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**ACG Russian Tea Market Research Report**  
*December 2008*

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**Introduction**

Tea is the oldest and the most widely consumed beverage in the world after water. It is estimated that there are over 2,000 different types of tea.<sup>1</sup> Though several varieties of tea such as green tea and herbal tea are now becoming popular, by far the most important tea to international trade is black tea. In the global tea market, China, India, Kenya, and Sri Lanka are the major producers and also play a major role as exporters of tea, while Russia, U.K., U.S., Pakistan, and Japan form the major markets for these exports. Consumer awareness of the health benefits of tea and premiumisation<sup>2</sup> have been the growth drivers of the tea market recently.

**Global Tea Market Summary**

World tea production rose by more than 3%, reaching an estimated 3.6 million tons in 2006.<sup>3</sup> Record levels of tea production in China, India, and Vietnam in 2006 offset declines in major tea producing countries.<sup>4</sup> The global market size for tea in 2007 in terms of retail value was \$23.323 billion and in terms of retail volume was 1,765 million kilograms.<sup>5</sup> The year-on-year growth rate of the global tea market for the period 2006-07 in terms of retail value was 4.5% and in terms of retail volume was 3.5%.<sup>6</sup> The average global per capita consumption of tea in 2007 was 0.3 kg.<sup>7</sup> Driven by double digit growth in sales of black specialty tea bags, green tea and other types, the global tea market is expected to grow by almost 10% in value and over 13% in volume between 2005 and 2010.<sup>8</sup>

Global Tea Production: In 2007, China was the largest producer of tea followed by India, Kenya, and Sri Lanka. Graph 1 on the next page shows the production volume of the world's major tea producers.

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1 Arndorfer, Travis, and Kristine Hansen. "The complete idiot's guide to coffee and Tea," page 198. New York: Penguin Group, 2006.

2 A growing trend towards premium and specialty brands

3 "Tea prices to maintain upward trend in 2008," Commodities Now. February 14th, 2008. Available online at:  
<http://www.commodities-now.com/content/market-news/market-news-20080214133555.php?PHPSESSID=34967b>

4 Ibid

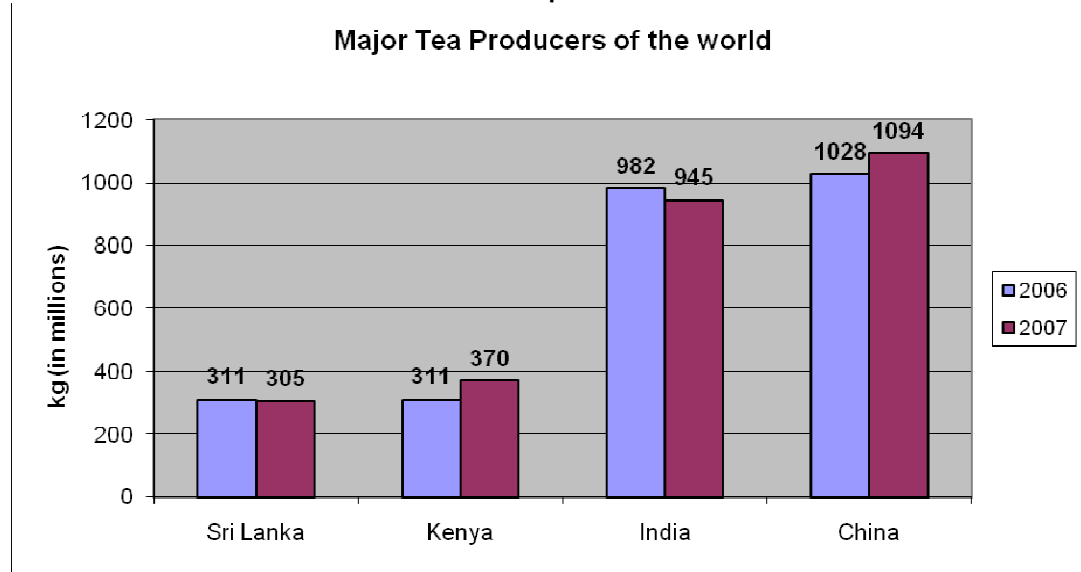
5 "Global Market Information," 2008 Euromonitor International.

6 Ibid

7 Ibid

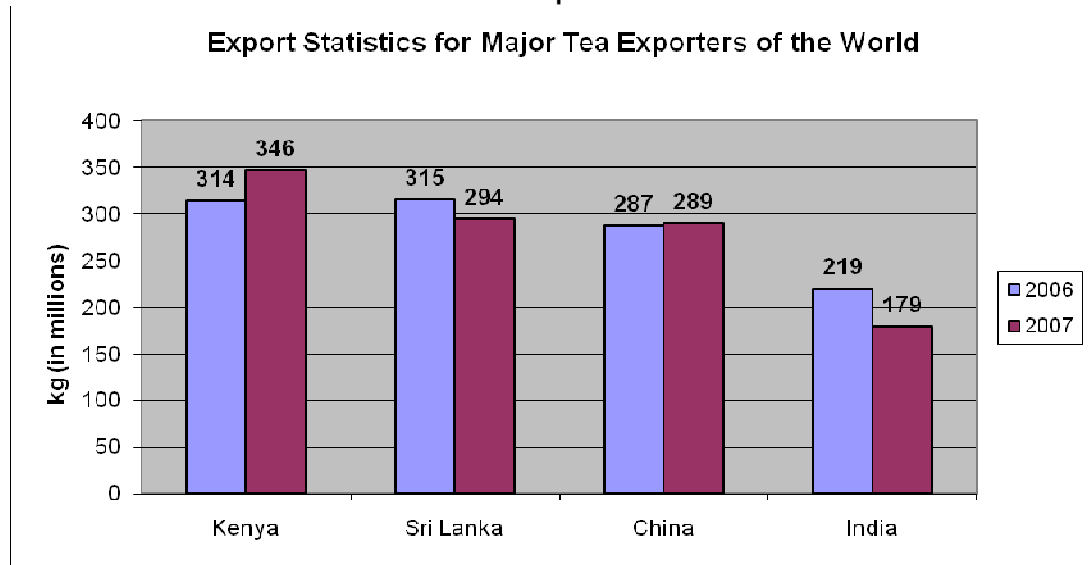
8 Ibid

Graph 1



Global Tea Exports: In 2007, Kenya was the largest exporter of tea followed by Sri Lanka, China, and India. The following graph shows the export statistics for the world’s major tea exporters.

Graph 2



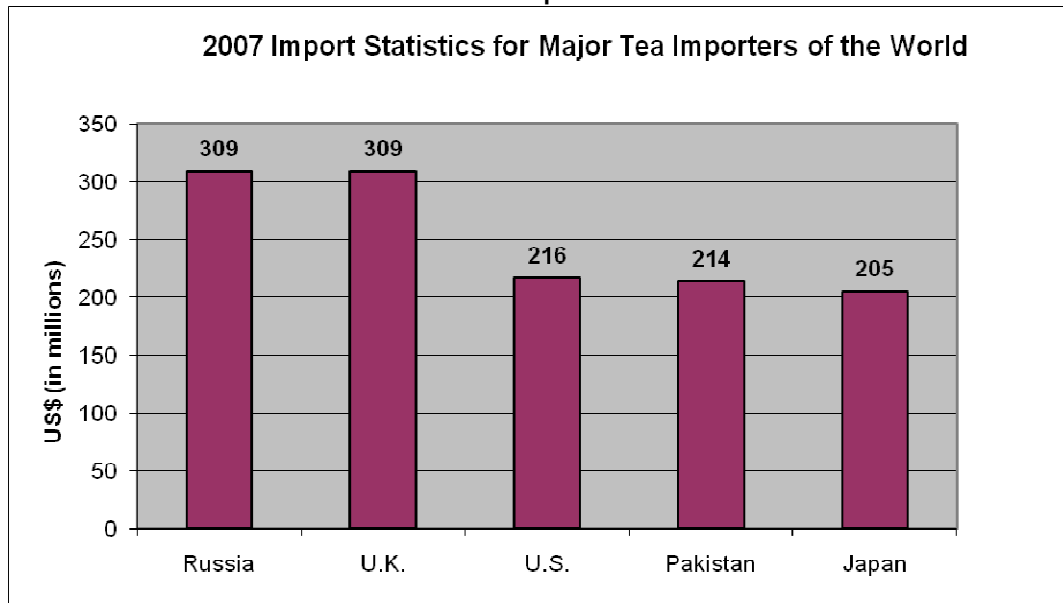
Though, India is the second largest producer of tea in the world, the domestic consumption of tea is quite high, resulting in India’s exports being only the fourth largest.

9 “Indian Tea Statistics,” Tea Board of India. Available online at: [http://www.teaboard.gov.in/inner2.asp?param\\_link\\_id=410](http://www.teaboard.gov.in/inner2.asp?param_link_id=410)

10 Ibid

**Global Tea Imports:** In 2007, Russia was the biggest importer of tea followed by the U.K., U.S., Pakistan, and Japan. The following graph shows the import statistics for the world's major tea importers.

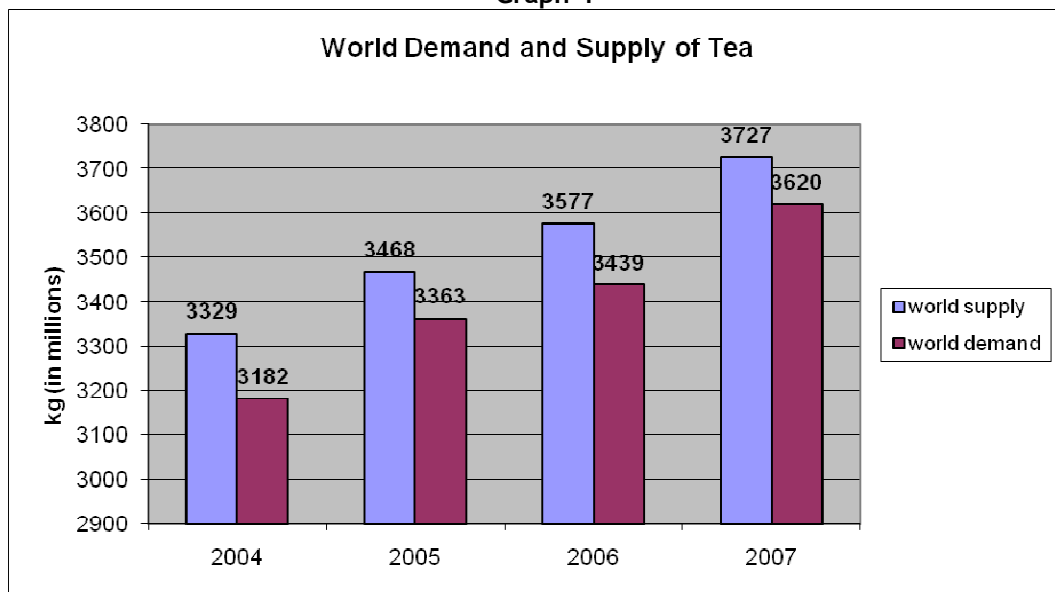
**Graph 3**



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**Global Supply and Demand of Tea:** From 2004 through 2007, global supply of tea has exceeded demand. Graph 4 below, shows the global supply and demand statistics for tea during that period.

**Graph 4**



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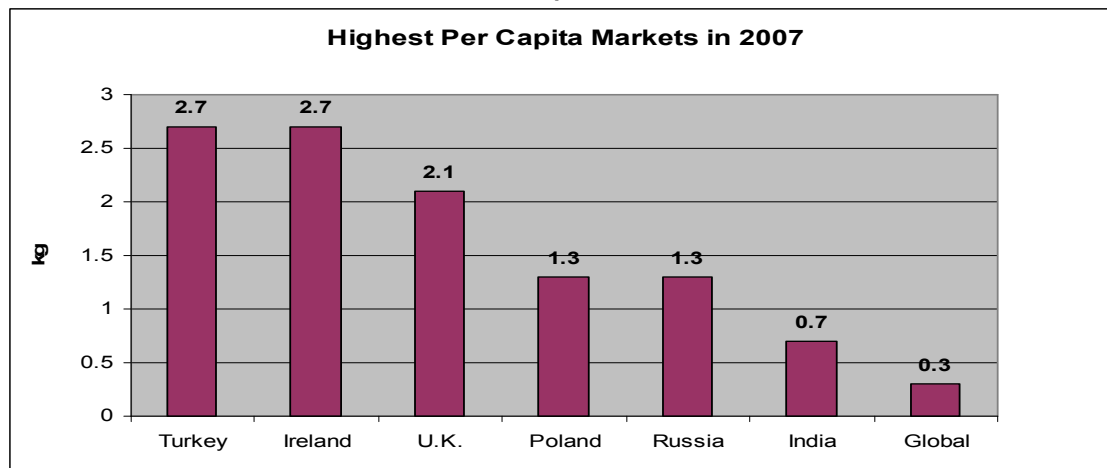
11 Philip Parker. "The World Market for Tea: A 2007 Global Trade Perspective," Icon group Ltd.

12 "Indian Tea Statistics," Tea Board of India. Available online at: [http://www.teaboard.gov.in/inner2.asp?param\\_link\\_id=410](http://www.teaboard.gov.in/inner2.asp?param_link_id=410)

As the global supply of tea has consistently outstripped global demand, major tea producers have been pursuing differentiated marketing strategies and focusing only on those markets that have high rates of growth. Given the dynamics of the global supply and demand for tea, understanding market needs and developing niche or specialty tea products becomes crucial for market players.

Highest Per Capita Consumption Markets for Tea in 2007: Turkey, Ireland, U.K., Poland, Russia, and Japan had the highest per capita consumption rates for tea in 2007. As can be seen from Graph 5 below, the average per capita consumption of tea in Russia was 1.3 kg, which was far greater than the average per capita consumption of tea both globally (0.3 kg) and in India (0.7 kg).

Graph 5



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Prices of Tea at Different World Auctions (Q3): The following table compares the prices of tea in 2008 (in third quarter) at different world auction houses of major tea producing countries with the prices of tea in 2007 (in third quarter). As is evidenced by the table, all regions saw double digit rates of price growth over the past year.

Table 1<sup>14</sup>

Regions	Prices in US \$		
	2008	2007	% Change
North India	2.21	1.73	27.7
South India	1.53	1.20	27.5
All India	1.99	1.58	25.9
Colombo (Sri Lanka)	3.03	2.38	27.3
Chittagang (Bangladesh)	1.61	1.15	40.0
Mombassa (Kenya)	2.30	1.64	40.2
Jakarta (Indonesia)	1.52	1.36	11.8
Limbe (Cameroon)	1.36	1.02	33.3

13 Ibid

14 Ibid

## Issues and Trends Affecting the Global Tea Market

Rising Affluence: Rapid economic growth in a number of developing nations such as China, India, and Russia, has resulted in an increase in middle class consumers who have high disposable incomes. These consumers have exhibited premium purchasing behavior, upgrading their purchases from unpackaged tea to branded and specialty varieties.<sup>15</sup>

Growing Health and Wellness Trend: The growing health and wellness trend has been a major driver for the value growth of tea in the global tea market. These consumers are willing to pay a premium price for the advertised health benefits of specialty tea varieties such as herbal/fruit tea and other tea.<sup>16</sup>

## Analysis of the Russian Tea Market

Russia has a long history of tea drinking because of its proximity to China and Central Asia. Russia is the largest market for tea in the world, both in terms of all tea varieties, as well as for just black tea. In 2007 in terms of retail value the Russian market was worth \$3,266 million and in terms of retail volume it was 161.44 million kg.<sup>17</sup> The year-on-year growth rate of the Russian tea market, for the period 2006-07 in terms of retail value was 12% and in terms of retail volume was 2.3%.<sup>18</sup> The Russian market also has one of the highest per capita consumption rates for tea. In 2007, per capita consumption of tea in Russia was 1.3 kg compared to the average global per capita consumption of tea, which was 0.3 kg in the same year.<sup>19</sup> Retail prices for tea in Russia are relatively high and growing. In 2007, the average retail price for tea in Russia was \$20.2 per kg, compared to the average global retail price of \$13.2 per kg in the same year.<sup>20</sup>

Sales of Tea by Sub-Sector in Russia: In traditional tea markets like Russia, there is a growing demand for premium specialty and healthy tea varieties as can be seen from Table 2 below.

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<sup>15</sup> "Global Market Information," 2008 Euromonitor International.

<sup>16</sup> Ibid

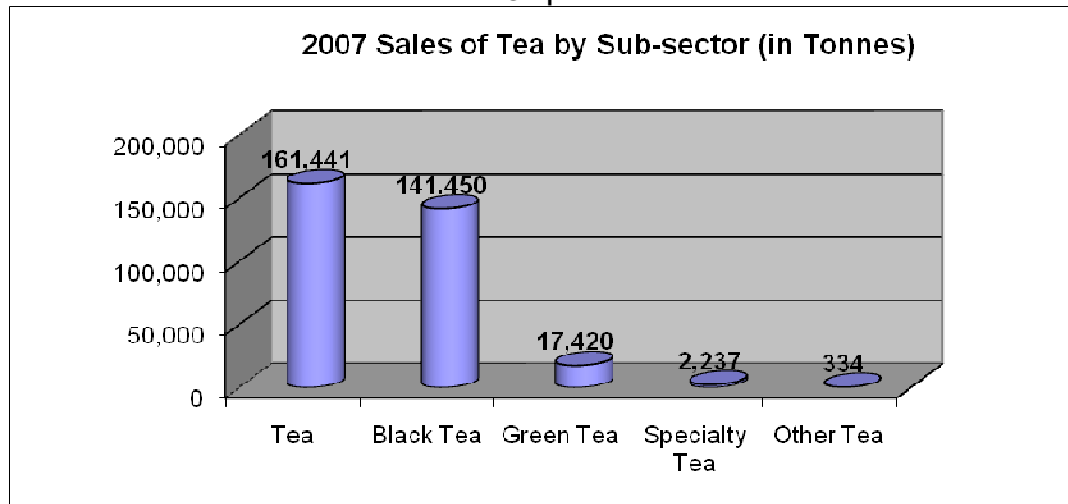
<sup>17</sup> Ibid

<sup>18</sup> Ibid

<sup>19</sup> "Global Market Information," 2008 Euromonitor International.

<sup>20</sup> Ibid

Graph 6



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Forecast of Tea Volumes by Sub-Sectors for the Period 2007 to 2012: Due to the rising affluence and growing health and wellness trend, there is a growing demand for specialty premium teas such as green tea, herbal/fruit tea, and other tea, as reflected in the forecasted values below.

Table 2

Forecast of Tea Volumes by Sub-sectors: 2007-2012						
Tonnes	2007	2008	2009	2010	2011	2012
<b>Tea</b>	161,441	164,962	168,206	171,286	174,318	177,255
<b>Black Tea</b>	141,450	143,382	145,098	146,741	148,351	149,892
<b>Green Tea</b>	17,420	18,814	20,131	21,338	22,512	23,638
<b>Fruit/herbal Tea</b>	2,237	2,415	2,611	2,825	2,060	3,317
<b>Other Tea</b>	334	351	367	381	395	409

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Competitive Landscape Analysis of the Russian Tea Market: The top five players in the Russian tea market, namely Orimi Trade, Ahmad Tea Fabrika, Unilever SNG, Mai Kompanya and Akbar Bros Ltd, contributed to more than 50% of the total sales in 2007. In Table 3 on the next page are the names of the major players in the Russian tea market and their respective market shares.

21 "Global Market Information," 2008 Euromonitor International.

22 Ibid

Table 3

<b>Market Shares of Major Players (as % of Retail Value)</b>	<b>2006</b>	<b>2007</b>
<b>Orimi Trade OOO</b>	<b>12.5</b>	<b>13.1</b>
<b>Ahmad Tea Fabrika OOO</b>	<b>13.4</b>	<b>13.0</b>
<b>Unilever SNG OOO</b>	<b>10.5</b>	<b>9.9</b>
<b>Mai Kompanya OAO</b>	<b>9.2</b>	<b>9.6</b>
<b>Akbar Bros Ltd</b>	<b>3.8</b>	<b>3.8</b>
<b>Douwe Egberts Russia</b>	<b>2.1</b>	<b>2.4</b>
<b>Dilmah Moscow Ltd</b>	<b>2.1</b>	<b>2.1</b>
<b>Moskovskaya Chaynaya Fabrika OOO</b>	<b>2.2</b>	<b>2.1</b>
<b>Riston Teas (Pvt) Ltd</b>	<b>1.8</b>	<b>1.8</b>
<b>Mlesna Ltd</b>	<b>1.0</b>	<b>1.1</b>

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### Analysis of the Indian tea market

In 2007, India was the second largest producer of tea in the world after China. In the same year, the annual tea production in India was 945 million kg.<sup>24</sup> India was also the fourth largest exporter of tea in the world, with export volumes close to 178.75 million kg.<sup>25</sup> The Indian market size for tea in 2007 in terms of retail value was \$876.4 million and in terms of retail volume 226.04 million kg.<sup>26</sup> The year-on-year growth rate of the Indian tea market, for the period 2006-07 in terms of retail value was 3.5% and in terms of retail volume was 2.6%.<sup>27</sup> In 2007, per capita consumption of tea in India was 0.7 kg, which is far less than the per capita consumption of tea in Russia, which was 1.3 kg in the same year.<sup>28</sup> The retail prices for tea in India are very low. In 2007, the average retail price for tea in India was \$3.9 per kg, which is substantially less compared to the average retail price for tea in Russia (\$20.2 per kg) and also to the average global retail price for tea (\$13.2 per kg) in the same year.<sup>29</sup>

Supply and Demand of Tea: For the period of 2005 through 2008, supply of tea in the Indian market has exceeded demand. This, combined with the fact that global supply of tea has also exceeded demand, is the reason for the prevailing low prices of tea in India. Table 4 below gives the supply and demand statistics for tea in India.

23 "Global Market Information," 2008 Euromonitor International.

24 "Indian Tea Statistics," Tea Board of India. Available online at: [http://www.teaboard.gov.in/inner2.asp?param\\_link\\_id=410](http://www.teaboard.gov.in/inner2.asp?param_link_id=410)

25 Ibid

26 "Global Market Information," 2008 Euromonitor International.

27 Ibid

28 Ibid

29 Ibid

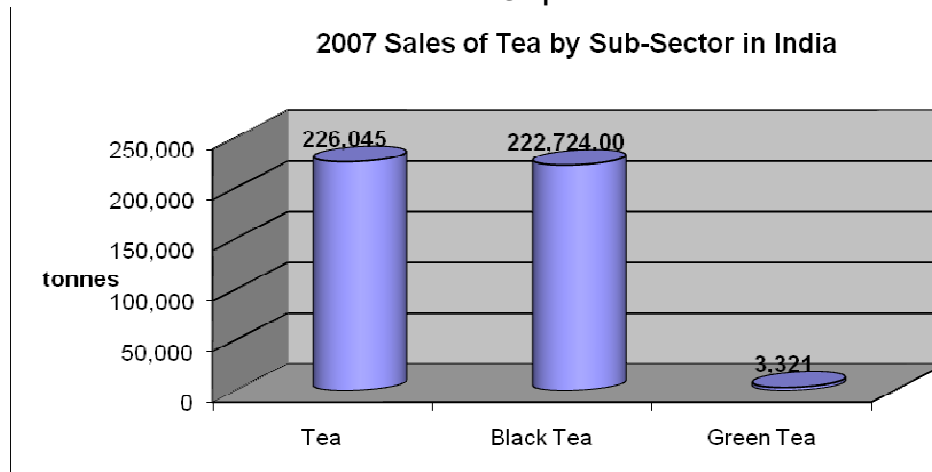
Table 4

Supply and Demand of Tea in India		
kg (in millions)	Demand (consumption)	Supply (production & imports)
2005	757	963
2006	771	1006
2007	786	961
2008 (E)	802	1000

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Sales of Tea by Sub-Sector in India: In India, tea has high market penetration, thus the market growth rates for the projected period are expected to fall. The value growth of the global tea market is driven by new variants and flavors specifically targeted towards the health and wellness segment. However, Indian consumers are not very receptive to non-tea leaf based tea such as fruit/herbal tea due to the traditional habit of adding milk to tea.<sup>31</sup> The following graph shows the sales of tea by sub-sector in India.

Graph 7



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Forecast of Tea Volumes by Sub-Sectors for the Period 2007 through 2012:

Table 5

Forecast of Tea Volumes by Sub-sectors: 2007-2012						
Tonnes	2007	2008	2009	2010	2011	2012
Tea	226,045	231,273	235,790	239,745	243,099	245,822
Black Tea	222,724	227,769	232,111	235,900	239,101	241,683
Green Tea	3,321	3,504	3,679	3,845	3,999	4,139

Competitive Landscape Analysis of the Indian Tea Market: The top five players in the Indian tea market, namely Hindustan Unilever Ltd, Tata Tea Ltd, Duncans Industries Ltd, Wagh Bakri Ltd and Goodricke Group Ltd, contributed to more than 60% of the total sales in 2007.

30 "Indian Tea Statistics," Tea Board of India. Available online at: [http://www.teaboard.gov.in/inner2.asp?param\\_link\\_id=](http://www.teaboard.gov.in/inner2.asp?param_link_id=)

31 Ibid

32 "Global Market Information," 2008 Euromonitor International.

Given below are the names of the major players in the Indian tea market and their respective market shares.

Table 6

Market shares of Major Players (as % of Retail Value)	2006	2007
Hindustan Unilever Ltd	N/A	32.0
Tata Tea Ltd	22.5	23.8
Duncans Industries Ltd	6.6	6.5
Wagh Bakri Ltd	2.9	2.9
Goodricke Group Ltd	1.7	1.6
Golden Tips Tea Co Pvt Ltd	1.4	1.4
Gimar Food and Beverages Pvt Ltd	1.3	1.3
Twinings Pvt Ltd	0.8	1.0
Jay Shree Tea & Industries Ltd	0.9	0.9
Gopaldhara Tea Co Pvt Ltd	0.7	0.7

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#### Comparison of the Russian and Indian tea markets

The following table gives a comparison of the Russian and Indian tea markets.

Table 7

Categories	India	Russia
Market size in terms of retail value (in millions of US\$)	876.4	3,266
Market size in terms of retail volume (in millions of kg)	226.04	161.44
Growth rate in terms of retail value (2006-07)	3.50%	12%
Growth rate in terms of retail volume (2006-07)	2.60%	2.30%
Per capita consumption (per kg)	0.7	1.3
Average retail price (in US\$ per kg)	\$3.90	\$20.20
Growth rate in retail price (2006-07)	0.90%	9.50%

The following table provides sales prices of several different sales channels:

Table 8

Price per Kg (2007)	
Auction price	\$1.62
Export price	\$2.45
Retail price in India	\$3.90
Retail price in Russia	\$20.20

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33 Ibid

34 "Indian Tea Statistics", Tea Board of India. Available online at: [http://www.teaboard.gov.in/inner2.asp?param\\_link\\_id=](http://www.teaboard.gov.in/inner2.asp?param_link_id=)

The following is a breakdown of the profit margins that tea producers can expect by utilizing different sales channels:

**Table 9**

Auction		Export		Local sale to retailer		Sale to Russian distributor		Sale to Russian retailer	
cost (E)	\$1.25	cost (E)	\$1.25	cost (E)	\$1.25	cost (E)	\$1.25	cost	\$1.25
revenue*	\$1.62	revenue*	\$2.45	revenues (E)	\$2.90	revenues (E)	\$7	revenue (E)	\$10.5
profit	\$0.37	marketing (E)	\$0.25	trade promotions(E)	\$0.25	import duty*	\$1	import duty*	\$1
		profit	\$0.95	other promotions(E)	\$0.25	shipping charges**	\$0.01	shipping charges**	\$0.01
				profit	\$1.15	middlemen expenses (E)	\$1	middlemen expenses (E)	\$1
						trade promotions (E)	\$0.25	trade promotions (E)	\$0.25
						profit	\$3.49	other promotions(E)	\$0.25
								profit	\$6.74

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As can be seen from the table above (which is merely a rough estimate), if the Indian tea producer chooses to sell his tea locally at one of the auction houses he can expect a profit of \$0.37 per kg, if he chooses to export his tea to international markets he can expect a profit of \$0.95, and if he chooses to sell it locally to an Indian retailer he can expect a profit of \$1.15. It's quite clear from the table that Indian tea producers can make the maximum profit margins by entering the Russian market and selling tea directly either to Russian distributors or to retailers.

The market size for tea in Russia in terms of retail value is \$3,266 million<sup>37</sup> and by capturing just 0.5% of this market, Indian tea producers can increase their turnover by more than \$30 million and earn substantially higher profits on each new dollar of sales revenue generated. The Russian tea market also provides a fertile ground for sales of premium specialty tea varieties like herbal/fruit tea, flavored tea, green tea and others, which the Indian tea producers can exploit. Therefore in considering the size of the Russian tea market and the strong growth rate that the tea market is experiencing there, we strongly feel that it is the right time for Indian tea producers to enter this market and reap the benefits of this opportunity in collaboration with our firm.

**For additional information about this global tea market study or to find out more about the possibilities of international market expansions, please contact Aginsky Consulting Group at [info@aginskyconsulting.com](mailto:info@aginskyconsulting.com).**

<sup>35</sup> **DISCLAIMER:** This table is not based on real numbers. Most of the revenue and profit estimates in this table are based on numerous assumptions and can deviate from the reality of the market conditions by very wide margins. Producing a table with these numbers based on actual facts will be one of the goals of our primary research conducted by our firm as part of the engagement.  
E- approximate estimated price

\* from Russian tea customs

\*\* freight carriers

<sup>37</sup> "Global Market Information," 2008 Euromonitor International.