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Organización
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Unidas
para la
Agricultura
y la
Alimentación

COMMITTEE ON COMMODITY PROBLEMS

Sixty-sixth Session

Rome, 23 – 25 April 2007

REPORT OF THE SEVENTEENTH SESSION OF THE INTERGOVERNMENTAL GROUP ON TEA Nairobi, Kenya, 29 November – 1 December 2006

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I. INTRODUCTION

1. The Intergovernmental Group on Tea held its Seventeenth Session in Nairobi, Kenya, from 29 November – 1 December 2006. It was attended by 113 delegates from the following member countries: Argentina, Bangladesh, Burundi, Canada, China, France, Germany, India, Indonesia, Iran (the Islamic Republic of), Japan, Kenya, Malawi, Philippines, Rwanda, Sri Lanka, Uganda, United Republic of Tanzania, United Kingdom, United States of America and Zambia. Observers from the Common Fund for Commodities (CFC), the European Tea Committee (ETC), the International Fair Trade Association (IFTA), the International Tea Committee (ITC) and Winrock International also attended. A list of participants was distributed as document CCP:TE 06/Inf.3.

2. The session was formally inaugurated by His Excellency the Vice President of the Republic of Kenya Honourable Dr Arthur Moody Awori, Elder of the Golden Heart, Elder of the Burning Spear, Member of Parliament. The statement of the Director-General, Mr Jacques Diouf, was delivered on his behalf by Mr Castro P. Camarada, FAO Representative in Kenya, and the session was opened by Honourable Peter Kaindi (Kenya), the First Vice-Chairperson of the Sixteenth Session.

3. The Group expressed warm appreciation to the Government of Kenya and particularly to the Tea Board of Kenya for the hospitality provided to delegates and for the opportunity to meet and strengthen international cooperation and interaction among major tea exporting and importing countries.

II. ORGANIZATIONAL MATTERS

A. ELECTION OF CHAIRPERSON AND VICE-CHAIRPERSONS

4. The Group elected the Honourable Kipruto Arap Kirwa, Elder of the Burning Heart, Member of Parliament (Kenya) as Chairperson. Mr Lalith Hettiarachchi (Sri Lanka) was elected as First Vice-chairperson, and Ms Louise Roberge (Canada) was elected as Second Vice-chairperson.

B. ADOPTION OF PROVISIONAL AGENDA AND TIMETABLE

5. The provisional agenda (CCP:TE 06/1) and the provisional timetable (CCP:TE 06/Inf.2) were adopted, with the addition of new agenda items IV.C and IV.E and modification of IV.C to IV.D.

III. MARKET DEVELOPMENT AND OUTLOOK

A. CURRENT MARKET SITUATION AND MEDIUM TERM OUTLOOK

6. The Group reviewed the current market situation and medium term outlook with the assistance of document CCP:TE 06/2. The Group noted that world tea production continued to reach new highs in 2005 when output grew by over 3 percent to reach an estimated 3.5 million tonnes. World tea trade expanded only marginally in 2005, as net exports reached 1.53 million tonnes, while net imports reflected the increases in the Russian Federation, Pakistan, Libya and Sudan. The FAO Composite Price declined by 1.2 percent during 2005, averaging US\$1.64/kg for the year. Some improvement in demand eased supply pressure on prices at the beginning of 2006 when the Composite Price peaked at US\$1.92/kg in February. After some corrections in mid-year, prices strengthened due to weather-induced, tight supplies in Kenya.

7. Several delegates took the opportunity to update information as well as provide insights on medium term projections pertaining to their country. These delegates agreed to provide written

revisions to the Secretariat so that document CCP:TE 06/2 could be updated and projections revised accordingly.

8. Given the persistent problems arising from the collection and collation of data and the generation of medium term projections, a common mechanism to address these deficiencies was recommended. Details have been included under the Intergovernmental Action Plan (V.E).

9. In its review of the world tea market, the Group recognized the fundamental oversupply situation that had persisted in recent years and the likelihood of this situation continuing in the medium term. The Group recommended that strategies had to be devised to address this issue, particularly through the improvement on the demand side as so much effort had been put in improving supply efficiency in the past, which in turn had contributed to the market imbalance.

10. The Group recognized the need to enhance consumption, not only in traditional export markets, but also in producing countries where a great potential existed for expansion, as per capita consumption levels were relatively low. The results of research into the health benefits of tea consumption should be more extensively used in promoting consumption in both producing and importing countries. In addition, the Group recognized the need to devise strategies to exploit demand in value added market segments, including speciality teas. An added concern for the producers in the current market environment was maintaining profitability in the face of rising production costs.

B. MARKET STUDIES OF SELECTED COUNTRIES

11. The Group discussed studies of tea markets in India and China with the assistance of document CCP:TE 06/CRS 1. The Group noted that expanding consumption in producing countries with large population and low per capita tea consumption was probably the most effective way in achieving sustainability of the global tea economy, given the near saturation of consumption levels in traditional tea markets. Therefore, expanding consumption in producing countries could ease supply pressure at the world level and improve tea prices. Of the major producers, China and India were interesting cases in point because their current per capita consumption levels were lower than most, and their strong economic growth rates would underpin the potential for an expansion in consumption. Some clarification and amendments were provided by delegates and insights on tea consumption in India, China and Kenya were provided by the respective delegations.

12. Recommended market studies for the future have been included in the Intergovernmental Action Plan (V.E).

IV. FACTORS AFFECTING DEMAND

A. VALUE CHAIN ANALYSIS AND TEA TRACEABILITY

13. The Group examined this agenda item with the assistance of document CCP:TE 06/4. The Group noted that, the need for traceability arose from food safety and ethical concerns. The identification of such attributes provided an incentive for increased vertical coordination along the supply chain, which might make smallholder participation in the market more difficult.

14. The Group noted that most smallholders in West Java, Indonesia, were unable to export their tea, due to poor quality, limitations of factor markets and the presence of a large number of intermediaries. Globally branded tea companies were leading the development of traceability, through large agro-processors.

15. By contrast, tea smallholders of Tamil Nadu in South India enjoyed access to world markets, due to the support of the United Planters Association of South India, the Government of India's adaptive research and extension centre, the Tea Board and the farmer extension and village self-help groups, which had improved the efficiency of the supply chain and helped

factories attain ISO and HACCP certifications. The Group noted that the institutional support to smallholder tea producers was a key element for their success in a traceability regime, and that required participation of both the public and the private sector.

16. Several delegates noted the estimates of the contribution of smallholders in tea production. The role of public and private institutions in promoting traceability was also discussed, together with the need to support smallholders. In this respect, the Group noted that in India, initiatives undertaken by producer groups were actively supported by the Government. Several delegates noted the difficulty in implementing a traceability system, especially for smallholders when prices were weak. Some delegates proposed that a consultation process similar to that used for the maximum residue levels (MRLs) be implemented to assist growers to identify and establish new geographical indications.

B. QUALITY IMPROVEMENT

17. The Group discussed the economic impact of the imposition of MRLs and ISO 3720 in world trade by analyzing their effects on global supply and demand with the assistance of document CCP:TE 06/5. The Group noted that a partial equilibrium dynamic model of the world tea market was used in that analysis, based on data provided by member countries and the ITC on production, consumption and trade, and on macroeconomic and policy data from the International Monetary Fund and the World Bank. In order to assess the likely economic impact, four scenarios were considered, based on information supplied by member countries, indicating the proportion of production that would not meet current MRL requirements and ISO 3720 standard. The Group noted how the model projected a baseline price scenario in which, by 2015, the level of real world tea prices – as estimated by the FAO Composite Price – would not be significantly different from the present level. Several delegates commented that this was a pessimistic view, implying a low degree of growth in consumption. The Group further noted that the study on the impact of MRLs, despite being restricted to two countries, would imply a relatively stronger positive effect on world prices compared to that of the imposition of ISO 3720. The Group further noted that, despite the marginal impact on global trade, the effect on individual countries could be severe. This led the Group to suggest that adoption be gradual and that enough time should be allowed for producers to adjust to the changing rules.

18. Some delegates indicated that the implementation of ISO 3720 was different from that of MRLs because it implied a dynamic adaptation process to changing targets. Several delegates recommended that a consultative process be followed before implementation, while others highlighted the need for more information on compliance costs and practices, to assist producers, particularly smallholders during implementation.

V. INTERGOVERNMENTAL ACTION

A. TEA PROMOTION ACTIVITIES

19. The Group considered this agenda item with the assistance of document CCP:TE 06/7. The Group noted that FAO had terminated all monitoring and renewal of registration as resources did not permit further work on the Tea Mark.

20. The producing countries recommended that use of the Tea Mark be given to them for their promotion programme on tea. This was endorsed by the Group and the CFC.

B. REPORT OF THE WORKING GROUP ON MAXIMUM RESIDUE LEVELS (MRLs)

21. The Group considered this agenda item with the assistance of documents CCP:TE 06/8 and CCP:TE 06/CRS 2. The Group was informed of progress since its last session and was presented with progress reports from India, Kenya, Sri Lanka, Indonesia, China, Malawi, Japan

and the ETC. The observer from Winrock described the code of conduct scheme currently used in Nepal. The Group noted that requirements of the Sixteenth Session had been achieved and the following progress made:

- A global focus on the issues with key regulatory authorities and the tea trade; and
- A global information exchange had been set up.

22. Several delegates expressed the view that MRLs should be set on *tea brew* rather than leaves, as this was the form in which tea was consumed. In addition, it would be helpful if the cost of conducting field trials in producing countries were given some support. It was also requested that resources be provided for continuing the collection of data by FAO.

23. The toxicology evaluation was a complex procedure. The same was true for setting MRLs on the basis of import tolerances from developing countries. The harmonization of MRLs in the EC (25) was already an important contribution to facilitate the whole process.

24. The Group agreed that cooperation was needed between producers and importers to address the challenges arising from recent MRL regulations in importing countries and generate the data required for submission. For example, the approach presented by the ETC is an effective tool for the continuing efforts to achieve MRLs. To this effect, the Group supported and acknowledged:

- The continued efforts of the producing countries in preparing and collating MRL data for submission, with reference to decisions recorded in the Report of the Sixteenth Session of the IGG on Tea in Bali in 2005;
- The initiative for plant protection in tea for producing and consuming countries;
- The inclusion of other producing and consuming countries, which were not engaged in the work programme, such as Japan, the Russian Federation, Saudi Arabia, Pakistan, Vietnam and Egypt; and
- More emphasis on producing countries which were also large consuming countries.

25. Specifically, the Group recommended that:

- India (Dr T.C. Chaudhuri) and the United Kingdom (Dr A. Scott) continue to co-lead the Working Group to coordinate the programme of work on behalf of the IGG on Tea for pesticide MRLs for tea;
- Dr Chaudhuri and Dr Scott be actively supported in this role by at least one executive nominee from the main producer countries; and
- the FAO Secretariat would help in all practical ways possible.

26. The Group further recommended that an inclusive approach between producing and consuming countries be adopted to complete the action plan before the Eighteenth Session:

a) Short Term Action Plan

- To investigate with regulatory authorities a transition period to allow time for work to be completed.

b) Short to Medium Term Plan

- Review the current activities in the producing countries defined by the meeting in Kolkata in September 2005 and consuming countries; and
- Identify activities which were appropriate to meet the current regulatory environment and Codex Alimentarius.

c) Other Activities

- Engage in discussions with all regulatory authorities, JMPR and other stakeholders to meet the objectives;
- Local industry to establish an alignment with the regulatory authorities;

- Identify the framework of the medium term action plan; and
- Provision of the global information exchange between producing and consuming countries.

27. The Group further recommended that at least two meetings involving producing and consuming countries, as well as other stakeholders, such as Codex Alimentarius, the European Commission and other standards-setting bodies, be held before the next session.

C. PRIORITIES OF THE INTERGOVERNMENTAL GROUP ON TEA

28. The Group re-examined its priorities with the assistance of document CCP:TE 06/6 and statements made by the representative from the CFC. The Group noted that at a meeting between the CFC and the International Commodity Bodies (ICB) at FAO headquarters in Rome on 3 April 2006, a commitment to strengthen interaction in identifying priority areas of cooperation was discussed and agreed upon. As the CFC will be preparing its next Five-Year Action Plan (2008 – 2012) in 2007, the organization requested that each ICB identify themes and priority areas for funding of projects. In response to this request, the Group endorsed the following priority areas:

- Improved market transparency:
 - Collection and dissemination of timely market information on supply, demand and prices;
 - Market research on the structure and functioning of existing and potential growth markets;
 - Improve understanding of distribution channels in order to minimize physical marketing and trading risks.
 - Improved market access:
 - Development of quality and other market standards, including the harmonization of legislation concerning MRLs.
 - Market expansion:
 - Fostering consumption in less developed markets, including markets in developing countries through studies in these countries;
 - Enhancing and sustaining market promotion efforts;
 - Encouraging liberalization of imports;
 - Improving production methods, productivity and quality;
 - Enhancing market infrastructure and support services to facilitate private sector initiatives;
 - Institution-strengthening, including training at all levels;
 - Policy advice on commodity market development;
 - Adopting the ISO 3720 as a recognized standard, including the development of a methodology to implement this standard.
 - Value chain enhancement:
 - Research and development of new end-uses, including the commercialization of value added products;
 - Improvement in international competitiveness of tea through improvements of quality and adaptation and transfer of technology;
 - Horizontal and vertical diversification;
 - Sustainability of production including environmental concerns.
29. Highest priority should be given to:
- Measures to maintain market access through food safety in close cooperation with all stakeholders;
 - Improvement of the supply chain for tea, while emphasizing the need to alleviate poverty, human resource development, food security and environmental considerations.
 - Achieving a market equilibrium.

30. Some delegates suggested additional priorities in the area of promoting consumption. Other specific priorities were suggested by several delegates and noted by the Group. Rather than listing all these, there was enough flexibility to accommodate these priorities.

D. COMMON FUND FOR COMMODITIES PROJECT UPDATES AND PROPOSALS

31. The Group was informed of the status of the two project proposals that had been endorsed by the Group at its previous sessions. The organic tea project in India and China was scheduled for implementation at the beginning of 2007, and the Indonesia-sponsored project proposal had been considered by the internal appraisal committee of the CFC. Comments had been given to the ICB and Indonesia that reformulation was recommended.

32. The Group was presented with three new project proposals:

- The improvement of productivity and quality of smallholder tea in Malawi, Tanzania and Zimbabwe (estimated cost: US\$850 000);
- Food safety management strategies for smallholder tea production in Kenya, Tanzania, Malawi, Uganda, Rwanda and Burundi (estimated cost: US\$1 200 000, of which US\$250 000 would be obtained in kind from regional governments);
- Improvement of marketing efficiency of smallholders tea of South Asia (estimated cost: US\$750 000).

33. The first two were endorsed by the Group for forwarding to the CFC after formulation, while the third was considered, and suggested modifications by the Group had to be incorporated before resubmission through the Bureau for approval.

E. INTERGOVERNMENTAL ACTION PLAN

34. The Group endorsed the following elements of the Action Plan to be implemented before the next session of the Group:

- Development of a methodology to be employed by member countries as a template in the collection of tea production data. This should capture information referred to different farm size, including smallholders and large estates. The template should include provisions aimed at ensuring the regularity of information flow, which should be provided to the Secretariat on a semi-annual basis, as well as provision for the publication and checking of data after compilation by the Secretariat.
- Development of a methodology to be employed by member countries as a template in the collection of tea consumption data. This should capture information referred to actual consumption, rather than retention, derived from statistically significant surveys. The template should also specify a convenient product definition along the supply chain, to which "consumption" has to be referred. The template should include provisions aimed at ensuring the regularity of information flow, which should be provided to the Secretariat on a monthly basis, as well as provision for the publication and checking of data after compilation by the Secretariat.
- Development of a set of parameters to be employed by the Secretariat for projections on production, consumption and trade, based on time series analysis. These should be provided by the member countries on a regular basis, consistent with the timing of the projection exercises, and should capture information on key variables affecting projections, such as population and GDP growth, as well as key structural changes.
- Establishment of deadlines by which statistical information on production, consumption and trade should be provided/revised by member countries and sent to the Secretariat.
- Member countries should provide the Secretariat with revision of data pertaining to their countries.
- Conducting market studies in countries with either high population levels or high production levels and relatively low per capita tea consumption and high potential,

particularly Bangladesh, China, India, Indonesia, Kenya, Pakistan, Ukraine and the Russian Federation, with the view to assess the potential to increase per capita intake.

- Implementation of internationally co-ordinated actions aimed at promoting and expanding the demand for tea. This should also include actions aimed at clarifying and establishing the commercial meaning of the term “tea”, while avoiding confusion with other infusions.
- Formation of a working group to identify potential geographical indications in respect of *Origin Tea* in all producing countries and to suggest solution themes for protection and promotion of the same.
- Adoption of ISO 3720 as a recognized standard. This should include the development of a mechanism to implement this standard, particularly in countries which currently do not have such a quality standard.
- Undertake a study on the economic implication of non-tariff barriers in the world tea market.
- Working Group on Maximum Residue levels (MRLs) to carry out the action plan in V.B to complete the Short term Plan, meet the targets for the Short to Medium Term Plan and establish the other agreed activities.

VI. ACTIVITIES IN OTHER ORGANIZATIONS

35. The representative of the CFC made a short statement on the role and activities of the Fund. The Chairman of the ITC requested that FAO consider using ITC statistics. The request was noted, but a delegate reminded the meeting that this issue had been discussed at the last session and that FAO obtained its data from member governments.

VII. OTHER MATTERS

A. ANY OTHER BUSINESS

36. There was no other business.

B. DATE AND PLACE OF THE EIGHTEENTH SESSION

37. The Group was informed that the date and place of the Eighteenth Session would be determined by the Director-General of FAO in consultation with the Chairperson. The Group appreciated the expression of interest of China to host the Eighteenth Session of the Intergovernmental Group on Tea.

LIST OF DOCUMENTS

Pre-session documents

CCP:TE 06/1	Provisional agenda and agenda notes
CCP:TE 06/2	Current market situation and short term outlook
CCP:TE 06/4	Traceability, supply chains and smallholders: case studies from India and Indonesia
CCP:TE 06/5	Policy developments in the world tea market: economic impact of maximum residue levels and ISO 3720 quality standard
CCP:TE 06/6	Statement of priorities for the Intergovernmental Group on Tea
CCP:TE 06/7	Developments on the International Tea Mark
CCP:TE 06/8	Report of the Working Group on Maximum Residue Levels

In-session documents

CCP:TE 06/Inf.1	Information note on arrangements
CCP:TE 06/Inf.2	Provisional timetable and list of documents
CCP:TE 06/Inf.3	List of delegates and observers

Conference Room Series (CRS) documents

CCP:TE 06/CRS 1	Tea consumption in producing countries: points for discussion on strategies to stimulate tea consumption
CCP:TE 06/CRS 2	Additional details of the Report of the Working Group on Maximum Residue Levels
CCP:TE 06/CRS 3	Summary of the Nairobi International Tea Business Conference
CCP:TE 06/CRS 4	Tea consumption trends in the United States of America
CCP:TE 06/CRS 4 Add.1	Tea consumption trends in the United States of America