UNIVERSITY OF KWAZULU-NATAL

South Africa's tea industry challenges and business strategies: A case study of Ntingwe Tea Estate

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DECLARATION

I, Taurai Khumalo declare that

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(ii) This dissertation has not been submitted for any degree or examination at any other university.

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ABSTRACT

The South African tea producing industry has been in decline since 2000 due to a host of industry factors such as significant increases in production costs occasioned by a regulated labour market, unfavourable 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 estates in precarious financial positions and operating on a stringent budget, funded mainly through government grants.

The study focuses on issues affecting Ntingwe Tea Estate specifically and 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. Further, the study seeks to assist the tea industry stakeholders to gain knowledge and insight about the challenges experienced locally and globally and to understand the business strategies that have been pursued successfully in other tea growing countries and explore those that will steer the local tea industry into sustainability. The study also highlights policy initiatives which if implemented will assist in steering the industry into sustainability. A combination of qualitative and quantitative analysis was used in order to identify the specific challenges affecting South Africa's tea industry. Forty participants purposively chosen for their knowledge, experience and information about the tea industry in general and with Ntingwe Tea Estate in particular made up the sample. Qualitative data was collected using an open-ended questionnaire, yielding a response rate of 50%. High production costs labour, low skills and labour 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 re-imposition 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. Business strategies to be considered for implementation by Ntingwe Tea Estate included focus on production of specialty quality tea, development of a unique originality brand, development of a small-scale sector, introduction of cost saving technology and creating partnerships with established tea producing companies and an emphasis on ethical production and organic certified teas.

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ABBREVIATIONS

ACP	African Caribbean and Pacific
CAP	Common Agricultural Policy
CDC	Commonwealth Development Corporation
CIS	Commonwealth of Independent States
COMESA	Common Market for Eastern and Southern Africa
CPI	Consumer Price Index
CTC	Cut, Tear and Curl
DAEA	Department of Agriculture and Environmental Affairs
DEDT	Department of Economic Development and Tourism
DAFF	Department of Agriculture, Fisheries and Forestry
DRC	Democratic Republic of Congo
DTI	Department of Trade and Industry
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EC	Eastern Cape Province
ECDC	Eastern Cape Development Corporation
EU	European Union
FAO	Food Agricultural Organisation
GDP	Gross Domestic Product
HACCP	Hazard Analysis Critical Control Point
ITAC	International Trade and Administration Commission
ITC	International Tea Committee
ISPM	International Standard Phytosanitary
Kg	kilogram
KZN	KwaZulu Natal
KTB	Kenya Tea Board
KTDA	Kenya Tea Development Agency
LRAD	Land Redistribution for Agricultural Development
MP	Mpumalanga Province
MRL	Maximum Residue Level
NAFTA	North American Free Trade Area
NAMC	National Agricultural Marketing Authority
NPK	Nitrogen, Phosphorus and Potassium
PFMA	Public Finance Management Act
PMG	Parliamentary Monitoring Group
SADC	Southern Africa Development Community
SA	South Africa
SOMO	Stichting Onderzoek Multinationale Ondernemingen Centre for Research on Multinational Corporations
TCC	Tropical Commodity Coalition
TBT	Tea Board of Tanzania
TSTDA	Tanzania Smallholder Tea Development Agency
UAE	United Arab Emirates
UK	United Kingdom
UN	United Nations
USA	United States of America
USSR	Union of Soviet Socialist Republics
VAT	Value Added Tax
WTO	World Trade Organisation

CHAPTER ONE
INTRODUCTION

1.1 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 from 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 labour intensive and also because it offered employment opportunities for the rural communities. 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 but mainly because they receive funding from the state (Joubert, 2009). 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.

This chapter introduces the research topic, provides a background to the subject and research problem. The chapter will further provide a list of objectives that this dissertation aims to achieve and the research methodology in section 1.3. Thereafter, it will also in the same section, present the open ended questions which were presented to the participants. Section

1.4 will cover the significance of the study followed by section 1.5 which will present limitations and delimitations of the study, respectively. Finally, the chapter will set out the outline of the remainder of the thesis in section 1.6.

1.2 PROBLEM STATEMENT AND MOTIVATION FOR THE STUDY

An overview of the problem statement will be provided in the first sub-section. Thereafter the motivation for the study and the reasons for choosing Ntingwe Tea Estate for the case study will be clearly set out in the second sub-section.

1.2.1 South African black tea industry

The South African black tea producing industry has been in decline since 2000 due to a host of industry factors which included significant increases in production costs occasioned by a regulated labour market, unfavourable international tea prices, removal of tariffs and increased competition from African tea producing countries. The reduction in local tea production resulted in increases in tea imports from the SADC region and other tea producing countries. Before 1999, a quantitative import control system obliged tea packers to purchase locally produced tea for any equivalent amount of tea imported. In 1999, the country's 12 tea producers suffered a major blow when the quantitative import control system was dropped, which meant that tea packers no longer had the financial incentive to pack local tea (Joubert, 2009:50). This has resulted in closure of 9 out of 12 tea estates in three provinces namely KwaZulu Natal, Limpopo and Eastern Cape. The remaining three producing tea estates are in a very precarious financial position and operating on a shoe string budget funded mainly through government grants (DAFF, 2010).

The sustainability of the tea industry in general has been affected by declining global prices, particularly in the early 2000s, resultantly impacting on the livelihoods of plantation workers and producers, in tea producing economies (Van der Wal, 2008). Tea is an important commodity in terms of job creation as it is labour intensive and provides job opportunities particularly in remote rural areas. It is also important in terms of export earnings and rural infrastructure development. Currently South Africa is importing in excess of 25,000 tonnes of tea valued in excess of R345 million. This amount could be saved if the local tea industry is resuscitated in addition to creating the much needed jobs and addressing numerous social issues particularly in rural areas where tea estates are located (DAFF, 2010). The tea estates in South Africa, if in full operation, have the potential to create at least 14,000 jobs in rural areas (DAFF, 2010).

1.2.2 Motivation of the study and reasons for using Ntingwe Tea Estate as a case study

The tea industry in South Africa plays a considerable role as it provides both permanent and seasonal employment opportunities particularly for people in rural provinces of South Africa (Joubert, 2009). Ntingwe Tea Estate employs 500 people, increasing to about 1250 people during the picking season. According to Joubert (2009), economic development in areas where tea plantations are located have had an impact on the geo-ecological and socio economic conditions of the people in the locations of the tea estates. Ntingwe Tea Estate is seen as an engine of economic growth for the community of Nkandla area, one of the poorest areas of KwaZulu-Natal Province (Pringle, 2006; Joubert, 2010). The reasons for choosing Ntingwe Tea Estate for the case study are that:

- It is situated in an area with one of the highest unemployment levels (75%) in the KwaZulu-Natal Province (Pringle, 2006). There are no prospects of reduction in unemployment because there are no new viable investments planned for the area. The community is largely dependent on social grants.
- It is the only remaining operational tea estate in the KZN Province.
- The researcher is involved through Trade and Investment KZN in turning around the project.
- It is the only tea estate in South Africa that has implemented a pilot project for green tea production and processing.

The provincial government is trying to find sustainable ways to address the challenges faced by Ntingwe Tea Estate 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 Ntingwe Tea Estate specifically and 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.

1.3 OBJECTIVES AND METHODOLOGY

The study aims to examine the causes of deteriorating performance and challenges faced by South Africa's tea estates. It also seeks to establish the business strategies that will contribute to the sustainability of Ntingwe Tea Estate and other similar tea estates in South Africa.

The specific objectives of the study are to:

- Identify challenges faced by the South African tea industry in general.
- Examine the challenges faced by Ntingwe Tea Estate.
- Identify and examine the factors that are causing failure or low performance of Ntingwe Tea Estate in comparison to its potential in the global market.
- Identify the policy reform initiatives needed to steer the tea estate towards sustainability.
- Evaluate whether Ntingwe Tea Estate can be economically viable without government intervention.
- Identify strategies that can be implemented by Ntingwe Tea Estate in order to become sustainable.

The research methodology applied in the study sought to address the aforementioned objectives through the use of a qualitative study administered through a questionnaire presented to identified key stakeholders in the tea industry and through interviews conducted with two people and also reviewing the tea industry strategies in major tea producing countries such as India, Sri Lanka, Kenya and Malawi.

In order to achieve the objectives of this study, an open ended questionnaire comprising of 9 questions was designed and presented to the participants. The questions were as follows:

- What are the challenges that the tea industry in South Africa is experiencing?
- In your view what are the policy reform initiatives that need to be implemented to steer the tea sector in the direction of success?
- What factors resulted in the failure, or low performance, of the tea industry in South Africa compared to its potential in the global market?
- 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?

- 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? Please comment in detail.
- What are the challenges of exporting tea to the rest of the world?
- What are the challenges posed to the sector due to tea imports from Africa and the rest of the world?
- What strategies should be implemented by Ntingwe Tea in order to become sustainable?
- 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.

The qualitative and quantitative research responses were presented, analyzed, interpreted and discussed in chapter four and the conclusions and recommendations were presented in chapter 5.

1.4 SIGNIFICANCE OF THE STUDY

The study seeks to focus on the issues which affect Ntingwe Tea Estate specifically and the tea industry in South Africa in general and attempts to find alternative solution to the challenges and to establish sustainable business strategies for the industry. The study further seeks to assist the stakeholders within the tea industry to gain knowledge and insight about the challenges experienced locally and globally and also an understanding of the business strategies that have been pursued successfully in tea growing countries and explore those that will steer the local tea industry into sustainability. The study also highlights policy initiatives which if implemented will assist in steering the industry into sustainability.

The study culminates by recommending the identified strategies which could make the industry sustainable. To the government and policy makers, the study highlights the gaps and recommends the role that they can play in stimulating the industry to sustainability.

1.5 LIMITATIONS AND DELIMITATIONS OF THE STUDY

1.5.1 Limitations of the study

The study was conducted in Durban, but it also targeted respondents in the tea industry from the following provinces: Eastern Cape, Gauteng, Limpopo, and KwaZulu Natal, and also from Nigeria, Kenya and Japan. Due to the geographic locations of the participants and the cost implications thereof, the research investigation was confined to telephonic communication and electronic mail. It was not possible to conduct personal interviews with distant respondents.

The results of the study are not easily generalizable to the population due to the specific nature of the study. Furthermore, since it is a case study design, specific circumstances of Ntingwe Tea Estate might not be generalizable to the entire tea industry in South Africa. However, the findings of the study capture the contribution of 20 respondents who are experienced and knowledgeable in the tea industry and hence this study is able to make useful contribution to the challenges of Ntingwe Tea Estate and the wider tea industry.

1.5.2 Delimitations of the study

This study has chosen not to gather the perspective of the consumers as this could be an area of future study. The study only looks at the business perspective. The study does not intend to cover the red bush (Rooibos) tea industry which is only peculiar to the Western Cape Province of South Africa. Rooibos is a natural indigenous herb that has created a multibillion industry in the country (DAFF, 2010).

1.6 CHAPTER OUTLINE

Chapter one outlined the background and context of the study and laid out the problem statement, motivation, objectives, research methodology, significance of the study and limitations of the study.

Chapter two outlines the literature review which explores issues confronting the tea industry in South Africa and globally. Chapter three presents the research methodology adopted for the study followed by chapter four which presents the findings, analysis and interpretation and chapter five provides the conclusions and recommendations of the study.

CHAPTER TWO
LITERATURE REVIEW

2.1 INTRODUCTION

This chapter presents the literature review on the study in order to understand the background of tea production and its challenges and impact on the national economy. The review explores issues confronting the tea industry in South Africa and globally, in order to identify potential remedial policy and business strategies. It also briefly investigates the strategies that have been implemented in South Africa's tea industry as well as in successful tea growing countries and utilizes these to establish strategies that help in addressing the challenges of the tea industry.

A literature review is defined by Saunders, Lewis and Thornhill (2007: 595) as "a detailed and justified analysis and commentary of the merits and faults of the literature within a chosen area, which demonstrate familiarity with what is already known about the research topic". A literature review is an attempt to summarize the latest thinking on the topic and to justify how and why the study is taking the subject even further (Jones, Wahba and Heijden, 2007).

The chapter will provide the history and classification of tea in section 2.2. Thereafter, it will discuss the global tea scenario, South Africa's tea industry, government policy and role of tariffs and trade in tea industry, will be discussed in sections 2.3, 2.4, 2.5 and 2.6, respectively. The challenges of tea industry globally and in South Africa as well as business strategies are discussed in sections 2.7 and 2.8. Lastly, an understanding of the case study will be discussed in section 2.9 followed by conclusion of the chapter in section 2.10.

2.2 THE HISTORY AND CLASSIFICATION OF TEA

This section will provide a brief overview of the origins of tea and its classification in order to give a general understanding of tea.

2.2.1 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, 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).

2.2.2 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 for 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, 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 un-oxidized. Oolong and paochong teas are 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 followed by drying (Dharmasena, 2003).

Tea bushes mature for commercial exploitation 5 to 7 years after planting and can be productive for up to 100 years. According to Karmakar and Banerjee (2005), tea is classified as an agricultural commodity and also as an industrial commodity depending on the stage at which it will be along the tea value chain. Tea is a processed and manufactured commodity subject to excise duty and is also an agricultural crop grown and produced on land. The tea growing processes which it goes through i.e. cultivation, manuring, irrigation, weed control, disease control, pest control, plucking, transportation of green leaf and uprooting, are activities which make tea to be classified as an agricultural commodity. The various processing and manufacturing stages involving the green leaf such as withering, rolling, fermenting, drying, weighing, sorting, cutting which result in the final product of tea to be classified under industry (Van der Wal, 2008). Tea is a commodity whose production is bound to fluctuate due to natural disasters such as drought, flooding, hail storm etc, hence presenting an imbalance between its production and demand (Jain, 2011). 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 (Kustanti & Widiyanti, 2007). The following section will provide an analysis and understanding of the global scenario of tea.

2.3 GLOBAL TEA SCENARIO

Tea is reportedly one of the most popular consumed non-alcoholic beverage drinks worldwide and is spread over at least 36 countries (Agritrade, 2010; Nasir and Shamsuddoha, 2011; Jain, 2011). The major tea producing countries are China, India, Sri Lanka, Kenya and Indonesia. These countries contribute at least three quarters of the total world production and 80% of global exports of which more than half of the world's produced tea is made by China and India (Van der Wal, 2008; Das, 2009; Jain, 2011). In many countries tea is mainly produced by the smallholder sector despite most often being thought of as a plantation crop grown by large estates (Odoch, 2008). Although the definition of smallholder sector varies from country to country, it technically comprises of growers cultivating up to 10-12 hectares of tea (Van der Wal, 2008; TCC, 2010). Countries such as China, Sri Lanka, India, Tanzania, Zimbabwe and Malawi amongst other tea producers have a significant number of small producers. Smallholders account for at least 61% of total tea production in Sri Lanka, 62% in Kenya, 43% in Indonesia and 26% in India (FAO, 2012). They essentially dominate production in China and Vietnam (FAO, 2012). In South Africa, tea production is largely dominated by the large scale sector operating as tea estates with established big plantations (Joubert, 2010).

According to figures produced by Agritrade (2010), 85% of world tea output is sold by a handful of multinationals that own plantations and also buy tea from small-holder producers. The processing plants of the multinational companies such as Unilever (Brooke Bond, Lipton/Unilever Trading Company UTC, UK), James Finlay (trader, producer, packer, UK), Associated British Foods (R. Twinings), Tata Tetley/Stansand (producer, trader, packer, UK) and Van Rees (trader/blender, supplying many packers, part of Deli Universal Corporation, Netherlands), are situated in Europe and other western countries. These multinationals undertake their own blending and packaging. Blending and packaging are the major value addition operations which constitute at least 80% of the tea retail price. Unilever is the largest purchaser of black tea, currently buys around 12% of the world's black tea supply (IMD, 2010). According to Van der Wal (2008), the important tea packers worldwide are Unilever whose Lipton tea is recognized as a strong brand commanding at least 10% share; Tetley part of Tata Group; R. Twinings (Associated British Foods); Ajeepay Group (Typhoo tea); Ostfriesche Tee Gesellschraft OTG (a major German company); Teekanne (one of the oldest German company and traders) and Sara Lee International (Pickwick is the main brand on the Dutch market). The countries in which the major multinationals undertake blending and packaging i.e. Germany, United Kingdom and India, are also in the top ten list of major exporting countries of black tea.

Global tea production was at about 4 163 million kilograms against consumption of 4 043 million kilograms in 2010 and is forecasted to increase by 1.2% (FAO, 2010). The production figures fluctuate over time due to various reasons such as vagaries of nature with tea being an agricultural commodity (Jain, 2011), and also due to fluctuating world tea market prices. Table 2.1 presents the global production of tea in million kilograms from 2006 to 2011. Kilograms are used as a standard unit of weight measurement in the tea industry and all tea prices are quoted per kilogram of tea hence the use of this unit throughout this study instead of tonnes.

Table 2.1. Global Tea Production, 2006 to 2011 in million kilograms

Country	2011 (P)	2010	2009	2008	2007	2006
China	1550.00	1475.06	1358.64	1257.60	1140.00	1,028.1
India	988.33	966.40	979.00	980.82	986.43	955.91
Kenya	377.91	399.01	314.20	345.82	369.61	310.61
Sri Lanka	328.37	331.43	289.78	318.70	304.61	310.82
Vietnam	178.00	170.00	175.00	166.38	148.27	132.00
Turkey	145.00	148.00	153.0	155.00	178.00	142.00
Indonesia	123.70	129.2	136.48	137.50	137.25	140.05
Bangladesh	59.16	59.27	60.00	58.66	58.42	53.27
Malawi	47.06	51.59	52.56	41.64	48.14	n/a
Uganda	44.00	56.47	50.98	42.75	44.91	n/a
Tanzania	32.76	31.65	32.09	31.61	34.86	n/a
Others	342.85	344.45	342.65	328.31	345.58	n/a
Total	**4217.14**	**4162.53**	**3944.38**	**3864.79**	**3796.08**	**3800.00**

Note: P = Provisional

Source: Author compiled from ITC, 2012 and FAO, 2012.

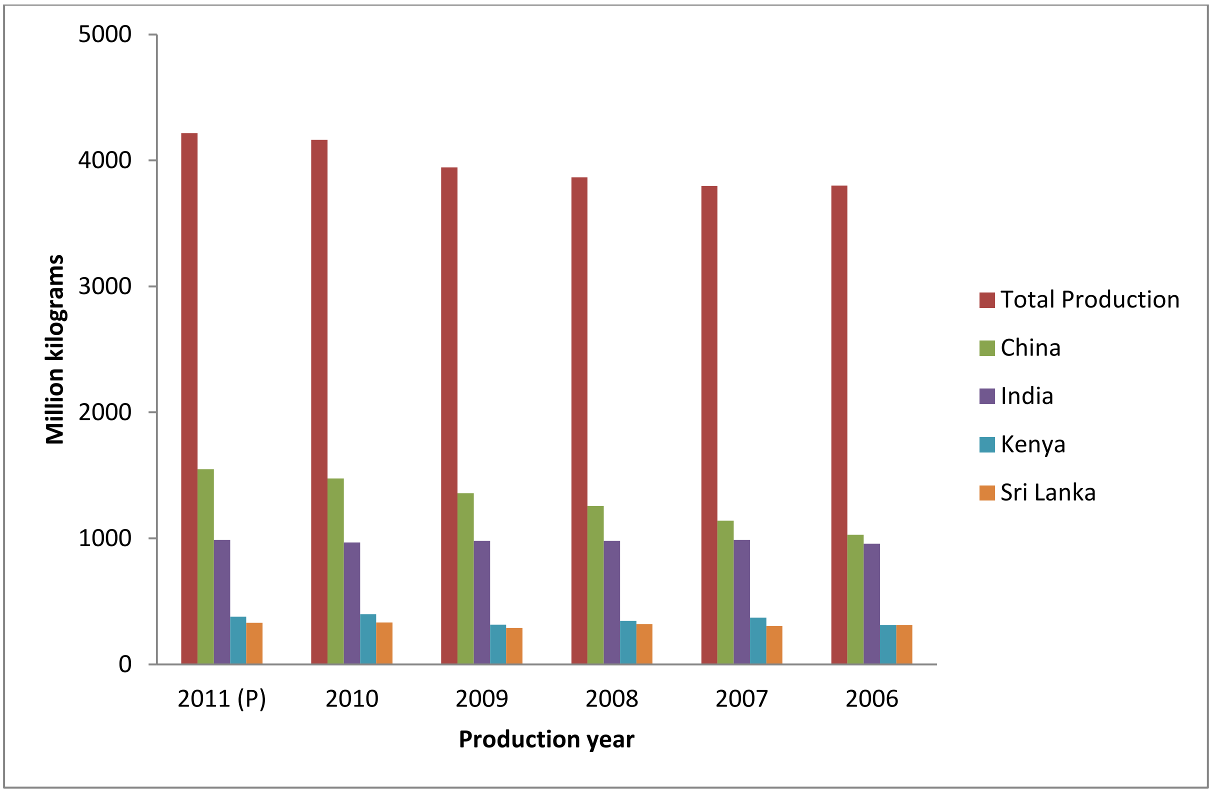

Figure 2.1. Total World Tea Production in million kilograms, 2006 to 2011

Source: Author generated using data from ITC, 2012.

Table 2.1 shows China is the biggest tea producer followed by India, Kenya, Sri Lanka, Vietnam and Turkey. In 2011, China's production constituted a 37% share of total world production followed by India with a 23% share, Kenya with 9% and Sri Lanka (8%) share (Figure 2.1). Sri Lanka and Kenya export most of the tea they produce and they also jointly control at least 40% of world tea exports (Van der Wal, 2008). Tea is therefore important in their economies as a whole as it generates much needed foreign currency and creates employment. According to Van der Wal (2008), mostly orthodox type teas are exported from Sri Lanka, Vietnam, Indonesia and China. These countries export mostly black tea, apart from China which produces mostly green tea. India, Kenya and most other African countries produce and export mostly CTC type teas which are used primarily in tea bags. According to FAO (2010), India, Sri Lanka and Kenya are the three largest black tea producing countries with their cumulative production accounting for at least 70% of the world tea production as seen in Table 2.1. Production from most African producing countries is likely to grow significantly with skills improvement in the sector and as the tea bushes reach optimum age.

The tea industry is reportedly one of the oldest agro-based and well organized industries with huge direct employment numbers. It is an important commodity in terms of job creation and foreign export earnings particularly for a number of developing countries. The increase in tea cultivation and evolution of tea processing in India, and Sri Lanka, has been an important subject in world trade as it has a direct bearing on employment creation, world demand and supply of tea and world tea prices. As seen in Table 2.1, China and India share the first two ranks in tea production and also lead in tea consumption as seen illustrated in Table 2.2. Sri Lanka is the top tea exporter with 23.3% share in world exports (Figure 2.3 and Table 2.3). High domestic consumption rates are experienced in China and India and they also happen to be the countries with large population numbers compared to Kenya and most African countries which export at least 90% of their production.

The world consumption of tea is estimated to be around 4,000 million kilograms. India has become the highest total consumer of tea consuming 771 million kilograms constituting about 19% of world tea consumption followed by China consuming 745 million kilograms which constitutes about 18.6% (Agritrade, 2010). Many of the other leading producing countries such as Sri Lanka, Kenya, Indonesia and Vietnam export most of the tea they produce. Most of the African tea producing countries such as Malawi, Uganda, Tanzania and Zimbabwe export more than 93% of production as many people cannot afford to buy tea (Van der Wal, 2008). Table 2.2 presents the global consumption of tea for the top five countries in 2006 presented in million kilograms.

Table 2.2. Global Consumption of Tea, 2006

Countries	**Consumption in million kilograms**
1. India	771
2. China	745
3. Russian Federation	167
4. Rest of CIS	69
5. Japan	146

Source: FAO (2008).

Approximately 58% of the world tea production is consumed locally in the producing countries. Only 42% is exported to the countries that are not producing any tea. The major consuming countries are China and India with 24% and 22% of global consumption respectively. Tea consumption in the non-producing countries is led by the Russian Federation (5%), United Kingdom (4%) and the United States of America (3%), (FAO, 2012).

In 2010, world net imports of black tea amounted to 1.15 million tonnes which was a 0.6% growth from 2000 (FAO, 2012). Major net importers which have contributed to the growth include the countries of the former Soviet Union with compound annual growth of 3%, Pakistan by 2.9%, Japan at by 1.8%, United States by 1.4%, and the United Kingdom by 0.6% (FAO, 2012). The major net importers accounted for a combined 60% of global tea net imports. Asia and Europe continents constitute at least 70% of net imports. The European Union countries are mainly net importers as they are not producers of tea. Agritrade (2010) identified the main European players in the global tea industry as Unilever whose brands include Lipton, Elephant, Tchae, PG Tips, Brooke Bond, etc; Associated British Foods (Twinings); James Finlay; and Van Rees, a subsidiary of Acomo, Amsterdam Commodities NV. The other global market players include India's Tata (Tetley brand); McLeod Russell India and Sarah Leah (Pickwick). Figure 2.2 gives an overview of major players in the value chain and tea consumption.

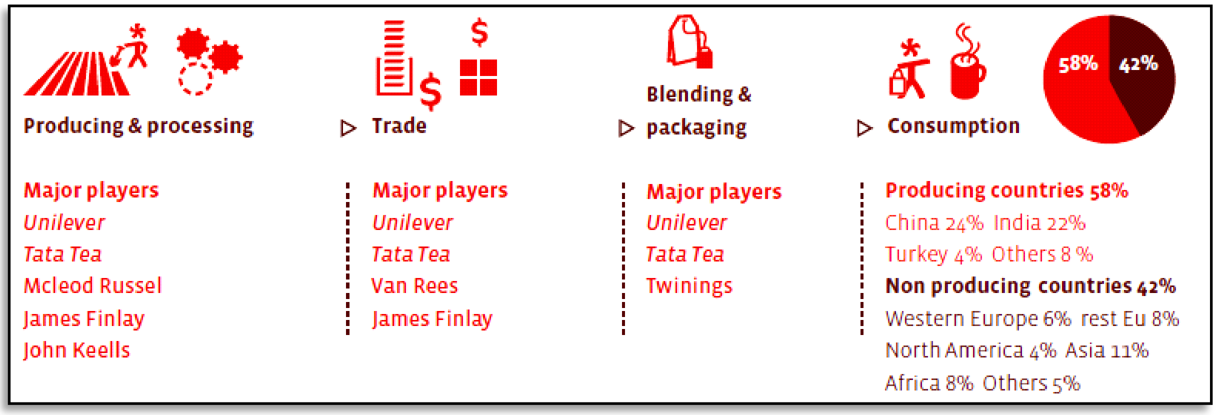

Figure 2.2. Major players in the tea value chain and consumption

Source: TCC Tea Barometer, 2010:5.

Several developing countries strongly depend on tea for their export earnings (Van der Wal, 2008). Tea contributes in excess of $30 million to Tanzania's export earnings and provides employment to more than 50,000 families (Baffes, 2004). Sri Lanka and Kenya continue to lead the black tea export market (FAO, 2010). It is a very labour intensive industry with labour costs representing at least 55% of total production costs (Dhamasena, 2003). The industry provides jobs mainly in the remote rural areas thus making tea an important commodity for a number of developing countries as it contributes significantly to jobs creation and export earnings. Millions of livelihoods around the world depend on tea production (Van der Wal, 2008). In countries such as China, India, Vietnam and Indonesia, tea production is mainly important for poor rural remote areas as a source of employment whereas in countries such as Kenya it is also economically important at national level as a major source of foreign currency. However, as with most agricultural commodities, the sustainability of the tea industry has been seriously affected by a dramatic fall in producer prices over the past three decades thus putting pressure on the working conditions and livelihoods of workers and tea producers. The companies that dominate the tea trade and markets have benefited from the low producer prices and stable retail prices over the past three decades (Van der Wal, 2008).

The tea industries at a global level experiences various challenges ranging from rising production costs, market stagnancy and sometimes tea price decline. In recent years the world demand and supply gap has not been large creating a stagnant tea market position (Agritrade, 2010). According to FAO (2009), sometimes the tea supply exceeds demand which then impacts on the market position and for this reason the world tea industry is facing competition in quality production.

2.3.1 Top Ten Exporting Countries

Black tea production accounts for at least 75% of global production and over 90% of the market is in western countries (Agritrade, 2010). It is grown in 36 tropical and semi-tropical countries of which 21 of them are African, Caribbean and Pacific (ACP) countries (Agritrade, 2010). The 21 ACP tea producing countries are Burundi, Cameroon, Democratic Republic of Congo, Ethiopia, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritius, Mozambique, Nigeria, Papua New Guinea, Rwanda, Seychelles, South Africa, Swaziland, Tanzania, Uganda, Zambia and Zimbabwe. The European Union and ACP countries have a historical relationship which lays the basis of cooperation for exportation of teas into the EU market which does not grow tea and relies on tea imports to satisfy its requirements (Agritrade, 2010).

Figure 2.3 illustrates the largest top 10 tea exporting countries and SA's export values, covering the period from 2007 to 2011 (in US thousand dollar). Sri Lanka, Kenya, China, Poland and Argentina's export values in US dollar terms have generally been increasing over the four year period.

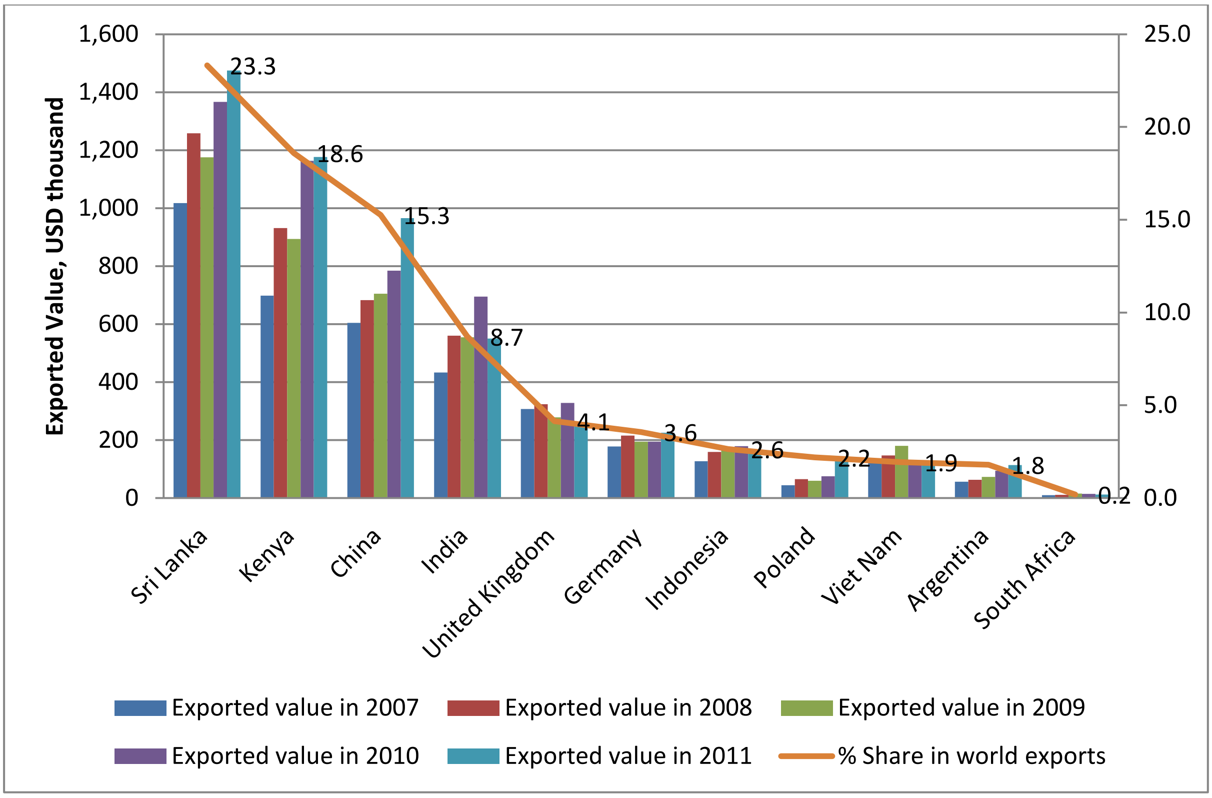

Figure 2.3. Top 10 Exporters of Tea in comparison with SA Export Value, 2007 to 2011.

Source: Author compiled using data from ITC (2012).

The actual export values of the top ten countries expressed in thousands of US dollars and also expressed in percentage share of world exports are illustrated in Table 2.3. The table also includes SA's tea exports which were ranked number 32 on the list with a 0.2% share of world exports. These top ten exporting countries accounted for 82% of the world exports in 2011. The only African countries to make the list of the top ten exporters in 2008 were Kenya and Rwanda which accounted for 17% and 2% of world exports of black tea, respectively. However, over the past years, Rwanda's exports declined from 2.2% in 2008 when it was ranked number 9 to 0.83% in 2011 positioned number 17, leaving Kenya as the only leading African country to consistently make the list as number two, as seen in figure 2.4. There were no significant changes from year 2008 for SA's exports which constituted 0.2% share in world exports in 2011.

Table 2.3. Export values in US $ of leading top 10 exporters of Black Tea and SA, 2007 to 2011.

Exporters	Exported value in 2007	% Share in world exports	Exported value in 2008	% Share in world exports	Exported value in 2009	% Share in world exports	Exported value in 2010	% Share in world exports	Exported value in 2011	% Share in world exports
Sri Lanka	1,017,027	22.5	1,258,557	22.8	1,175,677	21.5	1,366,815	21.6	1,475,038	23.3
Kenya	698,213	15.5	931,582	16.9	893,984	16.3	1,163,630	18.4	1,176,308	18.6
China	604,033	13.4	682,248	12.4	704,947	12.9	784,145	12.4	965,080	15.3
India	433,340	9.6	560,493	10.2	554,326	10.1	694,852	11.0	550,416	8.7
United Kingdom	306,938	6.8	323,912	5.9	278,427	5.1	327,752	5.2	261,780	4.1
Germany	178,179	3.9	215,076	3.9	194,125	3.5	194,865	3.1	225,279	3.6
Indonesia	126,615	2.8	158,959	2.9	171,628	3.1	178,549	2.8	166,717	2.6
Poland	44,098	1.0	64,752	1.2	60,002	1.1	75,225	1.2	138,287	2.2
Viet Nam	133,497	3.0	147,326	2.7	180,219	3.3	127,061	2.0	122,307	1.9
Argentina	55,923	1.2	63,567	1.2	72,560	1.3	94,475	1.5	113,384	1.8
South Africa	10,004	0.2	11,622	0.2	15,273	0.3	14,297	0.2	11,989	0.2
World	4,517,097	100.0	5,519,445	100.0	5,472,824	100.0	6,337,669	100.0	6,325,188	100.0

Source: Author calculated and compiled using data based on UN COMTRADE statistics available from ITC (2012).

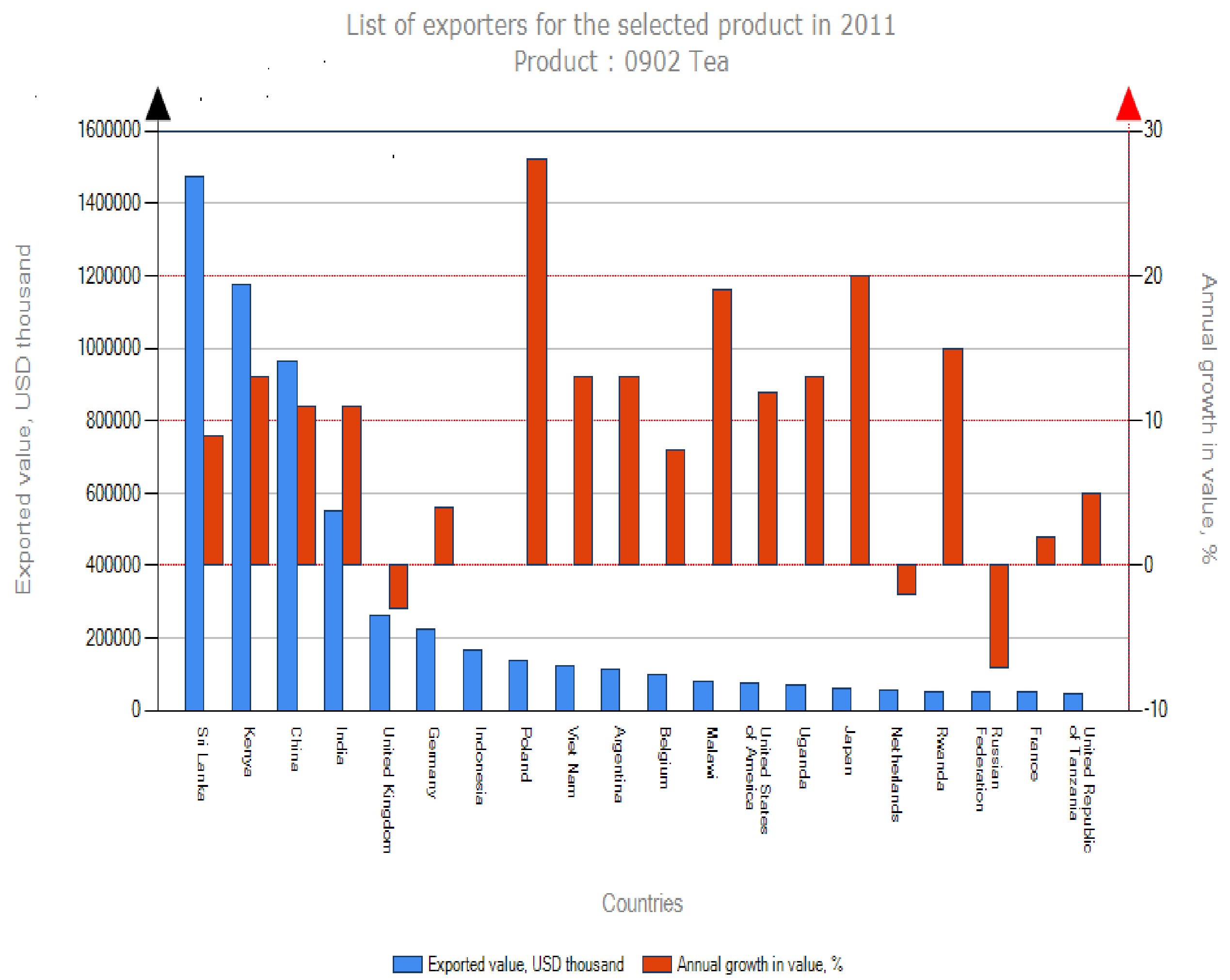

Figure 2.4. List of Exporters of Tea in 2011

Source: ITC, 2012.

The major exporters as illustrated in Figure 2.4 which contributed to the growth in exports were Sri Lanka, Kenya, China and India with compound annual growth of 8%, 12%, 10.5% and 10.5%, respectively. They accounted for a combined 80% of global exports in 2011. Poland recorded the biggest annual growth at 28% in 2011. The status and challenges faced by some of the major tea exporting and producing countries will be discussed in the following section.

2.3.2 The Status and Challenges faced by Selected Major Tea Producing Countries

This section will cover sector analysis, employment status, market situation, smallholder sector and major challenges in the tea sector of the following selected countries: India, Sri Lanka, Kenya, Indonesia, Malawi, Tanzania and lastly South Africa. The countries were selected based on the size of their tea industry, global contribution to production and consumption levels and successful business strategies implemented.

2.3.2.1 India's Tea Industry

The following discussion on the tea industry in India will cover sector analysis, employment contribution, market situation, major challenges, smallholder sector and government policy.

i. Sector Analysis

India is one of the largest producers as well as consumers of tea in the world accounting for 23% of global output in 2011 (see Table 2.1), and for 8.7% of the global export market placing it as the fourth largest exporter (see Table 2.3 and Figure 2.3). It has the largest total consumption volume even though it is amongst the lowest in per capita consumption at 65 grams compared to 2kg in Ireland and UK (Das, 2009; Jain, 2011). The tea industry is very critical to the Indian economy as at least 85% of the total households in the country consume at least 81% of the total tea production (Das, 2009). Over 80% of India's tea production is of the CTC type and the balance of 20% comprises mainly of the traditional orthodox tea (Dharmasena, 2003). Tea production is concentrated mainly in 3 different areas which distinctly produce 3 varieties unique to the areas according to the production areas namely, Darjeeling, Assam, and Nilgiri teas (Van der Wal, 2008). Exports are mainly to the CIS, Europe, North America and Middle Eastern countries. The tea industry is the second biggest foreign exchange earner and contributes a sizeable amount to the national economy. Tea sales are mainly through auction markets in Calcutta, Coimbatore, Cochin, Guwahati, Coonoor and Siliguri (FAO, 2009). Around 75% of the tea, excluding exports and packet sales, is sold through auction houses. Imports are not allowed for domestic consumption (India-Infoline, 2002 cited in Dharmasena, 2003).

ii. Employment Contribution

The tea industry in India is a major employer which employs more than a million workers (Das, 2009; Hazarika, 2011; Jain, 2011). Kadavil (2008) cited in Van der Wal (2008) states that the tea industry in India indirectly generates gainful employment for at least ten million people making it the second largest employment provider in the organized manufacturing sector. The tea industry, according to Karmakar (2005: 4), "helps in providing indirect employment in various sectors like road construction, transportation, building warehouses, manufacture of plywood tea chest, aluminium foil, tinplate, metal fittings, paper, card board, fertilizers, insecticides, pesticides, coal, iron, steel, and so forth". Moreover, according to Thapa (2005) the tea industry is a labour intensive industry and there is great scope for employment of rural surplus labour and reducing migration to crowded towns. Van der Wal (2008) and Jain (2011) further highlight the strength of the tea industry in India as a source of livelihood as the plantations on which tea is grown are production units as well as social institutions providing free housing, water, welfare and many other facilities that affect the daily lives of the employees. Van der Wal (2008) states that the tea industry comprises of a large network of tea producers, retailers, distributors, auctioneers, exporters and employees, making it a large organized industrial sector.

iii. Market Situation

The Indian tea industry faced steep price decline during 1999 to 2006 mainly due to strong growth in supply in the face of sluggish demand (Jain, 2011). According to Agritrade (2010), there is no single world price for tea as different auction houses offer different prices as illustrated in Table 2.4.

The world market prices fell during the 1999 to 2006 period with World Bank figures suggesting that tea prices fell by 44% in real terms after taking into consideration inflationary factors. The unstable tea prices during the period from 1999 to 2006 resulted in a significant number of tea producers specifically those with low productivity levels, weak financial and investment position closing operations (Jain, 2011). The market prices gradually started to increase as from 2007 as seen in Table 2.4. However, it is important to note that the tea industry experiences fluctuating trends due to the agricultural nature of its operations, long gestation periods and fluctuating prices of tea associated with supply and demand dynamics. Therefore, fluctuating international tea prices is one of the challenges that impact the success or failure of the tea industry in India. According to Jain (2011: 3), "it is of critical importance that suitable strategies are devised and put in place quickly for raising productivity, cost effectively and suiting to the prevailing conditions of under or less developed sectors". The highly volatile world market tea prices, according to Van der Wal (2008), forced major tea companies in India such as Tata, McLeod Russell and Hindustan Lever Ltd, to develop new business models such as diversification of products, developing retail markets and agro-tourism around the tea gardens. They also focused on branding business and vigorously explored the market which resulted in control of almost 50% of market share by Unilever and Tata. Similarly in South Africa, Unilever and National Brands control at least 80% of the market. The only difference between India and South Africa being that tea in South Africa is sold through private sales whereas in India 45% is through auction houses and the balance through private sales with auction prices determining the private sale prices (Van der Wal, 2008).

Table 2.4. World Auction Price of Tea

Year	**International price (US$/Kg)**					
	India	**Bangladesh**	**Sri Lanka**	**Indonesia**	**Kenya**	**Limbe (Malawi)**
2007	1.62	1.17	2.51	1.33	1.66	1.05
2008	2.00	1.62	2.83	1.51	2.18	1.37
2009	2.18	1.98	3.15	1.80	2.29	1.58
2010	2.29	2.61	3.28	1.82	2.54	1.58
2011	2.23	2.14	3.25	1.97	2.72	1.61

Source: Author compiled using data from ITC, 2012.

iv. Major Challenges

Some of the major problems faced by the India tea industry include: oversupply of tea on the international market as a result of the emergence of new growers like Vietnam, Indonesia and Kenya; higher production costs with labour cost accounting for at least 60%; poor quality; low labour productivity, climatic changes, dilapidated infrastructure leading to high transport costs; existence of higher percentage of ageing and senile tea bushes leading to low production rate and quality degradation (Van der Wal, 2008; Hazarika, 2011; Jain, 2011). Applicable labour legislative instruments put in place in India include the following: the Plantation Labour Act which is similar to the SA Labour Relations Act; Weights and Measures Act, Factories Act 1948, Equal Remunerations Act, Payment of Bonus Act and the Minimum Wages Act (Van der Wal, 2008). According to Karmar and Banerjee (2005), plantation companies in India have been advocating to government for changes in the Plantation Labour Act and to dilute existing labour laws which protect the workers in the tea industry on the grounds of diminishing returns, a scenario similar to the SA industry. The act allows for the setting of a minimum wage level. However, the wage rates in the smallholder sector are much lower than those for estate workers and the wages are fixed according to the weight of leaf collected every day and not a daily wage. The minimum wages range between US dollar 1.19 (R10.39) to US dollar 1.90 (R16.59) per day in India's tea industry, according to Das (2009), whereas it is R69 to R75 in SA's tea industry and is even anticipated to increase to R150 which is being demanded by workers according to Congress of South African Trade Unions (COSATU) press statement issued on 22 November, 2012 (COSATU, 2012a).

The marketing structure of the industry was also cited as a major contributor to the performance of the industry. Tea is mostly sold through auction, an operation which is mainly controlled by brokers who are usually alleged to connive with big buyers to keep the prices low in most cases (Hazarika, 2011 cited in Das, 2008). The tea supply chain is illustrated in figure 2.5.

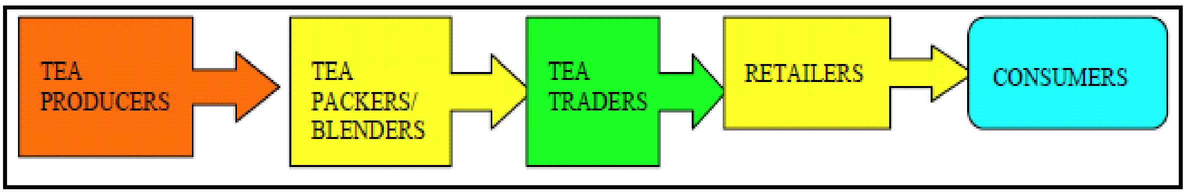

Figure 2.5. Tea Supply Chain

Source: Author generated, 2012.

It is obvious to see that there are middle men in the value chain and they are responsible for the final delivery and packaging of the product for the final consumer.

The global tea trade is dominated by a handful of multinational companies that benefit from stable market prices. Tea as a globally-traded product is procured by these companies all over the world, blended, packaged and marketed globally. The multinational companies are involved throughout the entire value chain as depicted in figure 2.5. The global dominance of tea packing and blending companies enable them to influence producer prices (Van der Wal, 2008). In South Africa, Unilever and National Brands dominate the tea trade business. Due to their size and their ability to source teas globally, the producer prices have remained relatively stable over the years despite increasing production costs.

The low performance of the tea sector is attributed partly to a lack of adequate technical support backed by sound research and development and a lack of up to date statistics which are key factors to guide proper planning and utilization of available funding. As a result of the factors cited above, the tea industry is going through restructuring especially in India with the tea estates being abandoned and closed, which has dire consequences for the workers and the surrounding communities. This presents a similar scenario to the status of the industry in South Africa.

v. Smallholder Sector

According to Van der Wal (2008), the smallholder sector which is primarily driven by families has relatively lower production costs because of the hidden family labour costs compared to the big estates. The smallholder sector has become more attractive in most tea producing countries particularly in Africa but the growth of the sector could also present key challenges because of less strict regulation and farming practices may be less environmentally friendly.

Table 2.5. Small and Big Growers Production of Tea in India

Year	Small Growers Production (Area up to 10.12Ha)	% share	Big Growers Production (Area > 10.12Ha)	% share	Total Production
2004	201.96	23	691.01	77	892.97
2005	231.29	24	714.68	76	945.97
2006	249.71	25	732.09	75	981.80
2007	257.46	26	728.97	74	986.43
2008 (E)	257.46	26	723.36	74	980.82

Note: (i) E = Estimated and subject to revision
(ii) Figures are in million kilograms

Source: Author compiled and calculated sourcing data from ITC, 2012.

Twenty six percent (26%) of the total tea production in India is accounted for by the small-scale sector as demonstrated in Table 2.5 above (FAO, 2012). The success of the industry in other major producing countries like Kenya and Sri Lanka is also linked to the growth of the small-holder sector. However the small-holder sector growth globally has been hampered by the inadequacy of technical guidance, unprecedented drop in production due to unfavourable weather particularly in Kenya, India, Sri Lanka, China, Vietnam and other producing countries and above all the fluctuating international tea prices associated with the demand and supply dynamics (FAO, 2012). There arises the need to understand the factors which influence the demand and supply scenario and the price fluctuations. The following section will look at the tea industry scenario in Sri Lanka.

vi. Government Policy in India

The tea industry in India is highly regulated as licences are required for its import or export. The Tea Act of 1953 controls production and distribution activities and the Tea Marketing Control Order of 2003 regulates tea sales and stipulates a defined percentage of tea produced from each garden to be sold through the auction system (ITC, 2012). There is a sales tax levy on sale of tea and profits from production and sale of tea are also subject to agricultural income tax by the states. The residual income after corporate tax payment is taxed again. According to India's investment policy, 100% foreign direct investment in the tea industry is only permitted subject to compulsory divestment of 26% equity of the company in favour of an Indian partner or the Indian public within 5 years from the date of investment (Hazarika, 2011).

The world tea markets are controlled by the tea exchange markets which are available in most tea producing countries. The tea market exchanges provide pure competitive environment. (Alkan *et al.*, 2009). All tea manufacturers in India are compelled through a government control order to sell at least 75% of their tea through the auction houses as a way of guaranteeing supply of tea to auction centres. The control order excludes exports and packet sales. However, this control order to some extent does not result in the supply of tea needed by the buyers and this can actually have an impact on the tea price (Alkan *et al*., 2009).

2.3.2.2 Sri Lanka Tea Industry

The analysis of the tea industry in Sri Lanka will cover sector analysis in terms of its production and consumption status, role of smallholder sector and challenges and strategies in the sector.

i. Sector Analysis

Sri Lanka is one of the top 5 tea producing countries in the world commanding a 9% share of the world production. It is also a leading exporter with a share of 23% of the world export volume (see Figure 2.3). Tea exports contribute some 3% to the gross domestic product (GDP). The tea industry is Sri Lanka's third largest agricultural industry and second largest exporter. It contributes significantly to political, economic and social stability by providing livelihood for many rural dwellers especially women (Young & Murphy, 2002). The country has the capacity to grow tea throughout the year with production mainly concentrated in the central and southern inland areas of the country. It mainly produces orthodox tea and has also diversified into CTC tea, bio tea, instant tea and flavoured tea. Tea exports are mainly to the Commonwealth of Independent States (CIS), Middle Eastern countries, Western Asia, Australia, Europe, Japan and North America. Tea sales are mainly through the Colombo tea auction through which 90% of the tea is sold, and the balance is accounted through forward contracts, private sales and direct sales.

ii. Smallholder Sector

Table 2.6 shows that the Sri Lankan tea industry is driven mainly by the privatized large scale plantation or estate sector which constitutes about 37% of production and the small-scale sector which contributes about 61%, with state owned plantations contributing about 2% of the output. The contribution of tea plantations and smallholdings is shown in Table 2.6.
The average productivity in the smallholder sector is substantially higher, at about 2,216 kg/ha compared to the corporate sector productivity of 1,350 as shown in Table 2.6, below.
The smallholder sector, according to Van der Wal (2008), is supported with extension services by the Tea Small Holdings Development Authority.

Table 2.6. Key economic indicators of plantation and smallholder sectors in Sri Lanka

Indicator	**Tea Plantations**	**Tea Smallholdings**
Employment (no. of people)	700,000	350,000
Contribution to national income (%)	27	73
Land consumption (% of total tea lands)	60	40
Contribution to total production (%)	37	61
Productivity – yield (kg/ha)	1350	2216
Labour productivity (persons/ha)	6.14	4.61

Sources: Wickramasinghe and Cameron (2003).

The smallholder sector contributes almost 3 times more than the large scale sector to the national economy, a result of superior performance in yield and labour productivity as shown notably in the Table 2.6.

iii. Employment Contribution

The tea industry is a major employer with at least 3 million people which is about 20% of total workforce employed directly and indirectly in production (Wickramasinghe & Cameron, 2003). There are at least 4 major trade unions in Sri Lanka which look after the interests of the tea plantation workers. However, most of the smallholder plantation workers are not covered by the plantation trade unions and yet the bulk of the tea is produced by the smallholders (Young & Murphy, 2002). Furthermore, the trade unions focus mainly on wage issues and not on other aspects of labour.

iv. Challenges

Many factors were cited as the cause for Sri Lanka's declining contribution to world tea trade. These challenges according to Wickramasinghe and Cameron (2003) were low yield productivity associated with the age of tea bushes, low yielding tea varieties and obsolescence of processing machinery; high cost of production mainly associated with labour costs as tea plantation activities are labour intensive; poor quality tea, lack of capital accumulation and failure to adequately exploit new market needs such as value added teas. Sri Lanka has been producing dominantly orthodox types of tea which constituted 97% of its production despite the growing demand for fast infusing CTC tea in the Middle East, Pakistan and Russia (Young & Murphy, 2002). This lack of product mix according to Wickramasinghe and Cameron (2003) presented some challenges as only 3% of the tea is CTC compared to India's 83% and Kenya's 98%. Wickramasinghe and Cameron (2003) further identified other challenges of the tea industry in Sri Lanka to include: issues to do with the politicization of its labour relations such as workers being used for political agendas by the politicians and other issues to do with scarcity of land limiting particularly the growth of the smallholder sector; exploitation of smallholders through low payments and unreasonable deductions by the tea brokers and agents; and the growing political bargaining power of the plantation worker unions. These issues pause major challenges for the sustainability of the industry. Van der Wal (2008: 74) further contributes to this when stating that "the tension of generating profit while meeting politically mandated employment conditions coupled with social obligations in relation to provision of facilities to tea plantation workers has caused major challenges for the sustainability of the sector".

In the study conducted by Van der Wal (2008), Sri Lanka and India share similarities in terms of their production cost structure, impact of their production systems to the environment, restructuring of the industry and labour unions. The two countries are cited to have the highest production costs compared to the other major tea producing countries. This is mainly attributed to older lower tea yielding bushes, low labour productivity and high environmental damage as a result of high chemical usage and deforestation. The two countries are also said to have serious and active labour unions. However, labour union's role and significance is now under threat with the restructuring of the industry which is promoting the growth of smallholder sector and expanding out grower production models driven by the empowered plantation workers. The increase in outsourcing of green leaf production is now common in Sri Lanka amongst tea processors as production from vertically integrated processors declined in favour of the growth of smallholders and promotion of plantation workers into outgrowers (Health & Weersink, 2003 cited in Van der Wal, 2008).

2.3.2.3 Kenyan Tea Industry

i. Sector Analysis

Kenya accounts for over 50% of the tea output in ACP countries and is the leading export foreign exchange earner within Kenya's agriculture sector having contributed Kshs129 billion per annum. Tea is the second leading foreign exchange earner contributing at least 26% of total earnings (KTB, 2011). According to Gesimba, Langat, Liu and Wolukau (2005), tea was first introduced in Kenya in Limuru near Nairobi by an Indian colonial settler named G.W.L. Caine in 1903. Commercial production commenced in 1924. Since then Kenya has now become the third largest black tea producer after India and Sri Lanka. The success story of Kenya tea production is attributed to: the deliberate government policy which promoted the integration of small-scale growers into the mainstream of tea growing; lower production costs and high productivity levels. According to Gesimba *et al*. (2005) the small-scale sector which is under the umbrella of Kenya Tea Development Agency (KTDA) accounts for at least 60% of tea production and the remaining balance is accounted for by the large scale growers and multinational sector. The Kenya tea sector supports directly and indirectly more than 3 million livelihoods. The growing of tea and its manufacture are mainly carried out in the rural areas thus contributing significantly in terms of infrastructure development and enhancing the economic well being of the communities. The small growers in Kenya and the processing factories are integrated under one umbrella body, the KTDA. The tea industry in Kenya was also revolutionalised by other main factors such as the establishment of efficient estate sector under the British tea companies through improvements in factory and estate management and also by effective research and development support. The Tea Research Foundation of Kenya has contributed significantly in scientific development through the selection and development of high yielding tea varieties, selective application of herbicides and in improving planting and cultivation methods which have had dramatic effect on tea yield.

ii. Challenges

The tea industry in Kenya experienced severe adverse forces which threatened the survival of the industry during the 10 year period to 2005 (Gesimba *et al.*, 2005). The dramatic fall in export prices as a result of surplus tea exports worldwide impacted negatively on the income generated from tea exports against a background of rising production costs mainly labour costs (KTB, 2011). Labour costs constitute some two thirds of production costs ex-factory (Gesimba *et al.*, 2005). In view of the loss of output following depressed market prices and increased labour costs, Gesimba *et al.* (2005) suggested a policy response in which wage rates would be freezed until the world market situation improves. This is an area which needs to be investigated further as it has implications in terms of labour law regulations.

The other challenges which further increased tea production costs as cited by Gesimba *et al.* (2005) include lack of credit facilities to support the small scale growers, poor infrastructure, unreliable electricity, high fuel costs and packaging materials. These challenges impacted both the large scale tea estates and the small holder sector. The extent to which these impact on smallholder sector is summarised in the following section.

iii. Smallholder Sector

The Kenya tea industry has managed to produce successfully at lower production costs compared to other tea producing countries because of the deliberate government policy to promote the growth of the smallholder sector. According to Van der Wal (2008), smallholder production costs are lower than that of larger estates because of the reliance of the smallholders on cheap family labour and also less stringent labour regulations relative to the plantation sector. The workers in the plantations tea sector are entitled to a number of social benefits regulated through labour laws which the workers in the small-scale sector are not guaranteed as the smallholders can easily evade the laws. Regulation in the small-scale sector is less strict and this might cause in the long run sustainability challenges and compromise farming standards unless the government puts in place regulations for audits and certification of compliance on traceability, quality and continuous supply (van der Wal, 2008). Other factors according to Gesimba *et al*. (2005), included lack of credit facilities to small-scale growers, poor infrastructure, unreliable electricity and the high cost of fuel and packaging materials.

iv. Employment Status

The majority of workers on the tea estates in Kenya are temporary and not unionized. They have fewer social benefits and remuneration is based on quantity of tea leaves picked i.e. they do not receive income when they do not pick either due to illness or when the estates do not use them (KHRC, 2008). According to Van der Wal (2008), wages paid to workers employed in the smallholder estates are below minimum wages and in any case the minimum wage levels are considered to be below living wage levels. The low wage rate issue in Kenya tea industry is common to most tea producing countries and this has been compensated by providing non wage benefits to workers (KHRC, 2008).

It is interesting to note that the Kenya tea industry has managed to capture added value in its tea by successfully exporting tea in tea bags, packets and as instant tea (KTB, 2011). The following section will present the scenario of Indonesia tea industry.

2.3.2.4 Indonesian Tea Industry

i. Sector Analysis

Black tea is an important source of income for Indonesia. Eighty percentof its black tea is exported constituting about 8% of world exports (The Tea Council Limited, 2003 cited in Dharmasena, 2003). Its contribution ranks third in the Indonesia plantation sector after palm oil and sugar cane. Tea is regarded as an important source of income with an estimated 350,000 people directly employed in the sector and supporting at least 1.2 million people (Kustanti & Widiyanti, 2007; Van der Wal, 2008). The sector comprises of three main groups i.e. smallholders, medium and large sized private plantations.

ii. Government Policy

The Indonesian government took over all the tea estates from the Dutch soon after its independence and turned them into state companies. In 1998 the government through the decree of the Minister of Forestry No 629 of 1998, set up the pricing mechanism of tea bought from smallholders (Dharmasena, 2003). The decree was aimed at ensuring reasonable tea prices and to prevent unfair competition among tea processing factories. The price setting was to be carried out jointly by the tea processing companies and smallholders with reference to a set formula. However, in practice this policy did not work since processing factories set tea prices without the involvement of the smallholders who have a low bargaining power (Kenya Tea board, 2011). Another government policy intervention, according to Dharmasena (2003), was Law No. 18 of 2000 which covered the imposition of value added tax (VAT). The law excluded tea from smallholders from paying VAT whilst processing companies and large traders were required to pay 10% of the value added including exporters who would sell to domestic processing companies and to other exporters. This VAT policy was revoked with the issuance of government regulation (Peraturan Pemerintah) No. 7 of 2007 which was a third amendment to regulation No. 12 of 2001 regarding the import and delivery of particularly taxed strategic goods freed from VAT. However, VAT at 10% still remains on the auction of green tea.

The tea industry in Indonesia is stagnating and is not considered as a priority sector by the government even though most of the tea estates are owned by government (Dharmasena, 2003). The government of Indonesia prioritizes other commodities such as rubber, oil palm and sugar cane (Kustanti and Widiyanti, 2007). These commodities are considered more lucrative and contribute significantly to the economy relative to tea. Van der Wal (2008) reported that the government has never made any significant intervention in the form of supporting the sector with subsidies. As a result of the lack of full government prioritization, according to a study by Van der Wal (2008), the country has not been successful in terms of the value chain growth compared to its Asian neighbours, despite its wages being generally relatively lower.

In terms of Indonesia's tea exports, Kustanti and Widiyanti (2007) identified the following factors as key in influencing exports.

- Global tea demand and supply worldwide. Limited supply of tea from certain countries may push up Indonesian tea exports.

- The type and quality of tea products. Indonesian tea exports are kept low because it does not supply the variety of tea products demanded by the market.
- Tea price. An increase in global tea price tends to encourage producers to turn to the global market.
- Tariff barriers. Indonesia sets a low tariff of 5% for tea imports. In contrast other countries have set higher import tariffs for tea coming from Indonesia. Sri Lanka has set a tariff as high as 25% whilst Turkey has set the highest tariff of 145% on both bulk tea and packaged tea products, followed by India at 113% and 114%, and China at 100% for both bulk tea and packaged tea products. The stakeholders in the tea sector have been advocating for the harmonization of tariffs with other tea producing countries.

Non tariff barriers which includes a number of corporate social responsibility initiatives such as: Ethical Tea Partnership (ETP), Maximum Residues Level (MRL), Hazard Analysis Critical Control Point (HACCP), International Standard Phytosanitary Measures (ISPM), the Bioterrorism Act, Fair Trade (Fair Trade Labelling Organizations International (FLO) and International Fair Trade Association (IFAT) and Organic (International Federation of Organic Agriculture Movements (IFOAM). ETP is the only initiative focused on the tea sector and is the most important in terms of volume with most of the large tea traders and packers such as Unilever, Tetley, R Twining and Company and Sera Lee being members. Ethical Tea Partnership principles defines 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). Van der Wal (2008: 60) states that "ETP's aim is to improve social conditions within the tea supply chain of mainstream market players whereas Fair-trade looks at addressing the issues experienced by the disadvantaged producers and workers through an alternative trade chain". IFOAM, another corporate social responsibility initiative looks at environmental aspects and organic farming.

iii. **Challenges**

Rising costs of production mainly as a result of inflation and high fuel prices have resulted in many producers disposing of their estates or switching to more profitable enterprises (Van der Wal, 2008). According to Van der Wal (2008), Indonesian tea industry's competitiveness is also affected by high freight costs, lack of government support and low value addition.

iv. Business Strategies

There are more than 143 estates, state owned and private combined that are operating in Indonesia. The two major tea companies in Indonesia i.e. Unilever and PT Sinar Sosro, according to Kustanti and Widiyanti (2007), pursue the following successful business strategies.

- Acquisition strategy of good brands to expand market share as a quick return on investment approach.
- Constant monitoring of the market for new demands and to create innovative products to satisfy the demands.
- Promote products through social activities and this is effective in building positive image and in showing social responsibility.
- Promotion of products through advertising. The companies have huge promotional budgets.
- Introducing products of different flavours under different brands.
- Engaging in corporate social responsibility programmes. In the case of Unilever, it partners with independent distributors to promote entrepreneurship, create jobs and contribute to local business.

The following section will present the tea industry scenario of Malawi as the second largest African country in which tea industry plays an important role in the country's economy. It is also worth noting that Malawi was the biggest exporter of tea to South Africa in 2010 constituting 54% of the total value of tea imports and this was an 8% decline from the 2009/2010 season.

2.3.2.5 Malawi's Tea Industry

i. Sector Analysis

Malawi is an ACP member and is also the second largest tea producing country in Africa after Kenya, ranked 12th in the world tea producing nations. Tea production is mainly concentrated in the south of the country in the Shire Highlands close to Thyolo and Mulanje. Malawi was the first commercial tea producer in Africa, having started at Mulanje in the 1880s (Van der Wal, 2008).

According to SOMO (2008), the large scale commercial sector currently dominates tea production accounting for at least 90% of the production and the balance is produced by at least 6 500 smallholders. SOMO (2008) also noted that the smallholder sector is one of the most marginalized sectors in Malawi. Furthermore, the major tea production estates are under the ownership of 11 large companies the biggest being Eastern Produce Malawi, a subsidiary of Camillia, a British public liability company, with 21 estates under its ownership. At least 60% of Malawi's production is sold directly to major international companies such as Unilever and Lyons Tetley and the balance is sold through the Limbe Tea Auction. Major export destinations include South Africa and United Kingdom. About 70,000 jobs are provided mainly in the large tea estates (Van der Wal, 2008).

ii. Smallholder Sector

Agriculture is the main engine in the growth of the economy and economic empowerment to the rural populace. Government support for the smallholder sector has almost ceased in most areas as the sector faces a number of key challenges particularly in the area of technical and extension support, financing, marketing assistance, logistics support and strategic intervention which strengthens and promotes relationships between small tea growers and private processing factories. The sector solely depends on the large estate companies who buy all the tea they produce depending on its quality. According to SOMO (2008), the smallholder sector account for about 14% of the land on which tea is cultivated and account for 7% of the production which they sell to large private tea estates. The growth of the smallholder sector is inhibited by numerous challenges which will be discussed in the following section.

iii. Challenges

A number of the farmers in the smallholder sector are illiterate and lack knowledge or are unaware of the international supply chain demands such as price and quality. A number of institutions which offer support to the sector such as smallholder factory and development agency have almost ceased to exist (Van der Wal, 2008). Common challenges in the smallholder sector include lack of credit facilities, poor infrastructure, unreliable electricity, and high costs of fuel and packaging materials which increase the overall production costs (FAO, 2009).

2.3.2.6 Tanzania's Tea Sector

i. Sector Analysis

The tea industry in Tanzania contributes more than US$30 million per annum in export earnings generated from at least 75% of its tea production (Baffes, 2004). Tea is one of Tanzania's six leading export crops together with cashew nuts, coffee, cotton, tobacco and sisal. According to Baffes (2004), The tea industry benefits more than 2 million people both directly and indirectly. Until Tanzania's independence in 1961, the industry was largely dominated by large estates and this soon changed when the government encouraged smallholder participation in the industry. Tea is now mostly grown under two systems i.e. smallholdings which average less than a hectare and on large estates which often exceeds 1,000 hectares in most tea growing regions.

Generally tea production in the country, persistently declined during 1976 to 1986 and only started to recover from 1987-1988 (Faber, 1995 cited in Baffes, 2004). The decline, according to Faber (1995 cited in Baffes, 2004) was attributed to shortage of estate labour especially during plucking due to late payment of wages, lack of incentive payment scheme; inadequate foreign exchange for replacements and repairs; and institutional constraints such as lack of capital following nationalization of some of the estates and ignorance of markets and management incompetence. According to Faber (1995 cited in Baffes, 2004), there were a number of options which the government considered as part of the tea rehabilitation strategy. These included enlisting the assistance of an outside investor, the Commonwealth Development Corporation (CDC), to manage the process of rehabilitation. Research carried out by Faber (1995 cited in Baffes, 2004: 4) established that, "rehabilitation is a long difficult and expensive process which requires a lot of patience but with ultimate great rewards which are likely to accrue often long after originally anticipated". The partnership with CDC in 1995 resulted in the establishment of a new entity called the East Usambaras Tea Company which was eventually sold to Global Tea and Commodities, a UK based tea packing company. The company employs in excess of 3,500 workers and is now the third largest tea company after Brooke Bond Tanzania Limited and the Mufindi Tea Company (Baffes, 2004).

The principal institutions in the Tanzanian tea sector include government through the Ministry of Agriculture and Food Security whose role is to supervise the sector as a liaison between the sector and the legislature and to provide legal and policy guidelines; and statutory bodies such as Tea Board of Tanzania (TBT) and Tanzania Smallholders Tea Development Agency (TSTDA). TBT was created by the 1997 Tea Act and subsequent tea regulations; it regulates the industry (Robbins, 2010). It is basically a licensing authority which is funded through levies. The smallholder sector is represented through the TSTDA whose main role is to promote their interests and also advises and recommends to the Ministry of Agriculture and Food Security (Robbins, 2010). Private sector institutions include the Tea Association of Tanzania, Area Tea Growers Associations, East Africa Stakeholders Tea Committee and the East Africa Trade Association. Non-profit organizations such as the Tea Research Institute of Tanzania also play a critical role in the industry with its developmental support of both large scale and small-scale producers in terms of appropriate high quality, cost effective research and technology transfer (Baffes, 2004).

The success of the tea industry in Tanzania is attributed mostly to its deliberate liberalization and privatization strategy and strengthening of research and development (Robbins, 2010). According to Baffes (2004), tea blending, packing and distribution was previously under a state owned enterprise (monopoly) but this was changed following the liberalization which resulted in six more companies being awarded with blending and packing licenses. Furthermore, the reform brought about an influx of foreign capital which helped to revive the tea industry. The immediate impact of the reforms was the increase in production. The Tea Board also imposed a ban on imports of packed tea in order to protect domestic blenders and packers. Despite the imports ban, it is reported by Baffes (2004: 8) that a "significant domestically consumed tea market is supplied by illegal tea imports from neighbouring countries". There are still a number of challenges within the Tanzania tea industry such as the failed import and green leaf export ban with proposals of implementing an alternative policy prescription such as the imposition of an import duty on tea. Article 27 of the 1999 Tea Regulation has a clause stipulating the processing of all green leaf produced locally to be processed locally.

ii. Smallholder Sector

The government initiated a smallholder development programme and established the Tanzania Tea Authority which is entailed with all aspects of smallholder sector development (Baffes, 2004). The sector emerged shortly after Tanzania's independence when government encouraged farmers in the rural areas to cultivate tea on small plots averaging 0.3 hectares in extent. All the the production from the sector was sold either to state owned processing facilities or to local big tea estates. According to Baffes (2004), the success of the smallholder sector is partly attributed to international donor support and World Bank loans. The support of the smallholder sector improved the overall quality of the tea which in turn earned higher prices in the international tea auctions.

iii. Challenges

The smallholder sector production grew to 30% of total output during the mid 1980s. However, the success was short lived as in the late 1980s the sector started experiencing distress following late payments from the tea board, collapse of the research system and inadequate investment in tea factories, poor road infrastructure and logistics (Baffes, 2004).

A major reason that has been identified for the poor performance of the tea sector is inadequate infrastructure. The green leaf after harvesting is required to be processed within 6 hours of plucking, which therefore calls for the rehabilitation of the feeder roads (Baffes, 2004).

iv. Government Policy

The government of Tanzania imposed a ban on importation of black and packed tea and exportation of green leaf as a way to protect the domestic blending and packing industry. According to Wakabi (2004, cited in Baffes, 2004), Tanzania protected its infant tea industry whose products could not favourably compete with Kenyan produce which benefits from lower production costs. Article 27 of 1999 tea regulation was imposed to encourage processing of locally produced green leaf.

Tanzania was the second largest exporter of tea to South Africa , accounting for 12.9% and of the total value of tea imports in 20101 (NAMC, 2011b). The status of tea production in south Africa is outlined in the following section.

2.4 SOUTH AFRICA'S TEA INDUSTRY

Tea production in South Africa started in 1964 with government support and financial backing through the Industrial Development Corporation (DAFF, 2010). The sector was supported as it was viewed as labour intensive and therefore offered employment opportunities for the rural communities. 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 (DAFF, 2010). Beginning in 2003, most of the tea estates in the country went out of production and those that remained are in a very precarious financial position and survive partly because they produce a product of high quality but mainly because they receive funding from the state (Joubert, 2009; Sherry, 2009).

2.4.1 The State of the Tea Industry in South Africa

i. Sector Analysis

Black tea production in South Africa commenced in the late 1960s with tea estates spread over four provinces i.e. Eastern Cape with 3 estates, KwaZulu-Natal with 3, Limpopo with 4 and Mpumalanga with 2 (DAFF, 2010). The South African tea industry was a thriving industry from early 1960's till the late 1980s. This was due to mainly a regulated industry, low production cost and low wage levels.

Table 2.7 lists all the tea estates which were originally established in South Africa and also depicts the estates that are in production including the area under production. Total hectarage under tea was initially 6 499 hectares and is now down to less than 3 200 hectares under 4 producing estates. Only two tea estates which have since been amalgamated into one, in the Vhembe region of the Limpopo Province, are still in production while in KwaZulu-Natal, Ntingwe is the only estate still producing tea. The Eastern Cape Province is left with two tea estates under production (Joubert, 2009). The 12 tea estates were all located in regions with suitable climatic conditions for tea growing. It is an indisputable fact that the economic development of these regions coincided with the development of the tea plantations. The tea plantations opened up employment opportunities for local people in these regions. The economic developments in areas in which the tea plantations are located have had an impact on the geo-ecological and socio economic conditions of the people in the locations of the tea estates such as the Nkandla area within the KwaZulu-Natal Province, in the case of Ntingwe Tea Estate. In Ntingwe (2012), it was highlighted that one of the challenges the estate experiences is the poor road infrastructure creates further challenges as the estate experiences lack of service support in time should there be a breakdown during the tea production process. The tea estate is geographically far away from other services, such as repairing centres and other necessary amenities, which are necessary to maintain the plant and equipment. Most technicians that service Ntingwe come from Melmoth, Vryheid, Dundee or CSC in Umlazi. There is also a problem of unreliable communication networks (Telkom lines) as well as disruptions in electricity supply. Consequently the upgrading of the major roads into Nkandla will help Ntingwe Tea. Khumalo (2012: 5), recently reported that "rural

Nkandla has benefited from another development worth a whopping R582 million for road infrastructure".

Table 2.7. Tea Estates in the RSA

Estate	Province	Size (Ha)	Status
Ntingwe		325	Producing
Richmond Sapekoe		522	Not producing
Ngome Sapekoe	KwaZulu-Natal	500	Not producing
	SUBTOTAL KZN	**1 347**	
Tshivhase Sapekoe	Now consolidated into one with effect from 2006	577 1,081	Producing
Mukumbani Sapekoe		504	Producing
Grenshoek Sapekoe		451	Not producing
Middlekop Sapekoe		501	Not producing
Outgrowers	Limpopo	100	Not producing
	SUBTOTAL LIMPOPO	**2 133**	
Magwa		1,784	Producing
Majola	Eastern Cape	385	Producing
Paddock		225	Not producing
	SUBTOTAL EC	**2 394**	
Senteeko		550	Not producing
Gradley	Mpumalanga	75	Not Producing
	SUBTOTAL MP	625	
TOTAL		**6,499**	

Source: Author adapted and updated using respondents' information in the study data from DAFF, 2010.

ii. Employment

Tea is an important commodity in terms of job creation as it is labour intensive and provides job opportunities particularly in remote rural areas. It is also important in terms of export earnings and rural infrastructure development. The Limpopo Province's tea estates employ about 2 500 people of which about 2 200 are tea pickers. The Eastern Cape Province's two tea estates employ about 4 000 people increasing to over 5 000 during the picking season.

Ntingwe Tea Estate employs 700 people increasing to about 1250 people during the picking season. In India, however, tea industry is the second largest employment provider in the organized manufacturing sector giving direct employment to some 1.2 million families in the estates. In Kenya alone, at least 10% of the population i.e. an estimated 3 million people are directly and indirectly making a living from the tea sector (Van der Wal, 2008).

The tea industry in major producing countries such as India, Kenya and Sri Lanka is seen as a source of livelihood since the plantations on which the tea is grown are production units as well as social institutions providing housing, water, welfare and many facilities that affect the lives of the employees (see section 2.3.2.1). This is contrary to the SA tea industry in which tea estates employees are not provided with lodgings and other social infrastructure facilities as these are provided outside the tea plantations. This is an area which needs further investigation as a contributing factor to the competitive advantage in terms of labour cost.

iii. Contribution to Gross Value of Agricultural Production

The contribution of the black tea industry to the gross value of agricultural production experienced a decline from 1999 until 2000, followed by a slight increase between 2000 and 2001 and then a steep decline until the lowest level attained in 2005 (NAMC, 2011b). Very marginal increases in the contribution of the black tea industry to the gross value production were later experienced between 2006 and 2007, followed by a decline in 2008 (NAMC, 2011b). The continuous decline in the contribution of the black tea industry to the gross value of agricultural production can be attributed to the decline in the domestic production of black tea due to a decline in competitiveness of the black tea estates. Production of black tea came to a standstill in December 2004 when Sapekoe stopped its operations due to: high minimum wages for farm workers, no protection against tea imports from the Southern African Development Community (SADC), high production costs structure mainly electricity, nitrogen, diesel and wages; the strong rand against US dollar and UK pound sterling; and land claims which resulted in loss of title deed by Sapekoe-Pty Ltd, (Joubert, 2009) and pending claim on Ntingwe Tea Estate which has created uncertainty and threatening future plans on the estate (Ntingwe Tea Estate, 2011). In the four provinces that are suited to production of black tea only six tea estates are in production (Joubert, 2009; DAFF, 2010). As of now there are 3 tea producing estates i.e. Ntingwe Tea Estate in KZN, Majola and Eastern Cape and Tshivhase in Limpopo.

The reduction in local tea production resulted in increases in tea imports from the SADC region and other tea producing countries. Table 2.8 presents the top ten list of suppliers of tea to South Africa and also depicts to some extent the government policy of promoting South African trade with Africa as there are four African countries in the top ten leading suppliers. SA imported a total of 24,050 tonnes of tea valued at R378 million in 2011. According to Ntingwe (2012), local tea demand is projected to increase at an average of 5% per annum and is expected to reach around 42 million kilograms by 2015 which is about 175% of current imports.

With annual consumption above 20 000 tonnes per annum and domestic production (excluding Magwa) at approximately 10 000 tonnes, South Africa is a net importer of black tea. Black tea is mainly imported from Malawi, Zimbabwe, Kenya, Sri Lanka and Mozambique. Tea imported from our SADC partners is mostly secondary grade tea suitable only for blending purposes. Premium quality teas are imported from Sri Lanka and Kenya (DAFF, 2010).

South Africa imports its black tea from the five regions with greater imports derived from the African regions followed by Asia. Imports of black tea originating from the African region have experienced a substantial increase during the period under review owing mainly to decreased competitiveness in the domestic black tea industry as opposed to most African countries that produce tea.

In the SADC region South Africa imported most of its black tea from Malawi. Malawi has substantially increased its exports of black tea to South Africa since 1998. Black tea is also imported from Zimbabwe and Tanzania, with Tanzania having increased its black tea exports to South Africa between 2005 and 2008, overtaking Zimbabwe.

According to NAMC (2011), in Eastern Africa, imports of black tea originate mainly from Kenya which has consistently served as a supplier of tea to South Africa between the years 1998 and 2008. Between 1998 and 1999, South Africa also imported black tea from Burundi and Uganda but these countries completely lost their share of the South African black tea market from the year 2000 (NAMC, 2011)..

Table 2.8. Top 10 Leading Suppliers of Tea to RSA in 2010 and 2011

Source Country	**Import Value (R millions)**	**% Share 2010**	**Annual % Change (2009/10)**	**Imported value 2011 R'Million**	**% share in SA's imports**	**Imported quantity 2011 tonnes**
Malawi	187.8	54.4	-0.07	189.0	50.1	14,923
Tanzania	44.4	12.9	-11.8	48.9	13	2,434
Zimbabwe	37.4	10.9	55.1	36.8	9.7	3,776
Sri Lanka	33.4	9.7	22.8	45.7	12.1	1,378
Kenya	17.2	5.0	1.1	19.4	5.1	658
China	7.4	2.2	5.0	18.1	4.8	409
UAE	3.0	0.9	-1.4	4.4	1.2	88
UK	2.5	0.7	5.6	3.7	1.0	49
India	2.5	0.7	51.2	1.9	0.5	25
Netherlands	0.2	0.06	22.7	1.8	0.5	23
South Africa Imports	**344.9**	**100**	**0.07**	**377.6**	**100**	**24,050**

Note: Exchange rate USD 1: R8.436.

Source: WTA (2011) cited in NAMC (2011b) and author calculations using data based on UN COMTRADE statistics in ITC, 2012.

During 2011, the country imported a total of 24,050 tons of black tea versus its exports of 8 776 tonnes (Table 2.8). Between the years 2007 and 2011, imports of black tea into South Africa have increased by an average of 18% and 6% in value and volume terms, respectively (ITC, 2012). Black tea imports originate mainly from Malawi, Tanzania and Zimbabwe, with Malawi commanding 50.1% share in South Africa's tea imports while Tanzania commands 13% and Zimbabwe 9.7% in 2011 (Table 2.8).

Other small markets for black tea imports are Sri Lanka, Kenya, Indonesia, India, China, Netherlands and Israel. Of importance to note is that imports of black tea originating from Malawi have increased by 18% and 6% in value and volume terms between 2007 and 2011 while those originating from: India increased by 49% and 45%; Sri Lanka by 32% and 24%;

Zimbabwe by 20% and 8%; Netherlands by 81% and 70%; Chinese Taipei by 51% and 100%, in value and volume terms, respectively. Black tea imports between 2007 and 2011, originating from Tanzania increased by 11% in value terms but decreased by 1% while those from Indonesia decreased by a significant 42% and 48% in value and volume terms, respectively (ITC, 2012). Malawi, Tanzania and Zimbabwe have duty-free access to the South African black tea market. An ad valorem tariff of 42.9% is applied to black tea originating from countries such as Sri Lanka, Indonesia, USA, China and India (NAMC, 2011b).

In 2011, South Africa also exported tea valued at R101 million to a number of countries which include: Mozambique accounting for 49% of total export value, Zimbabwe (12%), Zambia (12%), China (5%) and United Kingdom (5%). South Africa's exports of tea are relatively concentrated among the top ten destinations. Table 2.9 presents a list of the top ten destinations for tea exported by South Africa in 2011 in thousands of US dollars.

Table 2.9. Leading destinations of SA's exports of tea, 2007 to 2011

Importers	Exported value in 2007	Exported value in 2008	Exported value in 2009	Exported value in 2010	Exported value in 2011	% Share 2011
World	10004	11622	15273	14297	11989	100
Mozambique	1068	2443	4081	4880	5879	49.0
Zimbabwe	317	763	1052	1015	1420	11.8
Zambia	283	597	1012	1734	1389	11.6
China	131	437	655	978	632	5.3
UK	2500	1964	1727	1454	585	4.9
Netherlands	1091	465	839	694	356	3.0
USA	1398	475	765	340	331	2.8
Malawi	79	88	194	165	181	1.5
Germany	321	270	272	321	171	1.4
France	1	1	56	31	150	1.3

Note: Table values expressed in thousands of US dollars.

Source: Author calculations based on UN COMTRADE statistics sourced from ITC (2012).

South Africa's black tea export market is worth about R101 million a year, while the country imports per annum, for domestic consumption, about 24 million kilograms worth R378 million. Table 2.9 shows that during the period between 2007 and 2011 South Africa exported black tea to the African region, Americas, Asia, Europe and Oceania. Greater values of black tea exports were destined to the African region between the period 2007 and 2011 followed by exports to Asia. However, on average the value of black tea exports from South Africa to all the aforementioned regions declined substantially between the years 2009 and 2011. The Government had to intervene in order to address some of the challenges in the tea industry. The following section outlines how the government intervened.

iv. Challenges

Tea is one of the commodities that have been affected by the declining global prices particularly in the early 2000s, hence affecting the sustainability of the sector with a resultant impact on the livelihoods of plantation workers and producers in tea producing economies (Van der Wal, 2008). According to tea production statistics, in FAO (2012), over a thirty year production trend, there was a steady increase in tea production from 1981 to early 1989. However, this trend was short lived as tea production started to decline from 1990 to 2002 but with high variability during the early and mid 1990s and since 2002 production declined further with the exception of a bumper harvest in 2005 (NAMC, 2011b). As from late 1989, Black tea production in South Africa has been uneconomical and under severe financial difficulties. During the 2003 to 2005 period, tariffs on black tea imports which were set at 400c per kilogram under tariff subheadings 0902.30 and 0902.40 were scrapped (ITAC, 2003; Joubert, 2009). The removal of tariffs and the strong rand, prolonged drought and low world tea prices took their toll in tea exports rendering the South African tea estates unviable. This resulted in the closure of tea estates.

Before 1999, a quantitative import control system obliged tea packers to purchase locally produced tea for any equivalent amount of tea imported. In 1999, the country's 12 tea producers suffered a major blow when the quantitative import control system was dropped, which meant tea packers no longer had the financial incentive to pack local tea (Joubert, 2009: 50). According to Ntingwe (2012), The import quota system was started in 1975 under the principle that for every kilogram of SA tea bought, a permit to import 1 kilogram of tea would be issued. In every quarter a packer had to issue audited figures to Pricewaterhouse Coopers who would calculate the market shares and present the figures to the DTI who issued the permits. In 1999, discussions were started between the producers and the packers to gradually reduce the protection by 2004 (Joubert, 2009). All SADC countries would have no duty on teas imported in terms of the SADC agreement and teas from all others would be levied duty at R4 per kilogram (ITAC, 2003). With the quota system, the annual price increase was based on an increase of 80% of the June on June CPI.

Since the 1990s black tea production in South Africa has since been uneconomic and under severe financial difficulties since 2003/04 according to DAFF (2010), mainly due to the following factors:

- relatively high production costs (including minimum wage requirements; cost of electricity, nitrogen, diesel, etc).
- low international market prices for black tea and the high difference between the producer prices and retail prices. Smaller black tea producers in South Africa have no mechanism to negotiate better prices with tea packers; they are price takers as the packers determine the prices.
- the dominance of tea packers; two major tea packaging companies dominate more than 80% of the Southern African black tea market.

The decreasing trend in tea production since the 1990s has resulted in continued increase in the value of tea imports, while the value of exports has been decreasing since 2007 (NAMC, 2011b). The value of tea imports increased from R181 million in 2007 to R345 million in 2010, resulting in worsening of trade balance over this period from negative R111 million in 2007 to negative R241 million in 2010 (NAMC, 2011b).

On average 7.4 million kilograms of tea was produced locally each year over a 10 year period up to 2005 against an estimated local tea consumption of at least 24 million kilograms (NAMC, 2011b). There has been a substantial decline in terms of volume over the years attributable to the closure of most tea estates that produced black tea (NAMC, 2011b). Production has dropped from levels of about 12 000 tonnes which were produced between 1998 and 2001 to slightly above 2000 tonnes between 2002 and 2005 and peaked slightly to levels below 5 000 tonnes with government intervention in the various tea producing provinces (Datamonitor, 2009). Magwa Tea Estate in the Eastern Cape, the biggest tea producing estate in the country, was closed following violent labour disputes between management and workers (Joubert, 2010).

In 2001, Linton Park, a British company, moved into South Africa after acquiring a 70% stake in tea producer Sapekoe. However, Linton Park disinvested from its tea operations in South Africa in 2004, citing: the strength of the rand, South Africa's comparatively high minimum wages and the abolition of duty protection against tea imports, as the reason behind its decision (Sherry, 2009a: 48). This decision left a number of devastated and angry rural communities (Sherry, 2009b). The company could not make a profit from the tea it shipped to auction centres in London and Egypt, despite operating estates mainly on tribal land at low or nominal rentals. The company incurred losses resulting in its decision to auction off its assets on its KwaZulu-Natal estates i.e. Richmond and Ngome but failed to dispose of its Limpopo estates assets following a court battle by minority shareholders and the Provincial Government. This resulted in an out of court settlement which saw the Provincial Government through its Agricultural and Rural Development Corp investing R164 million into revitalizing the two tea estates in the province. The two tea estates in Limpopo, i.e. Tshivhase which existed since 1977 and Mukumbani which came into being in 1987, were consolidated into one tea estate in 2006 now operating as Venteco (Pty) Limited trading as Tshivhase (DAFF, 2010). Middelkop and Grenshoek estates, both in Limpopo Province and Senteeko Estate in Mpumalanga were shut down in 2004. The tea processing plants in Middelkop and Grenshoek were stripped and resold to tea companies outside SA. Magwa Tea Estates has been plagued with worker unrests and violent strikes of which operations have been suspended until the situation normalizes (ECDC, 2011).

2.4.2 South Africa's Government Intervention in the Tea Industry

A number of private sector and government partnerships have led to the revitalization of the black tea industry and currently four estates are in operation. In the Eastern Cape Province, according to ECDC (2011), an attempt was made to put Lusikisiki's Magwa Tea Estate back in operation with financial assistance to the sum of R26.7 million in 2004. The funding came from the provincial government through the Eastern Cape Development Corporation (ECDC) and a joint partnership between the Asia Tea giant Gokal and the German submarine manufacturer Ferrostaal. The operation of the estate is vested under Magwa Enterprise Tea (Pty) Ltd; a wholly owned subsidiary of the ECDC. Since 2007/2008, the funding of Magwa Enterprise Tea shifted from the Department of Economic Development and Environmental

Affairs to the Eastern Cape Department of Agriculture via the Eastern Cape Rural Finance Corporation (ECDC, 2011). The second tea estate in the Eastern Cape, Majola Tea Estate, is owned by the workers and community who have been given the privilege to acquire the assets using the Land Redistribution for Agricultural Development (LRAD) scheme in 1997. There are about 412 of these shareholders (PMG, 2009). Currently, both the Magwa and Majola tea estates in the Eastern Cape are kept afloat through the provincial government subsidies (Joubert, 2009). Magwa Tea Estate was initially owned by a parastatal, Magwa Tea Corporation which was liquidated in the mid nineties. The operation was taken over by a new entity Magwa Tea (Pty) Limited and following this takeover, operations ceased in 2002 (ECDC, 2011). The Eastern Cape Provincial government intervened in 2004 and initiated the revival of the plantations through provincial funding in partnership with Ferrostaal, under the investment credits scheme. According to a Parliamentary Monitoring Group (PMG) report (2009), since 2004, a total amount of R72,921,581 up until November 2009 was disbursed by the provincial government into Magwa Tea Estate project and R22,675,000 was injected into Majola Tea Estate.

Tshivhase and Mukumbani tea estates in the Vhembe district of Limpopo Province were resuscitated from the Sapekoe group with a R164 million injection from the Limpopo provincial government (Shelley, 2009a). Tanzanian Tea Blenders agreed to be strategic investors to market Limpopo’s black tea regionally and globally. A market was established in the United Arab Emirates and discussions were initiated to conclude deals with Iran (Shelley, 2009a). The Limpopo Department of Agriculture reached a cooperative agreement with its Northern Cape counterpart to develop market access relations with Rooibos growers in Nieuwoudtville and Calvinia with the objective of blending and packaging a special Rooibos collateral brand along with Limpopo’s black tea (Shelley, 2009a).

Ntingwe Tea Estate in the KwaZulu-Natal Province was set up in 1993 with R40 million from Ithala Development Finance Corporation and later supported in 2004 with a R40 million investment by the KwaZulu-Natal Department of Agriculture and Environmental Affairs (Joubert, 2009:51; Ntingwe Tea Estate, 2011). The investment was intended to aid Ntingwe Tea Estate in its production build up and, overtime, enable it to become profitable. Unfortunately, Ntingwe Tea Estate has not achieved profitability and the situation has been exacerbated by low world tea prices, termination of the quota system and the removal of import tariffs.

The government intervention and support of the tea industry is not only based on the jobs in the rural areas, but economic and social indicators such as increased foreign exchange earnings, increased revenue due to the disposal of the final value added product, additional logistics, marketing and distribution, and empowerment of blacks in the tea value chain (DAFF, 2010). Notwithstanding the efforts by government to support the industry, several factors are threatening the industry and these will be discussed in more detail in the following section.

2.4.3 Causes of the South Africa's Tea Producers' deteriorating Performance

Several factors are presently threatening the industry, some of which are common to other tea producing African countries but not to the same extent as the local industry. According to Gesimba, Langat, Liu and Wolukau (2005), some of the threats to the Kenya tea industry include: export price problem as a result of worldwide consistent tea surplus, rising costs of production, competing beverages posing a big problem as substitutes, lack of affordable credit facilities and the high taxes. These threats are also likely to be contributing to the viability challenges of the South Africa's tea sector.

The major reason cited for the decline is that South Africa tea producers are unable to compete with imported bulk teas in terms of price. Teas from elsewhere in the world and in particular from SADC countries such as Malawi are produced at significantly lower costs than those in South Africa (DAFF, 2010). According to PMG (2009), the most important challenge facing the two tea estates in Eastern Cape and for the SA tea industry as a whole is the high cost of production of black tea pegged at R14 per kilogram when the current market price is below the cost of production for bulk tea and fluctuates between R11 and R20 per kilogram which, according to the management of tea estates, is again sold at between R67 and R69 per kilogram in retail outlets. Multinational companies such as Unilever and National Brands buy the bulk tea from local tea estates and blend it with various teas purchased from other countries and then brand them for the retail market. There are 14 tea packers in South Africa who blend and pack tea. Unilever and National Brands jointly hold at least 90% of the black tea market; their tea range comprises of medium to superior quality teas. Ntingwe Tea in KZN, Magwa in Eastern Cape and Tshivhase in Limpopo are regarded as high quality tea producing estates. All other black tea brands found on the local market are blends of teas sourced from various localities (DAFF, 2010).

Tea is purchased from other African countries like Malawi at between R8 and R9 per kilogram due to their lower labour costs and duty free status, compared to the R14 per kilogram cost of production for local tea estates. The PMG (2009) report also identifies the key fundamental issues that need to be overcome for the industry to be globally competitive as being the high oil prices, high input costs, high interest rates, high inflation, job losses and slowdown in economic growth.

Gesimba *et al.*, (2005) propose diversification of tea products as a positive development that can give the industry a new face. Proposed diversification includes increasing investment in green tea production which is highly consumed in China, investments in other products from extracts such as preservatives, and essential oils for the cosmetic industry. According to Gesimba *et al.*, (2005), these initiatives will help in reducing the amounts of tea in the market in order to induce better prices. Improving processing techniques is also proposed as an innovative way to increase the value of tea as processed tea has more value than what growers are currently getting. There has been significant global production increase over the past 10 years which is linked to green tea production which could be attributed to the scientific studies which link green tea drinking with reduced cancer risk. One of the key areas needed to be looked at is government policy in relation to steering and stimulating the industry. The following section will discuss government policy in the tea industry.

2.5 GOVERNMENT POLICY

According to NAMC (2011a), the agriculture trade environment is generally characterised by a number of trade distortion measures, for example, subsidies given in the developed countries, especially European Union and the United States of America (USA), affect farmers in the developing countries. Farmers in the developed economies receive billions of dollars of government support; such policy distortions are easily transferable because of the world economy integration.

South Africa's agricultural sector has to compete both locally and in foreign markets against products that are subsidised or benefiting from government support programmes. The fundamental issue of importance in this regard is whether or not South Africa has room to support the sector without contravening the World Trade Organisation (WTO) agreements and also whether there is willingness to support agriculture by the decision makers. This also raises the question of the likely options available in protecting agriculture from imports emanating from subsidised countries if there is no willingness or space to support the sector. The following section will discuss on the role of tariffs and trade in the tea industry.

2.6 THE ROLE OF TARIFFS AND TRADE IN TEA INDUSTRY

The first part of this section will discuss on the global perspective with specific reference to a few selected major tea producing and exporting countries. The second part will briefly discuss on the African perspective of the two main tea producing and exporting countries.

2.6.1 Global

The European Union (EU) is not a tea producer and as such it imports tea duty free and there are no specific quality standards prescribed, save for those relating to food safety including maximum residue limits and labelling. The EU has a 0% most favoured nation tariff, with few exceptions, no duty payable on finished teas (Agritrade, 2012).

High tariffs on bulk black tea are often used as a way to protect markets of the many tea producing countries and they range from as low as 2.5% on black tea in Japan, which produces mostly green tea, to 145% in Turkey (Agritrade, 2012). The following net exporters of tea apply high import taxes to protect local blenders and packers: Kenya imposes 60%, Bangladesh 45% and China 30%. Major net tea importers also impose tariffs in order to encourage domestic packing: Pakistan 45%, Egypt 30%, Morocco 25%, Russia 20% and Japan 17%. The main suppliers of Russia i.e. India, Sri Lanka, China and Indonesia, however, receive preferential treatment with duties set at 75% of the base level while imports from poor nations such as Bangladesh are duty free. Sales taxes and value added taxes are applied in the region of 15 to 20% by many countries (Baffes, 2004).

Indonesia has a low import tariff set at 5% for imports of all tea products compared to other producing countries which set much higher tariff such as 25% in the case of Sri Lanka and 114% and 113% in India on packaged tea and on all products of bulk tea, respectively. Some non-tariff barriers to tea exports include the Ethical Tea Partnership, Maximum Residue Level (MRL), Hazard Analysis Critical Control Point (HACCP), ISO 22000, ISO 9001:2000 and International Standard Phytosanitary Measures (ISPM). The EU markets have imposed HACCP and requirements stipulating low levels of pesticide residues in made tea since 1st January 2006. These certifications require capital investment for factory modernization and/or process automation. The certifications therefore add to production costs without necessarily raising income or increasing market share, hence they are seen as non-tariff barriers.

2.6.2 Africa

Kenyan tea is given a preferential tariff in Egypt as a member of the Common Market for Eastern and Southern Africa (COMESA), whereas tea from non members such as Sri Lanka and India is subject to a higher tariff (Agritrade, 2010). Tanzania imposed import and export bans on black and packed tea in order to protect the domestic blending and packing industry (Baffes, 2004). Malawi increased its import tariff for tea to 25% sometime in July 2009. The rationale for this measure is not clear given that Malawi is a net tea exporter and in the long run its competitiveness on the international markets, may adversely be impacted (Agritrade, 2010).

There are many challenges which impact on the growth of the tea industry and these will be discussed in the following section.

2.7 CHALLENGES IN THE GROWTH OF THE TEA INDUSTRY

2.7.1 Trade

Various tariffs and non-tariff barriers imposed by some tea importing countries pose a challenge to the survival of the tea industry in the exporting countries. Growing consumer concerns on production methods and its impact on the environment and poor people have been translated into various standards which seek to address the concerns such as Fair Trade, Organic Certification, Rainforest Alliance and Utz certified (TCC, 2010). According to Agritrade (2010), fair trade certified tea is sourced from tea estates and democratic smallholder farmer organisations. The market for fair trade certified tea and ethically sourced tea is currently limited and as a result producers are only able to sell a small proportion of their tea on fair-trade terms. Fair-trade markets look at the following issues: fair wages and employees working conditions, payment of fair producer prices and investment in social, economic or environmental programmes. The challenge however, according to Agritrade (2010), is the lack of enough consumer demand to buy all the output.

Most tea exporting countries follow the standards of importing countries especially the EU (FAO, 2012). As discussed in section 2.6, many tea producing countries protect their local tea industry by imposing tariffs on bulk tea ranging from about 2.5% in Japan to about 145% in Turkey. Other countries such as the CIS countries and Saudi Arabia, which are major importing countries, impose tariffs on tea bags whilst others apply it on instant tea (Van der Wal, 2008).

The following sections will first discuss the global challenges of the respective factors followed by a discussion on the South African situation.

2.7.2 Labour

This section will firstly discuss the global challenges and then apply the global challenges in a second section to the South African situation.

2.7.2.1 Global challenges

The tea industry in general is highly labour intensive and is also subject to stringent labour laws (Agritrade, 2010). Grant (2010) suggests that unionised labour result in higher levels of pay and benefits and work restrictions that lower productivity. The growing political bargaining power of the plantation worker unions coupled with social obligations in relation to provision of facilities to tea plantation workers has paused major challenges for the sustainability of the sector (Van der Wal, 2008).
The other issues regarding labour include low wages, high casualisation of labour and low labour productivity. Casualisation of labour, according to Van der Wal (2008), does not guarantee job security to workers as they are placed on contracts. It is a cheaper system than permanent work establishment, and companies have been using loopholes in the labour legislation which were not explicit in terms of duration of temporary employment. Half of the workers in Indonesia and Malawi tea plantations are temporary/seasonal (Van der Wal, 2008).

Around 50 to 60% of production cost in the tea producing estates is attributed to labour cost (Alkan *et al.,* 2009). According to Hicks (2001:3), the challenge with labour force is that, "the young generation do not wish to work in plantations and as such the age of plantation workers is increasing". This situation presents mechanization as inevitable along with imported labour. Jobs in the tea sector are now under pressure due to increased mechanization particularly picking (Van der Wal, 2008).

According to Van der Wal (2008), in Kenya and Indonesia, most tea plantation workers particularly temporary workers are paid at a piece rate at a fixed price per kilogram of leaf picked. Worker incomes therefore vary according to a number of factors such as health, working hours, strength and whether it's a high or low season.

In countries like Sri Lanka, a popular way of reducing labour costs is the conversion of workers to independent outgrowers by allocating pieces of land to worker families and then supplying them with inputs and technical support. The new outgrowers are paid on delivered leaf at a price determined by the tea company. This way the tea companies have managed to reduce labour costs by avoiding the payment of worker benefits (Van der Wal, 2008). Labour productivity in Sri Lanka is said to be the lowest relative to other major producing tea countries like Kenya and India. According to Schiller (2009), there is a relationship between wages and productivity. Schiller (2009: 180) states that "if labour productivity (MPP) rises, wages can increase without sacrificing jobs". The marginal revenue product of all workers is said to rise when productivity improves. This could be applied to the SA tea producing industry and Ntingwe Tea Estate specifically, since one of the tea industry challenges is low labour productivity. An improvement in labour productivity can result in better wages and standard of living of workers.

2.7.2.2 South African labour challenges

The SA tea industry and the farming sector in general are experiencing increased pressure from labour unions to increase the minimum wages and improve working conditions. The recent farm worker strikes in the wine industry which started in De Doorns with workers demanding R150 a day from the current wages of between R69 and R75 a day is a clear testimony of the growing bargaining power of workers (Makwabe & Eggington, 2012).

In South Africa, there is a minimum wage rate for the agricultural sector which is set by the Department of Labour. The current minimum wage rate is R347.10 per week which works out to be R69.42 per day in a five working day week (Mercury, 2012). According to the Confederation of South Africa Trade Unions (COSATU), the agricultural sector is considered to be the most vulnerable sector with widespread poverty. The wage rate in the sector is considered to be well below the minimum living wage level of about R4,000 per month (COSATU, 2012b). It can also be argued that the wage rate in the agriculture sector which includes the tea industry is considered to be a sub-human minimum wage of which it is almost impossible for a working family to survive on (COSATU, 2012b). Employers, however, according to COSATU (2012b), argue that the industry cannot compete with ultra-cheap labour countries. According to conventional economic wisdom, there is a direct trade-off between minimum wages and employment. Schiller (2009:183) has shown that as labour unions take control of the labour market they seek to raise wages, just like what is recently happening in South Africa's agricultural sector in which workers are demanding a minimum wage of R150 a day (COSATU, 2012a; Makwabe and Eggington, 2012). In a recent press report, thousands of workers in the fruit and wine industries stayed away from work demanding R150 a day in wages (Biyase, 2012). According to Biyase (2012: 3), 'this has raised concerns about South Africa's competitiveness on international markets as its farmers have to compete with countries that supply the same products at much lower labour costs".

In a study conducted by COSATU on the Brazilian labour market, it was established that real minimum wages were increased by at least 81% between 2003 and 2010. Over 15 million jobs were created over the same period and this employment creation growth was attributed to increased demand created as a result of increased incomes (COSATU, 2012b). However, the same study could not establish the relationship between rising minimum wages and employment in South Africa. According to Statistics SA as cited in COSATU (2012b: 43), "simple wage elasticity estimate for the 2001 to 2007 period was 1.4". The wage elasticity of 1.4 implies that for a 1% increase in wage level it is accompanied by 1.4% rise in employment. COSATU (2012b) suggests that most sectors showed positive employment wage elasticity, save for: farm workers; forestry; taxi and security sectors, which, yielded negative relationships. The success of a wage policy to create employment growth also depends on a combination of other factors such as economic and sectoral policies, trade dynamics and consumer demand (COSATU, 2012b).

2.7.3 Consumption

2.7.3.1 Global Perspective

Major tea producers and major exporters do not necessarily correspond. Countries such as India consume at least 80% of its production whereas consumption in Turkey, one of the top ten producing countries, far exceeds its production level (Van der Wal, 2008). The volume of local consumption in tea growing countries such as Vietnam, Malaysia and Indonesia, has remained fairly stable due to ready availability and affordable prices (Van der Wal, 2008). Availability is, however, restricted in importing countries despite the possibly lower export prices from producing countries as naturally importers will curb volumes of imports depending on availability of bank finances (Hicks, 2001). As noted in Hicks (2001), this is likely to increase the demand for poor quality tea which could adversely impact the tea industry. Cheap low quality teas could find a market in this scenario whilst producers of good quality teas may not find selling prices attractive (Agritrade, 2012).

The growth in tea production has not been matched by consumption since 1999 following a bumper tea harvest in 1998 (Marketradefair, 2002). Emerging tea producing countries such as Kenya increased production by almost 38% from the previous year. The mismatch according to Marketradefair (2002), was partly attributed to consumption decline by the former USSR as a result of the Middle East war and also by the rising demand in tea substitutes or alternative beverages by consumers. The quantity of tea leaf used also reduced with the increasing use of tea bags mainly from CTC tea, and the increasing use of instant tea. The availability of alternative beverages such as soft drinks, as substitutes to tea, reduced tea consumption even in traditional tea consuming areas. Given the competitive pressures from tea substitutes the emphasis by the tea industry in promoting consumption of tea in the EU and US was based onthe health benefits of tea drinking relative to soft drinks and other alternative beverages (Marketradefair, 2002). Consumption is also influenced by changing consumer tastes which differ with regard to quality and origin. The UK, Pakistan and Egypt markets prefers CTC, Europe buys leafy orthodox teas, UAE prefers Sri Lankan tea, Germany and Japan buy first flush Darjeeling which sells at more than $30 per kilogram; Russia and CIS countries prefer Ceylon tea and in North America the low priced and light liquoring teas are in demand (FAO, 1996 cited in Hicks, 2001).

2.7.3.2 South African Perspective

As discussed in section 2.4.1 and 2.4.3, South Africa imports most of its teas in order to fulfil consumption demand. According to NAMC (2011) South Africa imported 24,050 tonnes of tea valued at R378 million in 2011 when its domestic production was below 5,000 tonnes. The locally produced tea, according to Joubert (2009) is of higher quality than the locally imported cheaper teas. The increased demand of the imported cheap teas by the tea blenders is impacting negatively the local tea production hence the closure of the tea estates (DAFF, 2010).

South Africa's tea industry is dominated by Unilever and National Brands, who collectively control 95% of the market (Joubert, 2010). These companies source teas from around the world and produce blended tea varieties that are then branded for the retail market. The dominant brands are Joko, Lipton, Freshpak, Glen and Five Roses. These brands collectively account for 80% of the South African retail tea market. According to Ntingwe (2012) and DAFF (2010), local tea demand is projected to increase at an average of 5% per annum, reaching around 42 million tonnes by 2015.

2.7.4 Production

2.7.4.1 Global Situation

The growth in world production of tea has to some extent resulted in falling tea prices complemented by the lack of producing countries response to restricting supply (Agritrade, 2010). According to Marketradefair (2002), many producing countries compensate for lost export earnings due to lower prices by increasing areas under tea production withthe intention is to increase export volumes. However, this tends to create a vicious cycle in which overproduction creates an oversupply situation which puts pressure on prices. This was experienced from major tea producers such as Bangladesh, Kenya, Malawi and Tanzania particularly in the 1990s (Marketradefair, 2002). Strong competition from new entrant producers, particularly African producers who emerged relatively late onto the tea market, further dampened the tea prices (FAO, 2012). Oversupply in the market is undesirable and potentially harmful to the whole market as lower prices in the low quality sector may drag down prices in other sectors (Agritrade, 2012).

The fortunes of tea production are directly linked to rainfall and temperature and these have an influence on the changes from season to season of the quality of the green leaf materials. The industry seems to have stabilised in terms of its production despite being exposed to vagaries of nature (Van der Wal, 2008).

One of the major constraints facing the tea industry in general which impacts on production, productivity and quality is the old age of bushes particularly in countries like India, China and Sri Lanka with more than 30% of the tea bushes area above the economic threshold age limit. Productivity is also affected by climate, soil fertility and labour productivity. In terms of labour productivity, Van der Wal (2008) established that Kenya has higher productivity levels at 2,235 kilograms per hectare (kg/ha) compared to India's 1,690 kg/ha and Sri Lanka with 1,611 kg/ha.

2.7.4.2 South African Productivity Situation

According to Ntingwe Tea Estate business plan (2012), Ntingwe Tea Estate has a potential of yielding approximately 2,500 kilograms per hectare. However, due to historical neglect of the tea fields, Ntingwe Tea Estate only yielded 722 kilograms per hectare in the 2010/11 season and 1,313 kilograms per hectare in the 2011/12 season.

As discussed in section 2.4.1, tea production in South Africa dropped from levels of about 12 000 tonnes per annum to below 5 000 tonnes as from 1998. The decline is attributable to the closure of most tea estates.

2.7.5 Profitability

2.7.5.1 Global Situation

The rising costs of tea production against falling tea prices impacts on the profitability. High production costs in the tea industry are worsened by certain government fiscal policies such as the levying of excise duty which is disconnected to the sale price. Generally, low levels of labour productivity and labour shortages during peak season impacts on the cost structure of tea production. Labour accounts for more than half of the unit cost of production and approximately 75% of that labour cost is on plucking. The profitability of tea widely varies across different countries as a result of differences in yields, cost structure and prices. Countries with the highest profitability include Kenya at over $2,000 per hectare, followed by India at over $1,400 per hectare and Sri Lanka at $1,100 per hectare (Marketradefair, 2002). South Africa's tea producing industry makes losses. Ntingwe Tea made a loss of R25,529 (equivalent to $3,026) per hectare for the financial year ended 31 March 2010 (Ntingwe, 2012). The impact of rising input costs against falling prices generally puts pressure on limiting labour costs since tea production is labour intensive and this has damaging implications on the welfare of tea estates workers.

2.7.5.2 South Africa Situation

The global situation as discussed in the previous section mirrors the South African tea industry.

2.7.6 Competition and Markets

2.7.6.1 Global Situation

Tea is sold through auctions or in private deals and nowadays increasingly on-line. There is no futures market for tea and there is no single price as different auctions offer different prices. With technological advances auction centres will be rendered redundant. The price of tea is primarily determined by supply and demand, however the large corporations which dominate in tea trade, have a huge impact on the world markets by regulating the supply and demand. Around 90% of the western trade is said to be under the control of a few multinational companies (FAO, 2012). The large companies with their purchasing power can influence the demand and price for particular qualities and types of tea (Marketradefair, 2002). The companies have presence throughout the tea value chain i.e. from the tea bush to the tea bag.

The global tea industry is dominated by a handful of multi-national companies, as illustrated in figure 2.2, who use their financial power to influence producer prices. Competition for a share of the world market is rife between producer countries and this contributes to low prices. Tea is a perishable commodity and as such cannot be stored and then sold when the price is right. It deteriorates fairly quickly hence the need to cut prices in order to get rid of any stocks (FAO, 2008).

The decline in the tea prices is partly attributed to stiff competition from new entrant producers particularly African producers who emerged relatively late onto the tea market (FAO, 2010). Consistent increase of production as a result of new market entrants has led to a global oversupply position causing price decline. However, tea prices are now starting to improve slightly.

FAO (2012) showed that tea has the second lowest variability in prices out of the 7 agricultural commodities studied. The tea price cycles are linked to agro climatic conditions and do not have linkage with the general economic conditions.

Appreciation of local currencies is a major risk factor particularly for export producing countries. Tea, like most other commodity products, is a US Dollar traded commodity across the world. Movements in the US Dollar exchange rate compared to other currencies affect price competitiveness of such commodities.

There is potential for the growth of ethically sourced and fair trade certified tea to promote better incomes and better livelihoods and this creates opportunities for encouraging speciality tea focused production from ACP countries. However, according to Agritrade (2010), there is always a tendency of large corporations colluding in influencing market pricing and the question therefore arises for action against international companies that collude in price setting of major commodities such as tea thereby abusing a dominant market position.

Other product developments in view of changing consumer tastes include instant tea, flavoured tea, decaffeinated tea, organically grown tea, herbal tea, ready to drink tea (canned and bottled) are developing in-roads into the market. Other food products being developed include tea rice, tea-noodles, tea cake, tea biscuits, tea-wine, tea candy and tea ice cream. A wide range of tea products continue to be developed.

2.7.6.2 South Africa Situation

South Africa is a net importer of tea. The strengthening of the rand against the US dollar since 2003 has negatively affected the price competitiveness of SA tea producers (DAFF, 2010). The situation now is more favourable for tea exports as the US Dollar has appreciated against the rand now trading at between R8.82 and R9.00. Free market principles determine that domestic market prices will fluctuate in a price range between import parity and export parity levels. The level of competition in the domestic market ensures that prices are set as close as possible to import parity levels, whilst over supply, exchange rates and world market prices determine export parity price levels. In net import situations, such as in the case of black tea (SA currently imports more than 50 percent of its black tea), domestic market prices should, according to normal free market principles, be close to or even higher than import parity levels (DTI, 2012).

Pure Ntingwe tea is currently sold under the estate's name in tea bags, while Yorkshire Gold, a blend of Ntingwe tea and other varieties, is a second retail blend sold in overseas markets (Joubert, 2009). Since 2004 the tea has also been sold locally at Woolworths under the Ntingwe Estate brand name (Ntingwe, 2012). Competition is fierce within the retail tea market and over the years the market has witnessed a proliferation of brands targeting different sectors of the market. Despite this the market is dominated by a handful of brands namely Five Roses, Freshpak, Joko, Glen and Lipton.

During the period between 1999 and 2008 black tea producer prices in South Africa have, on average experienced a decline from levels above R14 000/tonne in 1998 to levels slightly above R12 000/tonne in 2008. Black tea producer prices decreased substantially between the years 1999 and 2000 with a similar decline experienced between the years 2002 and 2004. Producer prices for black tea remained relatively stable between the periods 2004 and 2008 (NAMC, 2011).

2.7.8 Employment

Tea production is very labour intensive and labour costs represent 55-60% of the total production cost. The proportion of the labourer's wage in the consumer price of tea is shockingly low at less than 3% of the consumer price compared to about 30% to 50% of the retail tea price which goes into blending, packaging and promotion. This is an indication of the value add benefits accruing to the exporter, trader and/or manufacturer at the expense of the producer (FAO, 2012; Marketradefair, 2002).

Traditionally, tea estates in South Africa used to be the biggest employers of people in the rural provinces of South Africa, providing both permanent and seasonal employment opportunities (DAFF, 2010). With the crisis that the industry is facing employment has declined as most of these tea estates are out of production. Ntingwe Estate employs more than 200 permanent staff and 550 seasonal workers with total employment envisaged to grow to approximately 1 200 at full production (Ntingwe, 2012).

The tea estates in South Africa are capable of employing more than 15 thousand people when in full production. As of 2004, Magwa and Sapekoe tea estates were the major employers in the black tea industry. Taking into account that tea estates such as Grenshoek, Middelkop, Ngome, Richmond, Paddock and Senteeko have gone out of production, more than 6 thousand employees have lost employment. Table 2.10 illustrates full production employment potential of the various tea estates.

Table 2.10. Employment Potential of SA tea estates

Producing Estate	**Employment potential**
Magwa	4 103
Majola	886
Tshivhase and Mukumbani (consolidated)	2 722
Ntingwe	1 200
Sub Total of Producing Estates (1)	**8 911**
Non Producing Estate	
Senteeko	1 265
Middelkop Sapekoe	1 158
Richmond Sapekoe	1 137
Ngome Sapekoe	1 045
Grenshoek Sapekoe	1 013
Paddock	518
Outgrowers	230
Gradley	173
Sub Total of Non-Producing Estates(2)	**6 539**
Grand Total (1+2)	**15 450**

Source: Author compiled using respondents' information and data obtained from DAFF, 2010.

2.7.9 Legal and Regulatory Environment

There are currently no regulatory or restrictions on production and trading of tea in South Africa. There is a lot of trading of tea in the country with the countries from the SADC region (DAFF, 2010). Most imported tea comes from Malawi. Due to the lack of import restrictions from the SADC countries, there are huge volumes of low quality grades teas that are imported by the tea blenders to the country. These low grade teas are then blended with high quality teas in order to produce brands which are currently on offer in South Africa (DAFF, 2010; NAMC, 2011).

The South African tea producers must however comply with the regulatory legal framework which is the minimum wage prescript. This ensures that compliance to payment of minimum wages to workers is achieved. Most SADC countries do not have this regulation and hence are able to produce tea far cheaper than in South Africa. South African minimum wages are on average 10 times higher than that of Malawi (DAFF, 2010).

2.7.10 Climatic Change

Unpredictable harvests are already being experienced as a result of the increasing impact of climate change. The yield of tea bushes is affected by changes in temperature (Agritrade, 2010). Best quality tea is obtained when temperatures are between 18 and 32 degrees Celsius and should temperatures rise by two degrees Celsius, as is widely predicted, then tea bushes in lower altitudes would yield less (Alkan *et al.*, 2009). Large areas of tea growing countries would become unsuitable should there be temperature rise by two degrees Celsius (Agritrade, 2010). Climatic changes have reduced tea production.

2.8 KWAZULU-NATAL TEA INDUSTRY

There were three main tea producing estates in the KwaZulu-Natal Province and these were Ngome, Ntingwe and Richmond. Both Ngome and Richmond were planted with seedling teas and were closed down in early 2000 due to the problems facing the industry and the depressed tea markets (DAFF, 2010). The international company who owned these tea estates, Sapekoe, pulled out of South Africa due to unfavourable market conditions as discussed in detail under section 2.4.1. Tea activity (blending, packaging, warehousing and distribution) is concentrated in Durban and Pietermaritzburg.

Ntingwe Tea Estate is now the only operational tea estate in KZN. Ntingwe does not have the necessary critical mass as it is only 400 hectares producing on average 421 tons of tea annually (DAFF, 2010; Ntingwe, 2012). The consumption of tea in South Africa has however remained relatively high despite the lack of local tea production (Datamonitor, 2009). The outgrower scheme that was initiated at Ntingwe did not take off positively due to a number of problems that the growers faced.

2.9 NTINGWE TEA ESTATE – AN UNDERSTANDING OF THE CASE

This section will provide a brief overview of Ntingwe Tea Estate according to the information sourced from Ntingwe Tea Estate's Business Plan and Strategy documents of 2012 and from discussions with its senior management.

2.9.1 Historical Background of Ntingwe Tea Estate

Ntingwe Tea Estate is located at a village called Nkandla in Northern KwaZulu-Natal, a deep rural and impoverished area that is approximately 280 kilometres from Durban and 73 kilometres from Kranskop. The Estate is located at an altitude of between 900 to 1080 metres, on ideal soils for high quality tea production.

The Ntingwe Tea project was initiated in 1987 by Ithala Development Finance Corporation

Limited (formerly KwaZulu Natal Finance and Investment Corporation - KFC) at the request of the Provincial Economic Planning Committee. It started as a research project with an initial 63 hectares planted with clonal tea and trials were so successful that the KFC decided in 1993 to fully develop the estate. Clonal tea is tea bushes which are not grown from seeds but from hybrid clones i.e. there are bushes which have been bred under specific conditions with specific qualities. The objective of the project was to facilitate socio-economic development in the area and the creation of the much needed jobs and job opportunities. The intention was that the surrounding villagers would grow tea on their own small plots for sale to Ntingwe. Unemployment in the area was around 62%. The Estate was developed by planting various cultivars of tea that were developed by the Tea Research Foundation in Malawi. The cultivars established on the estate were carefully selected based on their desirable characteristics such as high yield, good quality, ease of vegetative propagation, tolerance to pest and diseases, favourable reactions to cultural treatments and regional adaptability (Ntingwe, 2012). The elite cultivars grown at the Estate renders the Estate as one of the very few 100% clonal plantations in South Africa. The Estate was originally 600 hectares in extent however, 425 hectares were planted. Of the total hectares planted only 395 hectares remain under plantation, the rest having been lost due to inadequate management of the plantations over the period. The estate, which was under the management of a Sri Lankan expatriate general manager, Mr Ryle Perera (hereinafter addressed as Ryle) with more than 30 years tea experience, was established as the first tea venture in South Africa aimed exclusively at the export market. It produced high quality tea which was sold in bulk on the London Tea Market over the past years from its initiation up to 2005, before a host of challenges begun to set in rendering the Estate unviable and not sustainable. In 2004, the bulk black tea from the Estate was selling at 215 pence per kilogram in London against an average market price of 160 pence. The tea had captured a niche market in the UK, being blended into the quality Yorkshire Gold product, which is popular in the north of England.

The funding of Ntingwe Tea over the years by the shareholders is given in Table 2.11.

Table 2.11: Funding availed to Ntingwe Tea Estate

Year	**Dept. of Agric**	**Ithala**	**Total**
2003	R40,000,000	R38,660,000	R78,660,000
2008	R17,500,000	R0	R17,500,000
TOTAL	**R57,500,000**	**R38,660,000**	**R96,160,000**
% Shareholding	**63**	**37**	

Source: Author compiled and calculated using data from Ntingwe Tea Estate Financial Statements, 2009.

The shareholding of the company has not changed since 2003.

According to Pringle (2006), the Estate was faced with closure in 2002 due to a host of industry factors which included significant increases in production costs occasioned by regulated labour market and increased competition from African tea producing countries. The labour issues included prolonged illegal strikes which set back production significantly and cost the Estate.

2.9.2 Ntingwe Tea Estate Business Model

The business model of the estate at the time of establishment, which was also in line with that of the other South African tea estates, was the production of black tea which was sold in bulk through buying agents, such as the Taylors of Harrogate in UK, to tea packers which blend various teas for sale on the retail market as branded products. The business model was a viable course of action at the time of establishment and for a period of 5 years thereafter. According to Pringle (2006), this was at a time when tariffs were imposed on all imported teas and local packers were subjected to a packer's quota. In terms of the quota, South African tea packers were obliged to purchase an equivalent quantity of domestically produced tea for any tea imported. The packer's quota was however discontinued in 2000 and tariffs were reduced over time which also worsened the sustainability of local producers as they now had to compete with cheap imports from the SADC region. The situation of the estate was also compounded by the declining world market prices of bulk teas. Introduction of minimum wages in 2004, in what was classified as B agricultural areas (DAFF, 2010), which included tea estates, impacted on the production costs under a background of declining tea prices. The current minimum wage in the agricultural sector ranges between R69 and R75 per day. Recent press reports (also refer to section 2.7.2.2) have indicated that the agricultural workers specifically in the wine and fruit industry have stayed away from work demanding R150 per day (Biyase, 2012). Increased costs and suppressed revenues resulted in all the South African tea estates incurring sustained losses which caused almost all the estates to cease operations. The situation in terms of management of the tea bushes also worsened with lack of fertilizer application due to cost implications and lack of adequate working capital. Inorganic fertilisers in the form of NPK macro-elements are the most basic forms of plant food especially when it is to be administered in huge quantities. The increase in input costs such as fertilizers was not matched by increases in tea prices; in fact tea prices were dropping in real terms.

It was clear that the original business model of producing bulk tea was no longer sustainable and the obvious alternative course of action was to devise a strategy to add value to the product in order to take advantage of higher margins in value addition. The Estate embarked on experimentation with the production of green tea which sells at a premium to black tea. Before consideration was given to the production of green tea as a means of boosting revenue quality, a consulting agronomist was engaged to assess the concept in addition to consultations with the Japanese renowned green tea producer, Mr Watanabe. The project was embarked on as a pilot project following wide consultations with stakeholders, but still a number of challenges remain which are threatening the closure of one of the only remaining three tea estates in South Africa. The green tea line currently share a certain part of the processing line with black tea and therefore the production of green tea cannot be maximised without affecting the processing of black tea. The green tea pilot plant produced a total of 30 tonnes from 2009 to date. The tea was exported to Japan, UK and some of it sold through the local retail shops such as Woolworths. Green tea is mostly consumed by health-conscious individuals and is therefore popular in health shops and retails shops in up market areas (Datamonitor, 2009). Although the original motivation for the Ntingwe establishment was rural economic upliftment, it was always intended that the estate achieve economic sustainability. Unfortunately, the outlook is that such sustainability will never be achieved unless specific measures are implemented to eliminate losses and achieve profitability.

At the beginning of the 2011/2012 season the board of Ntingwe Tea Estate put in place measures to turn the situation around and revitalize the estate. These included the engagement of experienced personnel, which implemented processes, systems and procedures for the revival of the estate. The measures according to the management of the Estate, have resulted in increased productivity, improved quality of tea produced, increased crop yield and declining unit production costs. For the current financial year, 2012/13, the estate is projecting to further improve the yields, although profitability cannot be achieved with continued bulk black tea production at current bulk black tea prices.

2.9.3 Challenges

Ntingwe Tea Estate still faces many challenges in its operations, despite the turnaround measures put in place by the existing board, which according to the management would require significant financial support if its revitalization programme is to succeed. If a recapitalisation and turnaround strategy is unsuccessful this will result in the closure of the estate and loss of jobs. The challenges appear to be also common with other tea estates as established from the literature review and these were identified as follows:

- Poor tea yields;
- Lack of supporting infrastructure;
- Lack of adequate working capital:
- Inadequate production facilities and obsolete equipment;
- Uncertainty of the outcome of the land restitution claim.

Section 4.3 will examine the financial statements of Ntingwe Tea Estate covering the two year period from 2009 to 2010.

2.9.4 Business Strategies

In an attempt to reduce ongoing losses new strategies are being considered. The estate is currently producing a small quantity of green tea to determine market acceptability of this product. Profitability margins are higher on green tea than on black tea. In 2009, Ntingwe introduced its packaged teas to the SA market. The objective of the project was to diversify its product offering and enter the lucrative retail market channel. This initiative was done through select Pick n Pay and Woolworths stores. However, the issue of pricing in view of the costs incurred in production and packaging of the brand, presented challenges on the sustainability of the initiative, as the retail stores procured the tea at below cost. The unsustainable position Ntingwe found itself in necessitated that cost containment measures be implemented and this resulted in critical operations not being performed such as the following:

- Field management operations such as pruning, skiffing, etc which are critical in ensuring the healthy and high yielding status of tea bushes was severely curtailed and fertilizers, key ingredient in rejuvenating the tea bushes, were not applied in accordance with required standards.
- The equipment used in the operations has not been maintained due to lack of capital and some of the equipment, specifically, tractors, are aged and beyond useful life and often prone to frequent breakdowns.
- The amount of labour was severely curtailed compromising the amount of leaf harvested from the fields.

The above measures resulted in low crop yields with average leaf yields being 50% of potential; low labour productivity with pluckers averaging 25 kilograms of leaf per day compared to industry norm of 50 kilograms per day; low tea quality which fetched below average prices with buyers not willing to pay better prices; and demotivated labour force and increased anxiety of community members who became more antagonistic towards the estate. The Estate has had to implement a number of measures in a bid to arrest losses.

In March 2012 a delegation headed by the Premier of KwaZulu Natal Province, Dr Zweli Mkhize, visited Japan for negotiations with two big Japanese tea companies to have them buy tea from SA, in a move meant to boost rural economic development (Mjikeliso, 2012).

This research investigates the challenges and possible strategies that can be employed to save the estate and possibly set it on a growth and sustainability path.

2.10 CONCLUSION

It is evident from the discussion that tea production plays an important role in socio-economic development of the economy and more specifically the rural communities. However, there are challenges which are currently rendering the sector unviable and there are also positive developments. These challenges and developments will be explored further in the study. The extent and sustainability of government support to the sector, role of communities and private sector to aid in the success of the local tea producers, and the role of policy reforms in the tea sector as a means to the sustainability of the sector need to be explored further.

Chapter two highlighted the issues that affect the tea industry from a global perspective and South African perspective. The literature review discussed the following issues and themes that are critical to look at in addressing the research questions: tea estate challenges; productivity levels; impact of international tea price movements on tea production and marketing; research and development issues; production costs and the role of the smallholder sector; foreign exchange rate fluctuations; trade policies covering tariffs and non tariff barriers; policy reform initiatives and government support for the tea estates. Chapter three will review the research methodology and data collection techniques that were used in this study.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 INTRODUCTION

The chapter seeks to outline the aim and objectives of the study, the participants and location of the study, research methodology and data collection techniques used in this study of South Africa's tea industry challenges and business strategies. In order to identify the specific challenges affecting South Africa's tea industry and to understand the views of the stakeholders in the industry, an open ended questionnaire was chosen as an acceptable and more certain unit of measurement. The research design was based on a combination of qualitative and quantitative approaches as the preferred methods of research. A judgmental sampling design, a type of purposive sampling methodology, was used as the data required for this study demanded a level of technical knowledge and experience of the tea industry. A critical review of literature on the tea industry was conducted in chapter two using secondary data in order to examine and identify the tea industry challenges in general and those specific to South Africa.

The chapter will discuss the aim and objectives of the study in section 3.2. Thereafter, it will explain the data collection methods used for the study in section 3.3. The research approach as well as the research design and methods will be discussed in sections 3.4 and 3.5, respectively. The analysis of data and research limitations will be discussed in sections 3.6 and 3.7. A short conclusion of the chapter is presented in section 3.8.

3.2 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 Ntingwe Tea Estate and other similar tea estates in South Africa.

The objectives for this study are therefore to:

- Identify challenges faced by the South African tea industry in general.
- Examine the challenges faced by Ntingwe Tea Estate.

- Identify and examine the factors that are causing failure or low performance of Ntingwe Tea Estate in comparison to its potential in the global market.
- Identify the policy reform initiatives needed to steer the tea estate towards sustainability.
- Evaluate whether Ntingwe Tea Estate can be economically viable without government intervention.
- Identify strategies that can be implemented by Ntingwe Tea Estate in order to become sustainable.

The research methodology applied in the study sought to address the aforementioned objectives through the use of a qualitative study and interview of key stakeholders in the tea industry and also reviewing tea industry strategies in major tea producing countries such as India, Sri Lanka, Kenya and Malawi. The data collection methods are discussed in the following section.

3.3 DATA COLLECTION METHODS

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Data was collected from various different sources in many different ways and in different settings. The potential collection methods include personally administered questionnaires or questionnaires sent through the electronic media or mail. Data collection can also be through face to face or telephonic interviews, computer assisted interviews and also through the media and audio recording (Sekaran & Bougie, 2010).

The study utilized both primary and secondary data collection techniques. Secondary data provide some insight through the literature review section as presented in chapter two of the study. Primary data collection is then utilized to fulfil the gaps since secondary data on its own in this case, does not completely satisfy the objectives of the study. There are significant advantages derived from use of secondary data versus primary data which include savings in cost and time of acquiring information (Iacobucci & Churchill, 2010). However, according to Polonsky and Van der Waller (2011), secondary data may not always address the problem at hand or may be outdated in its accuracy as also noted and supported by Sekaran and Bougie (2010). Primary data collection involves a lot more time and costs as it involves a number of processes such as developing a data collection form which is designed and pretested, developing a sampling plan, data gathering and checking for omissions and accuracy and finally data coding and tabulating (Iacobucci & Churchill, 2010). The two techniques will be discussed in the following sections.

3.3.1 Primary Data Collection

Data gathered first hand through observation or administering questionnaires is referred to as primary data (Sekaran & Bougie, 2010). Sources of primary data include individuals, focus groups, panels of respondents and also the internet when questionnaires are administered through it(Iacobucci & Churchill, 2010).

A questionnaire, together with a cover letter, was hand delivered or emailed to respondents as a means of collecting primary data. The data collection of this study involved both primary and secondary data collection methods.

Open-ended questions were used in the questionnaires which were distributed to identified respondents with experience in the tea sector. Officials with knowledge of the tea sector were drawn from the Department of Trade and Industry (DTI), the Provincial Department of Agriculture and Environmental Affairs (DAEA), the Provincial Department of Economic Development and Tourism (DEDT), tea estates in Eastern Cape, Limpopo and KwaZulu-Natal, Provincial Departments of Agriculture, major tea blenders and processors, Industrial Development Corporation, Ithala and Trade and Investment KZN in order to address the objectives of the study. More specifically, the primary research instruments used in conducting the study included recorded interviews and a structured questionnaire which was administered to: (i) Ntingwe Tea Estate management and board of directors; (ii) key tea stakeholders from government departments and the private sector; and interviews with respondents involved in the tea sector. A questionnaire with open-ended questions was designed for qualitative data gathering. A judgmental sampling design, a type of purposive sampling, was used on targeted respondents that have the knowledge and information specific to the sector. There is typically a high response rate for surveys conducted on topics the respondents care about. A total of 40 tea experts from both the private tea industry and government departments involved with agricultural activities were identified as an adequate judgmental sample for analysis.

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.
According to Iacobucci and Churchill (2010), primary data can be collected through communication which involves a questionnaire or survey, oral or written and through observation. The study utilizes communication through an unstructured and undisguised questionnaire. The unstructured and undisguised questionnaire allows for responses to the questions to be open-ended. According to Iacobucci and Churchill (2010), the questions to be asked in an unstructured questionnaire are loosely determined and the respondents are free to answer in their own words whereas a structured questionnaire imposes some degree of standardization with responses being predetermined. The questionnaire is undisguised in the sense that the purpose of the study is made obvious by the type of open-ended questions posed.

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.

Questionnaires were used for collecting data for this study since according to Sekaran and Bougie (2010:185), they have the advantage of obtaining data efficiently in terms of time, energy and costs compared to other tools.

3.3.2 Secondary Data Collection

Data gathered through existing sources is called secondary data (Sekaran & Bougie, 2010). The secondary data collection involved collecting and analyzing in relation to the objectives of this study, the company financial reports, business plans, and strategy documents, journal articles on the tea industry, reports on the tea industry, newspaper articles on tea, trade literature, the internet and publications with relevant information on the tea industry from the Department of Trade and Industry, the Department of Agriculture and the Department of Economic Development and Tourism. Academic literature and comparative studies from other countries on issues affecting the tea industry were reviewed for their insights into how to approach the subject under study. A number of publications and journal articles with information on the tea industry were used as secondary information thus forming the basis for the theory and literature review.

3.4 QUALITATIVE VERSUS QUANTITATIVE METHOD

In choosing the research approach it is important to understand the differences between qualitative and quantitative approaches. Quantitative methods are more scientific and often provide numerical results explained by descriptive statistics while qualitative research examined data which are narrative (Saunders, Lewis &Thornhill, 2003).

3.4.1 Qualitative Method

A qualitative approach has been selected to gather data for the study as a reasonably small number of respondents are utilized to provide intrinsic information on understanding a particular issue (Polonsky & Van der Waller, 2011). Qualitative research aims to identify underlying relationships and requires the researcher to approach the study with an open mind to the possibilities and perspectives of the research material, in order to provide conclusions for the particular research case (Frankfort-Nachmias & Nachmias, 1996). Qualitative research methods include in-depth interviews, observations or case studies which attempt to answer ‘why’ or ‘how’ questions of the process before the ‘real’ quantitative research is undertaken (Hyde, 2000).

Qualitative research has been adopted for the study as it is a good fit for the type of research questions. The results to be derived from the study could be best explored through a qualitative approach. This is complemented by the use of quantitative data to assist in fleshing out the analysis. The research methodology was designed to utilize a qualitative approach using an open ended questionnaire in order to generate information helpful in determining the challenges and business strategies that can be employed in addressing or rectifying the status of the tea industry in South Africa. A qualitative study may collect much richer data revealing some fascinating detail (Silverman, 2010).

Qualitative data was gathered via a questionnaire with open ended questions administered via email and in some instances hand delivered to the respondents. In addition, qualitative data was collected via interviews on two participants who requested to be interviewed instead of using written responses.

The shortcomings of a qualitative method according to Polonsky and Van der Waller (2011) are that the data analysis is based on a small number of respondents and the results cannot be generalized to represent the entire population.

3.4.2 Quantitative Method

Quantitative research aims to describe general characteristics of a population and is often collected by means of large samples and thus has greater generalisability. Quantitative research involves data analysis from a large representative sample of a population in order to attain generalization of the whole population (Polonsky& Van der Waller, 2011; Hyde, 2000). Quantitative research methods include the questionnaire where the aim is focused at answering the 'what' questions of the research (Page & Meyer, 2000). The results of the quantitative analysis are studied through statistical theory and mathematical calculations which then generates information valuable and identifiable to the population (Iacobucci & Churchill, 2010).

Although Blumberg, Cooper and Schindler (2005) stated that there are no general guidelines available to indicate whether a qualitative or quantitative research approach is more appropriate, the research problem, objectives and the information that one wants to obtain should be taken into account when choosing an approach. The study is based on qualitative research for the reason of drawing knowledge from tea industry experts on the challenges affecting the South Africa tea industry and business strategies that can be employed. A questionnaire was developed which was administered via e-mail and direct delivery to respondents. The method of using a questionnaire as a research tool was chosen for ease of administration, cost effectiveness and minimisation of unexpected information (Bryman & Bell, 2007).

Qualitative data collected through interviews and open ended questionnaires provided rich data that would not be provided through quantitative methodology and it also enabled the researcher to explore the thoughts and feelings behind words in a way that quantitative research would not (Iacobucci & Churchill, 2010).

3.5 RESEARCH DESIGN AND METHODS

Zikmund (2003:65) defined a research design as a master plan specifying the methods and procedures for collecting and analyzing the needed information. It is a framework or blueprint that plans the action for the research project in fulfilling the objectives and answering the questions (Cooper & Schindler,(2003:81).

Data for this study was gathered from various sources through a literature review and unstructured open ended questionnaires in order to have standardized data allowing for easy comparisons and giving control over the research process. A cover letter was used, which introduced the study. The letter stated the purpose of the study and encouraged the respondents to voluntarily participate in the study. It also assured the respondents' confidentiality and anonymity for disclosure of their details. This was used to convince the designated respondent to cooperate (Bryman & Bell, 2007). The letter further requested the respondents to complete letters of consent, which are an indication of the respondents' clarity of the contents of the study questionnaire, and willingness to participate**.**

The questionnaire was designed to enable the researcher to obtain data fairly easily and in an understandable manner and to solicit responses which would assist in achieving the study objectives. The rationale for choosing this approach is that the nature of the research questions leaves the researcher with little room to control or influence the answers, thus leaving respondents to provide realistic answers to the real life issues pertaining to the topic under investigation. Follow-ups were also conducted to encourage the respondents to complete the questionnaire and thereby generate high response rate. Iacobucci and Churchill (2010: 223) stated that the questionnaire length is important as smaller questionnaires are deemed to be better than larger ones as they do not appear to be crowded. The 50% response rate is attributed partly to the aggressive follow-ups and the short length of the questionnaire distributed. Shorter questionnaires seem to be easier to complete and less time and energy is spent and therefore less likely to cause respondents to refuse to participate. In order to understand the characteristics of a population there are generally two sampling designs which will be discussed in the following sections.

3.5.1 Probability Sampling

According to Sekaran and Bourgie (2010), sampling is defined as a technique of understanding the general characteristics of a population by selecting the ideal number of elements from the population. Sampling is used to draw inferences about the population. There are generally two sampling designs namely probability and non probability sampling. In probability sampling there is a known chance that each population element can be selected as a subject i.e. there is no zero chance of being included in the sample. For non probability sampling, it is not known whether an element has a chance of being selected as a subject (Sekaran & Bougie, 2010). Non probability samples rely on personal judgment somewhere in the process and according to Iacobucci and Churchill (2010), though the judgment samples may yield good estimates of the population characteristic they do not permit an objective evaluation of the adequacy of the sample. With probability sampling the results can be generalised to the population with a degree of confidence.

Probability sampling plans can be divided by type i.e. simple random, stratified either proportionate or disproportionate and cluster samples.

3.6.2 Non Probability Sampling

For non probability sampling, there is no way of estimating the probability of any population element being included in the sample which is representative of the population. Iacobucci and Churchill (2010) state that all non probability samples rely on personal judgment, which might yield good estimates of a population. However, they do not permit objective evaluation of the adequacy of the sample. Non-probability samples have no controls included in the sample which means that the sample may not be representative of the population and that the researcher is unable to generalize the results of the sample to the population (Page & Meyer, 2000). The findings from this study cannot be confidently generalized to that of the population (Sekaran, 1992:235).

Non probability sampling can be divided into convenience, judgment and quota samples (Iacobucci & Churchill, 2010). The study utilizes purposive judgment samples in which the samples are handpicked in order to serve the research purpose and because it is believed that they are most informed and experienced experts on the subject matter. The researcher used the purposive judgment sample approach because of the interest in sampling those who can offer some perspective on the research question rather than a cross section of opinions. In the process of judgment sample, a snowball sample arose from referrals of the initial set of respondents who identified others with the desired characteristics (Iacobucci & Churchill, 2010).

3.5.3 Research Approach

A literature review has been conducted to have a better understanding of the tea industry challenges and business strategies.

For the purpose of this study, the research was specific to the tea industry using Ntingwe Tea Estate as a case study. Permission to conduct the research and use Ntingwe Tea Estate information was granted through a gate-keeper's letter by the board of the company. E-mails were sent to 40 targeted respondents knowledgeable on the subject area.

The quality of a survey is dependent on the response rates during data collection as higher response rates improve the probability that sample results represent the population (Lohmann & Schmucher, 2008). The response rate for the study was 50% which is considered to be a good response.

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.

3.5.4 Recruitment of Study Participants

Each respondent was telephonically contacted by the researcher requesting for their participation prior to the questionnaire being sent out. The population for the study is all the tea estates in South Africa and its stakeholders involved in various aspects of the industry value chain. This study looked at selected participants from government institutions, private sector and established tea estates. Due to time constraints and resource limitations the study used a judgment sampling design approach targeting 40 participants which were selected on the basis of their expertise in the subject under investigation (see Section 3.6.2).

3.5.4.1 Participants in the Study

This study focused on the challenges of the tea industry in South Africa and the business challenges. The population for the study is all the currently productive tea estates in South Africa (i.e. the 3 tea estates in KwaZulu Natal, Limpopo and Eastern Cape Provinces) and its stakeholders involved in various aspects of the industry value chain (see Section 2.4.1 and Section 3.3.1).

A total of 40 tea experts from both the private tea industry and government departments involved with agricultural activities were identified as an adequate and representative sample for analysis. A judgmental sampling design, a type of purposive sampling, was used on targeted respondents that have the knowledge and information specific to the sector. According to Sekaran and Bougie (2010), a judgmental sampling design is a non probability sampling design which is used when there are a limited number of subjects with the required information. It involves selecting respondents which are best placed to provide the required information.

To address the objectives of the study, the research process focuses on officials with knowledge of the tea industry. These were drawn from the Department of Trade and Industry (DTI), the Provincial Department of Agriculture and Environmental Affairs (DAEA), the Provincial Department of Economic Development and Tourism (DEDT), tea estates in Eastern Cape, Limpopo and KwaZulu-Natal, major tea blenders and processors, the Industrial Development Corporation, Ithala as well as Trade and Investment KZN.

The primary research instruments used in conducting the study included recorded interviews and an open ended questionnaire which was administered to: (i) Ntingwe Tea Estate management and board of directors; (ii) key tea stakeholders from government departments and the private sector. An open ended questionnaire was designed for qualitative data.

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.

The list of respondents approached is shown in Table 3.1.

Table 3.1: List of Respondents

Name	Company	Consent to participate	Consent to use of name
1. Dr Sibusiso Dludla	Divisional Manager - Ithala Development Finance and Ntingwe Tea Estate board member	Yes	Yes
2. Mr Carlos Boldogh	Chief of Operations (COO) KZN DAEA	Yes	Yes
3. Mr Dinal Perera	WM Cahn (Pty) Ltd	Yes	Yes
4. Mr David Wishard	WM Cahn (Pty) Ltd	Yes	Yes
5. Mr John Glover	Estate Manager – Ntingwe Tea Estate	Yes	Yes
6. Mr Nkosana Sifumba	General Manager Trade & Investment KZN	Yes	Yes
7. Mr Percy Anderson	Ex- Estate Manager in Limpopo	Yes	Yes
8. Mr Ian Crawford	Former manager – Magwa Tea Estate	Yes	Yes
9. Mr Clinton Gass	Managing Director – Rooibos Marketing Japan	Yes	Yes
10. Mr Ryle Perera	Ex –NTE General Manager	Yes	Yes
11. Mr Neil Whitehead	Agricultural Economist – DAEA	Yes	Yes
12. Mr Nicholas Coleman	Economic Counsellor SA Embassy in Nigeria	Yes	Yes
13. Mr Leon Coetzee	Former chairperson of Magwa Tea board	Yes	Yes
14. Mr Ronald Ramabulana	Chief Executive Officer National Agricultural Marketing Council	Yes	Yes
15. Mr Jonathan Kelsey	Director, Joekels Tea Packers	Yes	Yes
16. Mr Duncan Pringle	Managing Director Andisa Agri (Pty) Ltd	Yes	Yes
17. Mr Walter Matongoti	Marketing Manager – Venteco Foods	Yes	Yes
18. Respondent 1	Board member NTE	Yes	No
19. Respondent 2	Unilever	Yes	No
20. Respondent 3	Senior Manager – Crop Production	Yes	Yes
21. Respondent 4	Investment Promotion Manager – ECDC	No	No

22. Mr Donald Mudau	Venteco (Pty) Ltd	No	No
23. Mr Nhlanhla. Khambule.	Ntingwe Tea Estate Board Chairman	No	No
24. Mr Nkosinathi Nhlangulela	Executive – Ithala Development Finance Divisional Manager – Strategic Projects	No	No
25. Mr Harry Strauss	Senior General Manager - DAEA	No	No
26. Respondent 5	Deputy Director – DEDT	Yes	No
27. Mr Tshego Tshukutswane	Director – Greenstone Marketing	No	No
28. Mr Phakamisa George	Ex – board member of Magwa Tea	No	No
29. Mr Mlamli Nodada	Sector Manager – ECDC	No	No
30. Dr Daan Louw	Consultant	No	No
31. Mr Toppies Topham	General Manager – Venteco	No	No
32. Soekie Snyman	Meropa Communications	No	No
33. Mr Bheki Dlamini	Department of Trade & Industry	No	No
34. Mr Chris Lewis-Enright	MD – Stafford Bros & Draeger (Pty) Ltd	No	No
35. Mr Joseph Wagurah	Regional Manager – Ethical Tea Partnership, Nairobi	No	No
36. Mr Sitembele Mase		No	No
37. Mr Katsumi Terada	Japanese - Shizouka	No	No
38. Mr Veliswa Mvenya	DA Parliamentary committee member	No	No
39. Mr Glen Thomas	ECDC- - Senior Manager	No	No
40. Mr Noel Kamuraj	Senior Project Manager - IDC	No	No

The 40 respondents are basically involved in various tea industry value chains. The common characteristic of the respondents is their prior knowledge and experience in the area of the study. The respondents were identified initially, through their involvement with tea estates in South Africa in general and specifically with Ntingwe Tea Estate management. Further respondents were referrals from some of the respondents and also through the Ntingwe Tea Estate visitation record book (which served as a sample frame) reviewed when the investigator visited the Estate. The respondents offer a broad and diverse base of experience, knowledge and expertise in the tea industry. Two of the respondents have wide international experience in the industry having worked in Japan, Sri Lanka, Pakistan and South Africa. The research investigation was conducted telephonically and through electronic mail due to the geographic location of some of the respondents and cost implications thereof if any other channel were to be used.

The study was conducted in Durban but targeted respondents in the tea industry from Eastern Cape, Pretoria, Limpopo, KwaZulu-Natal, Nigeria, Kenya and Japan. All the participants were key resources for the study and those that responded contributed immensely to fulfilling the objectives of the study.

3.5.5 Pretesting and Validation

Pretesting was a crucial step that occurred early in the survey development process (Vanderstoep & Johnston, 2009). It allows for flaws to be identified and corrected in surveys under development. In order for pretesting to be effective, a clear understanding of each survey question's intention or intent was necessary. Pretesting encouraged the researcher to clarify the survey's goals. This clarification guided the entire research project. When problems are identified and addressed early in the survey process, the researcher would have more time to enhance the survey mechanism.

According to Iacobucci and Churchill (2010: 191), "the real test of the questionnaire is how it performs under actual conditions of data collection". 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 pretest was conducted with a test sample which is made up of non-tea experts and their understanding of the questions suggested that the tea experts (targeted respondents) would not have a problem in understanding the questions.

The responses to the questions and comments were useful in improving the final list of questions that were distributed in the survey and asked at the interviews. The researcher, when developing the questionnaire, was also mindful of the amount of effort it might take respondents to give the information being sought.

3.5.6 Administration and Questionnaire

The aim was to ensure that the questionnaire was user friendly and simple for the respondents to understand. The questionnaire included a cover page with a description of the study being conducted by the researcher and an explanation of the purpose of the research. Instructions were given on how to complete the questionnaire as well as an assurance of confidentiality for the respondent.

The questionnaire consisted of two pages of nine open ended questions constructed specifically to obtain information relevant to the objectives of the study. The questions were concise in order to ensure a good response rate. All the questions were open ended allowing respondents to express their views without limitations.

The following questionnaire was sent via email to the respondents and on three instances hand delivered to the respondents. All the questionnaires were delivered together with a letter of consent and an option for anonymity at the choice of the respondent.

- What are the challenges that the tea industry in South Africa is experiencing?
- In your view what are the policy reform initiatives which need to be implemented that would steer the tea sector in the direction of success?
- What factors resulted in the failure, or low performance, of the tea industry in South Africa compared to its potential in the global market?
- 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?
- 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? Please comment clearly.
- What are the challenges of exporting tea to the rest of the world?
- What are the challenges posed to the sector due to tea imports from Africa and the rest of the world?
- What strategies should be implemented by Ntingwe Tea Estates and other RSA tea estates in order to become sustainable?

- 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.

The analysis of the survey responses is discussed in the section which follows.

3.6 ANALYSIS OF DATA

The responses were all carefully analyzed and valuable data was extracted to give focus on the research objectives of the study. A descriptive approach was used by the author to assist in creating a flow from the responses. Also, to aid in the identification of common themes as this would assist in analysis, discussion and interpretation of the data. In order to recognize the views and opinions of the respondents, the data is presented in the form of tables and descriptive presentations showing the qualitative and quantitative findings below each table. The full list of responses and a summarized schedule is attached as an appendix. According to Iacobucci and Churchill (2010), coding is a task of translating qualitative observation into quantitative measures and analysis of qualitative data needs to be done holistically and verbally. The questionnaire comprised of only open ended questions which makes coding more challenging and definitely more time consuming than entering rating scale data and computing means. However, according to Iacobucci and Churchill (2010), information obtained from respondents in their own words can be extremely rewarding and insightful. There are limitations in conducting research and these will be discussed in the section which follows.

3.7 RESEARCH LIMITATIONS

Due to the geographic distribution of respondents, all questionnaires and the informed letters of consent were distributed via electronic mail. The sample size is a limitation as the results obtained are not generalizable to the population. To avoid non-response and ensure an acceptable response rate, the investigator undertook the following measures:

- Once the questionnaire had been distributed, reminders were sent on a weekly basis over three weeks via telephone calls and/or emails, requesting respondents to complete the questionnaire.

- Feedback and results were promised by the researcher to respondents once the study was complete.

3.8 CONCLUSION

Chapter three discussed the research methodology employed to conduct the study. The aims of the study, the sample and research methods were discussed. The research instrument used in the research was the questionnaire, following which, limitations and non response measures were highlighted. By following the appropriate research methodology, reliable and accurate data was collected which was analyzed to obtain meaningful information upon which recommendations were made. The presentation of the results follows in the next chapter.

CHAPTER FOUR
PRESENTATION AND ANALYSIS OF DATA

4.1 INTRODUCTION

This chapter focuses and sets out to present, analyze and interpret the data gathered from the questionnaires presented to the selected participants in the tea industry. The literature review in chapter two formed the basis of the study and helped to shape the foundation of the study. The discussion of the findings of this study was done in conjunction with the literature reviewed and examines similarities and differences in experiences of the tea industry challenges in key tea producing countries which will help to inform business strategies to be adopted in South Africa.

A combination of qualitative and quantitative analysis was adopted in order to identify the specific challenges affecting South Africa's tea industry. A judgmental sampling approach was used to understand the views of stakeholders in the industry. The research instrument used in obtaining data was an open ended questionnaire as described in chapter three (see section 3.3.1). The questionnaire aims to gather the broad, diverse experience, expertise and knowledge of the targeted respondents in an attempt to establish the business strategies that will contribute to the sustainability of Ntingwe Tea Estate and other similar tea estates in South Africa.

Forty questionnaires were sent out to the identified knowledgeable respondents and 20 were completed and returned back together with signed consent forms. There were four participants from two tea associated companies who decided to jointly respond instead of responding in their individual capacities hence the number of respondents was recorded as 20 since there were only 20 completed questionnaires received otherwise there were 24 participants who played an active role in responding to the questionnaire. The 20 completed questionnaires represent a response rate of 50%.

The main purpose of the study is to examine the challenges faced by the South African tea industry. It also seeks to establish the business strategies that will contribute to the sustainability of Ntingwe Tea Estate and other similar tea estates in South Africa.

4.2 PRESENTATION AND ANALYSIS OF QUESTIONNAIRE RESPONSES

Questionnaires were sent out to 40 targeted participants of whom 20 responded. The presentation of data therefore comprises of data compiled from 20 respondents. The results of the questionnaire are presented in the form of tables with the headings reflecting the line of questioning. The first column in the tables lists the factors or themes which were identified by the respondents, and the second column represents the number of respondents who identified the themes indicated in the first column. The last column represents the percentage of the 20 respondents who identified a particular theme.

4.2.1 Challenges in South Africa's Tea Industry

The tea industry is a very labour intensive industry with labour costs representing at least 55% of total production costs (Dhamasena, 2003). This is also supported by Hazarika (2011) citing higher production costs with labour 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 labour 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 buyers market which were identified by 5% of the respondents.

Table 4.1 presents all the challenges facing South Africa's tea industry as identified by the 20 respondents.

Table 4.1. Challenges Facing South Africa's Tea Industry

Challenges	**Agreeing number of respondents**	**% of respondents agreeing**
High cost of production mainly labour 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	4	20
Limited research and development for high producing clones (tea varieties)	2	10
Unfavourable weather conditions	2	10
High establishment costs and long lead times	1	5
Oligopolistic buyers market	1	5

Source: Author coded and compiled from the 20 respondents in this study.

Mr Coleman (hereinafter referred to as Coleman) is an Economic Counselor of the South African High Commission in Nigeria and previously a Sector Manager (Resources) at Trade and Investment KZN. Coleman was once involved in Ntingwe Tea Estate's green tea initiative and states, "the SA tea producers' input costs are much higher than international competitors. Wages are higher than offered by competitors and South African labour productivity is much lower". This view was shared by a significant number of respondents with 95% of respondents identifying high labour costs as the main challenge. The issue of high labour cost is not only peculiar to the tea industry but is also a common challenge in other sectors like mining, poultry, wine and fruit industries. A recent press report stated that "the fairly sharp wage increases afforded to workers may result in some mining companies reducing their involvement in the country due to lack of viability of their operations" (Hazelhurst, 2012: 13). The tea industry in South Africa is experiencing viability challenges. The demands for wage increases in South Africa are raising serious concerns about the competitiveness on the international markets as producers have to compete with countries that supply the same products at much lower labour costs.

In major tea producing countries like Sri Lanka and China, according to Coleman and Mr Gass (Managing Director of Rooibos Marketing (Pty) Ltd- Japan and also President of Gass Co. Ltd), employees are given cheap and in some instances free lodgings on the tea estates as part of their remuneration whereas South Africa uses a cash only wage. As a result of this non-wage incentive, the cost of production in those countries is far lower than in South Africa. This view is also supported in the literature review in which according to Jain (2011) it is stated that the tea industry in India is seen as a source of livelihood as the plantations on which the tea is grown are production units as well as social institutions providing housing, water, welfare and many other facilities that affect the daily lives of the employees. The issue of provision of free lodgings is also one of the fundamental underlying causes of violent strike at Marikana (Crotty, 2012). Workers were demanding a living-out allowance but such allowances would not be sustainable in the tea industry. In addition, according to Coleman and Mr Pringle, an agricultural economist and consultant once involved in assessing the viability of Ntingwe Tea Estate, often the world tea price is lower than most South African tea plantations' cost of production, thus putting pressure on its sustainability.

Government's lack of seriousness with regard to protecting strategic sectors that have a high labour creating capacity especially in deep rural poverty stricken areas was a general view shared by most respondents. Van der Wal (2008) identified the tea industry in countries such as China, India, Vietnam and Indonesia, as mainly important for poor rural remote areas as a source of employment. Coleman, Pringle, Perera (a former Ntingwe Tea Estate General Manager and now a tea consultant), Mr Coetzee (former Chairman of Magwa Tea Estate in Eastern Cape and now advisor to the Provincial Department of Agriculture for Eastern Cape) and Gass, indicated in their responses that governments in most tea producing countries were actively supportive of the tea industry as a labour intensive industry and this was not the case in South Africa.

According to Mr Glover, Estate Manager at Ntingwe Tea Estate, the SA tea industry has to compete with imports from other African countries, mostly from the SADC region, which do not prescribe to the minimum wage rate and therefore produce tea at a fraction of the cost that SA estates incur. In his response, Glover identified that Malawi pays a daily wage rate of $1.00 which is equivalent to R8.73 (exchange rate as at 16/10/2012) versus the SA daily wage rate of $8.00 i.e. R69.84.

Most of the challenges presented by respondents are also highlighted in Hazarika (2011) and Van der Wal (2008) who identified the major challenges of India's tea industry as low labour productivity, dilapidated infrastructure leading to high transport costs, low tea bushes productivity rate and quality degradation. The Sri Lanka tea industry had its own challenges according to Kalegama, *et al*., (1995, cited in Wickramasinghe and Cameron, 2003), in terms of a declining contribution to world trade attributed mainly to low yield productivity, high cost of production mainly associated with labour costs, poor quality tea, lack of capital accumulation and failure to adequately exploit new market needs such as value added teas.

The issue of marketing structure which was echoed by 5% of the respondents was also mentioned in the literature as a major contributor to the performance of the industry. According to Hazarika (2011) and Das (2009), tea is mostly sold through auction which is mainly controlled by brokers who are alleged to collude with big players to keep the tea prices low in most cases. According to figures produced by Agritrade (2012), 85% of world tea output is sold by a handful of multinationals that own plantations and also buy tea from small-holder producers. The processing plants of the multinational companies are situated in Europe and other western countries. These multinationals undertake their own blending and packaging, the major value addition operations which constitute at least 80% of the tea retail price.

These companies enjoy considerable influence in the industry and are able, through their size, to dictate the commercial terms of the industry, in particular pricing. The tea producers however have no power and are price takers. South Africa experiences ongoing problems with regard to low levels of effective competition in sectors dominated by a few entrenched companies such as Unilever (DTI, 2012). There is a need for government to give focus to investigate anti-competitive behaviour in the tea industry as the conduct impacts directly on employment and also low income households through consumer goods such as tea.

Research and development is cited by both respondents and the literature reviewed as contributing to the low performance of the tea industry. FAO (2012) further identifies the lack of adequate technical support as a contributing factor in hampering smallholder sector growth in countries like India, Sri Lanka, China and Vietnam.

An analysis of Ntingwe Tea Estate production records over the last 5 years also revealed the following productivity levels as presented in Table 4.2.

Table 4.2. Inefficiencies related to labour productivity

NTINGWE PRODUCTION FOR THE FIVE PAST YEARS					
	2007/2008	**2008/2009**	**2009/2010**	**2010/2011**	**2011/2012**
Green Leaf (KG's)	2,117,056	2,380,836	1,746,229	1,354,652	2,318,629
Avg per Plucker (kg/day)	33.5	35.1	32.4	28	40
Made Tea(kg)	439,143	489,504	363,652	285,190	518,704
Hectare	416	416	425	395	395
Made Tea (Kg/ha)	1,056	1,117	856	722	1,313

Source: Ntingwe Tea Production Book, 2012.

It is noted from Table 4.2 that the average plucking rate per worker has been hovering around 34 kg per day against the industry norm of 40 to 45kg per day. Raising the plucking rate to 40kg per day will increase the quantity of green leaf by 25%, which translates to 106,634kg (106 tonnes) more of made tea. This will also result in the efficient utilization of the factory resources. The factory utilizes a minimum of thirty people irrespective of quantity of green leaf material delivered for processing.

The common challenges identified in both the literature reviewed and by the respondents are as follows:

- High production costs with labour cost being the main component constituting at least 55% of total costs. The situation in South Africa was made worse following the introduction of minimum wages in the agricultural sector and the growing political bargaining power of the plantation worker unions. This challenge was also experienced in Sri Lanka in which workers were being used for political agendas by the politicians i.e. politicization of labour relations (Wickramasinghe & Cameron, 2003). In recent press reports striking farm workers in the Western Cape are demanding minimum daily wages of R150, an at least 100% increase on current wages ranging from R69 to R75 per day (COSATU, 2012a).
- Low labour productivity and low skills level – this is a major challenge in number of sectors within South Africa as reported in recent press reports about the mining sector (Hazelhurst, 2012). Productivity is one of the major issues to be addressed if the industry wants to become internationally competitive.
- Unfavourable/adverse weather conditions. The area in which Ntingwe Tea is situated is prone to periodic unfavourable weather conditions such as hailstorm and frost.
- Fluctuating international tea prices associated with the demand and supply dynamics – highly volatile and unpredictable prices are detrimental to the health of the sector. Price volatility inhibits investment and destabilizes income and savings (Tanui *et al*., 2012).
- Lack of adequate technical support backed by sound research and development. This could be an area of direct government support until there is sufficient capacity building in respect of private advisory services;
- Low tea yield productivity: Ntingwe Tea's productivity at 722 kilograms per hectare in the 2010/11 season and 1,313 kilograms per hectare in the 2011/12 season is far below Kenya's higher productivity levels at 2,235 kilograms per hectare (kg/ha).
- Failure to adequately identify and exploit new markets;
- Exchange rate fluctuations – currencies of major export destination markets depreciating against the dollar. Weaker currency is good for buyers in the auction markets and on the supply side, according to Tanui *et al*., (2012), rendering the export of tea more affordable in global auction tea markets. South African tea exporters' purchasing power

is diminished when the rand appreciates against the US dollar and vice versa.

The challenges which appear unique to South Africa's tea industry which were highlighted by the respondents are given below:

- Lack of security of tenure and ownership rights of tea estates. There are pending land restitution claims on Ntingwe Tea Estate in KZN, on Magwa in Eastern Cape, Tshivhase and Mukumbani Estate. Majola is the only estate where land restitution process has been completed and the estate's ownership is vested in the hands of the workers. Uncertainty of tenure creates major investment risks and has negative effect on attracting investors or strategic partners in the tea industry. The uncertainty created by land restitution claims has dissuaded tea estate operators from investment in capital projects and has also been a contributory factor toward the abandonment of operations. In the case of Ntingwe, the estate is also subject to antagonistic attitude of villagers surrounding the estate who are very destructive, challenging any expansion of the estate. Vandalism and theft have been very rife in and around Ntingwe. Locals have pulled down fences, grazed their cattle on the fields and stolen wooden poles and some pipe material according to the Estate Manager.
- The removal of tariff protection against tea imports from the SADC region in terms of the SADC Free Trade Agreement has resulted in low quality tea being dumped on the local market, according to respondents.
- Lack of national or estate brands versus the likes of Ceylon, Darjeeling and other geographic branding. According to Van der Wal (2008), tea production in India is concentrated mainly in 3 different areas which distinctly produce three varieties unique to the areas and named according to the production areas.
- Lack of adequate government support in terms of research and development, provision of concessionary funding or grant funding and infrastructure support given that the tea estates are all in rural areas with high levels of unemployment. Governments in other tea producing countries actively support the tea industry as it is a major foreign currency and employment generator.
- Low domestic tea price. Ntingwe Tea Estate, just like other local tea estates, competes mainly with SADC and other African tea producing countries, which enjoy relatively low production costs due to low labour costs. The high quality of its tea is not a significant factor in the price determination process and as a result its tea fetches, on

average, what other tea producing countries are paid. The domestic price is far below the cost of production as demonstrated in the literature review.

4.2.2 Proposed Policy Initiatives

The 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 4.3 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 labour 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 government 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 programmes and promotion of outgrowers were identified by 5% of the respondents identified as key policy initiatives for steering the industry in the direction of success.

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 the levy to be made available to the producers based on a predetermined formula to compensate for the high production costs. Mr Whitehead (Head of Agricultural Economics Unit at the Provincial Department of Agriculture and Environmental Affairs), Mr Matongoti (Marketing Manager of Venteco Foods and Tshivhase Tea Estates in Limpopo), Mr Boldogh (Chief Operating Officer for the Department of Agriculture and Environmental Affairs), Mr Anderson (former estate manager for a tea estate in Limpopo) and Mr Wishart (Managing Director of W.M. Cahn (Pty) Ltd – the biggest tea buying company in South Africa) supported the policy proposal of reintroducing import tariffs. However, 4 respondents feel that this is in conflict with current government trade strategies and therefore suggested the compulsory purchase of SA produced tea by all government departments and agencies and add the procurement of tea to the “Buy SA initiative", according to Coleman, Pringle, Perera and Glover.

Table 4.3. Proposed Policy Initiatives

Policy Initiative	**Agreeing number. of respondents**	**% of respondents 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 organisation driven by industry players	1	5
Creating an exceptional and valuable product	1	5
Promotion of multi cropping programmes (diversification)	1	5
Promote the establishment of outgrowers which will be linked to existing tea estates	1	5

Source: Author coded and compiled from the 20 respondents in this study.

As a government owned entity, Ntingwe has the opportunity to supply product for use by government departments such as hospitals, prisons and various departments. This channel of distribution can also be implemented cost effectively. In any product launch, it is usual to distribute product at an attractively reduced price or for free in order to induce potential customers to switch to purchasing the new product. By introducing Ntingwe tea as the tea of choice in government institutions, employees may be induced to purchase Ntingwe tea for their households as well as becoming word of mouth agents of the product. With this channel of distribution, Ntingwe tea can afford to offer government institutions prices below the current market prices, but which are profitable and sustainable, to keep the tea estate in business. The proposed channel of distribution is in support of Van der Wal's (2008) recommendation of working on the demand side as a more sustainable focus strategy on stimulating tea consumption.

Around 25% of the respondents recommended the need to review the minimum wage determination as at present the agriculture sector is governed by a single minimum wage. The respondents were of the view that the tea sector should be treated as a separate entity with its own minimum wage structure for the reasons of parity amongst other tea producing regions and in particular the SADC region producers. One respondent further suggested that if the minimum wage policy cannot be changed for political reasons, then a suitable relief should be provided. For example, the difference in wage levels between South Africa and SADC countries to be recognized and suitably compensated, since both sources sell their tea into the same market.

According to Perera, as part of the promotion of the buy SA campaign, retail supermarkets should accommodate local teas and provide shelf space, differ listing prices as a gesture of support for employment generation, rural development and social responsibility.

Gass suggested reconsideration of what he called a "misguided pursuit of value adding" and instead to give focus to creating an exceptional product or service that commands an exceptional price at any level of the supply chain. Apart from the increased focus on value added through intensifying brand products and markets, Van der Wal (2008) suggests adoption of a new business model of diversification which might be new products, developing retail market and agro-tourism (nature based tourism) around the tea estates and also growing of other crops alongside tea. Such diversification, in addition to land productivity improvements, also addresses the issue of excess labour. This view of diversification as a new business model was proposed by 5% of the respondents and is also proposed in Magwa Enterprise Tea (Pty) Ltd's funding and sustainability plan (ECDC, 2011).

The main policy initiatives 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 to limit dumping of inferior tea.

Tanzania protected its infant tea industry whose products could not favourably compete with products from Kenya, through imposing a ban on importation of black and packed tea and exportation of green leaf (Bafes, 2004).

- Policy change in minimum wage determination. The success of a wage policy to create employment growth also depends on a combination of other factors such as economic and sectoral policies, trade dynamics and consumer demand (COSATU, 2012b). There is need to give some serious thought on developing an agreed sustainable wage in view of recent violent strikes in the wine, fruit and mining sectors. In South Africa, there is a minimum wage rate for the agricultural sector which is set by the Department of Labour (see Section 2.7.2.2). According to the Confederation of South Africa Trade Unions (COSATU), the agricultural sector is considered to be the most vulnerable sector with widespread poverty. The wage rate in the sector is considered to be well below the minimum living wage level of about R4,000 per month (COSATU, 2012b).
- Compulsory tea purchase/procurement by government institutions of locally produced tea. However, it must be noted that the use of government institutions as a distribution channel will not be without problems as the following challenges should be anticipated:
    - Cost competitiveness. Procurement of foodstuffs such as tea is currently at the discretion of departmental procurement officers who would individually negotiate with suppliers for the best possible price. This may not be competitive with Ntingwe's required price;
    - Anti-competitiveness – procurement agreements between government institutions and Ntingwe could well be deemed as anti-competitive commercial practice and therefore subject to challenge by the private sector via the competition commission;
    - PFMA rules on procurement. Agreements with preferred suppliers without an open process could well infringe procurement rules.
- Reinstatement of compulsory quota purchase by tea importers and packers.
- Government support in development of a national tea brand and policy advocacy for buy South African tea campaign.
- The promotion and support of a black tea commodity association which will champion issues such as a sustainable pricing model, intellectual property restoration, traceability

and origin enhancement, lobbying for political support and agitation for policy changes within SADC, COMESA and NEPAD.

- Support of smallholder sector.
- Diversification. New business model of promoting diversification of crops as embarked on by major tea companies (Van der Wal, 2008). According to Van der Wal (2008), companies have been forced to develop new business models in view of the highly volatile price and fluctuation of international markets. Tea producers in Malawi and Kenya have embarked on growing other crops in order to avoid dependence on fluctuating tea income.

Some of the proposed policy initiatives as suggested by the respondents are also supported by the literature review. The success of the tea industry in Tanzania was attributed mostly to 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.*, 2005). Tea production in Sri Lanka is mainly driven by the small-scale sector which constitutes 61% of total tea production. In India, imports are not allowed for domestic consumption (India-Infoline, 2002 cited in Dharmasena, 2003).

4.2.3 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 4.4 presents the factors which were identified by the respondents.

Table 4.4. Factors resulting in failure or low performance of South Africa's tea industry

Factors	**Agreeing number of respondents**	**% of respondents agreeing**
High labour 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

Source: Author coded and compiled from the 20 respondents in this study.

Table 4.4, 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. Sixty five percent of the respondents identified high labour 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. Thirty percent identified the importation of low quality cheap teas from neighbouring countries and equally the same number identified low worker productivity as factors causing failure or low performance of the tea sector. Twenty five percent of the respondents identified the following factors as key to the contribution of the failure or low performance of the tea sector: high production costs, poor and lack of government support. The least identified factors which were identified by 5% of the respondents 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.

Gass, in his response states that the following factors resulted in failure of the tea industry: poor responsiveness at all levels and poor understanding of international market needs, slow decision making and implementation, misallocation of resources e.g. funds pursuing hopeless business strategies and initiatives to reinvent the wheel and specifically the failure of Ntingwe Tea Estate to take advantage of its strengths such as its near organic status. Another respondent also identified the lack of a strategic plan on what is needed to develop and produce local tea.

Militant trade union activities with calls for unrealistic wage increases were also identified by respondents as one of the leading factors for putting pressure on production costs and causing failure or low performance of the industry. Crotty (2012: 13), in a recent press report states that "there was a sense of entitlement among workers who felt that, because they had been so badly treated over the years, they were now entitled to get large salary increases". There is need to engage with the unions on issues of productivity in relation to wage levels. Low productivity levels were identified in terms of the tea estates failing to achieve production potential and also in terms of poor worker productivity levels. Glover identified the lack of competitiveness due to poor labour productivity and dumping of inferior tea on the local market as some of the factors which have resulted in failure of the tea industry. Low labour productivity was identified by 30% of the respondents stating that though the wages for plantation tea workers are considered to be low, they are still too high relative to the productivity of the workers. Coleman suggested that on an absolute comparative basis, the wages on SA tea estates were much higher than those in Kenya and Sri Lanka that are major tea producing and exporting countries.

Perera states the lack of foresight and primary objectives. He gave an example and paused a question on whether these tea estates are treated as rural development projects and suggested that if it is the case, a clear business plan should be put in place to meet the relevant criteria, and if not then there was a need to identify what strategies are needed in order to remain viable. Coleman believes that in a country such as SA where unemployment is rife, the maintenance of a thriving tea growing industry, which by its nature is labour intensive, would be a priority and government could help the tea industry to be competitive.

Lack of government support was identified by 25% of the respondents. Twenty five percent of the respondents identified the lack of long term strategy by government on how to turn around the industry to profitable levels. One respondent also believed that limited or unsustainable bail-out support by government also resulted in failure of the tea industry. Another respondent 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.

Five percent of the respondents identified the failure to be innovative as a factor leading to low performance. Coleman believes that the tea estates should differentiate their product by branding it and then building a loyal customer base. The above factors as identified by the respondents were also common to some of the major tea producing countries as identified in the literature review. Some of the major problems faced by India's tea industry, as identified in Hazarika (2011), include: oversupply of tea on the world market, high production costs with labour cost accounting for at least 60%, dilapidated infrastructure and low productivity levels both from the labour point of view and the aging tea bushes.

South African tea producing industry wages are considered to be too high relative to the worker productivity level and also when compared to other tea producing countries. Removal of trade barriers opened up the industry to stiff competition from low cost low quality teas from other tea producing countries. Lack of government support in assisting the industry to be competitive relative to other tea producing countries led to the low performance of the industry leading to closure of most of the tea estates. It can therefore be concluded that the following factors were identified as key factors for the failure or low performance of the sector:

- High production costs with regulated labour 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 in South Africa;
- Lack of adequate government support. The tea industry is not considered as a priority sector by government and is not given the support it requires because the government prioritises other commodities which are considered lucrative like the sugar cane industry. The tea industry in Indonesia is also not considered a priority sector. The government prioritises other commodities such as rubber, palm oil and sugar cane (Kustanti and Widiyanti, 2007).

4.2.4 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 4.5 presents the identified themes for making the tea industry more sustainable.

Forty five percent 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. Thirty percent 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. Twenty five percent of the respondents identified the need to focus on specialty or unique teas such as green tea to enhance competiveness. Twenty percent 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. Fifteen percent 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. Five percent of the respondents suggested the formation of a lobby association and the introduction of production incentives.

Table 4.5: Addressing challenges caused by increasing tea imports

Interventions	**Agreeing number of respondents**	**% of respondents 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

Source: Author coded and compiled from the 20 respondents in this study.

Some respondents suggested that the government should impose import quotas and also tariffs on imported teas a way of restricting the quantity of tea imported. The respondents viewed this as a way of enhancing the competitive advantage of local producers. Anderson even suggested the banning of importation of low quality cheap tea and suggested the “reintroduction of price protection or a price subsidy”. Mr Ramabulana, the Chief Executive Officer of National Agricultural Marketing Council (NAMC) suggested the implementation of an infant industry strategy which will allow the industry to get protection from imports. Coleman suggested the imposition of non tariff barriers on tea imports such as enforcing hygiene regulations, requesting country of origin certification similar to barriers imposed on SA exports to European countries.

Gass, on the other hand, argued that “the SA tea industry cannot compete on price and has no position in a global commodity tea industry". The only hope according to him was "to try to develop something unique". The view of developing a unique product was also suggested by Perera, Coleman and Respondent 1. According to them, the unique product could be specialty teas such as green tea, flavoured tea, organic tea etc.

Boldogh and Wishart believe that the quality of locally produced tea is good and suggested the need to improve productivity and increase throughput in the factories and operate lean production systems.

Diversification of production on the estate was suggested by Perera, Respondent 1 and Respondent 3, as a way to augment the financial position of the estate. Government support through procurement of locally produced tea for government departments and its agencies was also raised as a way of making the industry more sustainable.

The reintroduction of tariffs as proposed by respondents is contrary to the principles of free trade of which South Africa is a signatory of the World Trade Organisation and SADC Free Trade Area. However countries such as Tanzania, India and Kenya did introduce some import tariffs which restricted importation of packed tea and protected their local producers. Ideally, local production should be protected by tariffs and a compulsory quota purchase for domestic packers is a good idea. Tariffs are a way of import protection to satisfy specific macroeconomic interests (Schiller, 2009). The DTI Industrial Policy Action Plan 2012/13 to 2014/15 identifies tariffs as a critical instrument of industrial policy with implication on employment, investment, technology and productivity growth. The plan emphasizes the selective use of tariffs under the following circumstances: "potential for the retention and creation of sustainable jobs; potential for significant import substitution and formalizing and strengthening conditionalities related to tariff increases" (DTI, 2012: 36). The tea industry according to the respondents is not sustainable without protection from imports. The argument can therefore be raised for the re-imposition of tariff protection from SADC imports. Given that tea produced from other SADC countries is produced under different wage regimes, there would appear to be a justification for the erection of these barriers. Kenya imposes a 60% import tax as a way to protect local blenders and packers (Agritrade, 2012). In the light of increasing liberalization of South Africa's foreign trade environment, it is unlikely that a packers' quota, as applied in the past, would be reinstated. However, the preferential procurement by government institutions could be a better option.

Special dispensation on the minimum wages for agricultural workers has been identified as an intervention to make the tea industry more sustainable. It can also be argued that the current wage rates for the sector pegged at R69 to R75 per day which equates to monthly minimum wages of R1 503.90 according to COSATU (2012b), are well below what is considered to be a decent minimum living wage which is pegged at about R4 000 per month. Dispensation of the minimum wages, as called for by the industry players, subjects the workers to a standard of living which is impossible for a working family to survive. The industry's arguments, such as the need to meet international competition from ultra cheap labour countries such as Malawi and Tanzania, and the inability of the tea companies to afford a basic minimum wage calls for the need for government to seriously look into the issue and find intervention measures such as a wage subsidy if they are serious in saving the industry from collapse.

Focusing on production of specialty or unique teas has been advocated as a sustainable model. In major tea producing countries such as Sri Lanka, India, Kenya, government took affirmative steps to support the tea industry. The SA government could provide support.

4.2.5 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 4.6 presents the issues requiring further investigation.

Thirty five percent of the respondents believe that government support is a critical factor and would require further investigation. Twenty percent 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 outgrower programme. 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 re-establishment of estates with clonal high yielding teas. Twenty five percent of the respondents did not answer this question.

Table 4.6. Other issues for further investigation

Tea Development and sustainable growth triggers	**Agreeing number of respondents**	**% of respondents 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 Outgrower programme	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

Source: Author coded and compiled from the 20 respondents in this study.

Perera, Matongoti and Coleman emphasized the need for further investigation on the level of government support needed to operate the tea estates viably. Glover, however, strongly believe that the lack of political will at national level to resuscitate the industry needed to be looked into in order to put the agricultural industry as a whole in a better position to create employment opportunities. This view was also supported by Coetzee emphasizing that the tea industry has the highest potential for employment in the agricultural sector and therefore government support was a major factor in ensuring its competitiveness.

Whitehead suggested that the tea estates needed to be developed to their full potential to achieve economies of scale once markets have been secured. The following issues have been identified as important and would require further investigation.

- Government support of the tea industry. In a country such as SA, where unemployment is rife, the maintenance of a thriving tea growing industry, which by its nature is labour intensive, should be a priority. Government could help the tea industry to be competitive.

- Research and development. Developing a research and training centre to produce new clones and seed stock suitable for SA's environmental and climatic conditions.
- Developing a good brand image, including geographical indicators. Need to investigate the issue of branding, marketing and promotion in regional and international markets. There is also need to investigate on creating a positive consumer perception of SA tea brands through an active public private partnership marketing campaign.
- Funding support for the sector to promote growth and investment in the sector. Encourage and facilitate banks to provide easier access to agriculture and export financing, processing facility construction and export insurance coverage.
- Investigate mechanization of certain key aspects of the tea production process as a way to enhance productivity.
- Subsidized outgrowers' development and support.
- Capacity building. Investigation into focused interventions such as producer organisation strengthening, tea quality and productivity enhancement.
- The promotion and support of a tea association in South Africa similar to the sugar association.

4.2.6 Tea Export Challenges

What are the challenges of exporting tea to the rest of the world? Table 4.7 presents the challenges of exporting South Africa's tea to the rest of the world.

Table 4.7. The challenges of exporting tea to the rest of the world

Tea Export Challenges	**Agreeing number of respondents**	**% of respondents 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	2	10
Need for global network and partners	1	5

Source: Author coded and compiled from the 20 respondents in this study.

Thirty five percent of the respondents believe that high cost of production of local tea relative to competing countries posed a great challenge for exports. Twenty five percent identified low grade teas influencing world prices, the exchange rate volatility as well as undifferentiated tea production as challenges affecting SA tea exports. Twenty percent 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.

Wishart is a director of WM Cahn (Pty) Ltd. WM Cahn (Pty) Ltd is a company solely involved in the marketing of tea and coffee into South Africa and worldwide, has extensive agencies in most origins that grow tea and coffee. Wilshart explained that they have plenty of enquiries for tea but are failing to meet demand due to a lack of production as a result of strikes. Mr Tladi, a deputy director agro-processing in the Department of Economic Development and Tourism, suggested that it is better to pursue exports once local market is saturated with local tea. In other words, the respondents were stating the facts that the local tea production levels falls far short of consumption levels and therefore there was a real need to focus firstly on satisfying local demand before seeking for export markets.

Boldogh cites lack of exposure to the international tea markets as a challenge. This view was also supported by Gass, hence suggesting the need to establish a global network and global partners. Some respondents identified exchange rate fluctuations as a challenge facing the tea export industry.

Coleman cited the most serious challenge as the production of generic undifferentiated black tea at a cost which far exceeds that of competing countries. He suggests that "not only has SA to produce a superior quality more cheaply, but it needs to be differentiated through branding and to be sold as a pure tea in its own right". The main identified challenges of exporting tea to the rest of the world were as follows.

- High production cost structure mainly due to high labour wage rates, high electricity cost and other key input costs.
- Exchange rate fluctuations. The strengthening of the rand against major currencies renders the price of local tea uncompetitive relative to other tea producing countries.
- Production of bulk tea which is undifferentiated and fetches low prices does to encourage the growth of exports as it is not sustainable to the tea producers due to its low pricing.
- Lack of production capacity which is linked to other factors like funding support, government support and labour productivity in an environment where consumption far exceeds production.

4.2.7 Import Challenges

What are the challenges posed to the sector due to tea imports from Africa and the rest of the world? Table 4.8 presents the identified challenges posed by tea imports from Africa and the rest of the world.

Table 4.8. Tea import challenges from Africa and the rest of the world.

Tea Import Challenges	**Agreeing number of respondents**	**% of respondents 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	1	5
Consumer brand loyalty	1	5

Source: Author coded and compiled from the 20 respondents in this study.

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. Five percent 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.

Ramabulana stated that the costs of local tea production are too high making SA tea producers uncompetitive. He also mentioned that the quality of black tea coming from countries such as Kenya was inferior from that produced locally. However, the local consumer was said not to be prepared to pay a premium for locally produced black tea.

Respondent 1, however, was of the view that the majority of consumers were not aware of locally produced tea and its quality. Respondent 1 was also supportive of Ramabulana's view on the lack of consumer willingness to buy the premium tea, suggesting that there were not aware of the differences.

Respondent 3 was of the view that the major challenge was the lack of competitiveness of local tea as a result of the seasonality of production and higher cost. Gass suggested that SA is a very price sensitive market and consumer brand loyalty lies with the big national brands like Five Roses not with geographic indicators or "Product of SA' labels.

The key identified challenges threatening the survival of the tea industry due to imports from Africa and the rest of the world were as follows.

- Flooding of imports of low quality teas which are used by blenders and packers. Producers of quality teas do not find the selling prices remunerative as the cheap rubbishy teas dominate the market (Hicks, 2001). Local quality tea cannot compete on pricing with the cheap imported teas. Hicks (2001) suggest the curbing of production or export of poor teas to ensure genuine producers of better quality remain viable.
- Cost of production in South Africa is relatively high compared to other tea producing countries and the situation is worsened by increased wage hike demands.
- To arrest cost increases, some of the estates had resorted to non application of fertilizers which has had a detrimental effect on the quality of tea and yields.
- Uncompetitive pricing of locally produced tea.
- Brand loyalty. Local consumers are loyal to the established dominant brands which are a blend of imported teas e.g. Joko, Lipton, Freshpak, Glen and Five roses and the challenge is to change the mind-set of consumers.

4.2.8 Business Strategies

What strategies should be implemented by Ntingwe Tea in order to become sustainable? Table 4.9 presents the identified business strategies that could be implemented for sustainability.

Table 4.9. Business Strategies that could be implemented

Strategies	**Agreeing number of respondents**	**% of respondents agreeing**
Focus on producing specialty tea	7	35
Maximize field production and labour 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

Source: Author coded and compiled from the 20 respondents in this study.

Around 35% of the respondents suggested a focused strategy on specialty tea and 25% suggested maximization of field production and labour 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. 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 Ntingwe Tea Estate and other SA tea estates in order to become sustainable.

Gass suggested a differentiation focus strategy to be implemented by Ntingwe Tea Estate and give focus on producing very unique and organic teas. Mr Kelsey, managing director of Joekels (Pty) Ltd, a tea blending company, suggested that the way forward for sustainability was to launch their own estate tea brand. However, according to Kelsey, this would require massive amounts of investment and with no guarantees for success. This was also identified by Whitehead, emphasizing on a marketing and branding drive which needs to be undertaken and also suggested that once markets have been secured to then focus on developing Ntingwe Tea Estate to its potential of 600 hectares.

Coetzee, also supported by Kelsey, suggested that if tea estates cannot compete on their own after years of being in business and not being profitable, then they might as well close down and convert to other profitable agricultural activities. Pringle suggested diversifying into essential oils and also to consider introducing mechanical harvesting technology as a strategic initiative to enhance productivity. The view on diversification was also supported by Respondent 3, suggesting mixed cropping with other crops to promote productivity throughout the year.

Glover suggested minimizing bulk black tea production and maximizing production of green tea, developing value adding activities and packing as well as maximizing field production potential and productivity performance as strategic interventions for sustainability.

Ramabulana suggested reduction of production costs by divesting from primary tea production through land reform or leasing land to current workers as a way of reducing labour cost and increasing productivity per each labour unit. This is similar to the model being implemented in Sri Lanka. The increase in outsourcing of green leaf production is now common in Sri Lanka amongst tea processors as production from vertically integrated processors declined in favour of the growth of smallholders and promotion of plantation workers into outgrowers (Health and Weersink, 2003 cited in Van der Wal, 2008).

Coleman also identified SA tea producers as highly inefficient on a unit cost basis and on a unit of labour basis and suggested for some thoughts to be given to improving productivity through mechanization. Wilshart proposed that labour laws should be reviewed.

Business strategy looks at how a company competes within a particular industry or market and for it to prosper it must establish a competitive advantage over its rivals (Grant, 2010).

According to Jain (2011), it is of critical importance that suitable strategies for raising productivity cost effectively and suiting to the prevailing conditions of under or less developed sectors are devised and put in place quickly. In countries such as Sri Lanka, India, China, and most African countries, the governments supported the growth of the small-holder sector which is primarily driven by families with relatively lower production costs compared to the big estatesTwenty six percent of total tea production in India is from small-scale sector and it's even higher at, at least 60% in Sri Lanka and Kenya, the major exporting countries (Gesimba *et al*., 2005). The success story of Kenya is attributed to deliberate government policy which promoted the integration of small-scale growers into the mainstream of tea growing. FAO (2011) also suggests actions to be considered to enhance tea production on the supply side i.e. reducing unit costs through productivity gains, building small growers' capacity, streamlining marketing channels and improving infrastructure. It also suggests effective tailor made marketing as a strategy to stimulate consumption demand. The business strategy interventions identified by respondents maybe summarized as follows.

- Give focus on production of specialty quality tea. This will be differentiated from the traditional black tea and focus on unique premium black tea production which will target a niche market.
- Development of own tea brands which give focus on originality and unique attributes such as chemical free tea, single estate low caffeine and catechin rich tea. In-depth knowledge and understanding of the target market needs is important to the success of such initiatives.
- Drive usage of green tea extract, powdered tea and tailor made products. Gesimba, *et al*., (2005) propose diversification of tea products as a positive development that can give the industry a new face.
- Increasing production capacity and maximizing field production and labour productivity.
- Partnering with established and proven tea producing companies such as Rooibos Limited to produce green tea extract which will be pushed into food industry, correctional services, gift channels and so forth, leveraging the benefits of "Product of SA" label.
- Introduction of cost saving technology.
- Switching to organic farming and obtain organic certification for the estates.
- Recapitalization of the tea estates to improve production efficiency and investment in modern technology and research and testing facilities.
- Development of small-scale sector as outgrowers for the major tea estates just like in other tea growing countries as identified in the literature.

- Explore the potential for agro/ecotourism to tea plantations

4.2.9 SWOT Analysis of SA’s 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 4.10 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 strength for the industry. Other strengths identified by the respondents, with % indicated in brackets representing the number of 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 labour 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 outgrower programmes (15%), leveraging on political value through existing bilateral agreements (10%), creating collaborative marketing arrangements amongst tea estates (5%), and promoting buy local strategy (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%).

Table 4.10. SWOT Analysis of SA's Tea Industry

SWOT	Agreeing number of respondents	% of respondents 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 labour (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 programmes (O)	4	20
Potential to increase volume of production (O)	3	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

Source: Author coded and compiled from the 20 respondents in this study.

Gass highlighted political value in the form of bilateral relations with countries such as Japan as a key strength for the industry and production of catechin rich green tea extract, organic tea and low caffeine green tea as opportunities. This view was also supported by Coleman for tea estates to stop selling undifferentiated black tea. Ramabulana suggested investment in growing the organic black tea brands whilst Glover suggested diversification from bulk black tea production to bulk green tea production and also exporting the green tea and green tea extracts. Pringle also suggested the use of tea to produce poly-phenols and other specialty tea extracts that have high value. Gass was of the view that short term high tea prices were a threat to the tea industry in South Africa as it encourages the reinstatement of failed business strategies and the continued pursuit of unsustainable businesses. By this statement Gass seems to imply that high tea prices encourages businesses to implement strategies which might not be feasible should the tea prices drop. Perpetual subsidies were also identified as a moral hazardous threat.

Whitehead identified the industry as creating two jobs per hectare of established tea and "in the case of Ntingwe could support some 1000 jobs and 7000 people". Ramabulana identified increasing primary production in communal land on a contract growing basis, and implementing the infant industry protection strategy as opportunities available to the industry. The continued increase in black tea imports was seen as a threat.

Wilshart stated about opportunities in the local industry: "Buyers don't want to put all their eggs in one basket i.e. don't want to buy all their tea from Kenya". Perera identified the inability to achieve potential yields, high cost of production and lack of a proper strategy and, commitment and foresight to sustain the industry as weaknesses

Respondent 3 recommended strong collaboration among the tea estates to the point of establishing one marketing company and the establishment of co-owned central infrastructure to support marketing.

Coleman stated that the government could decide that it is not viable to support the tea industry any longer and order estates to be closed and sold. This is a threat to the survival of the industry.

High quality tea produced from the SA tea estates is a major strength which needs to be used to the best advantage. Other strengths identified include:

- favourable climate for tea production;
- availability of abundant labour in the tea growing areas.

Key weaknesses include:

- unskilled labour;
- lack of processing facilities;
- lack of technical support, research and development;
- high cost of production;
- labour force productivity is weak in comparison to competitor tea growing countries;
- poor brand visibility with the end consumer in the SA market;
- price taker in the SA market due to vertical integration limitations;
- insufficient economies of scale.

Opportunities include:

- potential for development of high value brands;
- potential to increase production output;
- potential for rolling out outgrower programmes involving land reform beneficiaries;
- creating collaborative marketing arrangements;
- preferential government tea procurement;
- growing tea demand;
- worldwide trend to healthy beverage products;
- diversification into other enterprises on fallow estate lands;
- growing international market for green tea especially in the UK and USA markets;
- value added packing;
- agro/ecotourism to tea plantations.

Threats include:

- competition from tea imports from low cost producing countries;
- consumer loyalty to existing established brands;
- sustainability of government grants/subsidies to support the sector;
- possible tension over land rights between communities with land claims;
- exchange rate risks;
- poor road network and accessibility to markets;

- withdrawal of shareholder financial support.

4.3 SUMMARY OF SECTION 4.2

This section aimed to present, analyze and interpret the data gathered from the questionnaires. There were nine questions which were presented to the respondents. The main challenges faced by the South African tea industry were examined in section 4.2.1. Table 4.1 presented the challenges as identified by the respondents. The key identified challenges were summarised at the end of section 4.2.1.

The proposed policy initiatives were presented in section 4.2.2. Table 4.3 summarized the initiatives as recommended by the respondents. The last part of this section summarised the main policy initiatives as proposed and also drew similarities with those reviewed in chapter 2. Some of the key policy initiatives recommended to steer the tea industry in the direction of success included the reintroduction of tariffs and non tariffs, preferential procurement policy by government institutions, support of smallholder sector and the promotion and support of a black tea commodity association.

The causes of failure or low performance of the South African tea industry were presented and analysed in section 4.2.3. Table 4.4 presented the factors which were identified by the respondents. The main factors include lack of adequate government support, removal of trade barriers, high production costs and low worker productivity.

The factors which will make the tea industry sustainable in the face of increasing competition were presented in section 4.2.4. The main factors are presented in Table 4.5 and include re-imposition of tariffs, special dispensation on the minimum wages, branding, focusing on specialty tea production and diversification of production on the tea estates.

In terms of sustainable growth and development of tea production, there are a number of initiatives which require further investigation as presented in section 4.2.5 and Table 4.6. Government support of the tea industry, research and development, developing a good brand image, financial support of the industry and subsidized tea outgrower development with a focus on the smallholder sector are some of the initiatives which require further investigation.

The challenges of exporting tea to the rest of the world were presented in section 4.2.6.

Table 4.7 classified the identified challenges. The main challenges identified were the high production cost structure, exchange rate fluctuation, bulk tea production and the lack of production capacity.

There are numerous challenges posed to the tea sector due to imports of cheap teas from Africa and the rest of the world. These have been presented and discussed in section 4.2.7 and also in Table 4.8.

There are some business strategies that have been identified in section 4.2.8 to address some of the challenges impacting on the tea industry in general and specifically Ntingwe Tea Estate. The business strategy interventions were summarised at the end of section 4.2.8.

The strengths, weaknesses, threats and opportunities in the South African tea industry were presented in section 4.2.9 and Table 4.2.9 ranked the identified factors in line with the responses.

The following section presents the analysis of Ntingwe Tea Estate's financial position.

4.3 ANALYSIS OF NTINGWE TEA'S POSITION

This section provides the analysis of Ntingwe Tea's position and focuses on the financial position of the estate. Ntingwe Tea Estate is the only tea estate still producing tea in KZN (see section 2.4.1, 2.8 and 2.9). It was set up in 1993 through the financial support of Ithala Development Corporation and the Department of Agriculture and Environmental Affairs (see section 2.4.2 and 2.9). The R40 million investment in the tea estate was intended to aid Ntingwe Tea Estate in its production and to enable it overtime to achieve profitability. Unfortunately, the tea estate has been making losses and its situation has been exacerbated by the low world tea prices, termination of the quota system, removal of import tariffs and increasing production costs (see section 2.7.5.1).

Ntingwe Tea Estate has potential to employ up to 1 200 at full production (see section 2.7.8). However, due to the problems facing the industry and the depressed tea markets which have impacted on the viability and sustainability of the estate, it has had to reduce its employees to less than 200 (see section 2.7.8 and 2.9). The estate was faced with closure in 2002 (see section 2.9).

It can be seen from the income statement summarised in Table 4.11, that the Estate made losses for the years ending 31 March 2009 and 2010 amounting to R8.1 million and R10.1 million, respectively. Cumulative losses as at the end of March 2010 amounted to R77 million.

Ntingwe has a very weak balance sheet and is technically insolvent. Although this is mitigated by the fact that Ithala subordinated their loan, it is still not attractive to commercial investors. The level of debt far exceeds the total assets as indicated by debt to asset ratio of 3.3. Ntingwe Tea at this high debt to asset ratio is bankrupt. It is operationally inefficient as demonstrated by a negative operational ratio of -484 determined as operational expenses against net sales. The liquidity ratio at 1.1 for the year ended 31 March 2010 indicates the restricted ability of Ntingwe Tea to meet its short term obligations as 46% of the current assets are made of deferred taxation, which is a non cash item. The balance sheet is further weakened by the accumulated loss of R77 million as at the end of 31 March 2010. It is also worrying that debtors amount to R16.9 million which, without a debtors' age analysis, one was not able to determine the recoverability thereof. Long and short term liabilities of R104 million and R5.6 million, respectively, are extremely high for a company with a loss of R10 million in the financial year ended 31 March 2010. The fact that the gross profit is negative means that the company will not breakeven given the current product mix. It is noted that revenues decreased by 15% while operating costs increased by 16% in 2010/11. This might imply worsening efficiency in applying company resources. Table 4.11 presents a summary of the financial statements of the estate as at the end of March 2009 and 2010.

Table 4.11. Summary of Ntingwe Tea Estate Unaudited Financial Statements at 31 March 2009 and 2010.

Income Statement	**2010**	**2009**
Revenue	6,819,927	8,054,938
Gross Profit(Loss)	(213,001)	(670,634)
Operating Expenses	(10,313,760)	(8,867,193)
Loss for the year	(10,083,979)	(8,093,449)
Balance Sheet		
Assets		
Plant, Property and Equipment	14,359,359	16,287,673
Biological Assets	12,529,448	14,106,044
Non Current Assets	26,888,807	30,393,717
Current Assets	6,293,569	12,564,314
Total Assets	**33,182,377**	**42,958,031**
Equity and Liabilities		
Equity		
Share capital	2	2
Accumulated loss	(77,093,013)	(67,009,034)
Total Equity	(77,093,011)	(67,009,032)
Liabilities		
Non Current Liabilities	104,637,139	104,637,139
Current Liabilities	5,638,249	5,329,924
Total Equity and Liabilities	**33,182,377**	**42,958,031**

Source: Author compiled and calculated using data from Ntingwe Tea Estate Financial Statements, 2012.

Ntingwe currently receives revenues of between R14 and R16 per kilogram of tea sold, production cash costs are R27.58 per kilogram. Total production costs are R33.24 per kilogram which gives net losses of between R17 and R19 per kilogram. It is clear that profitability cannot be achieved with continued bulk black tea production and sales at current bulk black tea prices. Young and Murphy (2002: 4) states that “selling predominantly bulk tea under an opportunistic system risks export revenues declining along with global commodity prices forcing growers out of business as farm gate prices drop below the cost of production”. In addition, prices are not likely to increase due to cheaper imports from India, Malawi and other countries in Africa. Although tea consumption is projected to increase by 5% per annum by 2015, Ntingwe does not have any market power or control over multinationals like Unilever and National Brands who have the power to influence prices. The sustainability of the tea estate has been seriously affected by low farm gate prices which are below cost of production. As revealed in the literature review, this puts pressure on the working conditions and livelihoods of workers, tea producers and the surrounding communities.

Five year projections show that Ntingwe will increase its loss year on year, with breakeven revenue of R40 million. This is not sustainable. The business plan shows that changing from bulk black tea to green tea and packed black tea could be sustainable in the long term if the tea estates embark on full green tea production and sells only packed black tea instead of bulk tea and invests in its own packing and processing plant. The estate currently does not have its own packing line; it outsources the packing of the small value added quantity averaging about 3 tonnes per annum out of a total production in the region of 400 tonnes. The balance of its production i.e. 397 tonnes is sold as bulk to tea packers at a loss in the region of R17 to R19 per kilogram.

Projections also show an increase in jobs from 520 in 2011/12 to 652 in 2015/16. This is very positive in light of alignment with the country's new growth path and the KZN Provincial Growth and Development Strategy (DTI, 2012).

4.4 CONCLUSION

This chapter covered the presentation of the responses and analysis and interpretation of the findings. The responses were all carefully analyzed and valuable data was extracted to focus on the objectives of the study. The responses were presented in the form of tables which summarized the common factors and themes identified by the respondents.

The author identified and examined several challenges and business strategies for the South Africa tea industry identified by the respondents and these were linked with the literature review findings. 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. There are challenges which South Africa may be able to address in order to influence the improvement of the situation of the tea industry. South Africa cannot change global prices of tea as these are market determined, but it can: resolve and speed up the land claim issues which have created uncertainty and threaten future plans of the tea producers; resolve violent labour disputes; address the issues to do with minimum wages for the sector and provide the much needed support for the sector.

Chapter five aims to present the research conclusions and recommendations on the challenges faced by the tea industry and suggest the business strategies which will possibly contribute to the sustainability of Ntingwe Tea Estate and other similar tea estates in South Africa.

CHAPTER FIVE
CONCLUSIONS AND RECOMMENDATIONS

5.1 INTRODUCTION

This chapter focuses on conclusions and recommendations to the industry stakeholders and the tea industry in general. The chapter summarizes the key research findings outlined in chapter two and chapter four. The overall conclusions are drawn and the recommendations are presented on the key identified challenges and business strategies which will contribute to the sustainability of the tea industry in South Africa.

The objectives of this study were to:

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

The study objectives have been met through a combination of secondary data collection as presented in the literature review as well as primary data collection through a qualitative research method that used an open-ended questionnaire. The open -ended questionnaire was distributed to key stakeholders endowed with knowledge and experience of the tea industry. The vast knowledge of the respondents has helped in furthering the literature and shaping solutions on developing business strategies which will contribute to the sustainability of the tea industry.

5.2 A SUMMARY OF THE FINDINGS

Tea is an important commodity in terms of job creation as it is labour 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.

Each of the following themes is focused on addressing the related research objectives.

5.2.1 The Challenges of The Tea Industry in South Africa

The literature review painted a clear picture on the global view of challenges in the tea industry which range from rising production costs, excess supply of some teas, market stagnancy and sometimes tea price declines. In recent years, the world demand and supply gap has not been large creating a stagnant tea market position. According to FAO (2009), sometimes the tea supply exceeds demand which then impacts the market position and for this reason the world tea industry is facing competition in quality production. The respondents' views correlated with the literature in the identification of challenges and provided details of challenges specific to SA's tea industry.

High production costs mainly, labour costs. Tea production is a labour intensive industry with labour cost constituting at least 50% of total production costs. In countries like Sri Lanka and India, the most popular way of reducing labour costs is the conversion of workers to independent outgrowers 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 labour 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 estates 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 in tea trade, have a huge impact on the world markets by regulating the supply and demand. Ninety percent 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.

Lack of adequate government support. The tea industry is not considered as a priority sector by the 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. Movements in the US Dollar exchange rate compared to other currencies affect price competitiveness of such commodities. South Africa is a net importer of tea. The strengthening of the rand against the US dollar since 2003 has negatively affected the price competitiveness of SA tea producers.

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. The pending land claim on Ntingwe Estate has created uncertainty and is threatening future plans of the estate.

5.2.2 Challenges faced by Ntingwe Tea

Several of the challenges appear to be common with other tea estates as established from the literature and these were identified as follows:

- poor tea yields;
- lack of supporting infrastructure;
- lack of adequate working capital;
- inadequate production facilities and obsolete equipment;
- uncertainty of the outcome of the land restitution claim;
- low domestic tea price. Ntingwe Tea Estate, just like other local tea estates, competes mainly with SADC and other African tea producing countries, who enjoy relatively low production costs due to low labour costs, the high quality of its tea is not a significant factor in the price determination process and as a result its tea fetches, on average, what other tea producing countries are paid. The domestic price is far below the cost of production as demonstrated in the literature review.

5.2.3 Factors that are Causing Failure or Low Performance by the Local Tea Industry

Respondents identified the key factors as follows:

- high production costs with regulated labour 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.

5.2.4 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*., 2005). 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 the smallholder sector.

5.2.5 Strategies to be considered for implementation by Ntingwe Tea

The strategic interventions identified from the research study were as follows.

- Focused differentiation strategy which will give focus to production of specialty quality tea.
- 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 labour 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 the tea estates to improve production efficiency and investment in modern technology and research and testing facilities.
- Development of small-scale sector as outgrowers 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.

5.3 RECOMMENDATIONS AND BUSINESS STRATEGIES

This study recommends the following:
Ntingwe Tea Estate should 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 maybe counter cyclical in demand.

Ntingwe should also have commercial strategic partners. To attract private investors, the balance sheet needs to be strengthened. This can be done by negotiation with Ithala to convert some or its entire loan to equity.

Government intervenes by showing concern and lending support to the sector 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 the 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 labour 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 re-imposition of state subsidies and consideration could be given to reinstate growers' subsidies to certain prioritized high impact tea estates.

Government should consider the re-imposition of import tariffs. It has been shown that South African tea production is not currently sustainable without protection from imports. The argument can therefore be raised for the re-imposition 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: 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 programmes 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.

Ntingwe Tea Estate and other tea estates should 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.

Ntingwe Tea Estate 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. Ntingwe Tea can be identified as organic teas.

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 position against malpractices in the sector by addressing corporate accountability of the packing and blending companies. Consumer 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 an 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.

5.4 LIMITATIONS OF THIS STUDY AND AREAS FOR FURTHER RESEARCH

The limitations of this study were in the main the sampling methodology used and the sample size. The researcher targeted specific people with knowledge of the industry, but the findings of the study cannot be generalized to the entire tea industry. Due to the geographic location of the respondents and the cost implications thereof, it was not possible for the researcher to conduct personal interviews and therefore resorted to use of electronic mail and telephone follow up calls to prompt responses. The researcher would have preferred to interview some of the respondents at their locations and even visit the other tea estates.

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.

On the one hand, the changing environment, such as the depreciation of the rand against major currencies, recent planned improvements in road infrastructure through the allocation of a R582 million budget for the Nkandla area, calls for the need for further investigations as these present opportunities for Ntingwe Tea Estate. On the other hand, the recent wage negotiations planning to double the minimum wages in the agricultural sector present a potential threat to the sustainability of the sector. Such developments may provide an opportunity for further research.

5.5 CONCLUDING COMMENTS

Although black tea prices are currently at a peak, due to supply and demand conditions that are helping to reduce the operating losses at Ntingwe, the competitive position and long-term viability of Ntingwe 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 Ntingwe, with uncompromised input of technical, management and marketing support, the prospect of Ntingwe 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 labour 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 behaviour by heavily penalizing those that collude.

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APPENDIX 1: SUMMARY AND ANALYSIS OF QUESTIONNAIRE RESPONSES

APPENDIX 1: SUMMARY AND ANALYSIS OF QUESTIONNAIRE RESPONSES

Q1: Challenges

Respondents		PRINGLE	COLEMAN	DLUDLA	RAMABULANA	BABALAWA	RESPONDENT 2	COETZEE	GLOVER	WISHART	MATONGOTI
1	High labour costs/COP	√	√	√	√		√	√	√	√	√
2	land tenure and ownership rights	√									
3	low skills and productivity competency	√	√		√						
4	lack of national/estate brands support	√		√							
5	cheap imports out competing local tea	√			√	√			√		
6	removal of tariff protection	√	√								
7	research and development - for high producing clones	√									
8	barriers to entry - high establishment costs	√									
9	lack of government support	√	√								√
10	World tea prices fluctuations/exchange risk			√				√	√		
11	high competition			√							√
12	low volume production				√					√	
13	small local market for premium tea				√	√					
14	unfavourable weather conditions					√	√				
15	Oligolistic buyers market							√			
16	SADC trade agreements							√	√		√
17	lack of global tea businees experience										
Q2: Policy reform initiatives											
1	relative wage differentials//labour laws	√							√	√	
2	tariff and non tariff protection	√	√			√		√	√	√	√
3	compulsory quota purchase		√						√		
4	compulsory product purchase by gvt	√	√	√							
5	Buy SA campaign		√								
6	product branding - gvt support		√	√	√						
7	government subsidies			√					√		
8	land reform transfer to workers				√						
9	dedicated support to smallholders							√			
10	export incentives							√			√
11	tea industry association-regulatn, stds										√
12	creating an exceptional/valuable product										
13	promote multi cropping										
14	promote outgrowers										
Q3: Failure and low performance factors											
1	low yields/volume	√			√					√	
2	labour costs (regulated wages)	√	√	√			√	√	√	√	
3	high production costs	√	√						√		
4	climatic suitability	√				√					
5	low worker productivity	√	√							√	
6	product differentiation - failure to innovate		√								
7	lack of government support		√	√							

APPENDIX 1: SUMMARY AND ANALYSIS OF QUESTIONNAIRE RESPONSES(CONTINUED)

	Q3: Failure and low performance factors	PRINGLE	COLEMAN	DLUDLA	RAMABULANA	BABALAWA	RESPONDENT 2	COETZEE	GLOVER	WISHART	MATONGOTI
8	disinvestment by big tea players			√							
9	low quality imported teas					√			√		√
11	lack of business strategy				√	√					
12	poor production technologies							√			
13	removal of trade barriers	√	√	√	√			√		√	
14	lack of adequate financing										√
15	poor responsiveness, bizz SL and understanding mkt needs										
16	lack of knowledge on tea and global markets										
17	misallocationof resources										
18	weak industry organisation										
	Q4: sustainability in the face of competition and globalisation										
1	special dispensation on minimum wages	√								√	
2	tariff protection	√		√	√			√	√		
3	gvt to buy local	√	√								
4	specialty teas/unique		√			√					
5	branding		√			√					
6	non tarrif barriers		√						√		
7	diversification					√					
8	consistent quality tea production						√			√	
9	production technology							√		√	
10	address tea packers competitiveness							√			
11	improve productivity							√			
12	Formation of lobby association										√
13	production incentives										
	Q5: tea development and sustainable growth triggers										
1	R&D - develop high yielding clones	√	√								√
2	mechanisation to increase productivity	√									
3	specialty teas		√								
4	branding (stop selling undifferentiated tea		√								
5	government support		√					√	√		√
6	subsidised outgrower programme			√							
7	capacity building			√							
8	funding support						√				
9	injection of foreign technical mgt mktg expertise										
10	sector organization/lobby association										
11	Replanting of estates with clonal teas										
	Q6: Tea Export challenges										
1	low grade teas influencing world pricing	√		√					√		√
2	exchange rate volatility	√		√		√					
3	production lower than consumption	√								√	
4	undifferentiated teas		√	√							
5	high COP		√		√						√

APPENDIX 1: SUMMARY AND ANALYSIS OF QUESTIONNAIRE RESPONSES (CONTINUED)

		PRINGLE	COLEMAN	DLUDLA	RAMABULANA	BABALAWA	RESPONDENT 2	COETZEE	GLOVER	WISHART	MATONGOTI
Q6: Tea Export challenges											
6	competitiveness							√			
7	ethical tea partnership principles								√		
8	need for global network and partners										
Q7: tea imports challenges											
1	landed costs less than COP	√	√	√	√					√	
2	lack of distinction of tea categories			√							
3	cheap imports and inferior quality				√	√	√	√	√	√	√
4	SA mkt price sensitive										
5	consumer brand loyalty										
Q8: strategies											
1	diversification into other enterprises	√									
2	mechanisation of harvesting	√	√								
3	produce specialty tea		√	√					√		
4	competitive product branding		√								
5	recapitalization			√			√				
6	investment in value addition			√					√		
7	divesting from primary production				√				√		
8	cost saving technology							√			
9	maximise field production and labour pdvity								√	√	
Q9: SWOT											
1	divesification of product range (O)	√		√		√			√		
2	development of high value brands (O)		√		√				√		
3	high COP (W)		√		√						
4	unviable to support industry (T)		√								
5	climate and soils (S)			√							
6	unskilled labour (W)			√						√	
7	cheap imports (T)			√	√						
8	high quality tea (S)				√	√		√		√	
9	buy local strategy (O)				√						
10	low production volumes (W)				√					√	
11	lack of processing facilities technology (W)				√			√			
12	Outgrower programmes (O)				√			√			
13	novelty value (S)										
14	political value - bilateral relations (O)										
15	moral hazard of perpetual subsidies(T)										
16	unsustainable business strategy(W)										
17	create estate collaboration on mktg (O)										
18	employment creation (S)										

APPENDIX 1: SUMMARY AND ANALYSIS OF QUESTIONNAIRE RESPONSES (CONTINUED)

Q1: Challenges

Respondents		GASS	KELSEY	RESPONDENT 3	BOLDOGH	RESPONDENT 4	PERERA	RESPONDENT 5	NEIL	ANDERSON	NKOSANA	TOTAL	%
1	High labour costs/COP	√	√	√	√	√	√	√	√	√	√	19	95
2	land tenure and ownership rights						√			√	√	4	20
3	low skills and productivity competency				√		√			√	√	7	35
4	lack of national/estate brands support	√					√					4	20
5	cheap imports cut competing local tea				√		√		√	√	√	9	45
6	removal of tariff protection						√		√		√	5	25
7	research and development - for high producing clones									√		2	10
8	barriers to entry - high establishment costs										√	2	10
9	lack of government support						√				√	5	25
10	World tea prices fluctuations/exchange risk								√	√	√	6	30
11	high competition	√	√					√		√		6	30
12	low volume production		√				√			√		5	25
13	small local market for premium tea	√										3	15
14	unfavourable weather conditions											2	10
15	Oligolistic buyers market											1	5
16	SADC trade agreements		√									4	20
17	lack of global tea businees experience	√	√				√					4	20

Q2: Policy reform initiatives

		GASS	KELSEY	RESPONDENT 3	BOLDOGH	RESPONDENT 4	PERERA	RESPONDENT 5	NEIL	ANDERSON	NKOSANA	TOTAL	%
1	relative wage differentials//labour laws						√			√		5	25
2	tariff and non tariff protection				√		√		√	√	√	12	60
3	compulsory quota purchase						√			√		4	20
4	compulsory product purchase by gvt						√			√	√	6	30
5	Buy SA campaign						√		√		√	4	20
6	product branding - gvt support			√								4	20
7	government subsidies					√						3	15
8	land reform transfer to workers											1	5
9	dedicated support to smallholders							√			√	3	15
10	export incentives										√	3	15
11	tea industry association-regulatn, stds											1	5
12	creating an exceptional/valuable product	√										1	5
13	promote multi cropping			√							√	2	10
14	promote outgrowers							√				1	5
Q3: Failure and low performance factors													0
1	low yields/volume			√			√			√	√	7	35
2	labour costs (regulated wages)			√		√	√	√		√	√	13	65
3	high production costs					√				√		5	25
4	climatic suitability			√								3	15
5	low worker productivity						√		√		√	6	30
6	product differentiation - failure to innovate											1	5
7	lack of government support				√			√		√		5	25

APPENDIX 1: SUMMARY AND ANALYSIS OF QUESTIONNAIRE RESPONSES (CONTINUED)

Q3: Failure and low performance factors		GASS	KELSEY	RESPONDENT 3	BOLDOGH	RESPONDENT 4	PERERA	RESPONDENT 5	NEIL	ANDERSON	NKOSANA	TOTAL	%
8	disinvestment by big tea players											1	5
9	low quality imported teas				√			√		√		6	30
11	lack of business strategy	√					√				√	5	25
12	poor production technologies										√	2	10
13	removal of trade barriers									√	√	8	40
14	lack of adequate financing									√		2	10
15	poor responsiveness, bizz SL and understanding mkt needs	√										1	5
16	lack of knowledge on tea and global markets	√										1	5
17	misallocationof resources	√										1	5
18	weak industry organisation	√			√			√				3	15
Q4: sustainability in the face of competition and globalisation													
1	special dispensation on minimum wages						√			√		4	20
2	tariff protection						√		√	√	√	9	45
3	gvt to buy local						√				√	4	20
4	specialty teas/unique	√					√				√	5	25
5	branding		√	√			√					5	25
6	non tarrif barriers						√		√	√	√	6	30
7	diversification			√			√				√	4	20
8	consistent quality tea production											2	10
9	production technology						√					3	15
10	address tea packers competitiveness	√										2	10
11	improve productivity				√		√	√	√		√	6	30
12	Formation of lobby association											1	5
13	production incentives					√						1	5
Q5: tea development and sustainable growth triggers													
1	R&D - develop high yielding clones									√		4	20
2	mechanisation to increase productivity									√	√	3	15
3	specialty teas											1	5
4	branding (stop selling undifferentiated tea		√									2	10
5	government support						√	√			√	7	35
6	subsidised outgrower programme											2	10
7	capacity building								√			2	10
8	funding support						√	√			√	4	20
9	injection of foreign technical mgt mktg expertise	√									√	2	10
10	sector organization/lobby association				√							1	5
11	Replanting of estates with clonal teas									√		1	5
Q6: Tea Export challenges													
1	low grade teas influencing world pricing					√						5	25
2	exchange rate volatility					√				√		5	25
3	production lower than consumption							√			√	4	20
4	undifferentiated teas			√					√		√	5	25
5	high COP			√			√			√	√	7	35

APPENDIX 1: SUMMARY AND ANALYSIS OF QUESTIONNAIRE RESPONSES

		GASS	KELSEY	RESPONDENT 3	BOLDOGH	RESPONDENT 4	PERERA	RESPONDENT 5	NEIL	ANDERSON	NKOSANA	TOTAL	%
Q6: Tea Export challenges													
6	competitiveness	√		√			√		√	√	√	7	35
7	ethical tea partnership principles	√										2	10
8	need for global network and partners	√										1	5
Q7: tea imports challenges													0
1	landed costs less than COP			√		√	√	√	√	√	√	11	55
2	lack of distinction of tea categories											1	5
3	cheap imports and inferior quality	√			√	√	√	√	√	√	√	15	75
4	SA mkt price sensitive	√									√	2	10
5	consumer brand loyalty	√										1	5
Q8: strategies													
1	diversification into other enterprises			√							√	3	15
2	mechanisation of harvesting					√						3	15
3	produce specialty tea	√		√					√		√	7	35
4	competitive product branding											1	5
5	recapitalization							√				3	15
6	investment in value addition										√	3	15
7	divesting from primary production											2	10
8	cost saving technology											1	5
9	maximise field production and labour pdvity				√				√		√	5	25
Q9: SWOT													
1	diversification of product range (O)	√									√	6	30
2	development of high value brands (O)										√	4	20
3	high COP (W)						√			√	√	5	25
4	unviable to support industry (T)							√				2	10
5	climate and soils (S)							√			√	3	15
6	unskilled labour (W)							√		√	√	5	25
7	cheap imports (T)									√	√	4	20
8	high quality tea (S)		√				√				√	7	35
9	buy local strategy (O)											1	5
10	low production volumes (W)						√				√	4	20
11	lack of processing facilities technology (W)											2	10
12	Outgrower programmes (O)							√			√	4	20
13	novelty value (S)	√					√					2	10
14	political value - bilateral relations (O)	√					√					2	10
15	moral hazard of perpetual subsidies(T)	√										1	5
16	unsustainable business strategy(W)	√						√				2	10
17	create estate collaboration on mktg (O)			√								1	5
18	employment creation (S)								√		√	2	10

APPENDIX 2: GATEKEEPERS LETTER

DEVELOPMENT FINANCE CORPORATION LIMITED

A Licensed Financial Services Provider
FSP No: 17125

A Registered Credit Provider
NCRCP No: 610

P.O. Box 2801, Durban, 4000, South Africa
Web page: www.ithala.co.za
Tel: (031) 907 8911
Fax: (031 907 5350

25 January 2012

Head: Graduate School of Business & Leadership
University of KwaZulu-Natal
Westville Campus
Durban

Attention: Dr Mihalis Chasomeris

Dear Sir,

PERMISSION FOR TAURAI KHUMALO TO CONDUCT RESEARCH AS PART OF MBA QUALIFICATION

We hereby grant Mr T. Khumalo permission to conduct research on Ntingwe Tea Estate as part of his MBA.

We would kindly request that any sensitive information be dealt with in a confidential manner. Sensitive information in this case would include information pertaining to clients and/or suppliers details in which we will have to seek consent. Otherwise we are happy that the research will also assist in our operations. You are most welcome to contact the undersigned to test the sensitivity level of any information that Mr Khumalo includes in the dissertation.

Yours faithfully,

Dr S. Dludla
Board Member of Ntingwe Tea Estate

ITHALA DEVELOPMENT
FINANCE CORPORATION LTD.

Divisional Manager
Agri - Bus.

APPENDIX 3: ETHICAL CLEARANCE

UNIVERSITY OF
KWAZULU-NATAL
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snymanm@ukzn.ac.za

16 May 2012

Mr T Khumalo (210509118)
Graduate School of Business and Leadership

Dear Mr Khumalo

PROTOCOL REFERENCE NUMBER: HSS/0149/012M
PROJECT TITLE: South Africa's Tea Industry Challenges and Business Strategies: A case study of Ntingwe Tea Estate

In response to your application dated 25 April 2012, the Humanities & Social Sciences Research Ethics Committee has considered the abovementioned application and the protocol has been granted **FULL APPROVAL.**

Any alteration/s to the approved research protocol i.e. Questionnaire/Interview Schedule, Informed Consent Form, Title of the Project, Location of the Study, Research Approach and Methods must be reviewed and approved through the amendment /modification prior to its implementation. In case you have further queries, please quote the above reference number.
PLEASE NOTE: Research data should be securely stored in the school/department for a period of 5 years.

I take this opportunity of wishing you everything of the best with your study.

Yours faithfully

....

Professor Steven Collings (Chair)
HUMANITIES & SOCIAL SCIENCES RESEARCH ETHICS COMMITTEE

cc. Dr Mihalis Chasomeris
cc. Wendy Clarke

1910 - 2010
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