

THE TEA INDUSTRY IN BANGLADESH – AN OVERVIEW

Before 1971, during the pre-liberation period all domestically produced tea was entirely consumed within the country i.e. West and East Pakistan. Production during 1970 was 31.6 million kgs. Soon after liberation, the scenario changed dramatically and the country was left with a surplus which required alternative outlets. Teas were consigned to the London auction, barter agreements were signed with countries like the USSR, Poland, other East European countries and Egypt against the import of capital machinery, chemicals, food etc. In 1980 the Special Trade Agreement (STA) was signed with Pakistan. As a result of which export during 1980 increased to 31 million kgs i.e. roughly 76% of the total production. The USSR, Poland, Egypt and Pakistan emerged as major markets for Bangladesh teas.

The captive markets ensured protection to the industry. The price realized for Bangladesh tea was higher than its actual value in the open international market as they had alternative sources of similar quality tea to meet their demand. The side effects of a protected industry was visible, there was hardly any effort to improve quality as everything produced was sold to the captive markets. Neither was there much effort to run the industry efficiently by investing in inputs to increase yield and reduce cost.

When barter agreements and STA's were withdrawn our tea came into stiff competition with tea of other origins. It was during this period that the Bangladesh Tea Rehabilitation Project (BTRP) financed by the ODA was taken up. The project was aimed to help the industry improve productivity and quality in the existing plantation. Producers had to think of fresh ways and means to produce quality tea in accordance with the need of the export markets. Exporters at the same time had to renew their strategies to market tea in the face of stiff competition from other origins.

The tea season in 1991-92, 1992-93 were termed as year of losses, depressed tea prices caused serious difficulties for the tea industry and the situation became very grave.

Egypt, USSR, Iraq, Iran and China were all gone. Poland emerged as the largest buyer which was possible due to the marketing effort of the private sector exporters.

Little by little, the scenario changed . As the volume of export declined, a continued growth in Bangladesh's internal consumption was noticeable, so was the increase in production. As domestic demand increased and exportable surplus shrank, tea prices once again inclined and were expensive compared to similar qualities available in other producing countries.

PRODUCTION

Bangladesh has a history of 170 years of tea plantation. Tea was first grown in Bangladesh in Kodalaya of Chittagong in 1828. Malnicherra in Sylhet was the first planned tea garden in the country under the ownership of Sylhet tea Company, between 1856-1860. Tea plantation labourers were recruited from Bihar, Orissa, Madras, Uttar Pradesh, Madhya Pradesh, Bakra and also Nepal.

Currently there are 169 tea gardens in the country. Production during 2015 was 66.35 million kgs. The total area allocated for tea is 115707.89 HA, the area utilized for tea production is 59609.43 HA, the total number of labourers is 122840, the number of staff is 2891, and there are 458 Officers. The national yield is 1270 kgs per HA. Although production of tea is primarily dominated by Sylhet and Chittagong, in recent decades tea plantation has spread to the Chittagong Hill Tracts and in Panchagar, Thakurgaon in North Bengal . Plans of growing tea at the state level in Mymensingh, Comilla, Gazipore, Jamalpur, Netrakona and Cox's Bazar are also in the offing. Bangladesh produces CTC tea only.

DOMESTIC CONSUMPTION AND IMPORT

87% percent of the domestic market is controlled by the blenders while loose tea traders account for the rest of the market. Today almost all tea consumed domestically is in

branded form. There are several nationwide brands and hundreds of localized brands competing for this growing market. Some of the major blenders are:-

M.M. Ispahani Ltd.

Abul Khair Consumers Product Ltd.

Meghna Tea Co.Ltd.,

Unilever (BD) Ltd.

M.Ahmed Tea & Lands Co.Ltd.

HRC Products Ltd.

Danish Foods Ltd.

Tetley ACI(BD) Ltd.,

Shaw Wallace (BD) Ltd.

and few others.

The parent body of all Blenders, loose tea traders, Tea Brokers and Warehouses is the Tea Traders Association of Bangladesh (TTAB). It was formed in 1958. It protects and promotes interest of the trade as a whole. The association is a member of the Federation of the Bangladesh Chamber of Commerce and Industry, the apex body of Trade and Industry.

Under the TTAB auctions are being held, 45 auctions in a tea season which begins at the end of April and continues till Mid March of the following year. The total number of member of the TTAB stands at 251 which includes warehouses, buyers, brokers and 4 seller members. More than 100 buyers are regular and active in the auction.

In the year 1980 production was 40 million kgs, export 30.9 million kgs, with the balance consumed in the domestic market. In 1990 production was 45.8 million kgs, export 26.9 million kgs, 18.9 million kgs was consumed in the internal market. In 2000 production was 52.64 million kgs, export 18.1 million kgs, and internal consumption was 34.54

million kgs. In 2010 production was 59.16 million kgs, export 0.91 million kgs, 58.25 million kgs were consumed internally.

Domestic consumption increased due to rapid urbanization, improved living standards, better distribution as a result of improved road communications, better marketing and promotional techniques and ensuring a high level of consistency and quality of the product. With the onset of a free market economy, all sorts of controls by the Tea Board were withdrawn, a level playing field was created, blenders were more active with their brands, and the competition thus created gave an initial boost to domestic consumption. Huge capital was invested by the organized local private blenders and multinationals as well as improving the overall infrastructure from production (procurement to blending & packaging) to marketing. Sluggish growth transformed to rapid and sustainable growth. With the improvement of the rural economic environment, steady population growth as well as the emergence of an economically viable middle class, domestic consumption crossed 80 million kgs in 2015. Production fell short and the surplus had to be imported.

The import of tea began in the year 2012 when 10.60 million kgs were imported, 16.23 million kgs were imported in 2013, 6.91 million kgs in 2014, and in 2015, 9.9 million kgs have been imported to meet the growing domestic demand.

Production was falling short of demand since 2007 and by 2010 demand outstripped production. Production currently is increasing at the rate of 3% to 4% per year while consumption at 6.5% . Presently the country's estimated total consumption is close to 83 million kgs whereas total crop in 2016 has been estimated to be somewhere around 70 to 72 million kgs.

To protect the interest of the growers, the Government in their budget for the year 2016-17 has imposed a tariff value of US\$1.60 per kg with a total duty and VAT at 85% on tea. This has already affected the price in Chittagong auction and teas are selling at close to US\$3.00 per kg.

A 12 year strategic development plan 2012-2023 has been undertaken by the Tea Board of Bangladesh, the plan has a target of taking the tea production to 100 million kgs by the year 2023. The plan includes 10 projects, the Ministry of Finance, Ministry of Commerce and the Central Bank are already working on it. The plan includes bringing 6440 HA of unutilized land under tea production.

The increase of duty and the imposition of a tariff may have a short term affect but in the long term it might prove ineffective. Tea has become a fact of life in Bangladesh. The only way out is to increase production. The shortfall at present is almost 10 to 15 million kgs, prices in the auction are soaring, the border around our country is porous, and we do not want the floodgates to open.

The agricultural sector is the largest employment sector in the country and comprises about 16% of GDP. But the productivity is behind its potential. It is constrained by challenges which includes degradation of soil, climate change, age old bushes, insufficient investment in research and failure to adopt modern cultivation methods.

Producers have to come-up with strategic measures to be able to maximize production utilizing all means that they can put their hands on. The porous border can be a threat, with huge duty and tariff on the one hand and the yawning gap between demand and supply on the other, the protection to the industry may prove to be counter productive and risky too.