Tea Market Update

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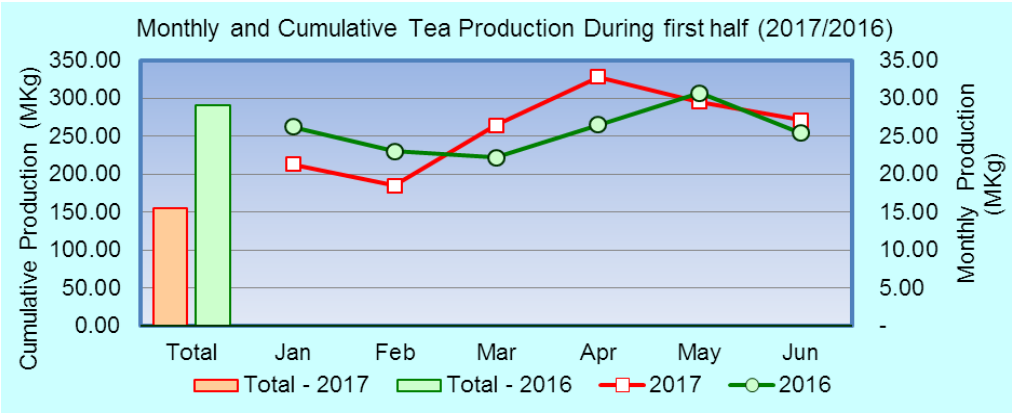
Flashing Floods Attacked Tea Production in Second quarter

The second quarter floods and landslides caused by heavy monsoon rains in Sri Lanka could cease tea production since some of the worst affected were tea-growing regions of the south and Sabaragamuwa. Especially, in low grown region Rathnapura district where over 20,000 people faced flash floods. In addition to Galle, Neluwa, Tawalama, Niyagama, Baddegama areas were flooded. Southern region is the area which makes up the bulk of the island's tea crop.

The floods and landslides also disrupted tea transportation which was reduce volumes at the Colombo auctions.

As a result, the average auction prices recorded a positive year-on-year (YoY) growth continuously till the month of June 2017. The sharp pick up in average auction prices recording double-digit growth (YoY) in each subsequent month, driven by the low volume coming in to the auctions.



General Overview

Economy

According to the CBSL, the cumulative earnings from exports grew by 5.2 per cent (year-on-year) to US dollars 5,398 million during the first half of 2017, as a result of high income received from exports of tea, transport equipment, petroleum products and machinery and mechanical appliances. However, export earnings from textiles and garments, gems, diamonds and jewelry and leather, travel goods and footwear declined during the period under consideration. However, the cumulative trade deficit during the first half of 2017 increased to US dollars 4,753 million from US dollars 4,191 million in the corresponding period of 2016.

In terms of exchange rate movements, the rupee recorded a modest depreciation of 2.6 per cent against the US dollar from end 2016 up to 06 July 2017. Reflecting cross-currency movements, the rupee also depreciated against all other major currencies as well.

Tea Industry

Sri Lanka's tea production had been started up to increase since March and continued till the present after prolong, adverse weather conditions started from 2016. But it has not come to a level which could satisfactorily fill the production deficit subsequently born. Under this condition, an 8% production growth was reported for the second quarter of 2017.

Continue in page ……………5

Tea Production

The severe drop of production which Sri Lanka's Tea Industry suffered during the first quarter has been recovered with its favorable and predicted crop development . This crop improvement was begun in the month of March and it was continued with a positive trend in the April also recording a 24% growth. Though the production was declined in May it was again recovered by June. However this quarter records an overall 8% tea production growth compared to previous year.

Table 1 - Total and Monthly Tea Production April-June 2017/2016 (Units :MT)

Month	2017	2016	Difference	Change %
April	32,790	26,471	6319	23.87
May	29,459	30,627	-1168	-3.81
June	27,103	25,360	1742	6.87
Total	**89,352**	**82,459**	**6893**	**8.36**

First six months tea production in all elevations reached a marginal increase figure of 155.5 Mkg at the end of June 2017. Analyzing the present record increase of 16.59Mkg over the production of same period of last year , it is very likely that this year tea production will not be able to reach 300Mkg but will be surpassing the 2009 total figure of 291Mkg. Table 2 below, depicts the cumulative production compared with the 2016 quantities. It is evident from table 2 that the production of CTC and green tea categories maintained a notable increase of volumes while orthodox tea category registered slightly increased volumes as against corresponding period of last year.

Table 2 - Cumulative tea production according to elevation and category till June 2017 (Units :Mkg)

Category	Jan-June (MKg.)		Change	
	2017	2016	Qty (MKg.)	%
Elevation				
High	35.76	36.23	-0.47	-1.30
Medium	24.21	24.09	0.12	0.49
Low	96.50	93.52	2.97	3.18
Total	**156.46**	**153.84**	**2.62**	**1.70**
Processing Method				
Orthodox	144.38	142.58	1.80	1.26
CTC	10.57	9.93	0.64	6.43
Green Tea	1.52	1.33	0.18	13.70
Total	**156.46**	**153.84**	**2.62**	**1.70**

Following private sector and public sector production would account for the major increase in volume share of total tea production, other marginal fallen registered in plantation companies with 53.87 Mkg accounted for 3.01% drop. A production drop comparison is shown in table 3.

Table 3 – Distribution of Tea Production January-June 2017/2016 (Units: MKg)

Sector	2017 - Jan to June		2016 - Jan to June		% Change
	(Qty MKg.)	%	(Qty MKg.)	%	
Private	100.22	64.05	96.37	62.64	3.99
Plantation Co.	53.87	34.43	55.55	36.10	-3.01
Public	2.37	1.52	1.93	1.25	23.14
Total	**156.46**	**100.00**	**153.84**	**100.00**	**1.70**

Table 4 - District wise tea production comparison as at June 2017 /2016(MT)

Admin District	2017	2016	Growth	Growth %
Badulla	15,629	14,347	1283	8.94
Colombo	337	305	32	10.61
Galle	21,703	21,135	568	2.69
Hambantota	88	107	-19	-17.69
Kalutara	10,150	9,154	996	10.88
Kandy	17,582	17,180	402	2.34
Kegalle	4,176	4,138	38	0.92
Matale	641	745	-104	-13.97
Matara	18,877	17,232	1645	9.55
Nuwara Eliya	31,819	33,448	-1629	-4.87
Ratnapura	35,462	36,055	-592	-1.64
Total	**156,464**	**153,845**	**2,619**	**1.70**

As shown in table 4 above, tea production in all districts showed a considerable growth except Hambantota, Matale, Nuwaraeliya and Rathnapura districts. However Colombo, Badulla and Matara districts were registered a notable increase in tea production.

Tea Marketing

The Colombo Tea Auction has been experienced a giant price increase of 41% though the sold volume showed around 5 million kilograms improvement. High grown teas indicated the most significant volume growth while low grown teas attributed for highest average price growth.

Table 5 –Teas Sold and prices fetched in second quarter 2017/2016 Unit: Qty-Mkg, Price: Rs/Kg

Eleva-tion	2017 - April to June			2016 - April to June		
	Qty (MKg)	Price (SL Rs)	Price (US$)	Qty (MKg)	Price (SL Rs)	Price (US$)
High	18.55	564.19	3.70	16.64	420.78	2.90
Medium	13.65	579.25	3.80	12.15	401.12	2.77
Low	45.11	659.64	4.33	44.07	460.03	3.17
Total	**77.31**	**622.54**	**4.09**	**72.86**	**441.24**	**3.04**

As per the table 6 below, the tea prices for all sub districts were significantly improved due to the huge demand generated from exporters. Uda Pussellawa has achieved the 48% growth of average price during January to June compared to 2016 same period. The price increase continued from first quarter seems affects in this quarter as well even though tea production increased marginally.

Table 6 – First half Colombo Tea Auction sales comparison 2017/2016 (Rs/Kg)

Sub District	January to June 2017			
	2017	2016	Price change per kg	Change %
Nuwara Eliya	583.92	413.74	170.18	41.13
Westerns (8 areas)	595.48	435.95	159.53	36.59
Mediums(9 areas)	566.74	386.14	180.60	46.77
Uda Pussellawa(2 areas)	554.09	375.70	178.39	47.48
Uvas(8 areas)	584.79	399.73	185.06	46.30
Low Growns(10 areas)	640.43	438.20	202.23	46.15
Average price	**615.32**	**425.38**	**189.95**	**44.65**

Nanuoya, Lindula, Talawakele agro climatic districts under western region showed a Rs. 613.14 as the highest cumulative average price for first six months of 2017 while Rs. 644.00 from Kotmale recorded from mediums as the highest. All the agro climatic districts in Low Grown region were registered at a quite higher average price exceeding Rs. 600.00. per kilogram. This is the historical achievements in Colombo Tea Auction price realization in Rupee term as well as in US dolor term per Kilogram.

Table 7: Teas sold and prices fetched by distribution channels in second quarter

Different channels	Second Quarter			
	2017		2016	
	Qty (MKg.)	Price (Rs./Kg.)	Qty (MKg.)	Price (Rs./Kg.)
Public Auction	76.09	621.46	71.73	439.20
Private Sales	0.78	692.15	0.69	555.34
Direct Sales	0.44	686.61	0.44	593.07
Total	**77.31**	**622.54**	**72.86**	**441.24**

The above table 7 depicted that in line with the production increased from March the tea sales also showed an improvement except direct sales. However the average prices for all channels are showing a continuous increase with its demand. This demand was occurred due to the drop of Kenyan tea market influenced by drought and the production deficit of Sri Lanka's market is still yet to recover.

Table 8 –Grade wise quantity sold and price comparison during the first half 2017

Grades	Sold Qty (Kgs)	Avg. Price
ORTH-FBOPF1/FBOPF	17,339,914.00	679.55
ORTH-BOPF	14,141,901.00	588.41
ORTH-FOP/OP1/OP	13,033,613.50	651.85
ORTH-OPA	11,532,643.00	580.50
ORTH-FBOP1/FBOP	11,289,246.00	678.98
ORTH-BP/BM	10,365,531.00	518.04
ORTH-FP/PEK	9,678,164.00	679.35
ORTH-DUST1	8,049,382.24	579.19
ORTH-PEK1	7,874,796.50	707.07
ORTH-BOP1A	7,152,186.00	521.70
ORTH-BOP	6,993,339.50	620.97
ORTH-BOP1	3,866,099.50	700.16
CTC-PF1	5,395,722.00	567.41
CTC-PD	1,657,998.00	564.96
CTC-BP1/BPS	2,000,390.00	506.29
OTHERS	23,261,001.42	584.95
Total	**153,631,927.66**	**615.32**

Above Table shows that, the highest quantity of 17.34MKgs offered to Colombo Tea Auction by Orthodox FBOPF1/FBOPF grade teas and fetched average price level of Rs. 679.55/Kg during the first half of 2017. Following tippy teas continued to attract good demand.

Tea Exports

Table 9 - Export Statistics for each month during second quarter 2017/2016 -Units : Mkgs

Category	2017		2016		Change	
	Qty	FOB	Qty	FOB	Qty	FOB
April	20.12	822.83	22.18	604.77	-2.06	218.06
May	24.31	824.43	21.26	617.51	3.05	206.92
June	25.85	819.35	28.57	619.91	-2.72	199.44
Total	**70.28**	**822.10**	**72.01**	**614.54**	**-1.72**	**207.56**

A gradual increment of exports can be observed during the second quarter. The main reason is the improvement in tea production, Kenyan tea export drop and the existing demand for Ceylon Tea though prices fetched higher.. However the FOB price for June 2017 has been slightly declined compared to May 2017. The overall FOB price increase for the second quarter can be observed as a 33% growth.

An analysis of first half exports of 2017 reflects, 54Mkgs of value added teas which accounts for 38% of the total. This is the results of the improved performance in the Iraq tea packets category. Exports of green tea improved to 1.27million kilograms and it helped to improve value added share slightly. The re-exports of imported teas registered a sizable decrease of volume by 7% to reach 3.6 million kilograms for the period.

Table 10 – Tea Exports comparison during First Half 2017 Units: Qty-MT, FOB—Rs/Kg, Value– Rs. Millions

Category	2017			2016			Change			% Change	
	Qty	FOB	Value	Qty	FOB	Value	Qty	FOB	Value	Qty	FOB
Bulk	79,047	714.19	56,455	87,809	507.07	44,526	-8,762	207.12	11,929	-9.98	40.85
Packets	43,685	777.53	33,967	42,004	600.80	25,236	1,681	176.74	8,731	4.00	29.42
Tea Bags	9,080	1,350.49	12,263	10,611	1,162.72	12,338	-1,531	187.77	-75	-14.43	16.15
Instant Tea	1,016	1,197.25	1,216	1,077	1,233.34	1,328	-61	-36.09	-112	-5.66	-2.93
Green Tea	1,073	1,534.89	1,647	1,271	1,271.74	1,617	-198	263.15	30	-15.60	20.69
Sub Total	**133,902**	**788.24**	**105,547**	**142,773**	**595.66**	**85,044**	**-8,871**	**192.58**	**20,503**	**-6.21**	**32.33**
Re-Exports	4,787	1,022.78	4,895.55	3,686	1160.6	4,278	1,100	-137.82	617	29.85	-11.87
Total	**138,688**	**796.34**	**110,442.89**	**146,459**	**609.88**	**89,322**	**-7,771**	**186.46**	**21,121**	**-5.31**	**30.57**

During the first six months of 2017, as depicted Table 10 above, quantity exported decreased, but unit FOB price and the revenue to the country from tea increased significantly. In the January-June 2017 period total exports were down by 7.8 million kgs to 138.7 million kgs from the same period in 2016.

Table 11 -Top Ten destinations of Ceylon tea during January – June 2017/2016 Units: Qty - MKg

Country	2017	2016	Change		Total Exports %	
			Qty	%	2017	2016
Turkey	17.06	11.94	5.12	42.85	12.7	8.4
Russia	16.37	17.85	-1.47	-8.26	12.2	12.5
Iraq	15.65	18.40	-2.75	-14.95	11.7	12.9
Iran	12.56	16.52	-3.95	-23.94	9.4	11.6
UAE	7.74	10.77	-3.03	-28.12	5.8	7.5
Libya	6.26	3.60	2.67	74.22	4.7	2.5
Azerbaijan	5.85	4.74	1.11	23.50	4.4	3.3
Japan	3.98	3.94	0.05	1.18	3.0	2.8
China	3.81	3.64	0.17	4.66	2.8	2.5
Syria	3.42	5.89	-2.47	-41.95	2.6	4.1
Total Exports	**92.71**	**97.28**	**-4.57**	**-4.69**	**69.2**	**68.1**

- except re-export volume

Turkey maintained the leading position of main destinations of Ceylon tea and the volume imported during first half increase from 11.94 to 17.06 million kilograms in comparison to same period of 2016. Similarly Russia which is the second largest importer of Ceylon tea purchased only 16.37MKgs compared to 17.85MKgs during the first six months reflecting a drop of almost 8%. Iraq was able to retain the third place during the first half of 2017 by importing 15.65MKgs decrease of 14.95% in volume terms as against last year. Libya increased her imports from Sri Lanka to 6.26MKgs (74.22%) as against last year.

Although Sri Lanka boasts of a large list of tea export destinations, the first ten importers in the list accounted for 69.2% of total exports from January to June in 2017.

General Overview……….…………from page 1.

On the demand side, it is difficult to foresee buoyant market conditions in Sri Lanka's main export regions of Russia and the Middle East, which account for more than 50 percent total tea exports. Global oil prices seem unlikely to reach the levels anticipated by OPEC, due to high inventory and production while the United States of America (USA) have recently voted for legislation to impose new sanctions on Russia.

Tea Industry………………………...from page 1.
The crop production was remarkably dropped in plantation companies due to the issues arouse in agricultural practices. Even though the overall tea production was improved, the average selling prices for all elevations indicated a rapid increase compared to last year same period. This was massively affected for the tea export drop for the period by 6% with an average auction price record of USD 4.07. However tea packets exports were slightly improved.

Trade Fair Participation

World Tea Expo - 2017 Las Vegas - 13th to 15th June

Sri Lanka Tea Board participated to this trade fair with following private sector companies

I. Tea Talk (Pvt) Ltd
II. Lions Management (Pvt) Ltd
III. Glenwood Reserve Tea Factory (Pvt) Ltd
IV. Nilmini Estates (Pvt) Ltd

Seoul Food 2017, South Korea – 16th -19th May

Sri Lanka Tea Board arranged country pavilion and coordinated following participation.
I. Basilur Tea Exports (Pvt) Ltd
II. Maltras International (Pvt) Ltd

APAS 2017 from 02nd to 05th May 2017, Brazil

The Ministry of Plantation Industries organized a Sri Lanka Country pavilion for Ceylon Tea and Coconut products at APAS Trade Show.

Southern African International Trade Exhibition (SAITEX) -25th - 27th June 2016

Sri Lanka Tea Board and Sri Lanka High Commission in Johannesburg , South Africa arranged special Ceylon Tea promotion stall with Ceylon Fresh Teas at the SAITEX fair.

SIAL Canada - 2nd - 4th May 2017

Sri Lanka Tea Tea Board has Participated for this trade fair with following private sector companies under the SLTB pavilion.
I. Millennium Tea Exports (Pvt) Ltd
II. Regency Teas (Pvt) Ltd
III. Imperial Tea Exports (pvt) Ltd

Summer Fancy Food Show, New York - 25th - 27th June, 2016

Following private sector companies showed their products at the Sri Lanka Pavilion with Sri Lanka Tea Board.

I. Euro Scan Exports (Pvt) Ltd
II. Anverally & Sons (Pvt) Ltd
III. Avenrich Trading (Pvt) Ltd
IV. Osthroye Ceylon Group (Pvt) Ltd.

Global Tea Scene

Tea Production

World tea crop shows drop in year 2017 till June over same period of last year. But Sri Lanka, N E India, Malawi and South India record moderate increase in production for the period. The recent tea production data published by International Tea Committee showed in following Table 12.

Table 12 -Global tea production comparison in first half 2017/2016(MT.)

Production	Months from 1st Jan	2016	2017	Growth (Kg)
N E INDIA	6	322,240	325,630	3,390
SOUTH INDIA	6	101,800	117,520	15,720
BANGLA-DESH	6	25,380	21,975	-3,405
SRI LANKA	6	153,845	156,464	2,619
KENYA	6	250,592	200,913	-49,679
MALAWI	6	29,904	31,544	1,640
TANZANIA	6	20,367	16,457	-3,910
TOTAL		904,128	870,503	-33,625

Global tea production (Mainly black tea) decreased by 3.7% or 33.6 Mkgs during the first six months of 2017, according to the ITC figures. Significant crop decrease registered in Kenya production in which volume decreased by 19.8% or 49.6Mkgs. However south India recorded crop increase of 15.7 Mkgs attributed to fair weather condition. Outside the Asia, Tanzania (3.9Mkgs) registered slight decrease.

Table 13- Average prices in major auction centers as at June 2017/2016 (Qty:MT)

Auction Centers	2017		2016		Change 2017 / 2016	
	Qty (MT)	US$/Kg	Qty (MT)	US$/Kg	Qty (MT)	US$/Kg
Kolkata	63,865	2.19	44,704	2.29	19,161	(0.10)
Cochin	23,644	1.89	24,459	1.75	(815)	0.13
Chittagong	27,204	1.96	25,931	2.03	1,273	(0.07)
Mombasa	194,460	2.80	234,484	2.26	(40,024)	0.54
Jakarta	-	-	17,278	1.71	(17,278)	(1.71)
Colombo	**151,995**	**4.07**	**149,369**	**2.95**	**2,626**	**1.12**
Guwahati	55,582	1.91	49,081	1.99	6,501	(0.08)
Malawi	6,012	1.78	6,821	1.54	(809)	0.24
World	**522,762**	**2.90**	**552,127**	**2.37**	**(29,365)**	**0.54**

As per the data depicted on table 13, the global average auction price registered major impede in first six months in 2017. Colombo continued to lead the auction center that fetched the best prices during the first half due to its quality and variety of teas available. The average price was above US$ 4.00 per kilogram. It is evident from the above table that the price difference between Colombo and Mombasa which is in second place is more than one US$ s.

Sri Lanka was ranked first in the world tea auctions ranking list and achieved historical price level of the highest average price of US$ 4.07 per kilogram, a well ahead of the previous year value of US$ 2.95/Kg and next highest value of Mombasa. This is purely result of prolonged lower production in locally and drought affected other black tea origins .

Country	Period months	2017	2016	Growth	Change %
Kenya	6	221,155	271,537	-50,382	-18.55
China	6	176,439	161,379	15,060	9.33
Sri Lanka	6	133,902	142,772	-8,870	-6.21
Taiwan	6	4,494	2,325	2,169	93.29
Bangla-desh	6	2,028	247	1,781	721.05
Tanzania	5	12,752	15,714	-2,962	-18.85
Malawi	4	11,923	9,590	2,333	24.33
Uganda	1	2,862	4,769	-1,907	-39.99

Table 14 - Global Tea Exports Comparison (2017-2016) Unit: MT

With respect to the global tea exports statistics, Kenya is showing a 19% decline of their tea exports for the first half of the 2017. The drought condition affected in Kenya was the main reason for this drop of exports.

150 Years Celebrity Events….

The ministry of Plantation Industries has organized regional educational fairs in tea growing areas with the major purpose of Celebrating 150 Years Anniversary of Tea Industry.

A broad awareness on importance of Tea drinking, Selecting and identifying of a good tea, the method of making a good cup of tea, differences and reasons for seven regional teas as well as a Ceylon tea's performance in the international market was given to the school children and tea stake holders and to general public.

Educational Fair in Pilimatalawa - 29th April

The Second Educational fair was held at Central College Pilimatalawa on 29th April 2017. It was officially opened by Hon. Mr. Navin Dissanayake, the Minister of Plantation

Industries.

Educational Fair in Badulla - 30th Jnue & 01st July

The Third Educational fair was held at Badulla on 30th June and 01st July 2017. A tea tasting session was con-

Trade Fair Participation

HOFEX 2017 - 8th to 11th May

Sri Lanka Tea Board arranged country pavilion and coordinated following participation.

I. Basilur Tea Exports (Pvt) Ltd
II. Teastar Ceylon Private Ltd

World Food - Warsaw, Poland - 11th to 13th April

Sri Lanka Tea Board has taken part World Food in Warsaw, Poland with below private sector exporting companies.

I. Basilur Tea Exports (Pvt) Ltd
II. Expo Teas Ceylon (Pvt) Ltd
III. Senok Tea Ceylon (Pvt) Ltd

Research Update

Tea consumption leads to epigenetic changes in women

Date: May 31, 2017 *Source:* Uppsala University

Epigenetic changes are chemical modifications that turn our genes off or on. In a new study, researchers show that tea consumption in women leads to epigenetic changes in genes that are known to interact with cancer and estrogen metabolism.

Epigenetic changes are chemical modifications that turn our genes off or on. In a new study from Uppsala University, researchers show that tea consumption in women leads to epigenetic changes in genes that are known to interact with cancer and estrogen metabolism. The results are published in the journal Human Molecular Genetics.

It is well known that our environment and lifestyle factors, such as food choices, smoking and exposure to chemicals, can lead to epigenetic changes. In the current study, researchers from Uppsala University in collaboration with research groups around Europe, investigated if coffee and tea consumption may lead to epigenetic changes. Previous studies have suggested that both coffee and tea play an important role in modulating disease-risk in humans by suppressing tumour progression, decreasing inflammation and influencing estrogen metabolism, mechanisms that may be mediated by epigenetic changes.

The results show that there are epigenetic changes in women consuming tea, but not in men. Interestingly, many of these epigenetic changes were found in genes involved in cancer and estrogen metabolism. "Previous studies have shown that tea consumption reduces estrogen levels which highlights a potential difference between the biological response to tea in men and women. Women also drink higher amounts of tea compared to men, which increases our power to find association in women," says Weronica Ek, researcher at the Department of Immunology, Genetics and Pathology, who led the study. The study did not find any epigenetic changes in individuals drinking coffee.

Results from this study highlight the role of pharmacologically active components in tea being involved in cancer and estrogen metabolism, which can reflect that health effects related to tea consumption might be due to epigenetic changes. However, this study does not show if it is healthy or not to drink tea and further research is needed to understand how epigenetic changes found in this study affects our health. It has previously been demonstrated that tea catechins lead to epigenetic changes in vitro and in cultured cancer cells, arguing that some of the health effects of tea may be mediated by epigenetics.

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