TEA DEVELOPMENT IN NEPAL: OPPORTUNITIES AND CHALLENGES

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ABSTRACTS

The global tea connoisseurs had already remarked Nepali tea as one of the best ever in the world. This connotation itself is a self explanatory that clearly indicates the future of tea in Nepal. Nepal has one and half century experience in tea development sector. But, tea industry in Nepal took momentum only after the private sector involved in this sector. Tea is recognized as third export item of Nepal. Tea, scientifically known as camellia sinesis is not a new object for Nepal. The history of tea in Nepal dates back to 1863 AD when the first tea plantation was noticed in Ilam district. After 1950 democratic movement, the door opened for private sector to invest in tea industry. Following after formation of NTCDB, the National Tea Policy has been introduced in the year 2000. In Nepal, tea sector contributes 0.17 percent to the total Agriculture Gross Domestic Products (AGDP) and also contributes 6.48 percent to the total agro products export. Tea sector is also a very good platform for employment generation particularly for rural women employment. Beside that it is a good source of revenue for the government. There are many challenges that yet to be addressed by the related stakeholders. Technical Barriers to Trade (TBT) agreement was one of the mandatory obligations of the World Trade Organization (WTO). Nepal as a member of the WTO must follow the TBT provision. Quality Certification is another big challenge in tea sector. Furthermore, price competitiveness is also a great challenge. In Nepal, auction system is not yet introduced. Auction market is necessary to bring together buyers and sellers, and ensure transparency. It is already cleared that tea is a potential export oriented cash crop to earn foreign currency with many opportunities to develop this sector. Therefore, both the public and private sectors involving in this sector must be prudent to cash in the opportunities. If the quality and standard issues are taken seriously by the Nepalese tea traders, Nepal, no doubt, can increase its share in the global market.

The unique geo-physical character and climatic variation permits a wide range of Orthodox and CTC tea production in Nepal. Outstanding aroma, fusion, taste and color are the attribution of Nepali tea. The global tea connoisseurs had already remarked Nepali tea as one of the best ever in the world. This connotation itself is a self explanatory that clearly indicates the future of tea in Nepal.

Nepal has one and half century experience in tea development sector. But, tea industry in Nepal took momentum only after the private sector involved in tea market. The area and production of tea is increasing in each year as compared to its previous years. Out of total Orthodox tea production, only 7 to 10 percent are being consumed in home and the rest are being exported. There are many orthodox tea factories in Nepal including 24 large ones. It is estimated that an approximate of 3500 tons of orthodox tea are exported annually. In 2011, 166 farmers were certified as "organic" by the Institute of Marketecology (IMO) which is officially recognized by the EU Commission. Another 64 were in transition stage.

Tea now is recognized as third export item of Nepal. Similarly, Nepal Trade Integration Strategy (NTIS) 2010 has identified tea as an "export potential sectors" in Nepal. It has widespread socio-economic implication for the country. In Nepal, tea sector contributes 0.17 percent of the total Agriculture Gross Domestic Products (AGDP) and also contributes 6.48 percent to the total agro products export. At present, half of the total CTC tea produced in Nepal is enough to meet the domestic market. Albeit it is steady, it is good sign for the stakeholders involving in tea sector.

THE HISTORY

Tea, scientifically known as camellia sinesis is not a new object for Nepal. The history of tea in Nepal dates back to 1863 AD when the first tea plantation was noticed in Ilam district. Mr. Gajraj Singh is said to be the first tea planter in Ilam. The first tea entrepreneurship was born in 1878 establishing a tea processing factory in Ilam district. After long time interval, the Soktim Tea Estate was established in Jhapa district. It would be noteworthy that tea plantation started in Darjeeling in the same decade. However, the budding tea industry of Nepal could not take pace and failed to fulfill even domestic demand of tea due to the political disorder during Rana reign.

After 1950 democratic movement, the door opened for private sector to invest in tea industry. As a result, the first private sector driven "Budhakaran" Tea Estate was established in 1959. Nepal Tea Development Corporation (NTDC) was set up in 1966. It could be considered as the first positive intervention of the government in tea development sector. Another tea processing factory was set up in Ilam in 1978. Few years later, another factory was set up in Soktim, Jhapa.

In 1982, during the reign of King Birendra, the government of Nepal declared Jhapa, Ilam, Paanchthar, Dhankuta, and Tehrathum district as tea zone of Nepal that added new dimension in tea development sector. The NTDC had made good efforts to boost up tea sector during period of 1978 to 1990. At the same time, the government has introduced privatization and liberalization policy to encourage the private sector to invest in tea development sector. The nation felt necessary to boost up coffee sector also side by side with tea sector and formed Nepal Tea and Coffee Development Board (NTCDB) in 1993 under Tea and Coffee Development Board Act 1992 of Nepal. Following after formation of NTCDB, the National Tea Policy has been introduced in the year 2000. The policy as such has focused on institutional development of tea sector in Nepal.

At present, there are 140 registered Tea Estates that contributes 85 percent of the total national tea production. Similarly, there are 40 tea processing centre (Orthodox – 25 and CTC 15). About 60 tea related cooperatives are running in the country. Many vicissitudes have been crossed to reach to the present situation of tea development in Nepal.

PRESENT STATUS

Area and Production

According to NTCDB, Nepal is self sustained in CTC tea. The half of the total CTC production is enough to meet the domestic market.

The area and production of tea in general is increasing in each year due to expansion of area. Previously, the area under tea cultivation was limited in few districts. But, now it has been extended in different parts of the country like Taplejung, Nuwakot, Sindupalchowk, Dolkha, Sankhuwasabha, Bhojpur, Gorkha, Kaski, Solukhumbu, Lalitpur, Okhaldhunga, Kavre, Sindhuli, Dhading, Rasuwa, and Khotang districts. There is still opportunity for expansion of the tea cultivation area in the country.

Following graph depicts the area and production of tea in Nepal.

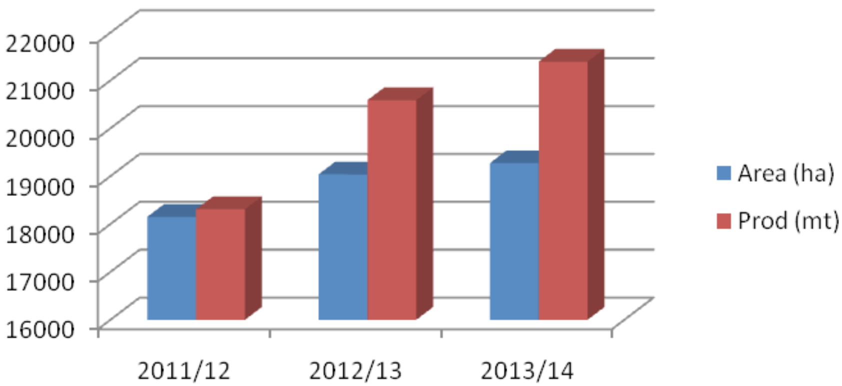

Figure 1: Area and Production Trend of Tea in Nepal

Above graph clearly shows the increasing trend of tea area and production in Nepal. In 2011/12, the area under tea cultivation was 18309 ha, that was increased by 887 hectares in 2012/13 and finally in 2013/14, the area coverage reached to 19271 hectares. The production is also increasing each year. The tea production in 2011/12 was 18309 tons, in 2012/13 it was 20588 tons and in 2013/14, it was recorded to 21394 tons.

The breakdown of tea area and production by types of tea is shown in the table below.

Table 1: Area and Production of Orthodox and CTC Tea in Nepal 2012/13

	Orthodox		CTC	
	Area (ha)	Production (mt)	Area (ha)	Production (mt)
Garden	3383	986.7	6569	11133.5
Farmers	5403	2050.9	3681	6416.8
Total:	8786	3037.6	10250	17550.45

Similarly, the table below shows the area and production of tea under tea zones and other areas.

Table 2: Area and Production of Tea Zones (2013/14)

District		Area (ha)	Production (Mt)
1.	Jhapa	10325	18045
2.	Ilam	5742	2744
3.	Dhankuta	467	154
4.	Paanchthar	938	264
5.	Tehrthum	287	69
6.	Others	1517	118
Total:		19271	21394

Source: Statistical Information on Nepalese Agriculture, 2013/14, MoAD

EXPORT AND IMPORT

The share of Nepali tea in the global export markets is nominal. It is about 2-3 percent only. Though small share, the export scenario is positive. Each and every year the volume of export is increasing. Nepal exports 95 percent of the total Orthodox tea produced in Nepal. Similarly, out of the total CTC tea production, about 55 percent is being exported specially in India, Pakistan and Bangladesh. In 2013/14, Nepal earned 2 billion Nepalese rupees exporting 11,923 tons of various categorized tea components such Green tea without fermentation in immediate packaging, green tea not fermented, black tea fermented and partly fermented, and black tea fermented in different global markets. In the same year, Nepal imported 299.2 tons of all those categorized tea from different countries.

On the other hand, the volume of import has been found fluctuated, primarily the CTC tea. Details are given in table no. 4 and 5 below.

Table 3: Export FY 2013/14

Types	Exporting Partners	Unit	Quantity	Value (NRs)
1. Green tea not fermented in immediate packaging	China, Japan, Singapore, Thailand, India, Canada, USA, Denmark, France, Germany, UK, Czech Republic	kg	115873	11661691
2. Green tea not fermented	Japan, Korea R, Malaysia, India, Germany, Ukraine, Australia	kg	129648	20326182
3. Black Tea fermented and partly fermented	China, Japan, India, Canada, USA, France, Germany, Netherlands, UK, Norway, Russia, Ukraine, Russia	kg	696936	24148449
4. Black Tea fermented	Myanmar, China, Hongkong, Japan, Malaysia, Philippines, Qatar, Singapore, Taiwan, Yemen, India, Canada, USA, Austria, Denmark, France, Germany, Netherlands, Sweden, UK, Czech Republic, Lithuania, Russia, Switzerland, Slovakia, Australia	kg	11080531	1973302921
Total			11,922,988	2,019,439,243

Source: Statistical Information on Nepalese Agriculture, 2013/14 MoAD

Table 4: Import FY 2013/14

Types	Importing Partners	Unit	Quantity	Value (NRs)
1. Green tea not fermented in immediate packaging	China, Japan, Thailand, India	kg	640	578130
2. Green tea not fermented	China, Taiwan, Thailand, India, USA	kg	1411	1959900
3. Black Tea fermented and partly fermented	China, Lebanon, Sri Lanka, Thailand, UAE, India, USA, Italy, UK	kg	26327	5723983
4. Black Tea fermented	China, Indonesia, Japan, Korea PR, Malaysia, Saudi Arabia, Singapore, Sri Lanka, Thailand, Vietnam, India, South Africa, Cameroon, Italy, UK	kg	270869	47568273
Total			299,247	54,830,286

Source: Statistical Information on Nepalese Agriculture, 2013/14 MoAD

As the production is increasing, the trading partners are also increasing in the global market. However India is the major trading partner till date.

Export Import trend of tea

The graph below indicates the trend of tea export and import in Nepal.

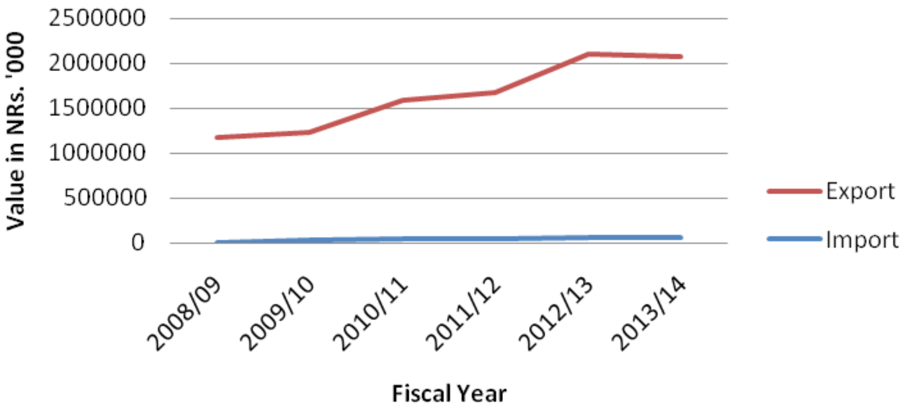

Figure 2: Export Import Trend

In above graph, the value of export is seen more than the value of import. This is somehow positive sign though the share of Nepalese tea in international market. Since the FY 2008/09, the value of export is increasing till 2012/13. In 2013/14, the value of export dropped slightly from NRs. 2.04 billion to Rs. 2.01 billion.

OPPORTUNITIES

Favorable climatic condition for tea cultivation is one the best opportunity for tea development in Nepal. The tea cultivation has been extended in different part of the country which was previously limited only in certain eastern part. There are still many other potential area that could be utilized for further tea expansion. More the cultivation means more the production. This will help increasing present status of export.

In global market, tea exports by country totaled US$ 6,966,226,000 (Nepalese Rs. 696,622,600,000) in 2014, a 7.3 percent increase in value since 2010. It is of course down 10 percent as compared to the value transacted in 2013. Sri Lanka shares 23.1 percent of total export value whereas Nepal shares a total of 0.28 percent only in global export. It is clear that Nepal can increase its share in global market increasing its present volume of export. Therefore, by cashing in the favorable climatic condition, Nepal can produce more tea in the future using land suitable for tea cultivation and increase its volume of export in the global market.

The aroma of Nepalese tea, its blending, taste and color are another strong points associated with tea sector in Nepal. The tea connoisseurs had already been appraised these things. This is good opportunity for Nepal to enter in new global market along with increased shares in existing markets.

Tea sector is also a very good platform for employment generation particularly for rural women employment. It is believed that more than a hundred thousand people are employed in this sector and it could be doubled or more than that in the future. Furthermore, it has also an important sector that helps creating entrepreneurships. There is good opportunity for tea entrepreneurs to enter in this sector which again creates additional employment opportunity.

Beside that it is a good source of revenue for the government. Just one digit tax levy on tea export and domestic sales will generates good revenue to the nation.

CHALLENGES

It is no doubt that Nepal has great opportunity in tea sector from the point of view of employment and income generation. But it does not mean that this sector is free of challenge. There are many challenges that yet to be addressed by the related stakeholders.

It does not matter whether it is in domestic market or external market, quality, quantity and the competitiveness plays a very decisive role. Any buyer wants the seller to supply the product as much as the quantity he or she need in time. "Is Nepal reached in a position to supply as much as quantity the buyers need in time?" is a great challenging question. "Certainly not" is the answer. So, the volume of products is one the great challenges to the Nepalese tea exporters.

Another major challenge is associated with quality matter. Technical Barriers to Trade (TBT) agreement was one of the mandatory obligations of the WTO. Nepal as a member of the World Trade Organization (WTO) must follow the TBT provision. It has sure opened the door for Nepalese products to enter the new markets. TBT protects not only the health, safety and satisfaction of consumers but also present a challenge for export oriented producers. Public health is the most concern of all the developed countries. So, they have given first priority to the public health and they watch strictly on imported goods.

The definition of "safe" consumer goods, necessary protection and their policy differs from one to next country. It is not so easy to Nepalese tea exporters to guarantee the necessary compliances and also very expensive to follow the process. Therefore, the exporters particularly the orthodox tea exporters are seen not so serious in following TBT provisions. In the mean time, an indiscriminate use of chemical pesticides by some producers has caused all Nepalese tea to be scrutinized by importing markets.

Quality Certification is another big challenge in tea sector. In Nepal, there is no internationally recognized laboratory with modern equipment and technology that could test and certify the quality and standard of Nepalese tea. As a result, Nepal has to send the sample tea to Kolkata lab, India to test the quality which is a not only expensive but also time consuming. However, the government effort is continuing for the establishment of such type of laboratory in the country through Department of Food Technology and Quality Control.

Furthermore, price competitiveness is also a great challenge. Due to lack of labor, lack of adequate facilities, old age technology adaptation, and poor infrastructures, the production cost of Nepalese tea is comparatively high. Even in South Asia, there are big tea producers and exporters countries like Sri Lanka, China, India, and Vietnam having better developed packaging and bagging capacity competing in the global tea market. At present situation, it is very difficult for Nepal to compete with them. How to compete with them is a big challenge for Nepalese tea exporters.

In most of the countries, tea trade is done by auction but in Nepal, auction system is not yet introduced. So far the auction system is concerned, it is not so easy to implement in practical. There are still some traders who are not seen that much interested in introducing the system. The volume of production is not enough for auction system. To make auction system successful, the private sector involving tea trades have to accept the auction process though they have to bear loss for the time being. Auction market is necessary to bring together buyers and sellers, and ensure transparency.

CONCLUDING REMARKS

It is already cleared that tea is a potential export oriented cash crop to earn foreign currency with many opportunities to develop this sector. Therefore, both the public and private sectors involving in this sector must be prudent to cash in the opportunities. The state must play the effective facilitators role to promote this sector and the private sector also be encouraged to invest in this sector. The most important fact is to increase the present status of export and its shares in the global market. For this, special priority should be given to improve quality of the product. The exporters also need to bear in mind Sanitary and Phyto-Sanitary (SPS) and TBT requirements in destination markets. If the quality and standard issues are taken seriously by the Nepalese tea traders, Nepal, no doubt, can increase its share in the global market. But, at the same time, the government of Nepal also lobby the WTO to get maximum facilities that a under developed country can received under Trade Related Technical Assistance (TRTA), and Aid for Trade (AfT).

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