



Science Arena Publications
Specialty Journal of Agricultural Sciences

ISSN: 2412-737X

Available online at www.sciarena.com

2018, Vol, 4 (2):1-8

Study on Tea Exporting Situation of Iran (2014-2016)

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Abstract: *Tea is one of the most consuming goods in Iran. Amount of Iranian tea production is less than that of demand. Each year, a large amount of tea is imported to fulfil domestic demand. However, in recent years we have witnessed a flow of tea export from Iran. This paper studies tea exporting situation from Iran in the years 2014-2016, as well as its reasons and consequences. Data were elicited from Iran customs, Ministry of Agriculture Jihad, Statistical Center of Iran, and interview with 30 individuals including 5 marketing agents, 5 tea exporters and 20 tea factory owners. Results suggest that implementation of guaranteed purchase of tea policy and state subsidies for tea production, exchange rate increase, and markets of target countries are incentives to this export.*

Keywords: *Tea, Tea Export, Guaranteed Purchase, Iranian Tea, Tea Production, Subsidies*

INTRODUCTION

Tea cultivation began in Iran since 1901 (Moezi, 2008). Following this, with the support of governments, the amount of cultivated lands increased from 600 hectares in 1930 to 30 thousand hectares in 1971 (Moezi, 2008). The area of cultivation of tea was declared to be about 35,000 hectares in 2002 (Ministry of Agriculture Jihad, 2002), but Statistical Center of Iran declared the area of cultivation of tea in two provinces Gilan and Mazandaran to be 18620 hectares (Census of Iranian Gardens, 2016), which indicates a significant decline in the area of cultivation.

As an entertaining drink and even a food supplement, tea product has maintained its position among various strata of society despite a diversity of beverages and become an integral part of Iran's cultural ceremonies and traditions.

Due to its sensibility and vulnerability, tea leaves cannot be stored, as they should enter the cycle of processing in the shortest time after harvesting, and turn into dried tea. The large number of tea growers and the small size of lands together with the above issues have led governments to always support this product. However, Statistical Center of Iran in 2016 declared the number of tea growers to be about 36 thousand, and the area of tea plantation lands in two provinces Gilan and Mazandaran to be 18620 hectares. Thus, the average area of tea land will be about 5000 square meters. The small size of lands would reduce their economic efficiencies, as government involvement

and the difficulty of managing purchase of this product have always caused tensions in tea-growing areas.

Unlike other products, tea does not have a specific harvest time. For instance, harvesting is carried out throughout a year due to favorable climatic conditions in some countries like Sri Lanka or southern India. In harvest time, usually the part of shoots, i.e. bud and the first to fourth leaves, are picked, which is repeated after each harvest round and in case irrigation and nourishment tea shoots is harvestable every 10 to 15 days. In Iran, tea leaves are harvested during a six-month period starting from April to November, which is called "tea season". The remaining time is spent on improvement and preparation of tea farm for the next year. Conventionally, pruning, fertilizing, plowing and weed control are done among other things. Luckily, given the climate of the northern part of Iran, chemical pesticides are not used in tea farms despite the multiplicity of pests, which can contribute a lot to the production of healthy tea (Hasanpour Asil, 2014).

The tea industry is fundamentally a manpower-needed industry and, in the sense that it plays an important role in creating employment in local communities. At present, over 150 tea factories (145 in Gilan and the rest in Mazandaran) produce made tea from the tea leaves delivered by tea growers. The government also supports the product by enforcing guaranteed purchase policy (Moezi, 2009).

Today there are six types of tea--all from tea plant, but by different practices-- are produced in the world. The amount of tea produced in 2015 was estimated at about 5.2 million tons, of which 75% was black tea, 24% green tea and the rest is other types (Moezi, 2009). The six types of tea include black tea, green tea, yellow tea, white tea, oolong tea and Puer tea (Moezi, 2009). Basically, tea production involves picking fine tea leaves (a bud with leaves from the first to fourth) and performing the steps of tea production. In the production of black tea, these steps involve withering, rolling, oxidizing, ing, grading and packaging. In the production of green tea, the process of oxidation is not performed. Following grading of black tea, types of tea grade (in accordance with size) include leafy (whole leaf), broken, fanning and dust (Moezi, 2009).

From 1979 onward, following the general considerations of the country (Iran) and the pursuit of self-sufficiency policy, tea was supported in the form of a monopoly policy by the government. In this regard, the government on its own initiative tried to purchase farmers' tea leaves at certain prices (in the form of grade 1 and 2)¹. Additionally, by signing a contract with tea factories, farmers' tea leaves turned into made tea; in return, the government paid tea factories remuneration for making tea. Tea imports were also undertaken by the government. Eventually, the government mixed Iranian tea with imported tea and made it available to sellers, and then they undertook to sell the tea at a price set by the government. However, because of the monopoly and non-competitive nature of the policy and the adoption of a quantitative approach (even at the cost of neglecting quality), some problems have come up over time, which led governments to reconsider this policy. In a brief overview, one can see:

From 1983 to 1999, the entire tea chain was monopolized by the government ranging from farm supervision to tea supply in retail segment, and tea factories undertook to turn tea leaves to made tea in exchange for a certain amount of commission. The government was responsible for importing and selling tea in general. During this period, 77 thousand tons of tea produced in the 1990s onwards remained in warehouses and unsold until 1999 (Tayebi Sabet, 2005).

From 2000 to 2004, the government abolished the monopoly of tea policy and allowed the tea factories to purchase tea leaves, produce tea and sell it within the framework of guaranteed price

¹ Tea leaves grades is defined by Iranian Standard organization: tea leaves as grade-one include 60 percent a bud and two leaves and 25 percent a bud and three leaves. Tea leaves as grade-two include 20 percent a bud and two leaves and 50 percent a bud and three leaves

policy (i.e. purchasing raw material by tea factory itself with respect to government's declared price). A third of the total Iranian Melli Bank deposit in was spent on the implementation of this policy in Gilan province, and eventually about 156,000 tons of tea was not sold from the total amount of tea produced (212,000 tons) over these years, and was sent to warehouses in exchange for tea factories' debts to Iranian Melli Bank (Tayebi Sabet, 2005).

The government then reaffirmed guaranteed purchase of tea policy since 2005. Yet this time, besides determining the purchase price of tea leaves, to be shared this amount between the government and managers of tea factories a proportion (major share was taken by the government). About 52,000 tons of tea produced from 2005 to 2009 remained unsold due to this policy and returned to government warehouses (Tayebi Sabet, 2005).

Since 2010 till now, this method has continued with the difference that, between 2010 and 2013, in addition to an increase in the share of tea factories from the price of tea leaves, they were granted a foreign import license with discount in tariff in exchange for purchasing tea leaves from tea growers. During this period, Iranian made tea sold in domestic market or exported.

Finally, the government has pursued a new policy since 2014, reducing the share of tea factories from prices of tea leaves and scrapping the granting of import license for tea. Nevertheless, exports of tea are subject to reconsideration in this period, because Iran's production of tea is primarily supported and subsidized by the government with the aim of increasing domestic production and reducing imports. Therefore, with a look at statistics representing rate of exports more than tea production for a country that itself needs import as it imports tea at an expensive price and exports at a cheap price (tables 5 and 6) and produces domestic tea with subsidies; the necessity and importance of this research is revealed.

Materials and Methods

This research was conducted with the aim of investigating the status of Iran tea exports during 2014-2016. The research data were collected from the Ministry of Agriculture Jihad (Office of Statistics and Information Technology), Statistical Center of Iran (the website of this center as well as agricultural statistics reports) and Islamic Republic of Iran Customs. Similarly, 30 individuals including 5 exporters, 10 tea marketing agents and 15 tea factory owners were interviewed.

The main question of this study was to investigate the status of Iran tea exports and the reasons why the amount of tea exports exceeds domestic production during the study years (2014-2016) and related issues. The time of this research was chosen to be the beginning of the Iranian year 1393 (starting in March 21 of 2014) because of the new policy of the government on tea product.

At the moment, tea production is carried out through government support and subsidy allocation in the form of guaranteed purchase policy. Since 2014, a method was developed in that the government declared the price of tea leaves in the form of two grades (grade one and two). Following this, a contract was concluded with tea factories in order to pursue the process of purchase, in that the purchase price of tea leaves and the quota of tea factories for this amount are set together with the obligations of the parties. Tea growers deliver tea leaves to one of the state contractors and receive remuneration for their products from the government. Tea factories are obliged to pay their dues to the accounts specified by the government. In fact, the government only pays part of its dues for the price of tea leaves (as subsidies). The amount received by tea growers is the sum of the total allowance of the government and tea factories. Yet with respect to price fixing at a guaranteed price for tea growers, tea factories are free to sell their made tea in a competitive environment at any price that market allows. Selling made tea at high prices have no effect on the share of tea factories from guaranteed price. As a matter of fact, the government subsidies are only given to tea factories to

reduce their costs of production so that they can take steps towards tea production and will not be bothered to sell tea as before.

Table 1 shows the price of tea leaves (guaranteed price) in the years under study.

Table 1: price of tea leaves (guaranteed price) (2014-2016)

Price of grade-two tea leaves (rial)	Price of grade-one tea leaves (rial)	
10000	18000	2014
12100	21800	2015
13734	24525	2016

Source: Iranian ministry of Agricultural Jihad--2016

Table (2) shows the price of tea leaves and the quota of tea factories from this amount. This quota represents the amount that tea factories actually pay for buying raw material (tea leaves). As shown in the table, the quota of tea factories in 2014 and 2015 is equal to 33% of the price announced by the government and 38% of the price in 2016.

Table 2: price of tea leaves (guaranteed price) and quota of tea factories

quota of price of grade-two tea leaves(rial)	Price of grade-two tea leaves (rial)	quota of price of grade-one tea leaves (rial)	Price of grade-one tea leaves (rial)	
3300	10000	5940	18000	2014
3993	12100	7194	21800	2015
5218.9	13734	9319.5	24525	2016

Source: Iranian ministry of Agricultural Jihad --2016

Table 3 also shows the amount of green tea leaves and made tea from 2014 to 2016. The conversion factor of tea leaves to made tea is considered to be 22.5% on average (15). That is, from each 4.44 kg of green leaves of tea, one kg of made tea is obtained.

Table 3: Amount of tea leaves and made tea (2013-2016)

Amount of made tea (1000 tons)	Amount of tea leaves (1000 tons)	
20.25	90	2013
14.6	65	2014
19.6	87	2015
31.3	139	2016

Source: Iranian ministry of Agricultural Jihad --2016

In Table 4, amount of purchased tea leaves with respect to grade-one and two is shown in the study period.

Table 4: Amount of purchased grade-one and two green tea leaves

Amount of grade-two tea leaves (ton)	Amount of grade-one tea leaves (ton)	
33908	31142	2014
54429	32299	2015
99169	40059	2016

Source: Iranian ministry of Agricultural Jihad --2016

Table (5) determines the amount of Iran tea export and its value in rial and dollar during the same period.

Table 5: rate of Iran tea exports and its value

Average price per Kg(rial)	Value (million dollars)	Value (billionrials)	Amount of tea exports (ton)	
28250	38	1006	35613	2014

37320	31	919	24625	2015
44090	21	652	14787	2016

Source: IRI Customs—2016

Tea import during the study period is also given in Table (6).

Table 6: Amount of Iran tea imports and its value

Average price per Kg(rial)	Value (million dollars)	Value (billion rials)	Amount of tea imports (ton)	
133475	258	6796	50916	2014
138870	239	7053	51157	2015
144770	261	8169	56428	2016

Source: IRI Customs—2016

However, the issue being studied in this research is the higher rate of export compared to that of domestic tea production during the study period. Table 7 shows the amount of tea export versus the production in the same year.

Table 7: Comparison of rate of production and export of Iranian tea

Amount of tea exports (ton)	Amount of made tea production (ton)	
35613	14600	2014
24625	19600	2015
14787	31300	2016

Source: IRI Customs—2016

Results and Discussion

Table (3) shows that the production of green leaves of tea has increased from 2014 to 2016, i.e. from 65 thousand tons to 139 thousand tons. One of the reasons for this is a reasonable rise in the price of tea leaves (Table 1) and the timely payment of the fee of leaf purchased by the government (in the form of a guaranteed purchase policy). However, the small amount of production in 2014 was due to unprecedented drought in tea areas. According to the interviewees, about 40% of the predicted product for this year sustained a loss and was left out of harvest process.

In 2014, the government also started paying tea growers 'interest-free loans for the first time to carry out garden improvement and rejuvenation of tea plants, which gave them a good incentive to boost production (Iran Tea Organization, 2016).

Nevertheless, by examining the data on the production of made tea and its export in the study years, the question is how Iran tea exports could exceed tea production in the same year (except 2016). The importance of this matter is because Iran is basically a tea importer and consumer country. Alternatively, the market of tea growers' product, i.e. tea leaves that is raw materials for tea production, is exclusive and managed by the government, and it earmarks large amounts of cash as subsidies for the purchase of tea leaves every year. Given that at least part of the domestic tea is sold in the domestic market, the likelihood of total Iranian tea exports is discounted. Moreover, assuming that such a possibility is correct, the amount of export is still higher than that of production (Table 7). Similarly, the assumption that exported tea has been transiting and transported through Iran, the country of origin, to the final destination is also rejected, because imported Iranian tea is worth 4.5 to 5 dollars per kilogram and exported tea hardly costs 1.4 dollar per Kg (Iran Tea Organization, 2016).

Therefore, the only possible explanation is that the exported tea is domestically supplied. In an interview with tea marketing experts, exporters and producers, it turned out that part of the Iranian

exported tea is the same stocked and produced tea before 2014, and part of the other is the low-quality tea produced in the same year, which is why they are not sold domestically. According to interviewed experts, Iran is essentially known as a cheap tea producer for target countries. To check the accuracy of this view, you can check the costs of domestic tea production; we know that from every 100 kilograms of tea 22.5 kg of tea is obtained (Islamic Republic of Iran Customs report, 2016). Thus, in 2014 that the cost (contribution) paid by a tea factory for the purchase of grade 1 and 2 teas was 5940 and 3300 Rials (Table 2) respectively, we would have;

The cost of producing one kilogram of made tea from grade-one tea leaves equals the price of raw material (tea leaf), multiplied by 4.44 + 8000 Rials (processing cost) = 34374 Rials

The cost of producing one kilogram of made tea from grade-two tea leaves will accordingly be 22652 Rials. Meanwhile, the price of Iranian export tea in 2014 was 28250 Rials on average (Table 5).

Therefore, the view of the interviewees confirms that it is not possible to export made tea from grade-one tea leaves to other countries, but it is made tea from grade-two tea leaves that can be exported; in the case (2014), the cost of producing one kilogram made tea from grade-two tea leaves is about 22652 Rials and the average price of exported tea is 28250 Rials. This applies to the following years (Table 8).

However, part of the other Iranian export tea is the same tea produced in the years prior to 2014. The interview with tea marketing agents and tea exporters showed that the tea was sold by Iranian Rural Cooperative Organization at a bid price of 3850 Rials per kilo in 2012. In that case, the distance between the price of Iranian exported tea at this very high price and the profit from their sale was significant. Also, Iranian Rural Cooperative Organization (one of the organizations with a stock of tea in its depots) sold about 10,000 tons of its annual tea at a base price of 2500 Rials in 2013 (16).

Table 8: Comparison of cost of production of 1 kg made tea from grade one and two tea leaves at the price of Iranian export tea

Based on the contribution paid by tea factories

Average price of Iranian export tea per Kg (rial)	Cost of producing made tea (1 kg) from grade-two tea leaves (rial)	Cost of producing made tea (1 kg) from grade-one tea leaves (rial)	
28250	22652	34374	2014
37320	27329	41541	2015
44090	34697	120411	2016

Source: research findings

The research findings show that Iran tea exports decreased in weight and value from 2014 to 2016 (Table 5). One of the reasons for the reduction in the amount of tea exports from 2014 to 2016 can be teas gradually running out of stock (following these exports). Meanwhile, the annual production of tea in Iran is not high and it hardly accounts for 20% of the country's demand. There is, however, no accurate data on the annual production of tea and stored tea in the structure of the country's export tea. According to the interviewees, the decrease in exports 2016 is due to problems like the closure of the border with Turkey--one of the main buyers of Iranian export tea—inconsistency between Iran export tea and buyers' criteria in buyer countries and low prices proposed by tea buyers from Iran. The findings of this research show that the bulk of Iran export tea are sent to Turkey, Tajikistan, Uzbekistan and Turkmenistan.

Table 9: List of major buyers of tea from Iran (numbers per ton)

	2014	2015	2016
Turkey	7966	No info available	4618

Syria	3562	No info available	0
Tajikistan	3228	No info available	2553
Uzbekistan	2551	No info available	2236

Source: research findings

Similarly, concerning the monitoring of respective institutions, particularly as to the health of exporting tea (given that the teas in question were produced 6 to 10 years ago), the interviewees were questioned. Due to the fact that buyer countries were in agreement, it seems that exporting tea cause no problems in this regard. The research findings show that Iran’s tea organizations is issuing a certificate confirming the exported tea is carried out by Iranians, which is a reason for the veracity of the research results as an evidence for the Iranian-made quality of exporting tea. Despite a general decrease in the quantity and value of exports, the research findings show that there has been an increase on the price of one kilogram of Iranian exporting tea during the study period, i.e. from 28250 rials in 2014 to 44100 rials in 2016. This is because of the increase in the price of Iranian exporting tea in dollars and the foreign exchange rate of dollar and rial during this period (Tables 10 and 11).

Table 10: Average price of Iran exporting tea sale (Dollar per kilogram)

Average price of Iran exporting tea	
1.07	2014
1.26	2015
1.42	2016

Source: IRI customs—2016

Table 11: foreign exchange rate (dollar and rial)

	One dollar
2014	26341(Rials)
2015	2951(Rials)
2016	31300(Rials)

Source: IRI customs—2016

Moreover, the study findings indicate that the implementation of the guaranteed tea purchase policy, while increasing production, has boosted the willingness of tea factories to buy grade-two tea leaves for producing tea with aim of exporting (Table 4). As a matter of fact, government subsidies act in the same way as export subsidies. Therefore, if the government removes these subsidies from the flow of tea production, the price of one kilogram of Iranian exporting tea will be much higher than its production cost and will lose its export advantage (Table 12).

Table 12: Comparison of the cost of tea production from grade one and two tea leaves and Iran exporting tea price without regard to the government subsidies

Price of exporting tea per kg (rial)	Cost of tea production from grade-two tea leaves (rial)	Cost of tea production from grade-one tea leaves(rial)	
28250	52400	87920	2014
37320	63324	106392	2015
44090	72499	120411	2016

Source: research findings

Conclusion

This research was conducted with the aim of investigating the status of Iranian tea exports from 2014 to 2016. The results of the research are summarized as follows:

1. Tea production has increased over the study years due to the implementation of a guaranteed purchase policy.
2. The rise in the price of tea leaves by the government has been the main driver of the increase in production.
3. Tea export during the study period exceeded domestic production, but has been declining either in weight or value.
4. The high amount of Iranian tea exports with respect to production each year indicates that tea exports include a portion of stored tea produced in the previous years, that could be exported.
5. The main targets of Iran tea exports are Turkey, Tajikistan and Turkmenistan.
6. The export price of Iran's tea hardly amounts to 1.4 dollars.
7. Iran exporting tea are not of high quality tea.
8. With annual tea experiencing a gradual decline and running out of stock, the status of Iran tea export will be revealed more.
9. Government subsidies are paid to reduce production costs for tea factories, but tea factories use this factor for producing exporting tea.

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