INDUSTRY

Ethiopia plan to boost tea output causes jitters

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Tea tasting: Ethiopia currently produces seven million kilogrammes of produce and plans to increase the volume. Photo/FILE

A spirited drive by Ethiopia to boost its tea output is causing jitters in the local industry as competition for both regional and international markets intensifies.

Though its production capacity is smaller compared to Kenya, its leaf quality is causing concerns that the country could soon launch a formidable challenge to Kenya's tea exports, including in the blending segment.

"Many countries in the region are looking up to expanding their tea industries, but our immediate attention would be on Ethiopia because we share almost similar types of soil and climate and the quality of their tea is largely similar with ours," Tea Board of Kenya (TBK) managing director, Sicily Kariuki told *Business Daily*.

Statistics showed that Ethiopia currently produces about seven million kilogrammes of tea from three privately run estates even though its Agriculture and Rural Development ministry projects this could swell substantively in the coming years now that it had identified some 50,000 hectares of land suitable for production of the beverage.

While Ethiopia has emerged a success story in coffee business, its tea industry has over the decades faltered largely due to lack of investment and the lengthy periods of time that lapsed before such investors could recoup their money.

The initial investment in tea is huge and most investors get discouraged by the fact that it takes a minimum three years for the bushes to mature before any harvests could be done and leaf sold to realise any returns.

Lacklustre government support has over the years also compounded matters for the Ethiopian tea industry with cautious potential investors keeping at bay.

This kind of apathy against tea in Ethiopia is, however, finally changing with more private investors showing increased interest in taking on the business.

For instance in April last year an Ethiopian firm signed a $300 million joint venture deal with a Dubai-based firm to develop a 5,000 hectare tea plantation in Illubabor area.

According to the pact East Africa Agri-business and Dubai World Trading Company planned to produce close to 423,000kg of black tea by 2012.

Mrs Kariuki, however, remained optimistic that the Kenya tea industry would live up to the expected increased competition on factors of quality.

“We are very strong on quality and it gives us an edge in the market,” she said.

The Food and Agriculture Organisation (FAO) in December predicted that the global tea market would witness some shake-up in terms of supply and demand as producing countries rush in to expand areas under the crop in a bid to cash-in on the record high prices witnessed over 2009.

The indicative world price for black tea reached a high of $3.18 a kg in September 2009, compared to an average price of $2.38 per kg in 2008.

TBK said it anticipates prices of the commodity at the weekly Mombasa auction to remain firm in the short term despite the return of heavy rains in some of the growing areas, especially west of the Rift Valley.

“Traditionally, this time is quite dry and the rains would not be of much effect, but help improve on the quality of existing leaf. The fundamentals that drove global prices to historic levels haven’t changed much and we expected prices to stay within a steady range,” Mrs Kariuki said.

The historic rally in global prices of tea was caused by droughts in India, Sri Lanka and Kenya against increased demand for the product.

TBK's price projection seemed in tandem with proceedings at this week's auction in Mombasa where prices of top grade teas rose substantially compared to the previous week.

For instance, the price of top BP1s climbed to an average of $3.81 per kg from $3.69 per kg registered the previous week.

Brighter PF1s also had a good run at the sale fetching between $3.68 and $3.15 per kg, compared with last week's $3.42-$3.18 per kg.

"There was good, but irregular demand for the 111,006 packages on offer with some invoices taken out," Africa Tea Brokers (ATB) said in a market report.

Kenya is banking on improved output and a resilient demand in key international markets to improve its tea export earnings this year as the economies of most nations recover from the effects of the financial downturn.

Only last month, TBK revised upwards its 2010 expected earnings to Sh70 billion from the previous Sh68 billion citing "good market fundamentals" Kenya earned Sh62 billion from tea exports in 2008.

In terms of production, TBK projects output will rise by more than 15 per cent this year, from 315 million kg in 2009 largely due to improved rainfall over most key growing areas especially west of the Rift Valley.