Annex A

TEA MARKET IN TURKEY

ECONOMIC INDICATORS (2017)

Population	:	80.8 Million
GDP Per Capita	:	US$ 26,500
GDP Real Growth	:	5.1%
Annual Tea Imports	:	50 Million Kilos (Official & Un-Official)
Domestic Tea Production	:	240 to 260 Million Kilos
Annual Tea Exports	:	5 to 10 Million Kilos
Domestic Tea Consumption	:	247 Million Kilos

TEA MARKET IN GENERAL

Turkey is the 5th largest tea producer in the world after China, India, Kenya & Sri Lanka. Depending on the vagaries of the weather, Turkey produces a quantity of 220 to 240 Million kilos of made tea per annum. While the state (CAYKUR) manufactures around 55% of the production, the private small holders produce the balance 45%. Most other major black tea producing nation such as India, Kenya & Sri Lanka are located in an equatorial climate where usage of a certain degree of pesticides is inevitable. On the contrary, the tea plantations in Turkey is situated in the North of the country and protected from harmful insects due to the very cold weather. Several months of the year (November to March) the tea bushes are completely covered in snow. As such, CAYKUR proudly boasts that organic tea harvesting in Turkey can be considered as more pure and absolutely clean than any other origin. However, organic tea manufacture in Turkey is still very small but growing with the objective of finding export markets. CAYKUR has opened a new organic tea factory recently. The domestic tea production in Turkey for the past several years is tabulated below:

	2010	2011	2012	2013	2014	2015	2016	2017
Production	231,150	246,100	230,500	235,200	246,500	258,550	253,200	255,404

UNITS: Metric Tons Sources: ITC/Turkish Trade Stats/Euro Monitor

Although the state tea marketing arm CAYKUR participates at international trade exhibitions and fairs with prominent booth space from few years ago and desperately tries to market Turkish teas to the outside world, exports are meagre and never exceed 5 Million kilos for a year. Germany is considered as the major import destination due to the largest Turkish population living outside that of Turkey. The following export figures are recorded for the past decade in Metric Tons:

	2010	2011	2012	2013	2014	2015	2016	2017
Exports	4,000	3,700	4,200	5,000	4,600	5,500	5,750	6,600

Due to the 145% import duty on foreign teas levied as a measure of protection for the domestic tea industry, a substantial quantity is smuggled into the country. The industry experts in Turkey believe that up to 50,000 tons of foreign teas are illegally coming into the country every year. From one hand Turkey has a shortfall of the tea requirement for local consumption through only domestic production and from the other hand; quality of Turkish tea is very poor. The annual tea absorption by Turkey is estimated as high as 280,000 to 290,000 Tons and considered as the 3rd largest tea consuming country in the world after China and India way ahead of Russia, Pakistan and U.K.

The official trade statistics to Turkey reflect only about 5% of the actual imports of tea to the country since the entire balance is coming through informal channels such as cross border trading with Syria, Northern Iraq and Iran as well as the Mersin in-transit trade smuggled back to the mainland. Indeed it is an interesting scenario to analyse the type of informal activities undertaken from the Turkish city of Gaziantep where commodities are smuggled in large quantities and tea is a major item. This over-land trading through common borders is a two-way trade. It implies that Mersin is used as a hub destination to re-export tea informally to Northern Iraq and Iran as well as Syria during a war climate and vice-versa. The Iranian port of Bander Abbas and the Iraqi port of Umm Qasr are both used to be gate-ways for large tea quantities to be transported back to Turkey to avoid the high duties. When teas are sent to Mersin Free Zone it is considered as off-shore and duties/taxes are not applicable. However, it is prohibited to re-export commodities including tea back to Turkey from Mersin which is strictly speaking for in-transit trade only. Nevertheless, the reality is a different scenario where high level of smuggling is involved. As per the Turkish law, tea imports to the country's domestic consumption is mandatory to be destined to Trabzon port and transported over-land another 100 Km to Rize for custom clearance after paying duties and taxes. Let alone the exorbitant duty, the clearance at Rize after extra land haulage itself is a major non-tariff barrier. What has been officially cleared in Rize after reaching Trabzon is recorded in Turkish trade statistics in the following manner:

	2009	2010	2011	2012	2013	2014	2015	2016
IMPORTS (MT)	5,360	8,620	8,065	5,160	5,880	5,500	5,670	7,600

COMPETITOR ACTIVITIES

If the registered exports of tea to Turkey from Producer countries are analysed, the picture is entirely different to the above table. The I.T.C has published such data and it is interesting to compare the two tables to recognize the huge disparity. Such statistics are tabulated below and includes tea shipments destined to Trabzon and Mersin (unless final destination is mentioned in the shipping documents as Iraq or Iran or even Syria):

	2010	2011	2012	2013	2014	2015	2016	2017
Imports	22,200	21,600	27,200	36,000	49,600	37,700	31,425	38,500

After the war broke-out in Syria during 2011, the tea imports by that country, particularly for re-export to neighbouring markets including Turkey dwindled year on year. Then Turkey gradually became an active hub through Mersin to re-export to Syria and other bordering markets. However, since second half 2015, Turkey was compelled to tighten its cross border trade through Mersin in-transit due to a series of reasons such as influx of refugees, weapons smuggling, human trafficking etc. Thus, the imports of tea to Mersin in-transit commenced declining drastically. The table above clearly shows the off-takes increasing after 2011 and then commencing it are descend from 2015. It is predicted that import figure to Turkey in 2016 will also be much lower than 2014.

The point which needs to be highlighted is that Turkey import data for tea to Mersin in particular include a substantial volume being re-exported to Syria, Iran and Iraq. On the contrary, import data for tea currently registered for Iraq and Iran include a significant quantity re-exported unofficially to Turkey across the common borders. Dubai (UAE) is another destination which plays the hub role and re-exports tea to Iran, Turkey, Iraq and many destinations in the C.I.S.

The tea imports to Turkey from all origins as recorded exports during 2013 to 2016 period are tabulated below:

	2013 (MT)	2014 (MT)	2015 (MT)	2016 (MT)
INDIA	186	195	500	350
SRI LANKA	32,202	44,732	33,700	27,100
INDONESIA	645	781	500	300
CHINA	211	314	330	425
JAPAN	300	570	120	-
VIETNAM	794	*800*	*600*	*100*
KENYA	1,468	1,888	1,700	2,900
TANZANIA	-	60	60	150
U.KINGDOM	34	61	40	-
GERMANY	144	222	100	100
TOTAL (MT)	**35,984**	**49,623**	**37,700**	**31,425**

Due to the turmoil in Syria, Iraq and Iran in the past 02 years, Turkey operated as a hub status for re-exports to the neighbouring countries over the porous common borders. As transit cargo, such re-exports are not subject to the high duties and taxes imposed by Turkish Government. 90% of the supplies are exported from Sri Lanka as per the above table. However, during second half 2015, the Mersin in-transit trade came to an abrupt halt as explained at the beginning of this report because Turkey closed the common border with Syria, Iraq and Iran. As a result, export of Ceylon Tea has declined.

COMPETITIVE LANDSCAPE (BRAND SEGMENTATION)

The Government owned Ceykur Company pioneered the tea production in Turkey and had been a monopoly under them until 1984. It has a good distribution net-work and tea planting facilities in the country. In the recent past, Ceykur actively promoted the production and marketing of organic tea in Turkey and aims to expand the organic tea farming areas in the country. Although Ceykur lead tea sales in the country with 100% Turkish domestic product accounting for 45% of retail value share by end of 2013, off-trade share has declined from 54% in 2009. On the contrary, Unilever and Dogus have expanded its market share during the past 05 years with new product innovations and strong marketing activities. The production of Ceykur depends directly on the tea harvest of Turkey per particular year and it is reported that crop is stagnant and even decreasing in recent years. Private companies use both, imported tea and local production which makes them less dependent on domestic tea industry. The company shares in the retail market on value sales for the past 05 years as per Euromonitor International figures are tabled below:

COMPANY SHARES ON RETAIL VALUE (OFF-TRADE) SALES AS A PERCENTAGE

% retail value rsp	2013	2014	2015	2016	2017
Cay Isletmeleri Genel Müdürlügü	51.7	53.4	48.8	49.1	48.7
Unilever San ve Tic Türk AS	20.2	19.5	20.3	20.2	20.1
Dogus Cay	12.6	12.3	13.1	13.2	13.7
Dogadan Gida Urunleri San ve Paz AS	4.4	4.2	4.6	4.7	4.8
Ofcaysan AS	0.9	0.8	0.8	0.7	0.7
Yildiz Holding AS	0.6	0.6	0.6	0.5	0.4
Doga Gida AS	0.3	0.2	0.2	0.2	0.2
Associated British Foods Plc	0.1	0.1	0.1	0.0	0.0
Marmara Gida San AS	-	-	-	-	-
Private Label	7.6	7.4	9.8	9.9	10.0
Others	1.6	1.5	1.8	1.5	1.5
Total	100.0	100.0	100.0	100.0	100.0

In respect of individual brands, Caykur as well as Dogus and Lipton are having major market shares. Other international brands and brands from Sri Lanka are extremely vogue. The Euromonitor International has published the following break-down on brand shares for the past 05 years.

BRAND SHARES ON RETAIL VALUE (OFF TRADE) SALES 2010 TO 2014 AS A PERCENTAGE

% retail value rsp	Company (NBO)	2014	2015	2016	2017
Çaykur Tiryaki	Cay Isletmeleri Genel Müdürlügü	17.8	14.7	17.8	17.8
Rize Turist	Cay Isletmeleri Genel Müdürlügü	14.8	10.5	15.6	16.7
Dogus	Dogus Cay	12.3	13.1	13.2	13.7
Lipton (Unilever Group)	Unilever San ve Tic Türk AS	13.0	13.6	13.7	13.6
Lipton Yellow Label (Unilever Group)	Unilever San ve Tic Türk AS	6.5	6.7	6.5	6.5
Rize Kamelya	Cay Isletmeleri Genel Müdürlügü	6.3	4.5	5.2	5.2
Dogadan	Dogadan Gida Urunleri San ve Paz AS	4.2	4.6	4.7	4.8
Caykur	Cay Isletmeleri Genel Müdürlügü	1.7	2.5	3.2	3.3
Çaykur Filiz	Cay Isletmeleri Genel Müdürlügü	5.6	7.0	2.7	1.9
Rize Cay Cicegi	Cay Isletmeleri Genel Müdürlügü	1.6	1.5	1.4	1.2
Caykur Organik	Cay Isletmeleri Genel Müdürlügü	0.2	0.6	0.9	1.1
Of Cay	Ofcaysan AS	0.8	0.8	0.7	0.7
Obacay	Yildiz Holding AS	0.6	0.5	0.5	0.4
Doga (Yildiz Holding AS)	Doga Gida AS	0.2	0.2	0.2	0.2
Twinings	Associated British Foods Plc	0.1	0.1	0.0	0.0
Tema	Dogadan Gida Urunleri San ve Paz AS	0.0	0.0	0.0	0.0
Rize Burcu cay	Cay Isletmeleri Genel Müdürlügü	-	-	-	-
Deren	Marmara Gida San AS	-	-	-	-
Private label	Private Label	7.4	9.8	9.9	10.0
Others	Others	7.2	9.3	3.8	2.9
Total	Total	100.0	100.0	100.0	100.0

The leafy orthodox OPA and Pekoes from the Low Grown elevation of Sri Lanka continues to be in popular demand among the Turkish people but the retail shelf prices of Ceylon Tea packs are very high as against the local counter-part. Around 90% of all imported tea to Turkey is supplied from Sri Lanka but a major component is re-exported to neighbouring Iran, Iraq and Syria. Further, a fairly sizeable volume of Ceylon tea is smuggled back to Turkey, avoiding the excessive duties and taxes.

CEYLON TEA PERFORMANCE IN PARTICULAR

The export performances of Ceylon tea to Turkey for the past 07 years are tabulated below (Source SLTB):

Year	Bags	Bulk	Packs	Total Qty (Kg)	Value (USD)
2011	369,106	6,497,299	12,306,493	19,172,898	76,811,731
2012	182,373	7,674,204	15,274,525	23,131,102	89,804,123
2013	528,320	11,435,337	20,238,642	32,202,299	140,688,569
2014	542,938	15,550,491	27,980,772	44,074,201	205,228,971
2015	396,094	14,025,192	19,263,285	33,684,571	137,323,038
2016	292,625	17,264,112	9,503,305	27,060,042	99,099,229
2017	270,098	21,229,348	16,309,545	37,808,990	182,695,173

With the escalation of the internal war situation in Syria/Iraq and economic sanctions imposed on Iran, paved the way for Turkey to operate as a major trading hub for re-exports to the neighbouring nations.

That scenario helped Ceylon Tea to ship much larger quantities to Turkey during the past few years. However, the influx of Syrian refugees which went out of control, combined with the smuggling of weapons and military hardware compelled Turkey to tighten Mersin in-transit trade. As a result, the cross border trade from Turkey to the neighbouring countries slowed down. With that phenomenon, the tea exports from Sri Lanka to this destination slowed down since second half 2015. The situation has deteriorated further in 2016 with total off-takes of Turkey from Sri Lanka reduced to 27,060 MR (20% decline).

OBSTACLES / HURDLES FOR TEA IMPORTS

(1) Import Duty of 145% on CIF Value
(2) Minimum Invoice value of US$ 3.00 per kilo.
(3) Consumption Tax (G.S.T) 18% on CIF Value
(4) All imported teas are mandatory to be shipped to the Black Sea Region port of Trabzon where a 40' box freight charges from Colombo is costing around US$ 1,900 to 2,000. In direct contrast Ocean Freight Colombo/Mersin is about US$ 1,200 to 1,250 per 40' container.
(5) All tea containers reaching Trabzon has to be then trucked to the dry port (not a sea port but an in-land destination) of Rize for custom clearance. This is another one and half hours land haulage.
(6) Trucking the de-stuffed tea containers to Istanbul, Ankara, Adana, Gaziantep or Diyarbakir is another massive distance. For ex. the distance from Rize to Istanbul is around 2,200 KM

(7) The Rize Custom Point can pass papers and allow clearance for only about 40 to 50 containers per day maximum with their capacity but at least four to five times that number of tea boxes reach this Custom Gate when a vessel arrives. As a result, containers are piling-up and clearance is delayed. If two vessels reach Trabzon during the same time, the problem gets aggravated.
(8) Until the tea is tested & analysed by the Health Authority the container are not allowed to be de-stuffed at Rize for over-land trucking to the final destination. Invariably, the testing officials take at least 02 weeks to issue their results. Thus, tea containers are always subject to demurrage. Frequently, the additional cost of a tea container due to accumulated demurrage is US$ 1,000 to 2,000 depending on the time taken for issuing the health clearance certificate.
(9) Very regularly, Ceylon Tea consignments are rejected by Turkish authorities for high moisture & humidity. An under the table (bribe), fee of approximately $ 1000 per container is needed for clearance.
(10) Ceykur & Rize Commodity Exchange which governs and is responsible for the development of the Turkish tea industry as well as its sales & promotion supports/advocates all such hurdles for imported teas to reach Turkish territory.
(11) While Turkish local teas always have sweeping advantages for selling & distribution within the domestic market Ceylon Teas has almost a captive market from the imported origins inspite of all these difficulties. (All other origins supply negligible quantities to Turkey). Thus, it is not wrong to say, that Sri Lanka is the most affected by the Tariff and Non-Tariff Barriers imposed by the Turkish Government on imported teas.
(12) The tea bushes in Turkey (Black Sea Region) are very old. Perhaps older than that of even Sri Lanka due to the lack of any re-planting. The yields are therefore very low. As such, cost of production is high. It is believed to be exceeding US$ 4.00 per kilo. The quality is extremely poor. Thus, even the Turkish analysts believe the sustainability of their local tea industry is very bleak; As the President, Minister of Agriculture and several other top Cabinet Ministers/Parliamentarians are from the Black Sea Region & Rize District, safeguarding the Turkish tea industry probably is more of an "ego" issue or "image" issue, rather than a commercially viable proposition.
(13) Consequent to these factors, even Turkish tea is not cheap in the retail shelf but imported tea which is mostly Ceylon Tea is very expensive (Wholesale price is around US$ 8.50 to 9.00 per kilo). It does not imply that Importer or wholesaler is retaining a good profit. Sometimes they are losing or just managing a break-even cost. Ultimate looser or the sufferer is the consumer and end-user, besides Ceylon Tea where Sri Lanka can definitely supply much more volumes to Turkey under a friendlier environment.

(14) A more reasonable tariff & non-tariff structure for imported teas would allow the Turkish customer to enjoy a better quality Ceylon Tea at a much cheaper price. That may of course, threaten the disposal of poor quality Turkish teas to some extent which may be a genuine fear of Ceykur & Rize Commodity Exchange.

VIOLATION OF LION LOGO/CEYLON TEA NAME

Infringing the "Lion Logo" Trade Mark and the violation of "Ceylon Tea" name is rampant in Turkey. The Ceylon teas packed in Turkey frequently carry the "Lion Logo" symbol. Then, Ceylon Teas blended with Turkish teas or other origin teas are passed-off as "Ceylon Tea" surreptitiously. This appears to have reached alarming levels and need urgent rectification. In 2008 & 2011 (08 years & 05 years ago), Sri Lanka Tea Board published several "Cautionary Notices" in the Turkish Newspapers warning Turkish packers to refrain from adhering to this illegal practice and that, they would be taken to task if the "Lion Logo" Franchise is violated. This process of publishing "Cautionary Notices" is to be repeated to remind the Turkish Packers of their unlawful practice. The other option which Tea Board may consider is to whether a trade mark & patent agency in Turkey could be hired to police such infringements/duplications and then, write to the violators a legal communication to stop such practices.

Annex B

TEA MARKET IN IRAN

Iran is one of the largest tea consuming markets in the world. The annual tea consumption of Iran is estimated at around 120 Million Kilos with formal imports, informal trade and local production are all taken into account. With a population close to 80 Million, Iran reflects per capita tea consumption for a person exceeding 1.5 kilos per year which is definitely on the high side. A historic cultural preference for social tea consumption continued to be very popular, despite recent economic hardships. The long sanction regime did not deter a robust retail market for tea in Iran although relative inaccessibility prevailed for many multinational hot tea brands and other Western operators in the supply chain. In spite of many limitations, the conversion from loose tea to packaged tea of higher valued branded options continued unabatedly during 2014/15/16. The Nuclear Accord between Iran and Western powers signed in JAN 2016 had only a marginal impact on reducing major hurdles for trading. The expected investments never really came. The banking system continued to be in a total mess. The blacklisting of the Iranian banks was never lifted. Thus, the retail trade on Fast Moving Consumer Goods did not get an additional boost. Accordingly, the tea business persisted under difficult circumstances.

With difficulties in doing business with outside world increasing dramatically, the informal trade among the Iranians grew substantially during recent years. More teas filtered into the country via the unofficial channels. While UAE (mainly Dubai) was one of the main outlets for the informal tea to come into Iran, cross border trade with Turkey & Northern Iraq were also considered as prominent gate-ways. With the war escalating to unprecedented heights, the route through Syria got closed down from few years ago (any way it did not have a common border). Smaller quantities of tea used to get through from the Kuwaiti side as well. Securing imports of tea formally to satisfy domestic demand has been a crucial part of Iran's global trade strategy during recent years. However, the roots of tea culture in Iran stem from domestic production. The Northern State of Gilan close to the Caspian Sea still accounts for a significant percentage of tea grown domestically in the country but quantities are shrinking. The practical difficulties faced by domestic farmers and the lack of support for local producers by the Government, has encouraged the growth of foreign teas over the past decade. Today, it is estimated that 85% to 90% of the tea consumption is covered by the imported segment.

Despite the economic sanctions, hot tea consumption remained a promising growth sector in Iran, reflecting a resilient demand by its people for the daily cuppa. Sales of tea had re-bounded strongly during the recent years. As per the Euromonitor Research, volume sales had grown by 4.7% in 2015 led by standard black tea. High priced Green Tea has also grown by 18.8% but still that category constitutes just 1% to 3% of the total market. The fruit/herbal tea sector which was never in demand in the past has posted a double-digit growth during 2015. It emphasizes a new trend in tea consumption in Iran. The growing diversity and extraordinary resiliency of Iranian tea demand is definitely encouraging signs for the future.

Sri Lanka has managed to retain the leading position in the Iranian tea market despite the significant restrictions in receiving payments due to the embargo on all Iranian banks. On the contrary, India enjoyed a severe advantage in exporting to Iran under a barter pact. The "food for oil" deal allowed India to supply 40% of the value of oil purchases in terms of commodities & services through a clearing Indian Rupees against Iranian Riyals arrangement. The tightening of economic sanctions seems to have taken a toll in official trading of tea with Iran by all producer countries during 2014/2015. As per the ITC data, the formal tea imports have come down from 80 Million kilos to 65 Million kilos during the period 2013 to 2016, a sizeable decline of 18%. However, as reported earlier in this note, the informal trade which brought-in a substantial quantity of mostly Ceylon tea to Iran from UAE (Dubai) and cross border trading is not accounted in the ITC London Statistics.

A country-wise table on import of tea to Iran from Major supplier origins for the past 06 years are tabulated below (only formal trade)

Country	2011		2012		2013		2014		2015		2016	
	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%	Qty	%
India	12500	19	13200	19	21100	26	17100	28	20200	34	21900	33
Vietnam	0	0	5600	8	3800	5	1100	2	1100	2	1100	2
Sri Lanka	**29400**	**44**	**35000**	**50**	**35200**	**44**	**26700**	**44**	**27460**	**46**	**30800**	**47**
Indonesia	1400	2	1000	1	1000	1	800	1	140	0	300	0
China	10100	15	6200	9	4100	5	2700	4	2500	4	2400	4
Kenya	4900	7	4600	7	9500	12	7600	12	3300	6	4600	7
Persian Gulf States	5600	8	3500	5	4000	5	4000	7	4000	7	3700	6
Other Countries	2600	4	1400	2	1300	2	1100	2	800	1	600	1
Total	**66500**	100	**70500**	100	**80000**	100	**61100**	100	**59500**	100	**65400**	100

(Source: - ITC Bulletin)

During the past decade, Ceylon Tea has maintained a market share between 45% to 50% in Iran despite ups and downs, such as economic sanctions, banking restrictions, payment problems, depreciation of the Iranian Riyal etc. It is noteworthy and needs highlighting as an encouraging performance by the tea trade in Sri Lanka while Iranian consumers have continued to patronize Ceylon Teas. A word of caution is the long payment credit offered by some of the Sri Lanka exporters (even over 180 days) which needs to be gradually curtailed. With the advantage of clearing Indian Rupees against Iranian Riyals for 40% of the oil purchases, India has a distinct advantage of servicing tea and other businesses in Iran at a mutually beneficial exchange rate vis-a-vis competitor origins. India has done well to expand their tea exports to Iran in recent time by taking this advantage to a maximum. With growing sophistication, Iran is clearly moving towards tea bags consumption. The trend is now clear and market share of tea bag segment may be already touching 10%. A decade ago, this retail category was negligible. Hence, the orthodox tea domination is gradually weakening and CTC types are making a notable in-road to the market. This shift is beneficial for African teas led by Kenya and disadvantageous to Sri Lanka in the long run. Just 05 to 06 years ago, Kenya supplied only a quantity less than two million kilos to Iran but in recent times their off-takes have reached ten million kilos (500% increases) though it has dipped during 2015 due to the difficulty in arranging payments. The dominant and captive Ceylon Tea market may lose its grip with a taste change under an already threatening shift from Orthodox Low Grown Leafy teas to the CTC types (Kenya strongly leading this trend) due to the new tea bags demand catching-up slowly but steadily. This fear is real and the industry must evolve a strategy to overcome the threat and avoid a similar predicament which led Ceylon Tea loosing-out badly in UK, then Pakistan & Egypt, then Yemen and more recently, the declining shares in Saudi Arabia and the Russian Federation. In 2016, Kenyan off-takes to Iran are registered at 4,600 Tons. The Indian tea exports to Iran have been recorded at 21,900 MT. In comparison Sri Lanka has supplied 30,800 MT. it implies that all three major players have increased shipments to Iran during the past year.

CEYLON TEA PERFORMANCE

The Ceylon Tea performances to Iran during the past 07 years are given in the table below. Analyzing the off-takes from year to year is somewhat complex unless an advance study is done on the actual ground mechanism on the tea shipments after they reach the Port of Bander Abbas. Believe it or not! What actually happens to some of the Ceylon Teas which are destined to Port of Mersin in Turkey and Port of Bander Abbas in Iran is really an interesting scenario. Due to the exorbitant import duty of 145% and VAT of 20%, very little tea is imported officially to Turkey. Most of what ultimately end-up in Turkey is shipped to Bander Abbas in Iran and smuggled to Turkey. On the other hand, Ceylon Tea shipments destined to Turkey as Mersin in-transit ends up in Iran, Northern Iraq and now even to Syria. A portion of that get smuggled back to turkey as well. It is almost impossible to track the actual volumes of tea being channelled to Turkish territory, Iranian territory, Northern Iraq or Syria through such informal trading modes. Some border cities are thriving with smuggling business of FMCG products. When border controls are suddenly tightened the informal trade slows down to a trickle. Turkey had to impose a wet blanket over the Mersin in-transit trade during 2015/2016 most part due to the influx of Syrian refugees, arms smuggling and Muslim extremist/mercenaries trying to join the ISIL/Daesh on the other side of the boundary. Naturally tea also gets affected by such external moves. Thus, imports of Ceylon Tea by Turkey for re-exports declined during 2015/2016. Similarly, Sri Lanka Customs Statistics to Iran reflect Ceylon Tea off-takes exceeding 38 Million kilos during 2012 and 2013 but shipments recorded during 2011, 2014 and 2015 around 29 to 30 Million kilos per annum. A proportionate increase is shown to Iran in 2016.

Year	Bags	Bulk	Packs	Packs (>3 Kg)	Total qty (Kg)	Value (USD)
2011	118,678	25,263,966	5,556,432	0	30,939,076	154,423,458
2012	48,251	35,743,623	2,333,147	916	38,125,937	175,226,948
2013	84,247	36,492,112	1,840,024	0	38,416,383	188,974,696
2014	35,768	27,238,552	1,985,412	0	29,259,732	156,499,962
2015	31,564	27,146,348	2,386,085	0	29,563,997	129,783,485
2016	117,286	28,314,802	5,165,981	0	33,598,069	152,722,936
2017	17,986	26,007,579	1,013,855	0	27,039,419	157,682,767

(Source: - Sri Lanka Customs)

The closing and opening of common borders as well as relaxing and tightening of trade across such borders play a dominant role on drastically fluctuating the shipment figures to Iran, Turkey, Syria, Iraq etc. As such, data on tea to these Middle Eastern Markets do not reveal the true picture of consumption in a particular individual destination.

The table below reflects the Ceylon Tea share in Iran but again the actual shipment figures to Bandar Abbas Port has been considered as the yard stick and it is not possible to arrive at the re-export volumes to the neighbouring markets and viser-versa (ITC Bulletin):

Year	Tea Imports (MT)	Imports from Sri Lanka	Share (%)
2005	43,000	24,000	56
2006	49,600	26,900	54
2007	56,100	31,900	57
2008	61,600	31,000	50
2009	53,200	27,700	52
2010	55,000	26,300	48
2011	66,500	29,400	44
2012	70,500	35,000	50
2013	80,000	35,200	44
2014	61,100	26,700	44
2015	59,500	27,460	46
2016	65,400	30,800	47

(Source: - ITC Bulletin)

Iran is considered as the most important tea market for Sri Lanka after the Russian Federation. About 15% of all Ceylon Tea exports to the world ultimately end-up for consumption in Iran. This is due to the significant volume of cross-border trade which takes place from Dubai, Turkey, Iraq / Northern Iraq and Syria with Iran. Dubai is a major re-export destination to Iran and it is believed that 65% to 70% of all teas imported to Dubai (including Jebel Ali Free Zone) finally reach Iranian territory. Since tea is the most popular beverage in Iran and is considered as an essential daily consumerable, Sri Lanka needs to protect its market share at any cost.

RETAIL LANDSCAPE & BRANDING

The retail market could be classified into two major components: Bazaar Trade & more up-market (mini-markets/moderate level super-markets) trade. While the bazaar trade is popular in selling 10 kilo master cartons and smuggled tea brands, the super-markets and Govt. owned co-operatives and distribution centres sell mostly smaller consumer packs (locally packaged) as well as directly imported teas. More than 80% of retail sales are dominated by 500 gms/one kilo packets and 10 kilo master cartons but tea bags share is growing rapidly during past few years and now estimated to be exceeding 10%.

Despite rigid economic sanctions, the consumer conversion from un-packaged tea to packaged continued unabatedly during 2014/15/16 period. A natural consequence of this process will be the creation and reinforcing of brands in the retail segment. As a result, several local brands and a few multinational tea brands have begun to consolidate the Iranian consumer market for packaged tea even before the sanctions are lifted. The domestically owned "Golestan" brand is a clear market leader. In terms of retail value, Ahmad Tea is the second largest player. The Akbar owned "Do-Ghazal" was a prominent player and the strongest from Sri Lanka followed by "Al Otur" brand of Anverally Sons. The domestic brand "Debsh" which has a state-of-the art packaging plant in Iran is another major player in the tea market. Lipton from Unilever has been available to the Iranian consumers for many years. The local leader Golestan Co introduced the Associated British Foods owned "Twinings" brand to Iran some years ago under a joint venture partnership. The packaging & distribution of "Twinings" brand is handled by Golestan Co and has emerged as a major tea brand in terms of retail value.

The major tea brands in Iran (except for Do-Ghazal) are owned by local Iranians or multi-national companies which is a matter of concern. The two strongest Sri Lanka brands are Do-Ghazal and Al-Otur.

The following table depicts the major tea brands in Iran with estimated market shares for the year 2014 & 2015.

TEA BRAND SHARES BY RETAIL VALUE %			
Brand Name	**Company**	**2014**	**2015**
Golestan	Golestan Co	27.9	28.6
Ahmad Tea	Maham Qeshm Trading Co	16.3	15.2
Twinings	Golestan Co	11.5	11.2
Lipton	Unilever Iran Co	8.3	8.6
Mahmood Tea	Farsi Trading Co	8.2	8.5
Zareen	Zareen Group	6.3	5.6
Do ghazal (Akbar Bros Ltd)	Donyaye Doghazal Co	5.1	4.7
Refah	Refah Teaman Co	0.8	0.9
Alokozay	Alokozay International Ltd	-	-
Others	Others	15.4	16.6
Total	Total	100.0	100.0

(Source: Euro-monitor)

Annex C

TEA MARKET IN SAUDI ARABIA

As the largest tea market and the richest in the Gulf Cooperation Council, Saudi Arabia is an important outlet for Ceylon Tea. While the population is estimated to have exceeded 30 Million, 25% of it consist of foreign expatriates (approx: 7.5 Million) dominated by the Indians and then followed by Pakistanis, The tea consumption has been growing year on year. The tea imports which were around 30 Million kilos, just five years ago, have increased more than 25% to reach 37 Million kilos by end of 2015. Since the re-exports are usually small (about 1,000 to 1,500 MT annually), the domestic consumption has grown quite significantly, The religious factor, the social characteristics and the huge obesity problem (WHO latest report says 69% of the Saudi population is over-weight) is strongly attributing to the enhancement of drinking tea in the Kingdom.

The tea import statistics by Saudi Arabia for 2013, 2014 and 2015 are given below on a country-wise basis for packets, tea bags and bulk in respect of Black Tea and Green Tea as per the Statistical Department of Kingdom of Saudi Arabia:

		VOLUME (MT)	**VALUE (SR 000)**	**VOLUME (MT)**	**VALUE (SR 000)**	**VOLUME (MT)**	**VALUE (SR 000)**
	GREEN TEA						
		2013		**2014**		**2015**	
	COUNTRY						
	India	270	3,438	420	8,352	490	8805
	Sri Lanka	50	1,034	46	1,665	111	2889
	Vietnam	345	2,769	316	2,911	331	3184
	China	948	16,774	1,004	18,687	1167	27030
	Others	353	8,816	168	6,088	201	7203
	Sub Total	**1,966**	**32,831**	**1,954**	**37,703**	**2300**	**49111**

BLACK TEA - (IN BULK)

	COUNTRY	**VOLUME (MT)**	**VALUE (SR 000)**	**VOLUME (MT)**	**VALUE (SR 000)**	**VOLUME (MT)**	**VALUE (SR 000)**
	UAE	690	15,350	1,197	24,225	457	11199
	Bangladesh	105	1,392	114	1,521	71	1044
	India	1,185	15,972	1,779	24,274	1385	17731
	Sri Lanka	2,750	42,375	3,356	57,791	3486	56913
	Vietnam	2,040	18,997	1,959	18,468	1832	17291
	China	134	1,547	292	7,303	293	11484
	Indonesia			57	1,556	67	1001
	Rwanda	208	2,616	194	1,582	135	1506
	Kenya	1,937	21,427	2,360	22,889	2066	22940
	Malawi	610	5,010	418	2,841	789	4910
	U.S.A	39	1,069	34	1,315	26	1104
	Poland	87	4,685	43	3,753	0	0
	Others	519	6,685	719	10,509	466	5480
	Sub Total	**10,304**	**137,125**	**12,522**	**178,027**	**11,073**	**152,603**

BLACK TEA (IN PACKETS)							
	Yemen	1,470	34,995	2,494	62,385	1169	28801
	UAE	414	9,867	236	5,327	164	3797
	Pakistan	101	1,870	121	2,200	184	3648
	India	1,330	16,772	1,292	17,024	1670	20794
	Sri Lanka	932	16,249	1,313	21,361	1323	23290
	Kenya	424	6,509	921	15,942	1554	31763
	Others	230	2,959	146	2,237	408	12830
	Sub Total	**4,901**	**89,221**	**6,523**	**126,476**	**6,472**	**124,923**
BLACK TEA (IN TEA BAGS)							
	Yemen	349	12,193	376	13,149	172	6229
	Oman	293	7,025	257	8,394	243	8703
	UAE	14,568	549,300	14,372	545,101	14541	569604
	India	343	8,228	149	2,434	146	2846
	Sri Lanka	607	14,027	892	19,161	900	18164
	Kenya	1,384	20,487	513	5,386	741	16786
	Others	177	5,098	219	4,028	515	13944
	Sub Total	**17,721**	**616,358**	**16,778**	**597,653**	**17,258**	**636,276**
	Grand Total	**34,892**	**875,535**	**37,777**	**939,859**	**37,103**	**962,913**

SALIENT MARKET TRENDS

Over-weight and obesity has become a serious problem in Saudi society from recent times. Thus, health awareness among general public is increasing rapidly. Even the Saudi Government has introduced publicity programs to encourage consumers to improve eating habits and increase health consciousness. The latest information technology, internet and modern applications on the mobile etc are also highlighting food broadcasts and events related to a healthy living. The bottom-line, is all such developments are supporting the increase of tea consumption within the Kingdom. As a result, the tea consumption in Saudi Arabia has increased by more than 25% during the past 05 years only.

However, a deeper analysis into the tea market reveals, the widely documented health benefits on Green Tea (comparatively lesser literature exists on Black Tea) is giving that category a distinct edge and estimated to grow annually at a rate of 6% to 7% in volume terms as well as 13% in value terms on an average for the next 05 years commencing 2015. In direct contrast, the black Tea growth is estimated on an annual average for the next 05 years at 5 to 5.5% in volume terms and 10 to 11% in value terms. The fastest, growing segment has been the slimming teas. It has grown at a rate of 16% in respect of value during the past year. The fruit and herbal teas which was non-traditional to Saudi citizens some years ago are now growing rapidly as well. It is estimated to grow at an average annual rate of 8 to 9% in volume terms and 11 to 12% in value terms upto end of 2018 as per Euro Monitor International reporting.

It is estimated, that the tea bags category of the retail market is now more than 50% or at least touching 55% when the standard bags, specialty bags fruit/herbal bags and Green Tea segment are all taken into account. The tea bag sector is projected to grow at an annual average rate of 5 to 6% in quantity terms and 10 to 12% in value terms until 2018. The multi-national Anglo-Dutch Unilver Group Marketing “Lipton Yellow Label” is the clear brand leader at the consumer level with a strong market-share of 40%. The Saudi owned Baeshen & Company which markets its flagship brand “Rabea” as well as “Abu Jabal”, “Lord” and “Red Cup” combinedly controls 35% of the retail market out of which Rabea brand along is 32% share. The Associate British Foods Co Owner of “Twinings” brand from U.K is also growing slowly but steadily with a current market share of 6%. Only two brands from Sri Lanka is even listed under the competitive branding landscape namely “Al-Wazah (Swan)” from James Finlay (Ceylon) Ltd with a 3% share and Dilmah from MJF Group with a 1.5% share.

A summary of the cumulative tea statistics to Saudi Arabia by the major exporting and re-exporting nations are analysed below:

TEA IMPORTS TO SAUDI ARABIA – PERIOD 2011 TO 2015

COUNTRY	2011	2012	2013	2014	2015
Sri Lanka	5,710	5,369	4,339	5,607	5,828
Kenya	2,313	2,199	3,745	3,794	4,361
India	3,454	3,250	3,128	3,640	3,691
Vietnam	2,875	2,472	2,385	2,275	2,163
Yemen	1,852	1,966	1,819	2,870	1,341
UAE	13,574	14,667	15,672	15,805	15,162
Others	3,968	3,009	3,902	3,786	4,557
Total MT	**33,746**	**32,932**	**34,990**	**37,777**	**37,103**

The above statistical table reveals, that re-exports from UAE is the major supplier of tea to Saudi Arabia and the volumes are growing year on year. The share of re-exports from Dubai has exceeded 40%. The Lipton Yellow Label brand, the market leader in the Kingdom is packed at the Unilever tea plant in Jebel Ali Free Zone in Dubai (UAE) and shipped to Saudi Arabia. With also a market share of almost 40%, Lipton Yellow Label brand is the dominant leader in the retail segment. The tea bag category continues to grow and is estimated to be between 50% to 55% of the retail segment. The Unilever supplies from Dubai consist of a multi-origin blend but predominantly it is of Kenyan origin while India is the main back-up source.

It was a sad stories how Ceylon Tea lost its dominance in Saudi Arabia during the past two to two and a half decades. During the 1990s’ when “Rabea” brand from the Saudi local company Baeshan & Co controlled the tea market, Ceylon Tea share was as high as 80%. At that era “Rabea” brand was a 100% pure Ceylon Tea pre-packed in Sri Lanka. The Sri Lanka Tea Board extended even brand promotional funding for “Rabea” during the 1980s’. The commencement of the down-fall was by the end of 1980s’ when “Rabea” brand shifted the packaging, blending and cleaning process to their own plant in Jeddah. Although they imported and packed 100% pure Ceylon Tea at the Jeddah plant during the initial phase, “Rabea” started multi-origin blending with African, Indian and Vietnam teas to compromise on the price at a later stage. This shift was the beginning of the down-fall of Ceylon Tea dominance in Saudi Arabia. Today analysts say, the blend component of Ceylon Tea in the “Rabea” brand may be even less than 25%?

Unilever with “Lipton” brand and Baeshan & Co with “Rabea”, “Abu-Jabel”, “Lord” and “Tea Cup” brands are covering 40% and 35% of the retail market respectively (a dis-proportionate total share of 75%). The Associated British Foods Company with “Twinings” brand also has another 5%. Since Lipton blends are predominantly African origin spear-headed by Kenya and re-exports from Yemen are also mostly Kenyan origin, the actual volume from that East African tea producer to Saudi Arabia is much more than what is shown in the above table as direct exports. Even the actual Indian volumes are more than what is depicted due to Lipton blends also consisting of a certain quantity of India CTC teas.

A retail tea market survey divulged that, finding pure Ceylon Tea packs in Saudi was not that easy. Most of the popular brands available on the retail shelf were multi-origin. Then it was pure Kenyan or pure Indian. The availability of pure Ceylon came further down despite every super market/hypermarket or departmental store displaying a large area of shelf space with tea products. That was not a good sign for teas from Sri Lanka. It was clearly evident that, Green Tea category was picking-up and also reflected a high pricing on the consumer market.

CEYLON TEA PERFORMANCE

As per the SLTB data, the Sri Lanka tea exports to Saudi Arabia for the past several years are given below:

Year	Bags	Bulk	Packs	Packs (>3 Kg)	Total qty (Kg)
2011	678,632	2,444,186	1,548,168	0	4,670,986
2012	789,772	2,323,612	1,367,257	727	4,481,368
2013	577,003	1,862,176	1,080,798	0	3,519,977
2014	699,559	2,289,849	1,700,888	0	4,690,296
2015	885,521	1,763,651	1,707,306	0	4,356,478
2016	791,346	1,719,110	1,478,220	0	3,988,676
2017	725,222	1,478,980	1,924,551	0	4,128,753

The above table reveals, that tea performance from Sri Lanka to Saudi Arabia has been hovering around an off-take volume just under five (05) Million kilos per annum during recent times. Although nothing worthwhile can come-out over spilled milk, it is difficult to forget that Ceylon Tea exports to this Kingdom had been recorded at around 12 to 13 million kilos for a year in the early 1990s' when the total imports to the country was registered just over 20 Million kilos. Today, Saudi Arabia imports almost 38 Million kilos (only about one to 1.5 Million Kilos is re-exported from Saudi) but Sri Lanka is unable to ship even 5 Million kilos to that nation, the richest in the GCC with high purchasing power by end consumers.

The gradual move towards consumption of tea bags (probably now as high as 55% in the retail market share) did not support the supply of traditional Low Grown big leaf from Sri Lanka. The situation aggravated when Baeshan & Co-owners of Rabea brand, a loyal supporter of pure Ceylon Tea, 25 to 30 years ago, moved the packaging to Jeddah Free Zone as the first stage and then, went in for multi-origin blending in a big way during the second phase of their operation. Today, multi origin blends under Lipton and Rabea brands are dominating the Saudi tea market which augurs well for CTC teas from Africa (particularly Kenya) and India with the potential growth trend concentrated on the tea bag segment. Nevertheless, Saudi has imported a substantial quantity of tea bags from Sri Lanka during 2015 and that trend needs to be harnessed to the maximum.

CONCLUSIONS/RECOMMENDATIONS

- As the richest, populous and the largest tea market in the G.C.C, Sri Lanka can ill-afford to forget Saudi Arabia. Although it is incorrect to categorize the Kingdom as a lost market, certainly it's a declining market for Ceylon Tea. The stagnant off-take volume of 4.5 to 5.0 million kilos per annum of Ceylon Tea will not be a sign for complacency since the tea consumption as a whole is growing year on year. Thus it implies, that market share of Sri Lanka is continuing to decline. Although supermarkets and hyper markets are full of a variety of tea brands, finding a pure Ceylon Tea pack (let alone a Lion Logo pack) is not that easy.

- The traditional strong holds of Ceylon Tea during the by-gone era such as UK, Egypt, Pakistan, and Yemen are now dominated by African teas, particularly from Kenya, Sri Lanka never regained these markets. Russia, Saudi Arabia, UAE (domestic market) are some of the declining markets at the expense of Kenya. This is a dangerous trend which needs to be recognized and addressed. What remedial action could be proposed for Saudi? The retail market has two dominant players, namely Lipton and Rabea controlling almost 75% share with multi origin blends. It is not known, whether the Saudi consumers are happy and satisfied with such teas or purchasing for brand loyalty. Taste is not a permanent phenomenon but it can change over a period of time which has happened already in many tea markets.

- Thus, it is strongly suggested to initiate a consumer census (qualitative rather than quantitative) to find out the actual reasons for the declining market share of Ceylon Tea and whether the end user, wishes to revert to purchasing genuine pure Ceylon Tea which appears vogue in the market place. This is mandatory to adopt a "push & pull" theory.

- ❖ Although Lipton is multinational, Rabea is 100% Saudi owned. They do have strong roots and bonds to Sri Lanka. As such, there is no harm in looking at the possibilities of a partnership for a win-win situation. Such a proposal is against our cardinal principal of only supporting Sri Lanka owned brands but one remedy would never answer for all the problems.

- ❖ On the other hand, the only pure Ceylon Tea brand with Lion Logo which is having a presence in Saudi as at present, namely Al Wazah (Swan Brand) with about 3% market share needs to be given the full backing with strong brand promotional support,. Still it is not sure to what extent; the Swan Brand could penetrate the Saudi market but certainly worth a try!