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Tea exports may decline on high prices

Shobha Roy Updated on July 16, 2021

Unresolved payment crisis with Iran, container freight prices affect exports

High prices of Indian CTC (crushed, tear and curl) tea and the unresolved payment crisis with Iran are likely to weigh heavily on tea exports this year. While it is still early to predict the exact impact, industry fears that if the issues are not resolved quickly then exports could either be flat or marginally lower compared with 2020.

According to Anshuman Kanoria, Chairman, Indian Tea Exporters' Association (ITEA), CTC prices in India has been ruling high and container freight prices have also gone up sharply. This is likely to impact exports.

Need to ease prices

CTC accounts for nearly 60 per cent of the country's total tea exports at around 150 million kg (mkg). So any impact in demand for CTC affects overall exports. The lower price of Kenyan tea might offer stiff competition to Indian CTC exports in some markets, which are price sensitive.

"In 2020 there was a steep rise in CTC prices. However, that is settling down now. But unless prices ease further things look difficult. In fact, if solution to some of the problems including freight, cost and Iran payment issue is not found, then even achieving

2020 levels (in terms of exports) looks difficult," Kanoria said. There has been a steep rise in cost of container freight and even at such prices availability has been poor.

Impact of higher prices

Exports of tea dropped by 17 per cent during April 2020-January 2021 to 172.46 mkgcompared with 207.99 mkg the same period a year ago. Last fiscal, drop in exports was due to lower production, primarily orthodox variety, due to the lockdown and higher prices of Indian CTC tea.

Iran payment crisis

Iran, which is one of the major markets for Indian orthodox tea, accounts for nearly 21 per cent of the country's total exports of tea.

Orthodox tea accounts for less than 10 per cent of the country's annual tea production, which is close to 1300 mkg. However, nearly 90 per cent of the 110 mkg of orthodox produced each year is exported. Exports to Iran have been impacted due to payment related issues.

Ever since the US imposed sanctions on Iran, India could not engage in dollar-denominated trade with the country. Hence, a rupee-rial trade mechanism was put in place in 2018. Under this, oil refineries from India would deposit Indian rupees in the two designated banks – UCO Bank and IDBI Bank – for import of crude oil from Iran; the fund was used to clear dues of exporters from the country to Iran.

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