



10th Annual General Meeting of East African Tea Trade Association

Chairman's report

Ladies and Gentlemen, members, our Company Secretary and Auditors, this is the 10th Annual General Meeting of the East African Tea Trade Association. I once again extend a warm welcome to you all. This is the first virtual AGM that EATTA has held due to COVID 19. We had to postpone the AGM that was initially scheduled for 27th March 2020. Under the circumstances you will appreciate that the new arrangement is unavoidable.

Macro socio-economic environment

According to the Global Economic Outlook for January 2020, the global economy grew by 2.9% in 2019 compared to 3.6 % in 2018. The decline of 0.7% is attributed to apprehension from the trade war between USA and China as well as the underlying issues over Brexit. Governments in the leading economies put in place policies aimed at defusing trade tensions, reinvigorating multilateral cooperation, and providing timely support to economic activity were put in place in many developed and emerging economies.

In Sub Saharan Africa, the economies grew by 3.1%. For East Africa, Rwanda, Tanzania and Uganda experienced GDP growth above 6% in 2019 while Kenya and Burundi attained GDP growth of 5.9% and 3.3% respectively.

The COVID-19 pandemic has in the last five months inflicted a high and rising human costs worldwide, and the necessary protection measures have severely impacted economic activities. The pandemic has also affected the members of the tea value chain including the tea producers, warehousemen, brokers, exporters and packers. We have witnessed challenges in the factory processes, transportation of tea from within and outside Kenya and the warehousing of tea.

Port operations have been affected as many employees are working from their homes. Lockdown of consumer markets has affected demand and consumption of tea. There has also been a shortage of paper sacks and this shall affect tea exports

Global and regional tea production and consumption

Ladies and Gentlemen, Global Tea Production in 2019 stood at 6 million metric tonnes up from 5.9 million metric tonnes in 2018. This is a growth of 1.64%. At the same time global consumption went up from 5.70 million metric tonnes in 2018 to 5.78 million metric tonnes in 2019. This is an increase of 1.33%. Global production grew at double the rate of global consumption.

On the side of production, the countries that had notable increases in production were China and India that saw an increase in production between 2018 and 2019 of 3% and 4% respectively. Of note Kenya and Sri Lanka experienced a decline between 2018 and 2019 of 7% and 1% respectively.

Among EATTA members, Uganda witnessed the highest decline in production from 72,000 metric tonnes in 2018 to 57,000 metric tonnes in 2019. This is a 20% decrease in one year. Rwanda on the other hand saw their production statistics grow from 29,000 metric tonnes to 32,200 metric tonnes in 2019 reflecting an 11% YOY growth. Tanzania witnessed a 4% decline in production while Burundi saw a 2% increase.

On the importation for consumption side of the equation, Pakistan and Egypt shows a 7% and 9% increase in importation of tea between 2018 and 2019, while UK shows a decline of 3% and Sudan remains flat. These four countries account for more than 70% of our export market.

Auction performance

Dear members, the volume of tea traded in the auction dropped from 458 million kilos in 2018 to 454 Million kilos in 2019, a decrease of 1%. At the same time the auction average price declined by 16% from USD.2.43 in 2018 to USD. 2.04 in 2019. This is the biggest Year on Year drop since 2014.

The top three producers to the auction were Kenya Tea Development Agency that brought in 169 million kgs of tea representing 47.14% of the tea offered in the auction. After this was McLeod Russel (Uganda) Ltd who brought in 14 million kgs representing 4.10% of auction sales and finally Eastern Produce Kenya Ltd who brought in 10 million kgs representing 2.78% of auction sales.

The top three buyers in the auction were Global Tea & Commodities who bought 52 million kilos or 14.54% followed by Cargill Kenya Ltd who bought 44 million kilos representing 12.41%. In third position was L.A.B. International who bought 41 million kilos which represents 11.47%.

During the period I would like to recognise the buyers who achieved the highest price per grade of tea. The highest price achieved for BP1 in the period January to December 2019 was \$ 7.22 and it was purchased from Nyabihu by James Finlay Msa Ltd, for PF1 it was \$ 3.7 purchased from Kitabi by James Finlay Msa Ltd, for PD it was \$ 4.32 purchased from Gitugi by Global Tea & Commodities and finally for Dust 1 was \$ 3.8 purchased from Kathangarari by SSOE (Kenya) Limited.

I would also like to recognise the Producer countries that have continued to support the auction. Uganda and Rwanda deserve recognition for having its producers increase the tea offered in the auction by 8% and 4% respectively.

Financial performance

The Auditor's report has been presented and it is an unqualified opinion. The Association continues to be in good standing in terms of the operating income and modest surplus attributed to increase in entry of new members. Full details are as presented in the financial report.

Activities carried out by the Secretariat

Ladies and Gentlemen, the past year was an eventful year. The most notable occurrence was the loud clamour by small scale tea producers concerned about the decline in prices. Kenya small scale sector reported an 18% drop in bonus payments in 2018/2019 compared to 2017/2018. As a result of this, a glut in tea offered in the auction led to prices taking a major dip. EATTA reached out to the media to clarify the contributory factors to the declined prices.

In December 2019, EATTA was invited by the Parliamentary Departmental Committee for Agriculture and Livestock for a working session to discuss the situation in the tea industry in Kenya. During the session with the committee, EATTA made several presentations that covered the reason for the declining prices, the need for stakeholder driven National Tea Policy, Tea Bill and Tea Regulations.

This year the trend of increased volumes of tea being produced is continuing. Taking Kenya for example the first three months has seen more than 158 million kilos of tea produced. This is equivalent to an average of 53 million a month. With the onset of the long rains across East Africa, it is anticipated that the volume of tea produced will continue to be above the volume for 2019.

The following are highlights of activities carried out in 2019.

Advocacy

With support from Business Advocacy Fund through a grant totalling Kshs 16.7 million the Association was able to review the National Tea Policy, Tea Bill, Tea Regulations and Regulatory Impact Statement. This was done through the support of Consultants.

As part of the exercise to make recommendations on the Draft Policy, Bill, Regulations and the Regulatory Impact Statement, Management sought the views of members in May 2019 and a validation forum was held at Voyager Beach Resort in July 29th 2019. EATTA also presented the findings of the reports to the Departmental Committee for Agriculture on 10th and 11th December.

As you are well aware the Cabinet Secretary for Agriculture has this week gazetted Tea Regulations that have far reaching effect on the tea industry in Kenya and to some extent the other member countries. The Board shall continue to lobby to and ensure that due process is followed in the formulation of the Tea Regulations. That implies being in compliance with the Constitution, the Crops Act, Competition Act, Companies Act, Kephis Act, Standards Act and international treaties.

As part of the response to the gazettelement of the Regulations, Management has written to Competition Authority of Kenya seeking their opinion on whether the Regulations contravene the Competition Act. Management has also reached out to the Council of Governors and development partners to lend support in our efforts seeking for conducive and favourable Tea regulations.

Tea Convention

In 2019, EATTA in collaboration with the Uganda Tea Association hosted the Fourth Africa Tea Convention and Exhibition in Kampala. The convention continues to be the main event for marketing African tea to the global tea drinking market. In Kampala we had more than 440 delegates from 25 countries. The convention also had 38 exhibitors. The convention is now a major fixture in EATTA's calendar of events.

Tea Auction Automation

Dear members, with the support of TMEA, and as part of efforts to modernize the auction trading platform, EATTA has been putting in place the electronic auction system called the Integrated Tea Trading System. In 2018 CSM was brought on board as the developers of the system and they developed the platform prototype. We are now in the process of building the data centre that will host the server. The

planned go live date was to be in August 2020 based on the data centre being in place.

As a result of the COVID 19 pandemic and the risk of lock down, it was decided that as a risk mitigation measure, the development of the system required to be expedited. The development process has been most demanding, exciting and at the same time gratifying. I am happy to report that we had the first live auction this Wednesday 27th May.

We did face a few challenges, but these will be addressed as we continue to progress with the e-auction implementation. I am most grateful to the team that has worked extremely hard towards the realization of this important milestone. I urge all members to stay on course.

Competition Tribunal on fixing of Commissions and rates

EATTA appealed against the finding of the Competition Authority of Kenya (CAK) issued in August 2017 where CAK among other requirements directed that Tea Brokers commission cannot be fixed. Our appeal to the Competition Tribunal started being heard in May 2018 before the Tribunal was disbanded when its term came to an end. A new Tribunal team was sworn in on 22nd June 2019.

The Tribunal finally made a decision exempting for a period of two years the specific Tea Brokers from fixing the Brokerage Commission. The fixing of warehouse charges was however disallowed.

Performance Improvement Road Map

Ladies and Gentlemen, EATTA is a beneficiary of support from the International Trade Centre through a project called Mark Up to help improve the capacity of the secretariat to better serve its members. Management participated in an organizational self-assessment to establish a baseline finding on its strengths and areas of concern. The finding was that the secretariat scored 56%.

As part of the intervention to develop the capacity of EATTA to serve its members the Mark Up project has contracted a consultant who is working with the secretariat on a Performance Improvement Road Map (PIRM) The PIRM is designed to help streamline the EATTA Strategic plan with a view to aligning it to the priorities that will improve the services offered by the secretariat to its members. This project will run until the end of 2021.

The final outcome of the project will be a focused and streamlined secretariat better aligned to serve its members.

Visits by dignitaries

In 2019, EATTA played host to a number of dignitaries. In June 2019, the US Ambassador to Kenya Mr. Kyle Mccarter visited EATTA. He was interested to get an understanding on the progress made on the auction automation project. The United States is one of the donors to Trademark East Africa. In November 2019 EATTA also played host to a delegation from the Pakistan Tea Association. We appreciate the gesture since Pakistan is the biggest market for Kenyan tea (38%).

Conclusion

Let me conclude by appreciating the Board who have been very supportive to me during the past year. I in particular wish to recognise our retiring Director. Mr. Albert Otochi, who has completed his two term of three years as a Director. Mr. Otochi served as Chairman of EATTA from March 2018 to March 2019. He is still part of the tea family as the Managing Director of Kenya Tea Packers. Mr. Otochi will be replaced on the Board by Dr. Charles Mbui representing the Tea Packers Association.

I also wish to recognise Mrs Nelius Kariuki who has completed her term serving as the Independent Director. Mrs Kariuki joined the Board of EATTA in 2014 and served as the Chair of the Audit Committee. We are grateful to Mrs Kariuki for the valuable insight she has given to the Association and wish her all the best in her future endeavours. Mrs Kariuki has been replaced on the Board by Mrs Rosemary Olonde. Mrs Olonde is a qualified accountant who works with the Geothermal Development Company and is a member of the Institute of Directors.

Finally, may I take this opportunity to thank management headed by the Managing Director Mr. Edward Mudibo for their work at the Secretariat.

May I take this opportunity to thank you all.

Gideon Mugo

Chairman