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# Kenya

# Tea

# Kenyan Tea Report

# 2004

**Approved by:**
Fred Kessel
U.S Embassy

**Prepared by:**
Mary Onsongo

**Report Highlights:**
Kenyan tea production averages 280,000 - 294,000 mt annually. Production for 2004 is projected at 295,ooo mt with a 5 % drop forecast for 2005. The drop is attributed to reduced smallholder farmers yield (husbandry practices, high cost of farm inputs) and low farmer morale (irregular and delayed payment). Kenya earns an average of $ 437.5 million from tea exports. The U.S. tea imports from Kenya average 4,500 mt annually. There are efforts to export Kenya tea to the U.S. under AGOA.

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**Production**

Growing and processing capacity

The area under tea has increased from 21,000 hectares in 1963 to the current level of 130,000 hectares. About 26 percent of this area is owned by the plantation estates and the rest by over 400,000 smallholder farmers. Production has increased from 18,000 mt in 1963 to 280,000 – 294,000 mt annually. Production for 2004 is projected at 295, 000 mt with a 5 % drop forecast for 2005.

The Plantation estates account for about 38 % of total production and the smallholder farmers managed under the Kenya Tea Development Agency (KTDA) Limited, account for 62 % of national production. The major commercial plantation owners include major transnationals like Brooke Bond, the tea arm of Anglo-Dutch consumer goods giant Unilever and James Finlay and other locally owned farms.

Kenya has 91 tea factories with a production capacity of 1,365 million kgs of green leaf, with a turn over of 300 million kgs of made tea.

**Tea Production by Sector**

| Year | Estates | | Smallholder (KTDA) | | National | Exports | Value of Exports |
|---|---|---|---|---|---|---|---|
| | Area (HA) | Production (MT) | Area (HA) | Production (MT) | Total Production | Total Exports | Value (KSHS) |
| 1995 | 32,201 | 105,580 | 80,355 | 138,946 | 244,525 | 237,498 | 18,808,319,320 |
| 1996 | 32,523 | 113,091 | 81,159 | 144,071 | 257,162 | 244,237 | 21,618,497,940 |
| 1997 | 32,694 | 91,014 | 84,657 | 129,708 | 220,722 | 198,552 | 24,073,283,560 |
| 1998 | 33,761 | 118,537 | 84,657 | 175,628 | 294,165 | 263,023 | 33,210,769,440 |
| 1999 | 33,884 | 94,853 | 90,317 | 153,855 | 248,708 | 241,739 | 32,732,691,400 |
| 2000 | 35,313 | 90,740 | 90,890 | 145,546 | 236,286 | 216,990 | 35,095,298,440 |
| 2001 | 38,781 | 112,906 | 92,800 | 181,726 | 294,631 | 270,152 | 34,403,967,820 |
| 2002 | 44,399 | 111,197 | 95,577 | 175,905 | 287,102 | 272,459 | 34,306,319,216 |
| 2003 | 44,400 | 112,882 | 95,577 | 180,789 | 293670 | 269,459 | 34,259,845,797 |

Source: Tea Board of Kenya

**U.S Tea Imports (mt)**

| **Year** | **Kenya** | **Other Countries** |
|---|---|---|
| 1999 | 4,692 | 85,171 |
| 2000 | 4,391 | 80,696 |
| 2001 | 4,674 | 86,497 |
| 2002 | 4,785 | 84,156 |
| 2003 | 2,785 | 82,085 |

**Source:** International Bulletin of Statistics-Annual Bulletins, 2003

**The Structure of the Tea Industry**

The Tea Board of Kenya, is the apex regulatory body of the industry which is mandated to license tea manufacturing factories; carry out research through its technical arm Tea Research Foundation (TRF) of Kenya, register growers, buyers, brokers, packers, management agents; promote Kenya tea locally and internationally; disseminate information relating to tea and advice the GOK on policy matters regarding the tea industry.

Other key industry players include the Kenya Tea Growers Association, bringing together the plantation estates; Kenya Tea Zone and Conservation Corporation a government tea project creating a buffer zone between the settlement areas and forests to protect the later from human encroachment; and the East Africa Tea Trade Association which brings together producers, buyers, brokers and packers under whose auspices the tea auction in Mombasa is conducted.

The tea policy and legislation was completed in 2000, through the Tea (Amendment) Act 1999 thus fully liberalizing production, processing and marketing of tea. The tea sector utilizes 80% of the 1% tea cess for the improvement of roads. The sector enjoys zero rated duty on farm inputs and factory equipment.

**Marketing**

The marketing of tea in Kenya is fully liberalized. 75 % of total production is sold through the Mombasa Auction Centre and the rest sold directly by private treaty. Only 5 % percent of the total production is consumed locally and the rest exported. The major export destinations include UK, Pakistan, Egypt, Afghanistan, Sudan Yemen and USA. There are efforts to market tea to the U.S. under AGOA.

Kenya, which predominantly uses the CTC method of manufacture, remains an important black producer, coming third after India and Sri Lanka. Kenyan tea is sold largely in its generic, unbranded form. Privately driven endeavors to tap the largely unexplored value added export market opportunities are commencing albeit in a slow manner. Local generic promotion campaign championed by the Tea Board of Kenya might yield some increased domestic consumption. Kenya’s per capita tea consumption (0.5 kgs), and indeed that of other Africa tea producing countries is minimal and poorly compares with major tea drinkers like the Irish at 2.5 kgs, Pakistanis at 1.5 kgs and the Egyptians at 1 kg per person per year.

KTDA has put in place $ 50 million in a pilot production line for orthodox tea at Kangaita (one of its factories). The objective is to improve the farmers’ price and accessing the gourmet tea segment. Price indications from the Tea Board of Kenya indicate the regular CTC (Cut, Tear and Curl) tea costs $2.50 per kg while orthodox tea retails at $4.

**Limitations of the Tea Industry**

Though historically the tea industry is one of the greatest success stories in Kenyan agriculture, it has several areas that could be improved. The low levels of fertilizer use, poor husbandry practices on farms and management on factories especially among the smallholder farmers have led to yield (2,500 kgs/ha) and production stagnation. The protracted squabbles between farmers and KTDA in recent years over payment and tea collection problems at buying centers have also led to fluctuating production.

Though the organizational structure and delivery of services to smallholder tea farmers by KTDA can be applauded it has poor co-ordination between farmers and the factory management. This has created internal rifts that are clearly evident amongst farmers as they express dissatisfaction on their dues and query management styles.

The imposition of VAT on all teas transacted for export to locally registered tea exporters outside the auction system continues to face criticism by industry analysts. Removal of VAT will make Kenyan tea cheaper by 15 % and encourage Kenyan farmers, consumers and traders. Kenya is faced with stiff competition from other tea producing countries and most importantly from an ever-increasing number of alternative beverages for the end consumer.

Kenya still remains an expensive tea producer due to the high growing (expensive labor, expensive farm inputs) and processing (high electricity prices, high energy and expensive/poor infrastructure) costs incurred.

**Investment Opportunities**

There are investment opportunities in the Kenya tea industry. Kenya hosts the second biggest Auction Centre in the world (after the one in Colombo, Sri Lanka) that attracts teas from across Africa.

1. Only about 2% total tea exports are value added hence an enormous value addition and consequent branding opportunity exists.
2. Kenya primarily produces black CTC teas hence the potential of diversification to other products namely green teas, orthodox teas, ready to drink teas (juice tea), instant tea, and organic tea among others.
3. Production of specialty teas for specific niche markets and direct sales are other opportunities.

Most of this could be undertaken individually, joint ventures with existing producers, packers etc.