

Policy Brief (2)

The Yunnan Market for Lao teas

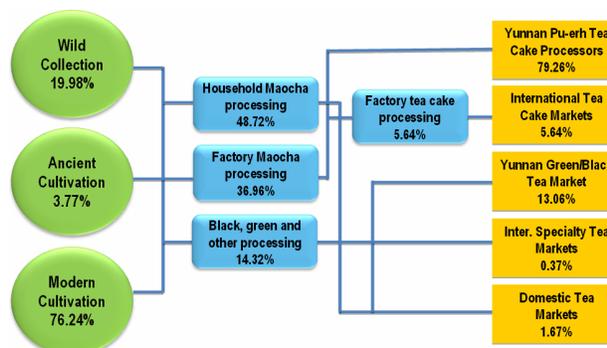
The tea industry in Northern Laos is currently at a relatively undeveloped stage and many challenges face Lao teas in Yunnan's tea market. However, there is strong potential for value addition, future development and delivery of significant poverty reduction outcomes. The achievement of these outcomes will depend on (i) improved product quality; (ii) balanced development of wild, ancient and cultivated tea resources; (iii) expansion of product and market mix; and (iv) the development of an appropriate supportive policy and investment environment.

1. CURRENT NORTHERN LAO TEA PRODUCTION CHARACTERISTICS

The northern Lao tea industry consists of a mix of wild forest tea areas (estimated to be around 8,550 hectares), ancient tree tea areas (approximately 425 hectares) and cultivated tea areas (around 3,270 hectares) distributed in 76 tea zones in over half all the districts (40 of 74) in the northern nine provinces. Many communities of different ethnic groups have traditionally cultivated tea in small areas. Approximately 262 villages, 8,500 households and 44,600 people work in the sector.

Almost uniquely in the world, tea production in northern Laos is undertaken on an organic basis. The 2009 annual production was estimated to be around 5,000 tons of fresh leaf, which is processed into about 1,000 tons of finished tea declining from 2,500 tons in 2008. Tea from wild resources accounts for around 200 tons of finished tea, ancient tree tea production is estimated at 40 tons finished tea, and cultivated tea is responsible for approximately 770 tons of finished tea per year. This production was exported mainly to Yunnan tea markets with the prices ranging from USD1.2 to USD20 per kg and has an estimated export value of around USD4.2 million annually.

Over the past decades northern Lao wild and cultivated teas have been processed into Maocha (rough tea) and traded into Yunnan for sale and on-processing into Pu-erh (tea cake). This commenced in Phongsaly Province, and extended progressively further south as the Pu-erh market continued to develop. About 85% of tea in northern Laos is made into Maocha through factory and home based processing. Black and green tea is also made and sold into Yunnan. The international tea cake market (the final product from Maocha) and international specialty tea markets and domestic tea markets account for only about 7% of total tea production in northern Laos.



Tea production mapping in northern Laos

On-farm Maocha production during the period up to 2008, proved itself to be a highly attractive activity for remote Lao farmers drawing upon extensive wild forest tea reserves in many areas, with returns on labour exceeding that for almost any other crop, including anecdotally at least – opium production. A number of 'alternative development' aid projects, as well as some private sector investors, promoted tea cultivation in northern Laos, most significantly within Phongsaly province where the tea sub-sector is at its most developed.

The collapse of Pu-erh prices in 2008 in China resulted in a dramatic and rapid decline in Lao Maocha sales – volumes reducing from a high of 2,500 MT in 2008 to perhaps under 1,000 MT in 2009 resulting in the closure of many smaller, opportunistic Maocha processing factories. The Pu-erh price correction has also stimulated product diversification by existing larger tea processing factories in Phongsaly as the industry adapts to new market conditions.

2. PROFILE OF LAO TEAS IN YUNNAN TEA MARKETS

From the early 2000s, strong promotion by the Yunnan Government and speculative buying of Pu'er tea for investment purposes resulted in an increase in demand for Pu'er tea and consequent price rises including for Maocha. However, the high margins to be made in trading Maocha at that time, combined with the relatively high quality of Lao tea and the fact that Lao tea is largely produced organically, with no chemical fertilizer input sparked significant interest from Yunnan based processors and traders buying Lao tea from across the northern provinces and even resulted in a temporary price rise for tea on the Boloven Plateau as a result of Chinese traders.



High grading Pu'er from Lao wild Maocha
Produced in Xishuangbanna, Yunnan
Price US\$ 45/357 grms

In response to the price correction in Pu-erh prices, in December 2008, the Standardization Administration of the Peoples Republic of China has introduced the Standard GB/T 22111-2008 establishing a Geographic Indication for Pu'er tea which specifies that the Pu'er tea raw materials must come from "big leaf" (primarily *Camellia Sinensis var. Assamica*) Yunnan tea varieties and must be grown in one of 11 prefectures and autonomous regions of Yunnan Province. In addition the tea must be processed within Yunnan Province.

After the Pu'er price returned to more rational levels, the geographic scope of sourcing Maocha within Lao has decreased, as has the level of tea exports to Yunnan. However, Yunnan is still by far the major export market for tea from northern Lao including Maocha, green tea and black tea, with the bulk of this production coming from Phongsaly.

This export trade will continue and has the potential to grow in both volume and value terms; the scale of the Lao industry remains very small compared to Yunnan's and demand levels there. While, profile of tea from northern Laos in Yunnan tea markets is confirmed in both positive and negative aspects:

1. Lao tea entering Yunnan is seen as of high intrinsic quality and is recognised, and valued, for its organic, chemical free, production. Pricing for Lao tea especially from ancient and wild tree sources is currently at a medium level, with prices higher than for lower altitude cultivated teas within China, but lower than quality high altitude teas including famous Yiwu Mountain Tea in Xishuangbanna Yunnan;
2. Clear commercial interest in Lao Maocha's exists with samples carried by the Yunnan tea markets study team attracting buyer interest. The highly visually attractive, wild Khua tea perhaps generating most interest amongst buyers due to beautiful shoot appearance. Volumes of such teas are however limited. A compelling case for an expansion in the cultivation of this tea clearly exists.
3. Lao tea values are lower than their Chinese equivalents primarily because of lower quality processing, increased transaction costs incurred in cross-border trade in small quantities of tea, and the existence of a protected GI are secondary factors in accounting for the lower values achieved by most Lao Maocha export.
4. The Yunnan tea industry is interested in Laos, both as a supplier of materials and also as a potential location for investment but concerns exist amongst potential investors regarding local level policy consistency;
5. Green and black tea produced from northern Laos is exported to Yunnan and greater China and other countries, however these are generally not labelled as Lao teas. Although Lao tea export volumes to China are small, the geographic reach of Lao tea exports into China is quite widespread, including

Xishuangbanna, Pu'er City, Kunming, Guangxi, Guangdong, Hongkong, Taiwan etc., and from China to other Asian, and European countries;

6. Some larger Yunnan based tea companies are interested in more investment into Lao tea sector while Chinese research organizations are interested in collaborating to undertake research into Lao tea, and in particular into wild tea resources in Northern Lao.

3. KEY CHALLENGES FOR LAO TEAS IN YUNNAN TEA MARKETS

The intrinsic high quality of some Lao teas, in particular for high altitude grown ancient tree tea and some wild tree teas mean that they are capable of potentially generating higher sale prices for smallholder farmers if sold into the Yunnan Maocha markets. However, a number of challenges exist in increasing value addition for Lao tea and increasing the overall benefits to smallholders through continued targeting of the Yunnan and greater Chinese markets for Maocha, green tea and black tea.



Home processed in the north

1. While the intrinsic qualities of many of the Lao teas make them very suitable for the production of high quality Pu'er tea, poor quality processing, including low quality standard plucking, firing and rolling, smoke contamination, food smell contamination and presence of foreign matter in the Maocha mean that sales value for farmers is perhaps 50% or much more lower than would be the case for better processed tea;
2. Even though green and black tea's are able to attract prices equivalent to Maocha, processing is more complex and less well known within Laos. Typically factory based processing is required, especially where little experience or skills exist. These types of Lao teas are new and the profile is not yet well known in Yunnan tea markets;
3. Trade barriers have an impact on tea exports from Lao to China – tea is not one of the commodities officially allowed to be exported tax-free from Lao to China, so the majority of tea exports are semi-official border trade transactions possible only where the value of each shipment is less than USD1,200. As such relatively high transaction costs are incurred, both in terms of fees and charges and in terms of lack of economies of scale in transportation and in sales volumes. This restriction constitutes a major barrier as Yunnan processors require significant volumes in a single shipment. Most Lao mao cha is thus traded through multiple buyers who play a bulking role, prior to processing. Formal trade tea imports to China are charged an import tax of 25%;
4. The introduction of GI regulations for Pu'er tea mean that since December 2008 Lao tea is not officially allowed to be utilized in Pu'er tea produced and labeled as "Pu'er" in Yunnan. This means that it is not possible to build a distinct consumer identity for Yunnan produced Pu'er based on Lao Maocha. Whilst Lao Maocha is relatively well known in the trade, since 2008 very little labeled Pu'er tea has been produced in Yunnan that identifies Lao Maocha as the raw material, with the exception of some high grade compressed tea production produced for sale in Fujian, Guangdong and Taiwan, etc. greater China and Chinese overseas. Greater enforcement of GI regulations would thus have a detrimental effect on the Lao industry. Alternative market opportunities to sell Maocha to Guangdong's tea cake industry as well as other markets and to diversify products exist but will require facilitation if their potential is to be rapidly realised.

4. CONCLUSIONS

Some Northern Lao teas have intrinsically high quality, in particular for the tea cake market. Maocha dominates the northern Lao tea sector and is exported to Yunnan markets with prices having experienced a serious

decline as a result of the Pu-erh market correction. Many challenges exist, however, processing quality and technique challenges can be relatively easily overcome if there are sufficient incentives from buyers to make farmers confident to invest in improving quality and learn new techniques.

The trade barrier and GI constraints are harder to overcome as there is unlikely to be any change in Chinese policy in these regards in the short to medium term. This implies that any sector development strategy should consider the Yunnan Maocha market as one piece of an overall puzzle, but certainly should consider (i) other types of tea product that could potentially be exported to China including green tea, black tea, white tea, Oolong tea, and tea cake, etc.; and (ii) other potentially high value product/market mixes including Western and Japanese markets;

The development of the wild tea tree sub-sector should be undertaken as part of an overall tea sector development strategy, including wild tree tea, ancient tree tea and cultivated tea. This sector approach includes looking at issues relating to wild resource conservation vs. exploitation, development of cultivated tea areas, new products and new market development, investment strategies and potential for poverty reduction from different tea types and locations.

5. RECOMMENDATIONS

This study presented a unique opportunity to assess the potential of the Yunnan tea market as a vehicle for the development of a sustainable tea industry in Northern Laos based on smallholder production of high quality tea from wild and ancient resources as well as from cultivated tea gardens. Some key recommendations from the Yunnan tea markets study are:

1. The current and potential size of the Lao tea industry is relatively small compared to the tea industries in the neighbouring countries of China and Vietnam. Laos cannot and should not try to compete with tea industry in neighbouring countries in terms of quantity of production but rather should focus on high quality production whilst at the same time expanding production volumes, possibly through cloning and cultivation of high potential ancient and wild tree varieties
2. Facilitated contact between Guangdong and other non-Yunnan tea cake producers and markets (e.g. Hongkong) appears warranted given Pu-erh GI.
3. Production volumes of higher quality Lao teas should be increased to enable easier market entry and shorten the Lao tea value chain within China.
4. Processing Lao Maocha's to finished tea cake domestically has the potential to increase the value of Lao tea production some five fold. However, quality tea cake production requires a high level of skill and expertise not currently present within Laos.
5. The current organic status of Lao tea production is a unique comparative advantage that should be capitalized on. The industry is currently small enough and relatively undeveloped enough to chart a development path based on continued organic production and potential for future international certification;
6. Quality improvement is essential to increase value. This requires policy support to build local expertise, and at the same time, to ensure that support is provided for investment in quality improvement and expansion of tea cultivation. Investments either from domestic or international sources should be sustainable and place emphasis on the development of smallholder based production combined with processing of finished tea products;
7. The Yunnan and greater Chinese market should be considered an important part of the market strategy for development of the tea industry in northern Lao, but in addition a variety of other markets should also be targeted including the domestic market and the specialty tea market in the US, Europe and Japan, etc. Whilst the exports to Yunnan are currently dominated by Maocha, consideration should be

given to developing markets for other types of tea, including black tea, green tea and white tea, Oolong tea, tea cake, etc.;

8. Promoting the profile of Lao tea, reducing unnecessary transition costs, and linking farmers to end markets are other ways to add more value to farmers. This requires continuous supports to fair trades, tea cupping competitions, tea festivals, etc.

The Yunnan tea markets assessment was conducted in late 2010 with the aims to understand the extent to which this market appears likely to be, and how best the Lao tea sector should respond to these conditions and regulatory frameworks, how this resource has market potential within the markets, in which niche, and what is required to maximise value added in Laos for such markets. The assessment is a joint activity of a temporarily consortium of development partners, consisting of the tea feasibility and design study (CARE), SADU and URDP under the lead of NAFRI PRC.

The Lao Wild Forest Tea feasibility and design study is a 12 month study implemented by the Policy Research Centre (PRC) of Lao National Agriculture and Forestry Research Institute (NAFRI), the National Agriculture and Forestry Extension Service (NAFES) and the NGO, CARE International in Lao PDR (CARE). Financial support is provided by the Swiss Agency for Development and Cooperation (SDC).



CONTACT

CARE International in the Lao PDR
PO Box 4328, Vientiane, Lao PDR
Google Group: mail to: lao-forest-tea@googlegroups.com
Email: forest.tea@carelaos.org



Schweizerische Eidgenossenschaft
Confédération suisse
Confederazione Svizzera
Confederaziun svizra

Swiss Agency for Development
and Cooperation SDC