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Policy Brief

Strategies for Elevating the Global Standing of Indonesia's Tea Industry: Insights for Sustainable Growth



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Tea Industry: Insights for Sustainable Growth**

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Executive Summary

- The tea sector in Indonesia has historically contributed to economic, social, and environmental development. However, it has experienced a decline over the past decade in terms of output, employment, foreign exchange earnings, and incomes for small farmers and other stakeholders. If the decline in Indonesia's tea sector and its competitive advantages continues, approximately 1 million families risk losing their primary source of income, and the country could forfeit over \$100 million in foreign exchange earnings.
- A strategic development study employing SWOT analysis has identified four broad strategies to reverse the decline and enhance the competitiveness of Indonesian tea in both global and local markets. These strategies involve implementing a growth strategy through horizontal integration, including: (1) Improving productivity and quality; (2) Enhancing governance and strengthening partnerships; (3) Increasing market uptake, particularly in the domestic market; (4) Ensuring compliance with tea standards for local and global requirements.
- Three initiative action plans have been proposed to accelerate these growth strategies in enhancing the competitiveness of Indonesian tea for a sustainable industry. These include: (1) Formulating guiding principles; (2) Building a secure mechanism for sustainable financing (including both APBN and Non-APBN sources); (3) Requiring feasibility studies and collaborative partnerships for the implementation of strategic programs.

The Important Roles of Tea in Economy, Social and Environment

Tea and its industry have represented benefits in development of economy, social and environmental aspects. In economy, tea not only income for the local economy, especially in rural areas but also for the national economy. In 2022, tea contributed more than US\$ 100 million in foreign exchange earnings (BPS-Statistics Indonesia, 2022). In social culture, tea plantation and its manufacturing industry employ more than 200 thousand workers and support life for over 1 million Indonesians (BPS-Statistics Indonesia, 2022). Based on tea history, tea has associated with health beneficial to people, and has become a daily tea cultural consumption (drinking) for all world people, include in Indonesia which is as the 7th tea producing country. In pandemic era, drinking tea which contain polyphenols has can boost immunity for Covid-19 (Hong, et al., 2022). In environment aspects, the presence of tea plants and its plantation ecosystem plays a crucial role for ecosystem services in maintaining slope stability, reducing erosion, fostering biodiversity and microbes, conserving water, and having the potential to absorb and store carbon (Li, et al., 2015; Xue, et al., 2013; Rakhmah and Heryana, 2021).

Declining the performance but growing domestic tea demand

The Indonesian tea industry currently faces various challenges, from upstream and downstream issues to market concerns at local, domestic, and global levels. In its development over the last decade, the Indonesian tea industry continues to experience various challenges nationally and globally. The crisis resulting from the Covid-19 pandemic continues with the global geopolitical situation which is still uncertain and is strengthened by the climate crisis as the impact of climate change is increasingly being felt in all parts of the world, including tea plantations in Indonesia.

Based on BPS- Statistics Indonesia, the condition of the plantation industry continues to experience shrinkage as indicated by the continuing reduction in tea area nationally by around 1.53% per year during 2010-2021, especially in PBS (-3%) and PBN (-1.4%). On the production side during 2010-2021 there was also a decrease of 0.76%, although at the start of the Pandemic (2019-2020) tea production experienced a significant increase of 5.79%, mainly contributed by PBS (9.04%) and PBN (8, 75%), but during the Pandemic (2020-2021) production decreased again by 2.19%, especially in PBS (-7.85%). When compared with fellow tea producing countries such as China, India, Kenya, Turkey, all of them experienced positive production growth over the last decade, namely 6%, 1%, 2% and 0.5% per year, while

Sri Lanka and Vietnam experienced a decline in production. of 3% and 0.5% per year. Even though the area and production have decreased, tea productivity during 2010-2021 tends to increase by 0.73%, even though the average value of tea productivity is still low (under 2,000 per kg/ha/year) and this condition has not been accompanied by an increase in quality. The growth of tea areal, production and productivity illustrated in **Figure 1**.

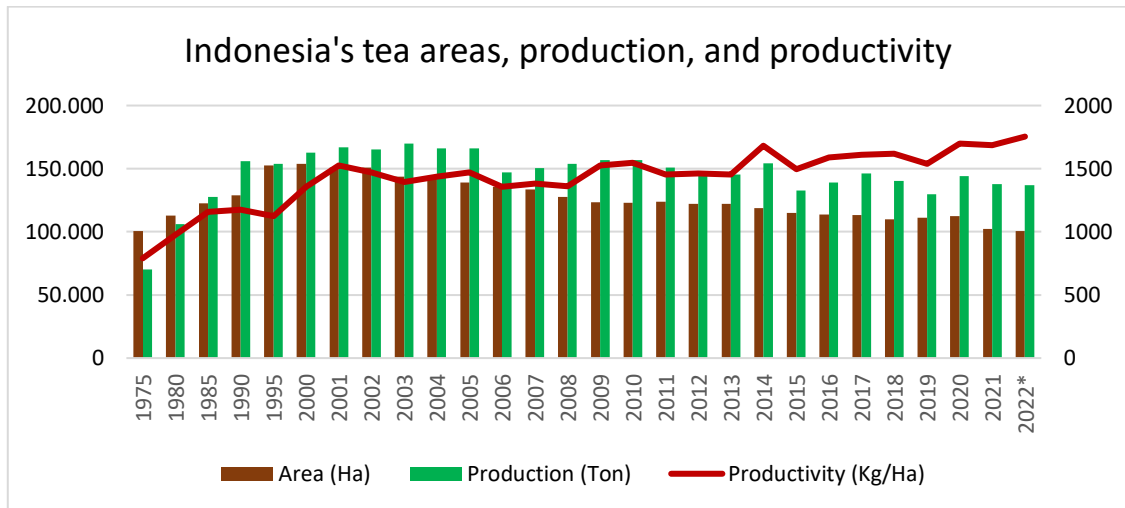


Figure 1. The growth of Indonesia's tea industry, including tea cultivation area, production, and productivity, has been observed from 1975 to 2022* (Source: BPS-Statistics Indonesia, 2022)

Tea which is characterized by the ECI competitiveness value of Indonesian tea export products being below 1 (ECI=0.042) which has implications for decreasing the market share of Indonesian tea exports (OEC, 2023). The performance of Indonesian tea exports during 2010-2022 in general, both volume and value, decreased by 6% per year with an export value in 2022 of US\$ 96 million, especially in exports of black tea products (-6%) and green tea (-7%). Meanwhile, exports of processed tea products (such as tea bags, RTD, instant tea) continue to increase by 8% and contribute to an increase in export value of 4% per year. Likewise, imports of processed tea products continue to increase by 7% with the import value continuing to increase by 8% per year. The Indonesia's tea trade balance still positive but the value continues to decline. In 2010, trade balance of tea Indonesia still gives value US\$ 154 million, but now in 2022 has been declined to be US\$ 45 million. The growth of tea export and import of Indonesian tea described in **Figure 2**.

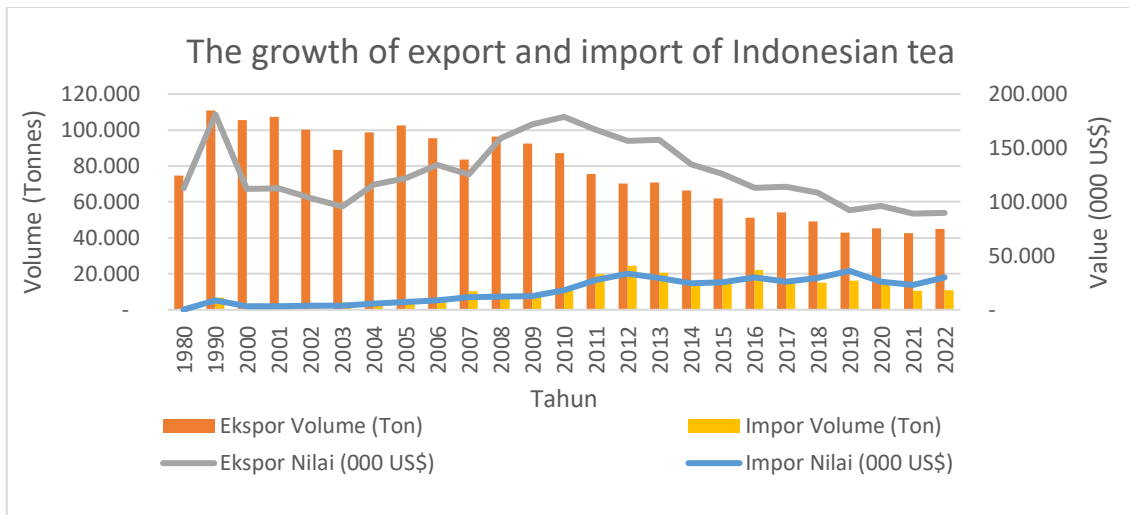


Figure 2. The growth of Indonesia's tea export and import, from 1975 to 2022* (Source: BPS-Statistics Indonesia, 2022)

Despite a decade-long downtrend in the production of Indonesian tea, the demand for tea, both domestically and globally, has been consistently increasing. Global tea consumption is projected to keep rising from 2012 until 2025 with a Compound Annual Growth Rate (CAGR) of 6.75% (Statista, 2022). There is a rising awareness of the health benefits offered by tea products, especially after Pandemic Covid-19. Consumers are paying attention not only to the products themselves (food, cosmetics, health) but also to the ecosystem offered by the tea supply chain. Tea is seen as an ecosystem that promotes lifestyle, wellness, and environmental sustainability. Indonesian tea consumption is growing at a rate of 8% per year, and in 2022, it is expected to face a shortage of 500 tones (BPS-Statistics Indonesia, 2022; International Tea Committee, 2023). This indicates a global will continue face of tea oversupply while Indonesia experiences a shortfall for domestic consumption. This consumption trend is also influenced by the increasing population in Indonesia and globally each year. Weak competitiveness in the domestic market is evident with the inundation of imported tea products, such as those from Vietnam for made tea (HS 0902) and China for tea or mate extracts, essences, and concentrates (HS 210120). The local image of tea circulating in the domestic market tends to be associated with low-quality tea, making it challenging for domestic producers to compete with imported tea products. Apart from these challenges, the domestic tea prices will also be increasingly under pressure. The condition of tea supply-absorption in Indonesia can showed in **Figure 3**.

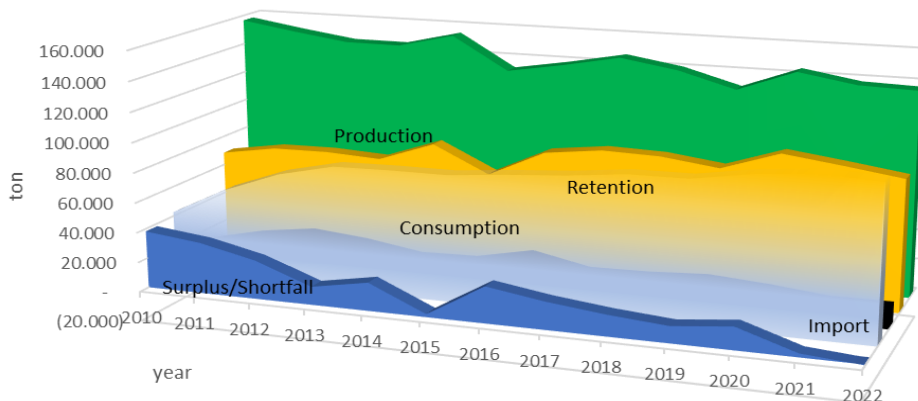


Figure 3. The growth of supply and absorption of tea in Indonesia, from 2010 to 2022*
 (Source: BPS-Statistics Indonesia, 2022)

Moving Forward to Sustainable Indonesia's Tea Industry

To reverse the decline of Indonesia's tea industry performance and ensure that Indonesian tea can determined and enhanced its competitiveness both local and global market, from the diagnostic of SWOT analysis position should implement by this industry is a growth strategy through horizontal integration. There are four broads of strategies to enhancing Indonesian tea competitiveness, i.e.:

1. Improving the productivity and quality. The productivity and quality both input and output production should be to improve through replanting/infilling using superior tea clones; implementation of GAP, GHP and GMP; implementation of mechanization; production cost efficiency (fertilizer & energy); increased the utility of tea factory; and factory modernization.
2. Improving the governance and strengthening the partnership through integration of the plantation industry (scale of area, supply chain); strengthening tea institution system; development of business model such as integrating with tourism; and acceleration the licensing/legality of business and products.
3. Increasing the market, not only for global market but also especially for domestic market through strengthening tea market intelligence; differentiation and downstream to improve production and reasonable price added value; education, promotion, marketing and branding of tea products as a health and environmental regime.
4. Increasing the compliance of tea standard for both local and global requirements through increased the compliance of tea standards/certification; prioritizing environmental sustainability and the mitigating the impact of climate change; and build and improved supply chain traceability system.

Recommendations

To reverse this trend and put tea sector on a sustainable growth path, the roadmap of the Indonesia's tea industry in the future should propose three initiatives action plan which well aligned with the four strategic recommendations to enhancing the sustainable Indonesian tea competitiveness in local and global tea market. Three initiatives i.e.:

1. Formulate the guiding principles among short-and mid-long term priority strategies for enhancing Indonesian tea competitiveness action plans.
2. Build secure mechanism for financing sustainable actions in development/designs of tea agribusiness systems and capacity building for relevant tea stakeholders, and its implementation gradually.
3. Require feasibility study to implementation the strategies program and build collaboration to facilitate effective monitoring, evaluation and implementation this program.

In summary, enhancement of Indonesian tea competitiveness is a significant step in accelerating the sustainable Indonesia's tea industry now and the future amidst various and more complex global and local challenges. It can be realized with a significant support for all Indonesia tea value chain actors and stakeholders.

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