

“The South African tea industry: challenges and business strategies,”

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The South African tea industry: challenges and business strategies

Abstract

The South African tea producing industry has been in decline since 2000 due to a host of factors such as significant increases in production costs occasioned by a regulated labor market, unfavorable international tea prices, removal of tariffs and increased competition from African tea producing countries. This culminated in closure of most of the tea estates leaving a few tea estates in precarious financial positions and operating on a stringent budget, funded mainly through government grants. The study focuses on issues affecting the tea industry in South Africa in general, in an attempt to find solutions to the challenges and to establish sustainable business strategies for the industry. Twenty participants were purposively chosen for their knowledge, experience and information about the tea industry in general. High production costs, low skills and labor productivity levels, lack of technical support, removal of tariffs, competition from low cost producing countries, exchange rate fluctuations and pending land claims were identified as key challenges of the tea industry in South Africa. The reimposition of tariffs, changes in minimum wage determination, preferential procurement, development of the small-holder sector and government support in development of a national brand and a buy local tea campaign were identified as the policy initiatives to steer the tea industry.

Keywords: South Africa, tea industry.

JEL Classification: Q10, Q13.

1. Introduction

The tea industry is one of the oldest agro-based industries with huge direct employment numbers mainly in the remote rural areas. Tea is an important commodity for a number of developing countries as it contributes significantly to job creation and export earnings. Millions of livelihoods around the world depend on tea production (Van der Wal, 2008). However, for a country such as South Africa which imports most of its tea, tea trade is also important within the economy as a whole. The demand for tea in South Africa is increasing whereas local production is declining significantly due to closure of tea producing estates mainly because of challenges in the sector thus creating a situation of import dependence. According to Joubert (2009), South Africa's black tea exports were in the region of about R20 million a year, while the country imports about 20 million kilograms of tea worth about R345 million, for domestic use. The South African black tea industry was started in 1964 with government support and financial backing through the Industrial Development Corporation (DAFF, 2010). The sector was supported, according to DAFF (2010), as it was viewed as labor intensive and also because it offered employment opportunities for the rural communi-

ties. Furthermore, most of the tea estates were established in areas of high unemployment during the 1970s and 1980s to dissuade people from migrating to urban areas. However, according to Joubert (2009), most of the tea estates in the country went out of production as from 2000. The tea estates that remained are in a very precarious financial position and survive partly because they produce a product of high quality and also because they receive funding from the state (Joubert, 2009). For example Ntingwe Tea Estate, one of the three remaining tea producing estates out of the originally 12 estates in South Africa (Joubert, 2009), is facing many challenges in its operation and is on the verge of closure. This is the reason why the tea industry has become an important topic for investigation in South Africa.

The provincial government is trying to find sustainable ways to address the challenges faced by the South African tea industry and at the same time make it a profitable generating initiative that is sustainable to support socio-economic development. Therefore, this study will focus on the issues affecting the tea industry in South Africa in general, in an attempt to find solutions to the challenges and to establish sustainable business strategies for the industry.

1.1. The history of tea. Tea comes from an evergreen bush from the *genus Camellia sinensis* which includes over 80 species. It is a natural beverage that competes with other natural and formulated beverages (Karmakar & Banerjee, 2005; Agritrade, 2012). According to Hazarika (2011), tea was accidentally discovered in 2737 BC by Emperor Shen Nong in China and has since become one of the cheapest and most widely used beverages in the world, and picked in countries such as South Africa,

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India, Kenya, Vietnam, Indonesia, Tanzania and Nepal, among others (Das, 2009). Tea growing is concentrated in the tropical and subtropical countries with warm and humid climate, moderate rainfall, and long duration sunlight (Agritrade, 2010).

1.2. Classification of tea. Tea is classified into three different categories namely Black, Green and Oolong tea, depending on the way the tea leaf is processed (Van der Wal, 2008). The orthodox way of producing black tea involves either hand picking or machine harvesting of the tea leaves which are then withered in cool dry air. The leaves are rolled through a rolling machine and followed by oxidation. The leaves are then dried using a furnace to arrest the oxidation process and to dehydrate them and transform into brittle leaves which allow easy storage. The other method adopted by some processors is called cut-tear-curl (CTC) for special tea markets such as the tea bags (Dharmasena, 2003). For the CTC tea, the withered leaf undergoes the crush, tear and curl process whereby it is shredded and then crushed to produce a small granular final product. Green tea processing differs from black in that the withered leaf is steamed and rolled before drying or firing thus avoiding the fermentation stage hence green teas are considered unoxidized. Oolong tea is partially-fermented, while black, red and English teas are fully oxidized (Marketradefair, 2002). Fermentation is a chemical reaction induced in leaves to start the oxidation process which is stopped by heat and then followed by drying (Dharmasena, 2003). One class of tea which is the green tea is useful in treating cancer (Rahman et al., 2015).

2. Methodology

2.1. Aim and objectives of the study. The study examines the challenges faced by the South African tea industry and seeks to establish the business strategies that will contribute to the sustainability of tea estates in South Africa.

The objectives for this study are to:

- ◆ identify and examine challenges faced by the South African tea industry in general;
- ◆ identify and examine the factors that are causing failure or low performance of Tea estates in South Africa in comparison to their potential in the global market;
- ◆ identify the policy reform initiatives needed to steer the South African tea estates towards sustainability;
- ◆ evaluate whether tea estates in South Africa can be economically viable without government intervention;
- ◆ identify strategies that can be implemented by Tea estates in South Africa in order to become sustainable.

2.2. Construction of the instrument. A questionnaire with open-ended questions was designed for data gathering. The questions were designed in line with answering and meeting the aims and objectives of the study. The questions were open ended to allow free feedback from respondents.

2.3. Study participants. A judgmental type of purposive sampling was used on targeted respondents that have the knowledge and information specific to the sector. A total of 20 tea experts from both the private tea industry and government departments involved with agricultural activities were identified as an adequate judgmental sample for analysis. These officials with knowledge of the tea sector were drawn from the Department of Trade and Industry (DTI, 2015), the Department of Agriculture, Forestry and Fisheries (DAFF, 2015), the KZN Department of Economic Development, Tourism and Environmental Affairs (EDTEA, 2015), tea estates in Eastern Cape, Limpopo and KwaZulu-Natal, major tea blenders and processors, Industrial Development Corporation (IDC, 2015), Ithala Development Finance Corporation (IDFC, 2015) and Trade and Investment KZN (TIKZN, 2015) in order to address the objectives of the study.

2.4. Pretesting and validation. For this study, the researcher used a small group of colleagues at work to determine whether the questionnaire was easily understood and to reveal any problems or challenges in its completion. The responses to the questions and comments were useful in improving the final list of questions that were distributed to the participants.

2.5. Reliability. The overall Chronbach's alpha coefficient for the research instrument was above 0.7 indicating that the research instrument was reliable.

2.6. Administration of the questionnaire. A questionnaire, together with a cover letter, was hand delivered or emailed to respondents as a means of collecting data. The questionnaires were administered through email with an accompanying cover letter, and also delivered directly to designated respondents in some instances. Respondents would then complete the questionnaire at their leisure and mail back the responses. The questionnaires were distributed as from beginning June 2012 to end of September 2012. In order to ensure a high response rate, follow-ups were conducted via telephone calls and/or emails to remind respondents to complete the questionnaire. Twenty questionnaires which were sent out to the identified knowledgeable respondents, all were completed and returned back together with the signed consent forms.

3. Presentation and analysis of data

3.1. Challenges facing South Africa's tea industry.

Table 1 presents all the challenges faced by the South Africa's tea industry as identified by the 20 respondents.

Table 1. Challenges faced by South Africa's tea industry

Challenges	Agreeing respondents	% age agreeing
High cost of production mainly labor costs	19	95
Cheap imports more competitive than local tea	9	45
Low skills and productivity competency	7	35
High competition on the world market	6	30
Tea market price fluctuation and/or exchange rate risk	6	30
Low volume production on operating tea estates	5	25
Lack of government support	5	25
Removal of tariff protection	5	25
Lack of national/estate brands support	4	20
Existing SADC trade agreements which allows free trade and therefore cheaper tea imports competing with quality local tea	4	20
Lack of global tea business experience	4	20
Limited local market for premium tea, consumers prefer cheap tea	3	15
Lack of security of land tenure and ownership rights of the tea estates worsened by pending land claims	3	20
Limited research and development for high producing clones (tea varieties)	2	10
Unfavorable weather conditions	2	10
High establishment costs and long lead times	1	5
Oligopolistic buyer's market	1	5

The tea industry is a very labor intensive industry with labor costs representing at least 55% of total production costs (Dhamasena, 2003). This is also supported by Hazarika (2011) citing higher production costs with labor cost accounting for at least 60% as one of the major problems faced by the India tea industry. For South Africa, 95% of the respondents identified high labor costs as the main challenge followed by competition from cheap tea imports as identified by 45% of the respondents. Around 35% of the respondents identified low skills and productivity levels and high competition on the world market as some of the challenges experienced by the tea industry in South Africa. Exchange rate risk and fluctuating tea prices were highlighted by 30% of the respondents. Removal of tariffs was identified by 25% of the respondents. The other challenges identified included lack of government support as identified by 25% of the respondents, lack of an established national or estate brand, lack of global tea business experience and SADC free trade agreements were all identified by 20% of the respondents, respectively. Land ownership challenges were identified by 20% of the respondents as creating

uncertainties in terms of tenancy of the tea estates. The least identified factors were high establishment costs and an oligopolistic buyer's market which were identified by 5% of the respondents.

3.2. Proposed policy initiatives. The research question was: In your view what are the policy reform initiatives that need to be implemented to steer the tea sector in the direction of success? Table 2 presents the proposed policy reform initiatives.

Around 60% of the respondents regarded the re-introduction of tariffs and non-tariff barriers as a key policy initiative. Around 30% of the respondents cited the need to change the minimum wage i.e. review of labor laws, and 30% of the respondents proposed the compulsory purchase of local tea by government institutions. The reintroduction of a compulsory quota purchase and calls for government support in tea branding were identified by 20% of the respondents as a policy reform initiative. Around 20% of the respondents identified the buy SA campaign as well as go-vernment subsidies for the sector as policy reform initiatives to steer the tea industry in the direction of success. Around 15% of the respondents identified support to small-holders. The establishment of a tea industry association to regulate and set standards, the promotion of multi-cropping programs and promotion of out-growers were identified by 5% of the respondents as key policy initiatives for steering the industry in the direction of success.

Table 2. Proposed policy initiatives

Policy Initiative	Agreeing respondents	% age agreeing
Tariff and non-tariff protection	12	60
Compulsory local tea purchase by government institutions	6	30
Policy change in minimum wage determination	5	25
Reinstatement of compulsory quota purchase	4	20
Government support in product branding	4	20
Promotion of "buy SA campaign"	4	20
Government subsidies in the form of incentives	3	15
Dedicated support to smallholders	3	15
Implementation of export incentives	3	15
Regulation of tea industry and setting of standards through an established tea industry organization driven by industry players	1	5
Creating an exceptional and valuable product	1	5
Promotion of multi cropping programs (diversification)	1	5
Promote the establishment of out-growers which will be linked to existing tea estates	1	5

Around 60% of the respondents were of the view that the government should reintroduce an import duty on all tea imports to limit dumping of inferior tea and a levy to be made available to the producers based on a predetermined formula to compensate for the high production costs.

3.3. Causes of failure or low performance of South Africa’s tea industry. What factors resulted in the failure, or low performance, of the tea industry in South Africa compared to its potential in the global market? Table 3 presents the factors which were identified by the respondents.

Table 3. Factors resulting in failure or low performance of South Africa’s tea industry

Factors	Agreeing respondents	% age agreeing
High labor costs (regulated wages)	13	65
Removal of trade barriers	8	40
Low yields/volume on existing tea estates	7	35
Low quality tea imports competing with quality locally produced tea	6	30
Low worker productivity	6	30
High production costs relative to other tea producing countries	5	25
Lack of government support	5	25
Lack of sustainable business strategy	5	25
Climatic suitability	3	15
Weak industry association or lack of it	3	15
Lack of adequate financing	2	10
Failure to innovate (product differentiation)	1	5
Disinvestment by big tea players	1	5
Poor responsiveness, business level and understanding market needs	1	5
Lack of knowledge on tea and global markets	1	5
Misallocation of resources	1	5

Table 3 presents the factors which resulted in failure or low performance of the tea industry in South Africa compared to its potential in the global market. 65% of the respondents identified high labor costs, 40% identified the removal of trade barriers, 35% of the respondents identified low and poor yields from the established tea estates as factors causing failure and/or low performance of the sector. 30% identified the importation of low quality and cheaper teas from neighboring countries and equally the same number identified low worker productivity as factors causing failure or low performance of the tea sector. 25% of the respondents identified the following factors as key to the contribution of the failure or low performance of the tea sector which are: high production costs, poor and lack of government sup-

port. The least identified factors which were identified by 5% of the respondents which were: the failure by the industry to be innovative in terms of product differentiation, disinvestment from tea by big players, misallocation of resources, lack of knowledge on tea and global markets and the poor responsiveness, business service level and understanding of tea market needs.

Lack of government support was identified by 25% of the respondents. 25% of the respondents identified the lack of long term strategy by government on how to turn around the industry to profitable levels. Two respondents also believed that limited or unsustainable bail-out support by government also resulted in failure of the tea industry. Another couple of respondents cited that the government failed to assist the industry when it needed serious support during the changeover period from tariff protection to find its place in the protection free system.

5% of the respondents identified the failure to be innovative as a factor leading to low performance.

3.4. Sustainability factors. What can be done to make the tea industry more sustainable in the face of increasing competition from cheap tea imports and globalization in general? Table 4 presents the identified themes for making the tea industry more sustainable.

45% of the respondents identified tariff protection as a way to make the tea industry more sustainable in the face of competition and 25% suggested that the tea estates needed to brand their tea in order to increase value and competitiveness. Another 25% of the respondents identified the need for a special dispensation on the minimum wage for agricultural workers. 30% of respondents identified non-tariff barriers and also the need to improve productivity levels as some of the ways to make the industry sustainable in the face of competition. 25% of the respondents identified the need to focus on specialty or unique teas such as green tea to enhance competitiveness. 20% identified the government to support buying locally produced tea and equally the same percentage identified diversification as ways to promote sustainability in the tea sector. 15% of the respondents identified investment in production technology. Consistent quality production and addressing the tea packers’ competitiveness are some of the initiatives to improve the tea industry’s sustainability as suggested by 10% of the respondents. 5% of the respondents suggested the formation of a lobby association and the introduction of production incentives.

Table 4. Addressing challenges caused by increasing tea imports

Interventions	Agreeing respondents	% age agreeing
Tariff protection	9	45
Improve productivity	6	30
Non-tariff barriers	6	30
Branding	5	25
Focus on specialty or unique teas	5	25
Special dispensation on minimum wages	4	20
Government to buy local tea	4	20
Diversification of production	4	20
Investment in production technology	3	15
Consistent quality tea production	2	10
Address tea packers competitiveness	2	10
Formation of a lobby association	1	5
Production incentives	1	5

3.5. Factors requiring further investigation. Respondents were asked: “With regard to the sustainable growth and development of tea production, are there any other issues which you feel play an important role, which you believe require further investigation?” Table 5 presents the issues requiring further investigation. 35% of the respondents believe that government support is a critical factor and would require further investigation. 20% identified research and development as also critical to sustainable growth and development of the tea industry. Funding support of the sector was identified by 20% of the respondents and mechanization as a way to increase productivity was suggested by 10% of the respondents as well as branding, capacity building and promotion of subsidized out-grower program. Only 5% of the respondents suggested the following issues as requiring further investigation for tea development: focus on specialty teas, injection of foreign technical management and marketing expertise, formation of sector organization or lobby association and the reestablishment of estates with clonal high yielding teas. 25% of the respondents did not answer this question.

Table 5. Other issues for further investigation

Tea development and sustainable growth triggers	Agreeing respondents	% age agreeing
Government support	7	35
Research and development – developing high yielding clones	4	20
Funding support	4	20
Mechanization to increase productivity	3	15
Branding – stop selling undifferentiated tea	2	10
Capacity building	2	10
Subsidized out-grower program	2	10
Specialty teas	1	5
Injection of foreign technical management and marketing expertise	1	5
Sector organization/lobby association	1	5
Replanting of estates with clonal teas	1	5

3.6. Tea export challenges. What are the challenges of exporting tea to the rest of the world? Table 6 presents the challenges of exporting South Africa’s tea to the rest of the world.

Table 6. The challenges of exporting tea to the rest of the world

Tea export challenges	Agreeing respondents	% age agreeing
High cost of production	7	35
Competitiveness	7	35
Low grade teas influencing world tea pricing	5	25
Exchange rate volatility	5	25
Undifferentiated teas	5	25
Production lower than consumption	4	20
Ethical tea partnership principles	3	10
Need for global network and partners	1	5

35% of the respondents believe that high cost of production of local tea relative to competing countries posed a great challenge for exports. 25% of identified low grade teas influencing world prices, the exchange rate volatility as well as undifferentiated tea production as challenges affecting SA tea exports. 20% identified that local production fails to satisfy consumption demand and 10% identified Ethical Tea Partnership principles as challenges. Ethical Tea Partnership principles define ethical trade as a shared responsibility for ensuring social and ethical tea growing conditions such as meeting local laws, respecting trade union agreements and meeting some international standards. The principles look at: employment including minimum wage levels and age, education, health and safety issues, housing, basic rights. Certification is only awarded to tea producers who meet these requirements (Agritrade, 2010). Only 5% highlighted the lack of global partners and networks as a challenge.

3.7. Import challenges. What are the challenges posed to the sector due to tea imports from Africa and

the rest of the world? Table 7 presents the identified challenges posed by tea imports from Africa and the rest of the world.

Table 7. Tea import challenges from Africa and the rest of the world

Tea import challenges	Agreeing respondents	% age agreeing
Cheap inferior quality imports	15	75
Landed costs of imported teas less than cost of production of local tea	11	55
SA consumer market is price sensitive	2	10
Lack of distinction of tea categories	12	5
Consumer brand loyalty	1	5

Around 75% of the respondents identified the cheap inferior tea imports as a challenge posing a threat to the local tea industry. About 55% of the respondents identified the low price of imported tea which is even below the cost of local tea production as posing a threat to the sector. Around 10% of the respondents identified price sensitivity of the SA consumer as a challenge posed to the sector. 5% identified consumer brand loyal and the lack of distinction of tea categories as challenges posed to the sector. The tea imports are cheaper compared to locally produced tea.

3.8. Business strategies. What strategies should be implemented by the South African tea industry in order to become sustainable? Table 8 presents the identified business strategies that could be implemented for sustainability. Around 35% of the respondents suggested a focused strategy on specialty tea and 25% suggested maximization of field production and labor productivity. Around 15% suggested mechanical harvesting of tea and a similar number also suggested the recapitalization of the tea estates, investing in value addition and diversification into other enterprises.

Table 8. Business strategies that could be implemented

Strategies	Agreeing respondents	% age agreeing
Focus on producing specialty tea	7	35
Maximize field production and labor productivity	5	25
Mechanization of harvesting	3	15
Recapitalization	3	15
Diversification into other enterprises	3	15
Investment in value addition	3	15
Divesting from primary production	2	10
Introduction of cost saving technology	1	5
Competitive product branding	1	5

Around 10% of the respondents suggested divesting from primary production as a strategy to be implemented. Around 5% suggested the introduction of cost saving technology and equally the same number of

respondents suggested competitive product branding as strategies to be implemented by South African tea estates in order to become sustainable.

3.9. SWOT analysis of South Africa’s tea industry.

Respondents were asked: “Are there any strengths, weaknesses, opportunities and threats that have not been highlighted above which you need to highlight regarding the South African tea industry? Please specify”. Table 9 presents the strengths, weaknesses, opportunities and threats of South African tea industry. Around 35% of the respondents identified the high quality of local teas as a strength for the industry. Other strengths identified by the respondents were as follows: availability of good climate and soils conducive for tea growing (15%), and the industry being a major employer (10%). Around 25% identified the potential for diversification of product range as an opportunity whereas 20% of the respondents identified the high cost of production and a lot of unskilled labor demanding high wages as a weakness. Opportunities for the industry identified by the respondents were as follows with the number of respondents indicated in brackets: development of high value brands (15%), potential to increase volume of production (15%), and promotion of out-grower programs (15%), leveraging on political value through existing bilateral agreements (10%), creating collaborative marketing arrangements amongst tea estates (5%), and promoting a buy local strategy (5%).

Table 9. SWOT analysis of SA’s tea industry

SWOT	Agreeing respondents	%age agreeing
High quality tea produced locally (S)	7	35
Availability of good climate and soils conducive for tea growing (S)	3	15
Employment creation (S)	2	10
High cost of production (W)	5	25
Unskilled labor (W)	5	25
Low production volume (W)	4	20
Lack of processing facilities technology (W)	2	10
Unsustainable business strategy (W)	2	10
Diversification of product range (O)	6	30
Development of high value brands (O)	4	20
Promotion of outgrower programs (O)	4	20
Potential to increase volume of production (O)	4	15
Political value – leverage on existing bilateral relations (O)	2	10
Promotion of buy local strategy (O)	1	5
Creating collaborative marketing arrangements amongst tea estates (O)	1	5
Cheap imports more competitive than local quality tea (T)	4	20
Unviable to support industry (T)	2	10
Moral hazard of perpetual subsidies (T)	1	5

Weaknesses highlighted by the respondents included: lack of processing facilities technology (10%), and

unsustainable business strategy (10%). Threats identified included: cheap imports being more competitive than local quality tea (15%), unviable to support industry (10%) and moral hazard of perpetual subsidies (5%).

4. Conclusions and recommendations

Tea is an important commodity in terms of job creation as it is labor intensive and provides job opportunities particularly in remote rural areas. It is also important in terms of export earnings and rural infrastructure development. The tea industry is largely controlled by a few multinational companies who dominate the tea trade and markets. The multinational companies control the total tea value chain from production, blending and packaging. Blending and packaging are the major value addition operations which constitute at least 80% of the tea retail price. In South Africa, Unilever and National Brands dominate the tea trade business.

4.1. The challenges of the tea industry in South Africa.

4.1.1. High production costs. Tea production is a labor intensive industry with labor cost constituting at least 50% of total production costs. In countries like Sri Lanka and India, the most popular way of reducing labor costs is the conversion of workers to independent out-growers. This is done by allocating pieces of land which they manage. The smallholder sector is primarily driven by families and as a result the production costs are lower compared to the big estates. The demands for wage increases in South Africa are raising serious concerns about South Africa's competitiveness on the international markets.

Low skills and labor productivity levels are serious challenges within the tea industry and other industries in general. Successful tea producing countries like Kenya and Sri Lanka have addressed this issue by promoting and supporting small-holder production. The success story of Kenya is attributed to integration of small-scale growers into the mainstream of tea growing and increased productivity levels through technical support. Lack of adequate technical support backed by research and development is also a major contributing factor as identified by respondents and also from the literature reviewed. The Tea Research Foundation of Kenya has significantly contributed to increased productivity through selection of high yielding tea varieties and improving methods of cultivation.

Removal of tariff protection negatively impacted the local tea industry and resulted in closure of tea estates as they could not compete with imported teas coming from very low cost producing SADC countries. Competition from low cost tea producing regions has caused the closure of some of the tea es-

tates as they cannot compete when producing high quality which is blended with cheap and low quality teas from SADC region. The price of tea is primarily determined by supply and demand, however the large corporations which dominate the tea trade, have a huge impact on the world markets by regulating the supply and demand. 90% of the western trade is said to be under the control of a few multinational companies (FAO, 2010). The large companies with their purchasing power can influence the demand and price for particular qualities and types of tea.

4.1.2. Lack of adequate government support. The tea industry is not considered as a priority sector by the South African government. The government prioritizes other commodities such as sugar cane, wine, fruits and grain which are considered more lucrative and contribute significantly to the economy relative to tea. Exchange rate fluctuations impact on input costs and tea pricing given that tea is a US dollar traded commodity.

Lack of security of tenure and complete ownership rights of tea estates. Land claims on tea producing areas create a level of uncertainty. Most of the tea estates in South Africa have existing land claims. For example, the pending land claim on Ntingwe Estate is creating uncertainty and is threatening future plans of the estate.

Other challenges faced by tea industry

Other challenges include:

- ◆ poor tea yields;
- ◆ lack of supporting infrastructure;
- ◆ lack of adequate working capital;
- ◆ inadequate production facilities and obsolete equipment.

4.2. Policy reform initiatives. The success of the tea industry in Tanzania was attributed to mostly its deliberate liberalization and privatization strategy and strengthening of research and development. According to Baffes (2004), the Tea Board of Tanzania, imposed a ban on imports of packed tea to protect its domestic blenders and packers and also imposed an import duty on tea. Kenya and Malawi's tea industry success is attributed to its deliberate government policy which promoted integration of small-scale growers in the mainstream tea growing (Gesimba et al., 2008). The main policy initiatives suggested by respondents which need to be implemented in order to steer the tea industry in the direction of success were given as follows:

- ◆ reintroduction of tariffs and non-tariff protection;
- ◆ policy change in minimum wage determination;
- ◆ compulsory tea purchase/procurement by government institutions of locally produced tea;

- ◆ reinstatement of compulsory quota purchase by tea importers and packers;
- ◆ government support in development of a national tea brand and policy advocacy for buy local tea campaign;
- ◆ the promotion and support of a black tea commodity association;
- ◆ support of smallholder sector.

4.3. Factors that are causing failure or low performance in the local tea industry. Respondents identified the key factors are as follows:

- ◆ high production costs with regulated labor costs being the main component;
- ◆ removal of trade barriers;
- ◆ low worker productivity relative to other tea growing countries and relative to the level of regulated wages;
- ◆ lack of adequate government support.

4.4. Strategies to be considered for implementation by tea industry. The strategic interventions identified from the research study were as follows:

- ◆ Focused differentiation strategy which will give focus to tea production of specialty quality.
- ◆ Development of own tea brands emphasizing on originality and unique attributes such as chemical free tea, single estate low caffeine and catechin rich tea.
- ◆ Drive usage of green tea extract, powdered tea and tailor made products. There is a growing demand for specialty and higher quality teas (Van der Wal, 2008).
- ◆ Increasing production capacity and maximizing field production and labor productivity. The cost of tea production according to Van der Wal (2008) is pushed up as a result of factors like mismanagement, high overhead costs and poor agricultural practices.
- ◆ Partnering with established and proven tea producing companies such as Rooibos Limited to produce green tea extract which will be pushed into the food industry, correctional services, gift channels so forth, leveraging the benefits of the "Product of SA" label.
- ◆ Introduction of cost saving technology.
- ◆ Switching to organic farming and obtain organic certification for the estates.
- ◆ Recapitalization of tea estates to improve production efficiency and investment in modern technology and research and testing facilities.
- ◆ Development of small-scale sector as out-growers for the major tea estates just like in other tea growing countries as identified in the literature.
- ◆ Potential for agro/ecotourism to tea plantations.

- ◆ Adoption of new business models such as diversification into growing other agricultural products.

4.5. Recommendations and business strategies. This study recommends the following:

- ◆ The tea industry in South Africa is encouraged to diversify its business to include other crops and other streams of income. Cultivation of additional crops is important for enterprise diversity. The possibility of cultivating complementary crops needs to be further examined. These could be other types of teas or complementary crops like coffee or timber that may be counter cyclical in demand.
- ◆ The tea estates in South Africa are encouraged to have commercial strategic partners.
- ◆ The South African Government is encouraged to intervene by showing concern and lending support to the sector so as to create a conducive climate for the sector development through incentives and subsidies.
- ◆ The Competition Commission should investigate collusive tendencies within the sector which is primarily dominated by a few large multinational corporations who control at least 90% of market shares. Tea in SA is retailed at between 4 and 5 times the landed cost of unpacked tea. The high differential for tea is a matter that may require intervention of some nature or negotiation with the packers/retailers with the aim of persuading them to increase the purchase price of unpacked tea. A further route would be to approach the Competitions Board to examine the monopoly position of tea packing and wholesaling in South Africa. It is interesting to note as revealed in the literature review that the proportion of labor costs in the consumer price of tea is shockingly less than 3% of the price compared to about 30 to 50% of the retail price which goes into blending, packaging and promotion. Value-add benefits accrue to the multinational companies at the expense of the tea producers.
- ◆ Government should look at the reimposition of state subsidies and consideration could be given to reinstate growers' subsidies to certain prioritized high impact tea estates.
- ◆ Government should consider the reimposition of import tariffs. It has been shown that South African tea production is not currently sustainable without protection from imports. Therefore the argument can be raised for the reimposition of tariff protection from SADC imports. Given that tea produced in other SADC countries is produced under different wage regimes, there would appear to be a justification for the erection of these barriers.

- ◆ The channel of preferential government procurement should be further investigated: “Make preferential procurement of tea, for different government departments, adhere to acceptable codes of conduct” (Van der Wal, 2008, p. 68). A floor price could be negotiated that would allow tea estates to be viable. The price differential between this floor price and the landed tea price could be offset against the cost of current welfare programs in areas affected by the unemployment of retrenched tea estate workers.
- ◆ Government should expedite outstanding land claims on tea estates. In order to provide certainty as to ownership of land, there is urgent need to resolve the pending land claims over the estate land. The regional office of the Land Claims Commission should be requested to give priority to fast tracking cases involving tea estates because of their importance to local job creation opportunities. Should land claimants be awarded title to the tea estate land, they should be encouraged to embark on tea production on a cooperative basis. Economic returns in tea production are achieved following the first 10 years after initial capital outlay. In the vast majority of the tea estates under claim, the tree bushes are more than 10 years old and therefore minimum capital outlay is required.
- ◆ South African tea estates are encouraged to focus on the production of good quality green tea and premium black tea. There is great need to develop a niche market and to keep abreast with changing world markets. The wide variation in processing methods and consumer taste offers tea growers and processors the opportunity to differentiate their products, add value and attract consumers.
- ◆ The tea estates should push the green tea into food service, correctional services, and gift channels.
- ◆ South African tea industry should build a brand which gives emphasis on key attributes such as no chemicals, exotic, single estate low-caffeine, and catechin-rich. Certain groups of consumers in countries such as Germany and Japan are interested in attributes such as loose high quality, single estate or origin teas (Van der Wal, 2008).
- ◆ The tea estates should focus on differentiation such as the production of specialty teas and the switching to organic farming and obtain organic certification for the tea estates. This can result in producing tea that can fetch good prices and face less competition.
- ◆ The tea industry should participate in major trade shows in target markets as part of the product and brand awareness campaigns meant to stimulate demand of SA teas.
- ◆ Consumers should be encouraged to take a position against malpractices in the sector by addressing corporate accountability of packing and blending companies. Consumers through their buying power can influence these companies to positively contribute to a more sustainable tea sector. Consumers are increasingly becoming conscious and interested in buying food grown and produced in environmentally friendly and socially responsible manner. The characteristics of dual certified organic tea as well as ethically produced needs to be highlighted in promotional materials.

4.6. Areas for further research. Future studies should look at the sustainability of promoting small-scale production of tea in South Africa and also to examine the sources of competitive advantage of the tea industry in South Africa.

5. Concluding remarks

Although black tea prices are currently at a peak, due to supply and demand conditions that are helping to reduce the operating losses for the South African tea industry, the competitive position and long-term viability of the tea industry remain the same as they were when the revitalization project became a necessity several years ago. Unless there is a sincere, comprehensive effort to create a new business model for the South African tea industry, with uncompromised input of technical, management and marketing support, the prospect of tea industry becoming a sustainable, worthwhile venture remains low.

There are some factors which South Africa has no control over such as international tea prices, fluctuating foreign exchange rates and natural disasters. There are however, certain areas which South Africa can act on to change the situation of the tea industry and other sectors facing similar challenges. The things that can be changed include: productivity levels through engaging labor unions to address these issues, improvement in service delivery, speedy resolution on land claim issues, empowering workers to be active in small-scale productive activities, promotion of buying local products, skills development and training, and discouraging anti-competitive behavior by heavily penalizing those that collude.

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