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# The Sustainable Development of Tea Cooperatives and the Tea Value Chain: The Case of Georgia

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Agricultural Transitions along the Silk Road
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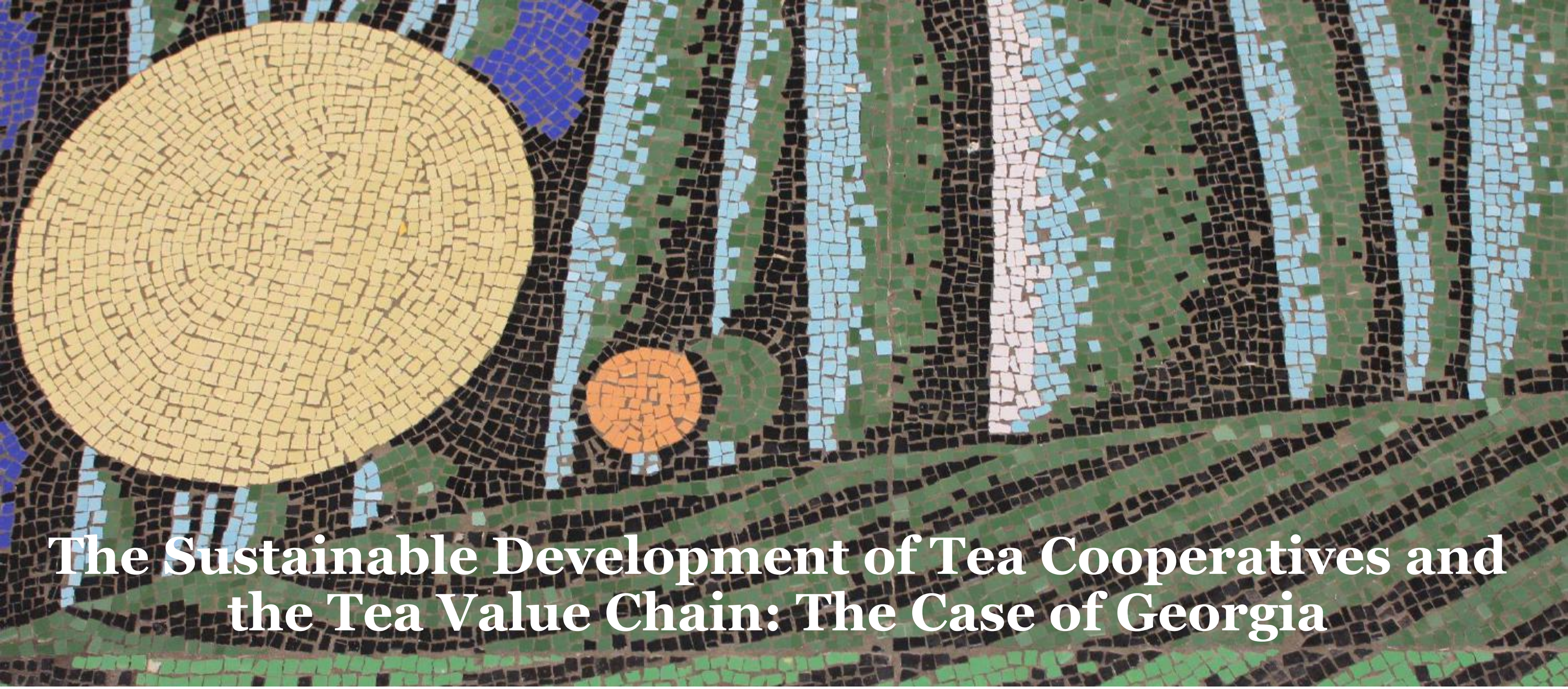

# The Sustainable Development of Tea Cooperatives and the Tea Value Chain: The Case of Georgia

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# Introduction: Tea

- China is considered to be the traditional home of tea.
- The leaves of *Camellia Sinensis is an* evergreen bush.
- The tea bush matures after 5-7 years from planting.
- The productive lifetime of a single tea bush is more than 100 years.
- There are different types of tea:
  - White
  - Yellow
  - Black
  - Green
  - Oolong
  - Post-fermented

➢ All of them are produced from the same leaves and buds of tea plant (*Camellia Sinensis)*

➢ It is during the tea processing stage when tea is sorted into different end products.

# Tea Sector in Georgia

- Georgia is one of the northernmost tea producing countries in the world
- Tea growing was appeared in Georgia in mid-19$^{th}$ century
- The humid and subtropical Black Sea climate creates ideal conditions for growing tea in the regions of Western Georgia
- During the communist era, Georgia was the main tea producer (95%) in the Soviet Union, however high production yields came at a high cost: the compromise of quality.

| Period | Hectares | Processed Leaf (tons) | People Involved |
|---|---|---|---|
| Soviet Time* | 70’000 | 152’000 | 180’000 |
| Today** | 1’700 | 1’800 | - |

Sources: *Hall, N. (2000) and **Geostat (2014)

# Objectives of this Study

**Overall goal of the tea value chain study:**

- to identify approaches through which the competitiveness of Georgian tea sector could be improved

**Research question of this paper:**

- How could new established tea cooperatives capture higher values in the chain?

Acknowledgments:

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# Methods

**Desk research:**

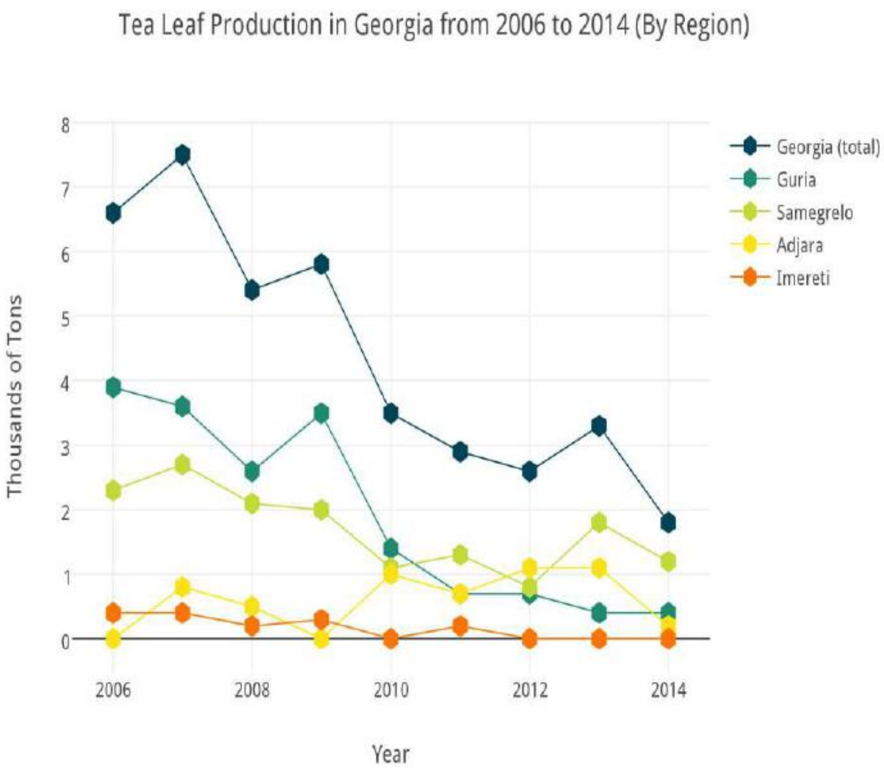
- review of literature
  - Value Chain Analysis
    - Porter, M. (1985)
    - Kaplinksy, M. Morris, M. (2001)
    - Herr, M. and Muzira, T. (2009)
  - Cooperatives
    - Lerman, Z., and Sedik, D. (2014)
    - Millns, J. (2013)
    - Lerman, Z., & Parliament, C. (1990, 1991)

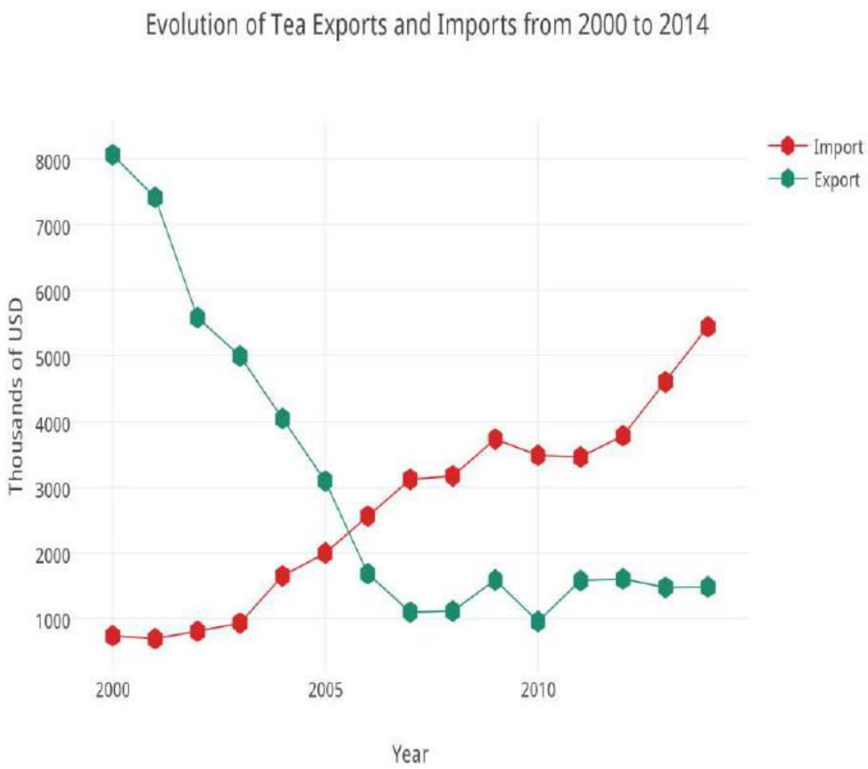
- Statistical data
  - Geostat, Faostat, MoA, ACDA, ITC

**Field research: collection of primary data**

- Stakeholder/expert interviews
- Tea stakeholder forum discussion

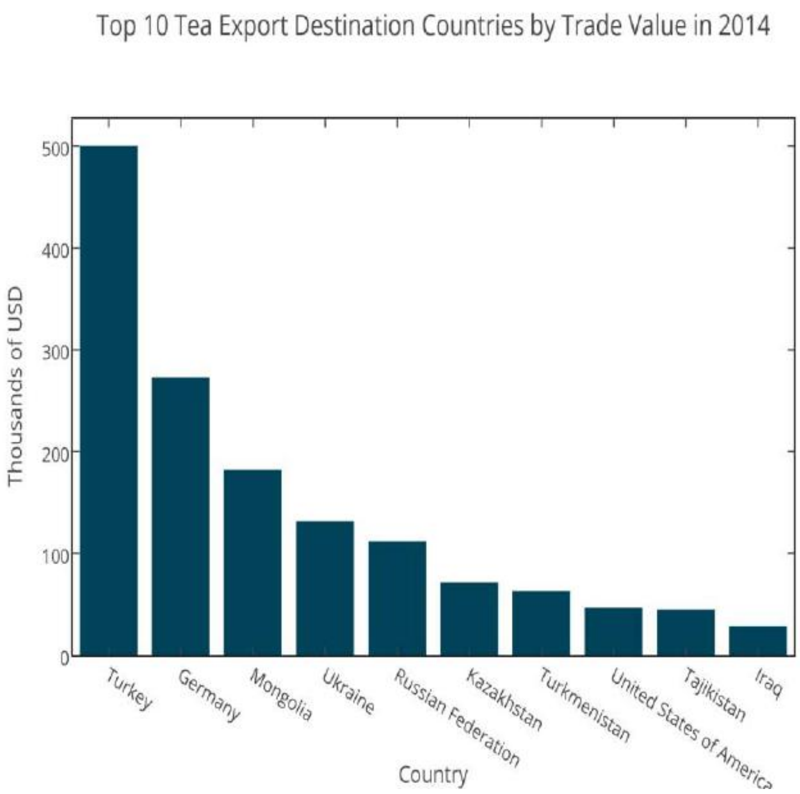
# Tea Production and Trade in Georgia

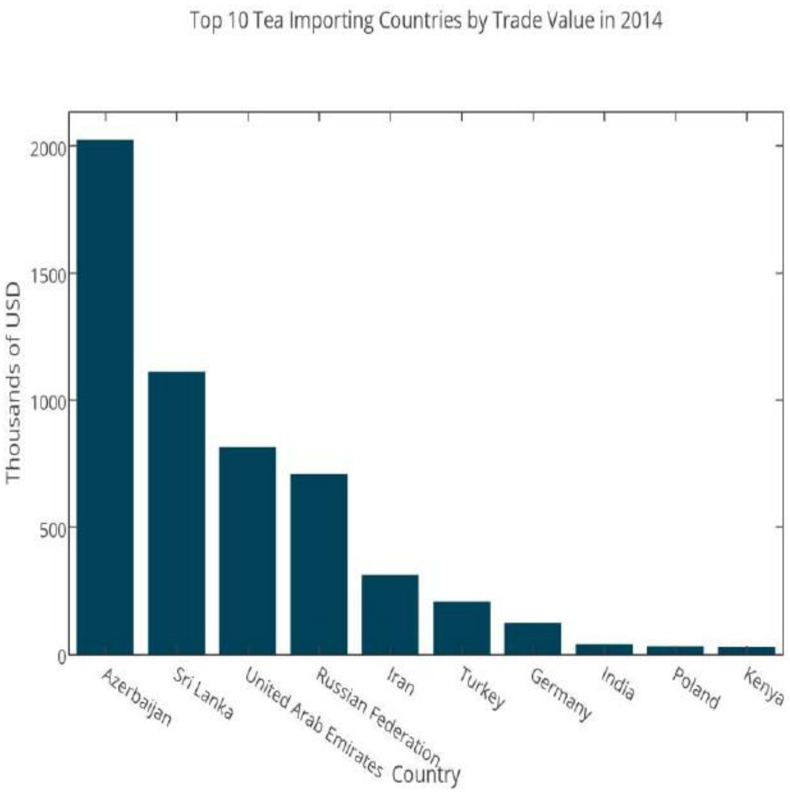



Source: Geostat (2015)
Note: These figures are adjusted for inflation and are shown in constant 2005 dollars.

# Tea Export-Import in 2014




Source: Geostat (2015).
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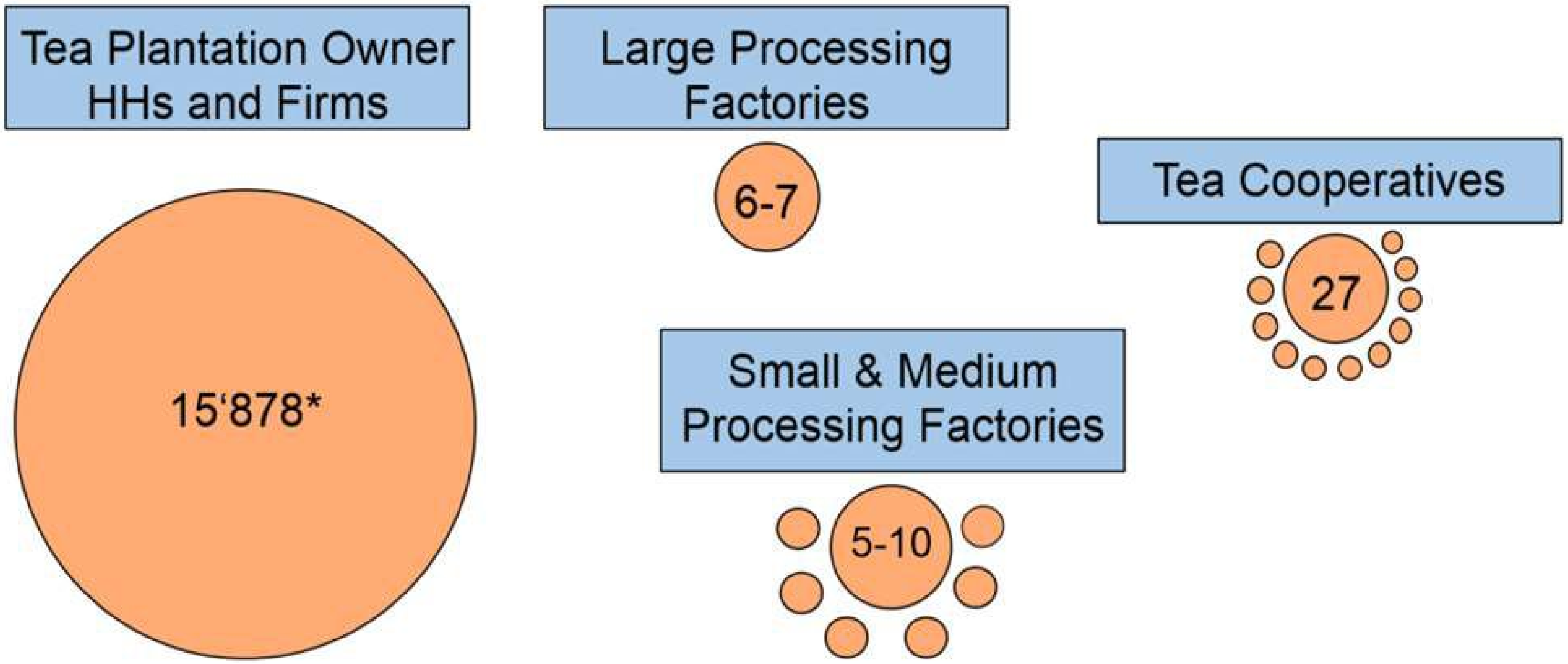
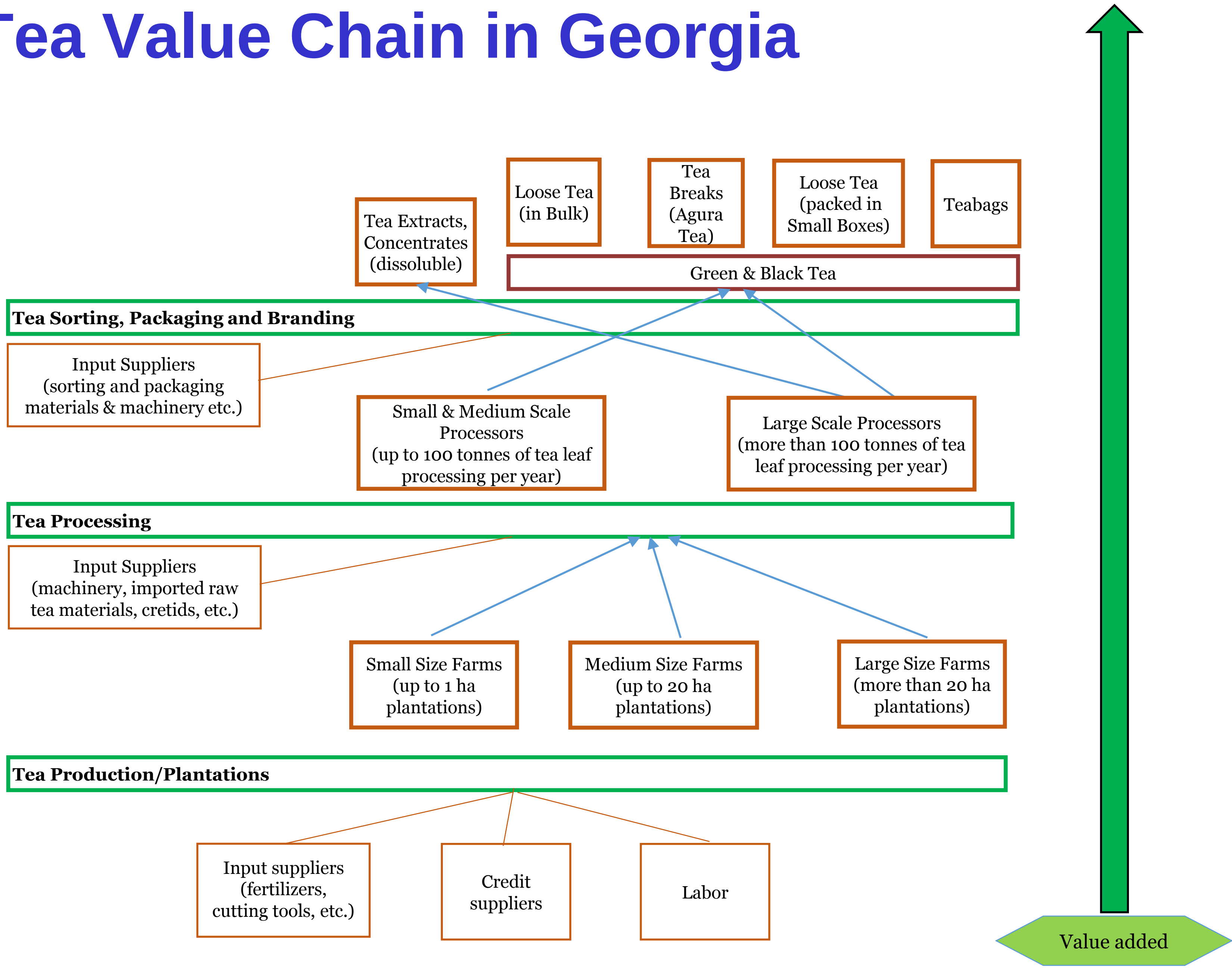
# Tea Value Chain Actors

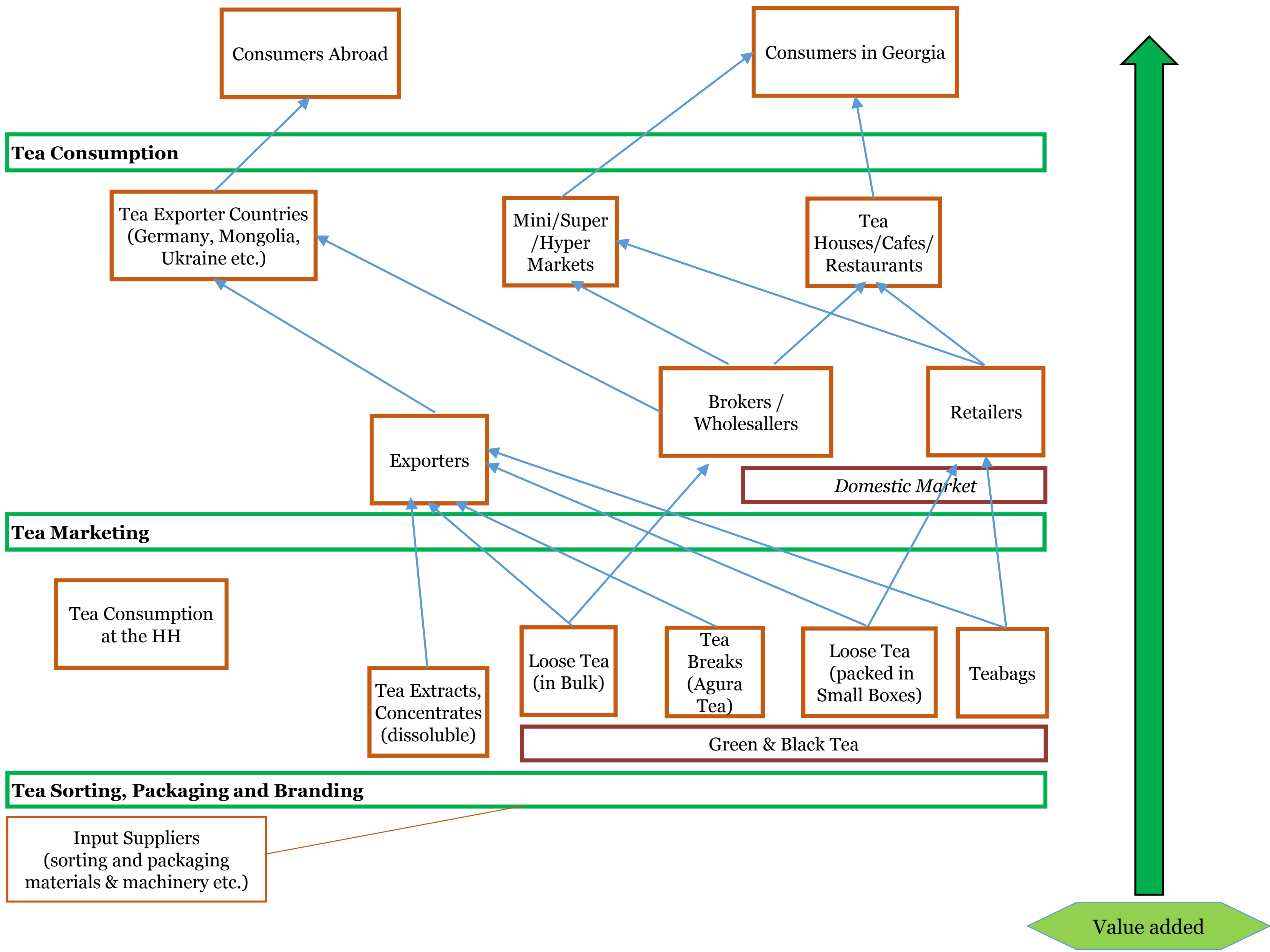



*according to Geostat's 2004 census (the most recent available data so far). 2014 census data will be published in 2016.

# A Tea Value Chain in Georgia



# A Tea Value Chain in Georgia (cont'd)



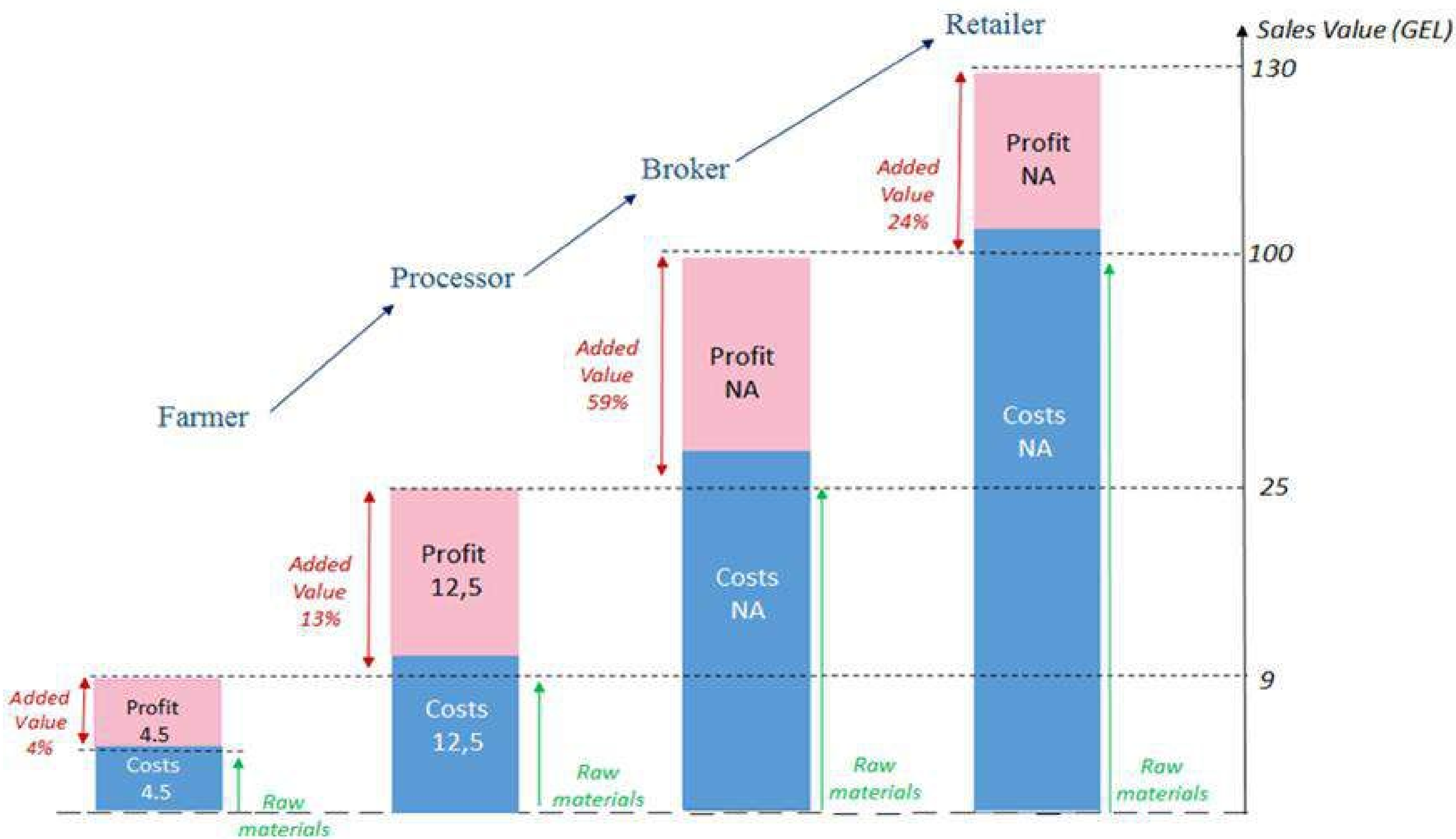
# Cooperative Movement in Georgia

- Law on agricultural cooperatives (July, 2013)
- Establishment of Agricultural Cooperative Development Agency within Ministry of Agriculture (2013)
- To date, there are around 1300 cooperatives registered
- Agricultural cooperative development is supported by European Commission to Georgia [through 52 mln Euro ENPARD project]

➢ **Tea Cooperatives**

- In October, 2015 there were 27 registered tea cooperatives in Georgia (with 150 members)
- Total area of their plantations (own or rented) is about 165 hectares – only about one-third are productive plantations though
- Only 6 cooperatives are processing tea leaves, others are tea leaf producers
- In 2015 they made only 7 tons of tea (in total)

# Value Added at Each Step of High Quality Tea VC



# Discussion and Recommendations

**Main Constraints in the Tea Value Chain**

- Production constraints
  - Limited tea leaf production
- Processing constraints
  - Lack of modern processing lines
- Marketing constraints
  - Lack of marketing strategies

# Discussion and Recommendations (cont’d)

- Re-cultivation of abandoned tea plantations;
- Make existing plantations more productive;
- Indirect subsidies (rent and tax exemption);
- Privatization of tea plantations;
- Preferential loans and cost-sharing programs (like “Produce in Georgia”);
- Focus on high quality tea production (e.g. GI and bio tea);
- Develop the agrotourism at the tea farms;
- Support to VET colleges to develop tea production and processing modules.

# Discussion and Recommendations (cont'd)

**Marketing**

- Create the Georgian tea brand and promote worldwide

  Short-run strategy:

  - post-Soviet countries
  - Countries with large Georgian and post-Soviet diasporas
  - Exploit the newly signed DCFTA agreement with EU

  Medium and long-run strategy:

  - Product diversification
  - Market diversification

- Develop the service cooperatives (e.g. second-tier marketing cooperative)

# Policy Impact of the study?

- Government of Georgia very recently (18 Jan, 2016) passed a state program - "Georgian Tea", which focusing on rehabilitation of tea plantations (3,5 mln GEL)

- Program has preferential conditions for cooperatives
  - If plantations are in private ownership, the state finances 60% of rehabilitation costs. This is 80% for cooperatives
  - In case of leased plantations, the state finances 70% of rehabilitation costs. This is 90% for cooperatives

# Thank you

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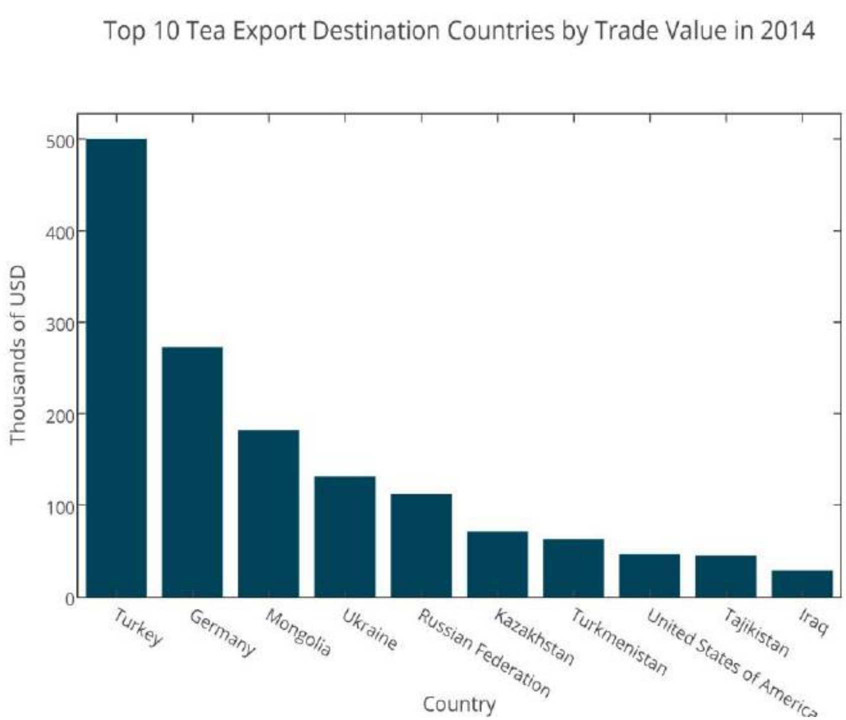
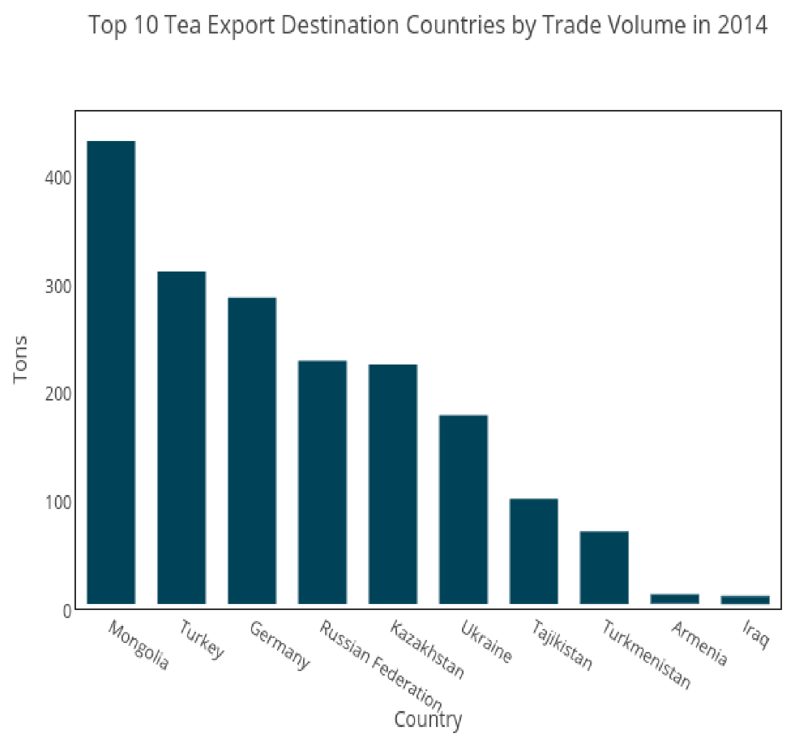
*Special thanks to EU's ENPARD project for supporting this research*

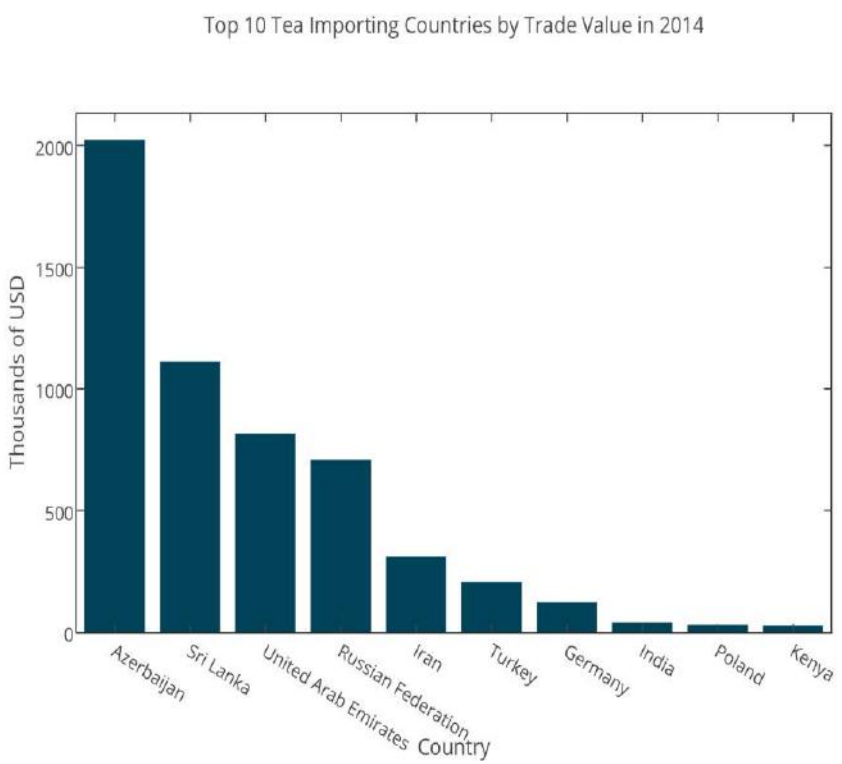
# Tea Export in 2014

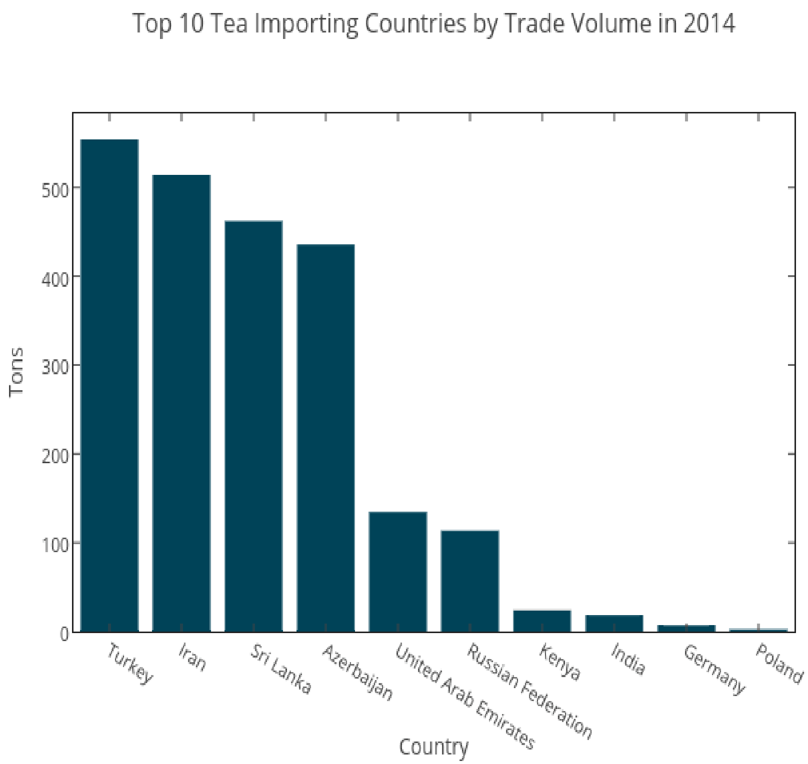



Source: Geostat (2015).
Note: These figures are adjusted for inflation and are shown in constant 2005 dollars.

# Tea Imports in 2014



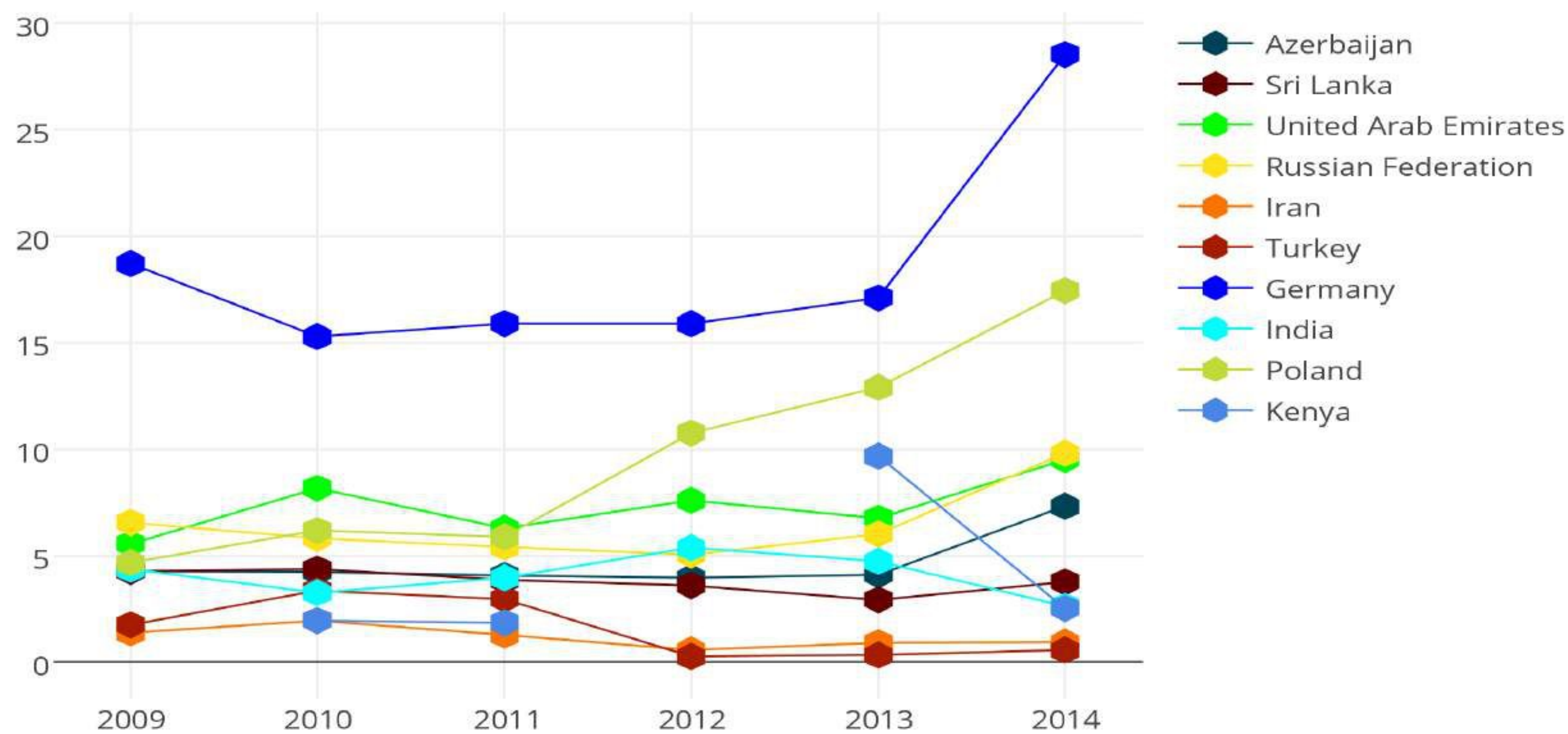

Source: Geostat (2015).
Note: These figures are adjusted for inflation and are shown in constant 2005 dollars.

# Back-up slides


Source: Geostat (2015).
Note: These figures are adjusted for inflation and are shown in constant 2005 dollars.

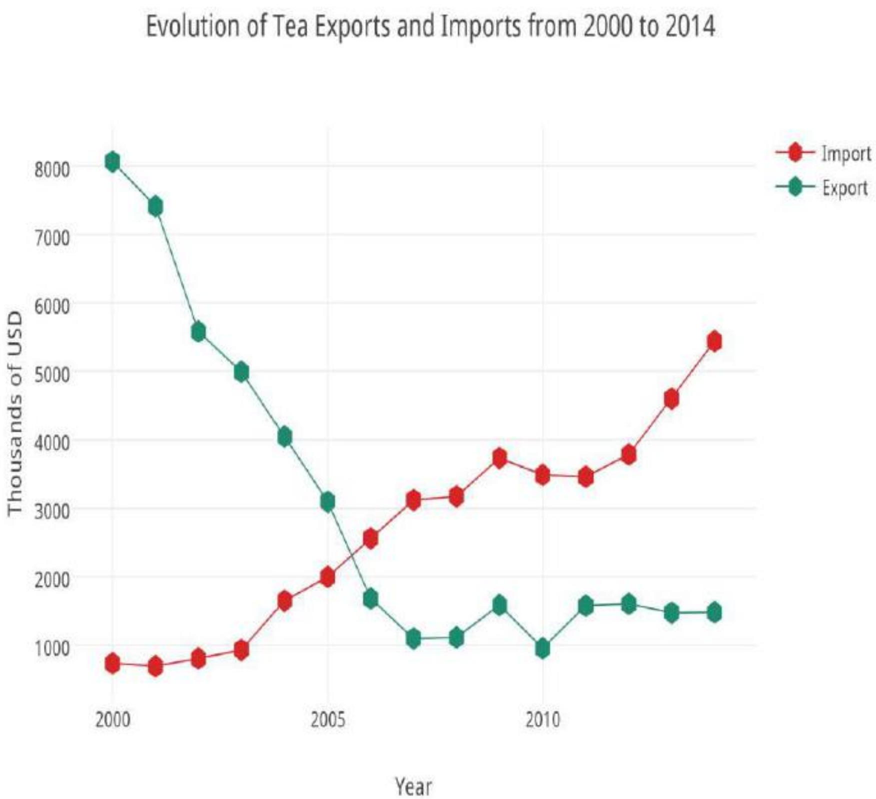
# Back-up slides

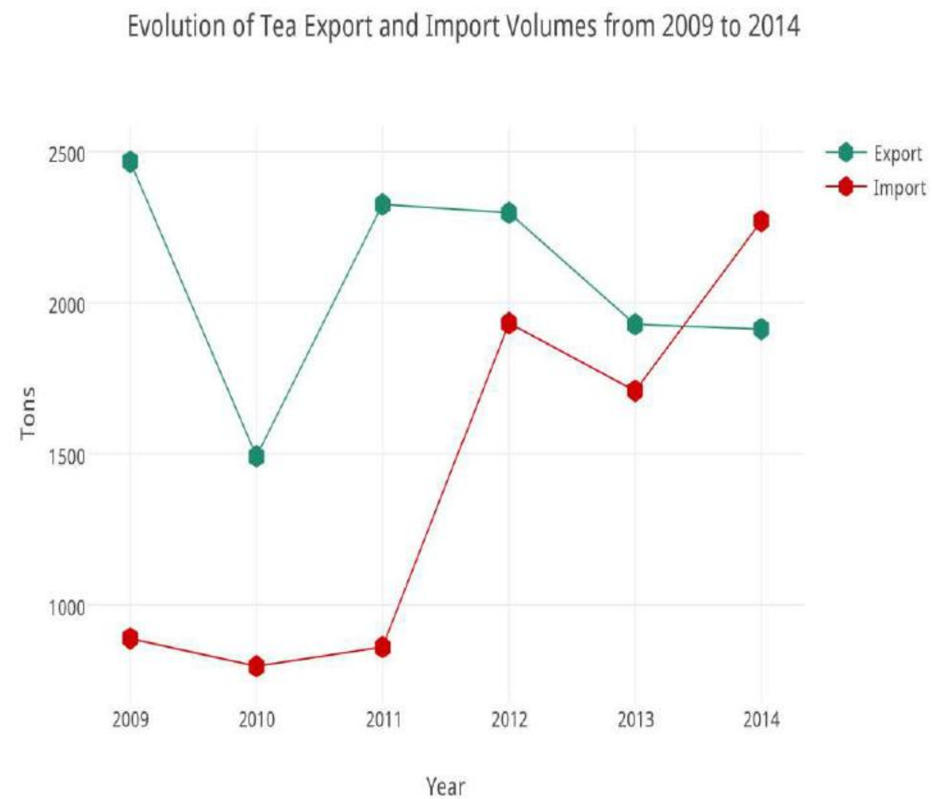
Evolution of Imported Tea Prices from Top 10 Importing Countries by Trade Value from 2009 to 2014




Source: Geostat (2015).
Note: These figures are adjusted for inflation and are shown in constant 2005 dollars.

# Tea Trade in Georgia




Source: Geostat (2015).
Note: These figures are adjusted for inflation and are shown in constant 2005 dollars.

# SWOT of the Georgian Tea Sector

Strengths

- Good climate zone for the Tea production;
- Favorable conditions for green tea production;
- Strong brand recognition;
- Strong institutional memory.

Weaknesses

- Reduction of size and productivity of plantations;
- Lack of raw materials and outdated technology;
- Absence of marketing skills;
- Severe outmigration from tea producing regions.

# SWOT of the Georgian Tea Sector

Opportunities

- High quality tea production (e.g. organic);
- Upgrading technology;
- Branding Georgian Tea
  - European market
  - CIS
  - Diaspora
- Employment.

Threats

- Annihilation of tea plantations;
- Loss of input suppliers (raw materials);
- Loss of existing markets;
- Absence of health protection and environmental impact.

# Tea Plantations in Georgia

| District | Agricultural Land (ha)* | Tea Plantations** (ha) | Private Ownership (%) | Productive (ha) | Overgrown (ha) | Overgrown Tea Plantations (ha) | |
|---|---|---|---|---|---|---|---|
| | | | | | | Cultivable (ha) | Non-cultivable (ha) |
| Total (4 regions) | 566,679 | 10,760 | 47% | 1,696 | 9,020 | 5,972 | 3,048 |

Sources: *MoA operative data (2013); **MoA operative data (2015)