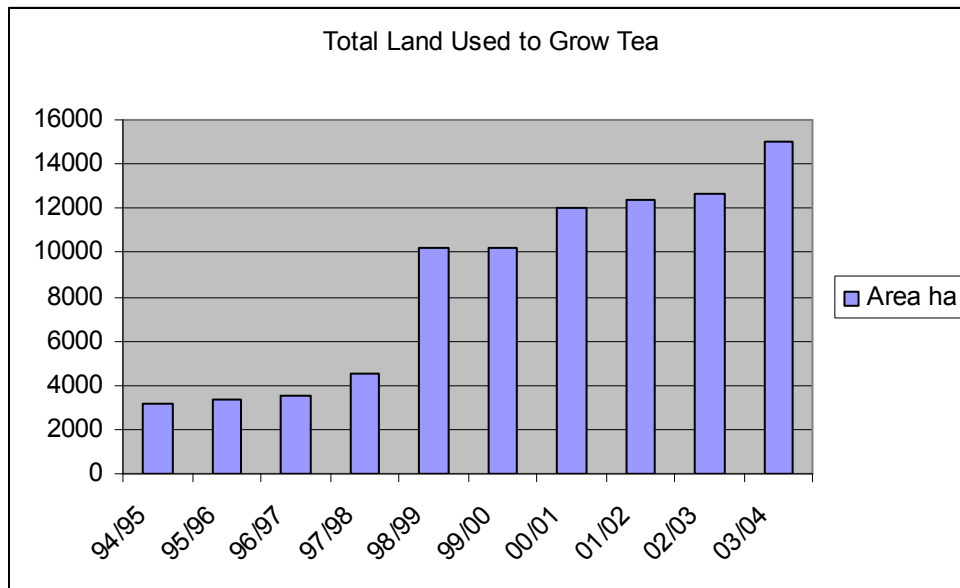


Figure: Total Area used for growing tea

From a poverty-reduction point of view, it is important to note that the growth in area used for tea production has been spurred by the participation of small holders. Their share of the total land used has grown from 20% of the total in 1994/1995 to 41% in 2003/2004. A large number of farmers are attracted by this cash crop and given up traditional farming (when they used to grow multiple crops for their own consumption) to specialize in growing tea alone and using the profits to buy the essential food grains. As such, districts like Ilam, where the participation of the small farmers in cash crop is noteworthy, have come to be seen as “trendsetters” to farmers in other similar locations in the country, primarily because specialization in one crop has proven to increase the overall yield and promote commerce in agriculture outputs. The popularity of cash crops has, in turn, helped reduce poverty rates among small farmers in the tea growing regions.

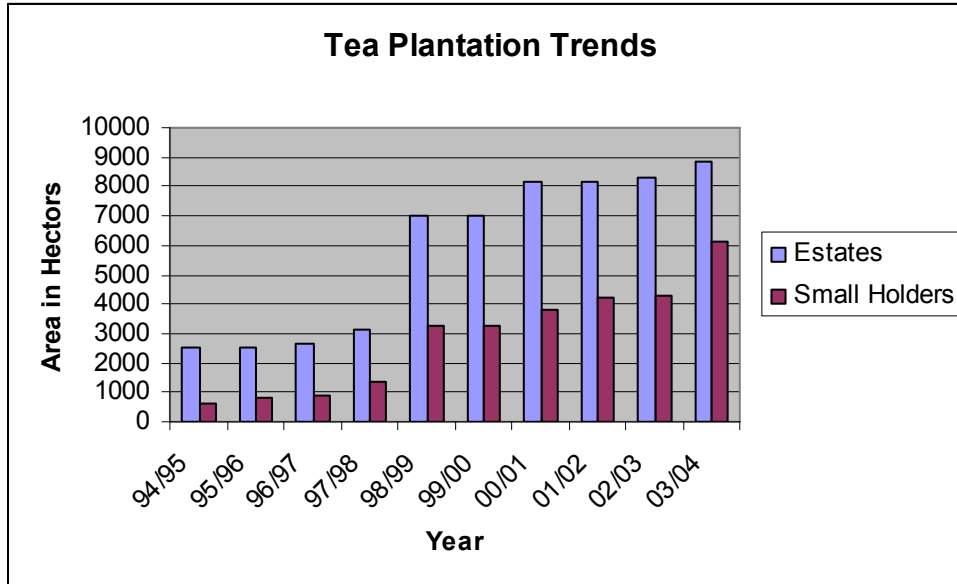


Figure: Area used for tea production

Trend in Amount of Tea Produced: Corresponding to the growth in the total area used for growing tea, there has been a remarkable growth in the total tea produced by the tea farms. During 1994/1995, total amount of tea produced in Nepal stood at 1945 Metric Tons. By 2003/2004, the total amount produced rose by almost 500% to 11,651 Metric Tons. Moreover, the share of the tea estates in total production has been declining. The steady growth of small holders' output gives a strong signal that the benefits of tea trade are not limited to tea estates owned by rich industrialists but are spread to local farmer with little or no access to capital.

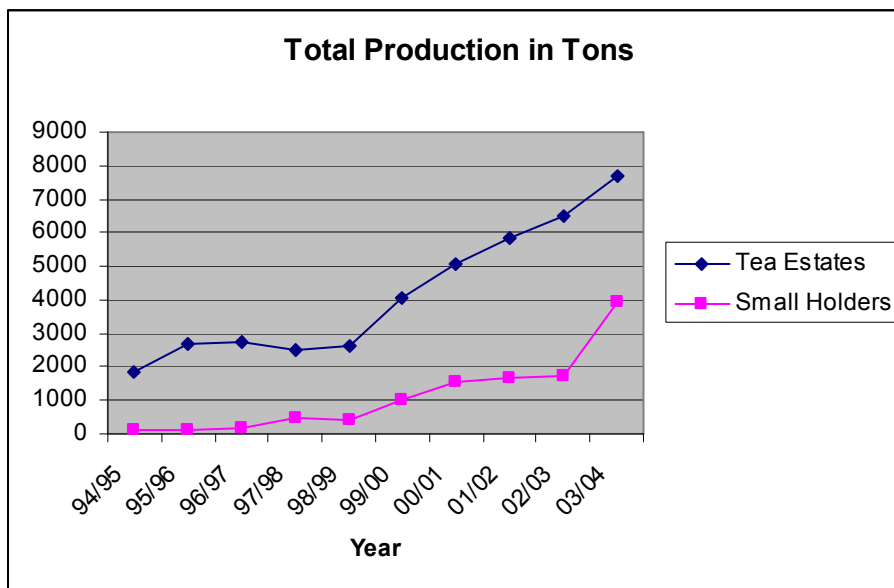


Figure: Tea Production by Tea Estates and Small Holders

According to WinRock figures, there were 157 tea estates and gardens and almost 27 thousand farmers involved in producing, refining and selling tea. The amount produced by the tea estates was only marginally greater than the total output from the small holders. The estates and the tea factories provided employment to as much as 105000 people.

Status of tea sector - 2004

Area / ha	15900
Total Production / tons	14500
Tea estates / area (ownership)	8912
Tea estate production. / tons	7790
Small holders / area (ownership)	6989
Small holders' production. / tons	4816
Number of small holders	8700
Number of tea estates	85
Number of workers	54000
Number of factories	42

Source: NTCDB, GTZ & handouts

5. Conclusion

Like coffee, tea is a cash crop with steady international demand. With hilly Nepal's climate and terrain suitable for premium niche product in the world market, tea has a potential to benefit large segments of rural population and lift them out of poverty and stagnation.

Growth in the tea sector in Nepal was spurred by the trade liberalization policies adopted in early 1990s. Since the end of state monopoly in 1993, numerous tea estates have been established by industrialists and businessmen. Simultaneously, small farmers have been attracted to growing tea as the demand and prices for orthodox tea bring higher returns than traditional crops. As an example, the amount of land used for growing tea has increased by five times and production has increased by more than 500% compared to the pre-liberalization figures. More importantly, significant growth in land use and production both are due to increased participation of small farmers in producing tea. In numbers, small farmers' share of the total land used for growing tea more than doubled in ten years (from 20% in 1994/95 to 41% in 2003/04). Similarly, small farmers' share in total production also rose from 5% in 1994/95 to 33% in 2003/04. Furthermore, although the numbers vary according to their sources, Nepalese tea sector directly employs around 105000 people. The beneficiaries of these employees are many more and are estimated to be around 420000 persons. These are encouraging figures which suggest an expansive role of this cash crop is playing in providing Nepalese farmers with alternative to traditional, low-yield, subsistence farming.