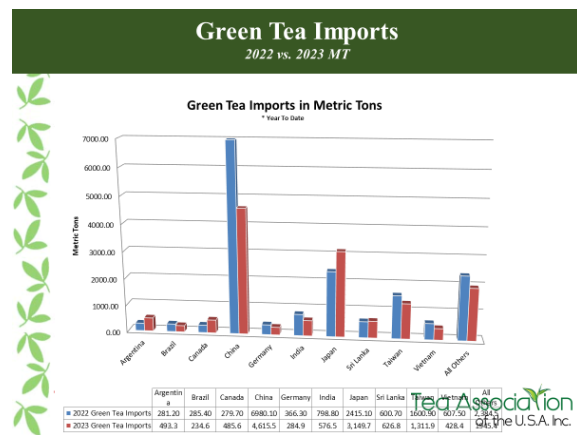
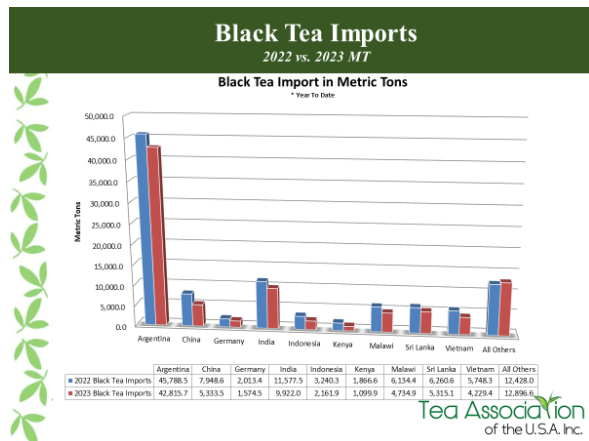


State of the U.S. Tea Industry Review of 2023 and a Look Forward into 2024

While 2022 was a year in which we saw COVID in our rear-view mirror, 2023 was a year in which we continued to suffer from COVID's affects. Supply chain issues experienced throughout COVID caused insecurity in the flow of tea to the U.S., forcing companies to take on any inventory they could, to guard against out-of-stocks. Thus, pressure was exerted on imports, not only to the U.S., but globally. When one looks at 2023 imports into the U.S., virtually every month lagged in total imports.



Inflation finally began to take a backseat, dropping from 6% monthly in January to ~ 3.3% per month in Q3 and Q4. Predictions of economic collapse and recession were unfulfilled and consumers continued to engage outside their homes helping to expand the economy, despite increased costs across the full spectrum of goods and services.

Fundamentally, the tea market was slightly soft in terms of volume but dollar growth was seen across all categories. Foodservice, in particular, appears to have come back to pre-COVID levels in volume and dollars. This is good news as consumer hybrid working arrangements continue to prevail despite efforts at getting workers back to the office. We know that consumers drink more tea at home than out of home, so the return of strong OOH levels is encouraging.

The industry faced a number of challenges in 2023, some of which will continue in 2024.

Tariffs on tea from China continued as a holdover from President Trump's administration and continued under President Biden. While we continue to advocate for removal of this tariff on Chinese tea, there appears to be no interest in removing them by this Administration.

Our work in Washington D.C. continued with the Tea Association communicating its positions on behalf of the industry in the areas of tariffs, labeling (country of origin and nutritional), Dietary Guidelines, Healthy definition for tea and port congestion issues. Support and defense of the tea industry continues to be our primary our mission.

The provincial government of Misiones in Argentina announced in July of 2023 a banning of glyphosate, replaced by a “bio” chemical that has not been tested, nor has been submitted for a tolerance. The USTA has sent letters in support of returning glyphosate and warning that any shipment of tea from Argentina that has traces of the proposed chemical would be considered violative of FDA regulations. As a reminder, the US represents almost 66% of Argentina’s exports and 48% of our imports. This is potentially a huge issue for both sides.

Climate change continues to be an important issue for our members. We currently are working with NSF and Cool Farm Alliance to develop a tool for our members that will assist in calculating their carbon footprint. This initiative was made possible due to a partnership with Tea & Herbal Association of Canada and United Kingdom Tea and Infusions Association. Our combined efforts has ensured cohesive messaging on topics such as heavy metals; HTIS classifications and modifications; Prop 65 actions; sustainability issues, nano-plastics in tea bags, PFAS (perfluorinated compounds) and FAO issues.

Foodservice holds steady; Specialty Tea continues growth; RTD improves dollar sales; Traditional/Grocery continues to hold steady

Specialty Tea continues its rise in both pounds and dollars. Millennials and Gen Z’s lead the way for all consumers across all demographics as they continue to consume tea for its variety of origins, types and flavors. Tea generates interest across origins, terroirs, flavors. Tea drinkers are interested in bush to brand stories and tea’s sustainability, particularly in the market of these high quality, higher priced teas. Artisanal teas remain of high interest and continue to grow at a fast clip. Consumers’ engagement remain strong and they want to learn more and more about where their teas come from; how they are harvested and manufactured; how the product supports the livelihoods of those making it; and, how friendly the product is to the environment. Specialty tea buyers, in particular, seek to engage with their products of choice.

Ready-to-drink (RTD) tea category continued its dollar growth but volume was a challenge in 2023. Estimates are that 2023 exhibited circa 6%-7% growth in dollars, but a decline of some and -2%-3% in gallonage. Challenges for RTD remain clear: return to volume growth while competing with products across other categories, e.g., health, refreshment and hydration. Separation and segmentation between premium, high quality RTD’s and the value, CSD replacement segment continues, with the premium segment leading growth.

Traditional tea (Grocery/DMM (Drug/Mass Merchandisers) continued the fight to maintain the gains from 2020 through 2023. Communication to consumers through traditional media and social media continued at higher levels vs. pre-COVID. The apparent improvement in their bottom lines have allowed for a continued re-investment in their brands.

We are continuously challenged to educate consumers about key differences between true teas (*Camellia sinensis*) from herbals and other botanicals, neither of which have the same level of bio-actives, anti-oxidants or overall Healthful qualities. Our messaging across all forms of tea through our social media initiatives highlight the benefits of “true tea” and should be amplified by all tea companies.

Internationally, producer countries should continue to protect and advertise their teas through geographic designations and by trademarking their unique terroirs. The pursuit of a wine-like appellation marketing and protection serves to differentiate one region from another as well as proactively communicate to the consumer the benefits of geography, elevation and climate as key ingredients to tea quality.

Market Growth:

Each year we try to estimate the size and growth of the various tea markets. We derive many of these estimates qualitatively with some quantitative validation. Further, we note that 3.4% CPI for food inflation in 2023 represents a substantial reduction from 2022's 9.9%. Please use these figures as a guide.

	1990	2021	2022	2023 Est.
Traditional Market (Supermarket, Drug and Mass Merchandisers)	\$0.87 Billion	\$2.3 Billion	\$2.4 Billion	\$2.4 Billion
R-T-D	0.20 “	6.3 “	6.7 “	6.9 “
Foodservice	0.50 “	.96 “	1.1 “	1.1 “
Specialty Segment	0.27 “	3.3 “	3.4 “	3.5 “
Total Sales	\$1.84 Billion	12.86 Billion	13.6 Billion	13.9 Billion

2024 Predictions:

- *Tea will continue to grow across all sectors, led by Specialty and RTD Volume Growth.*
- *Whole Leaf Teas/Specialty Tea will continue its penetration with consumers in this segment. Individual terroirs and countries will continue to attract interest.*
- *Imports will return to normal levels now that supply chain issues and inventories have been overcome.*

The “Power of Tea” continues to shine

- **Bio-Actives, Hydration, Health Equity, Cardiovascular health, and immune boosting properties,** will continue to underpin tea's healthfulness and encourage consumers to drink tea.

Markets will return to growth

- Foodservice will continue its strength, even as hybrid work arrangements continue to hold sway over businesses.
- Consumers will continue to enjoy tea and the new levels of tea consumption will be maintained, helping Grocery/DMM sales to resist declines vs. pandemic gains.
- RTD volumes will return to growth.
- Specialty continues its growth in both dollars and volumes as unique offerings from tea growing “appellations” become more widely known.

The tea market will continue to face the following challenges in 2024:

1. Sustainability

The Tea Association of the U.S.A., sees sustainability as a three-pronged strategy

- a. Ecological Sustainability
- b. Social Sustainability
- c. Economic Sustainability

The tea industry has demonstrated a strong commitment to ecological sustainability and continues on its journey for a sustainable supply chain and our industry has successfully embarked on a path of making our product even more sustainable. Tea is one of the most ecologically sustainable agricultural products in the world.

However, the sad fact is that the cost of sustainability efforts almost always fall on the shoulders of the producer, the segment that can least afford it. Further, the promise of increased margins and consumers willing to spend more money on sustainably sourced products have been empty, at best. And all our efforts may be blunted by climate change....

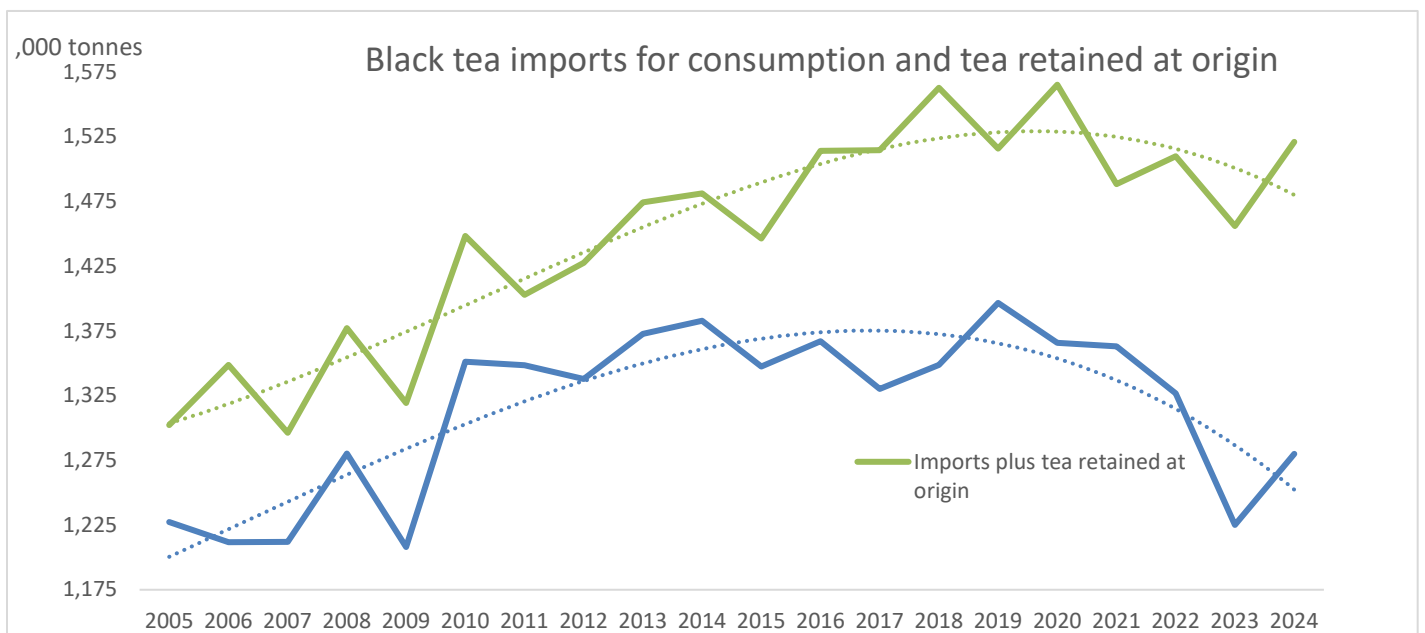
Economic sustainability continues to be a challenge. Producers and smallholders are generally not making money. The realized prices of tea have not moved since the 1950's, when taking inflation into account. This marginalizes workers at origin and drives the industry to an unsustainable economic model, impacting the ability for tea workers to maintain the social fabric in the towns and villages where they live. Meanwhile, large retailers advertise and speak about sustainability, yet do nothing about allowing the price of the product in their stores to rise, disallowing the opportunity for the producers to realize a reasonable margin. The time is come to put pressure on retailers to ensure that EVERY player in the supply chain receives fair value for the work they do.

The migration of tea workers from rural to urban environments evidences another consequence of low prices...the lack of available labor. We've already seen the results of this in Japan, where the average age of tea producing villages has gone from the mid-50's to the low 70's. 80% of towns and villages have lost people. Analogous movements are being witnessed in virtually all traditional tea growing areas.

2. Supply and Demand

The Global picture remains concerning as production went from 5,020 M kgs in 2013 to 6,476 M kgs in 2022 an increase of approximately 30%. Meanwhile, population in 2013 was 7.251 Billion vs. 2022's 7.975 billion, only a 10.0% increase. (Tea statistics courtesy of the International Tea Committee/Population from Worldometer (<https://www.worldometers.info/world-population/world-population-by-year/>)). Supply continues to outstrip demand.

Surplus of teas can be seen at origins as the difference between imports plus tea retained at origin vs. imports for consumption. (Chart courtesy of Universal Commodities (Tea) Trading/ITC data)



Certain origins continue to expand tea plantings, completely ignoring the negative impact of oversupply and promulgating a boom / bust cycle of tea prices. Escaping the clutches of this boom/bust cycle will be one of the keys to the long-term survival of the business. There are only two solutions: drive consumption or reduce production. Note that these solutions are not exclusive and should be done in tandem.

The key insight is that the unremunerative pricing of tea undercuts all sustainability efforts and supports an unsustainable economic future for the industry.

3. Free and Unencumbered Trade

Barriers to trade continue to be evidenced through:

- a. Lack of harmonization of crop chemical tolerances
- b. Political vs. Science based regulatory decisions (e.g., Glyphosate/Imidacloprid)
- c. Country of origin labeling
- d. Tariffs

Free trade is a basic building block that we must have in order to fully return to economic growth and stability. Our industry must work together to properly address these issues.

4. The Goodness of Tea

Thousands of published scientific journals continue to document tea's ability to positively impact human health. Whether interfering with cancer mechanisms, enhancing heart health, slowing neurological decline, positively impacting weight management and preventing diabetes or improving bone health and lastly boosting immune functionality, tea is good for you and tastes great!

Further, tea contains high levels of bio-actives, in particular Flavan-3-ols, an emerging class of compounds generating great interest as promoters of human health. Tea is also an important addition in the discussions around health Equity. Tea can be an important component in reaching underserved populations as a healthy beverage that can be seen to help mitigate the high rates of heart disease, type 2 diabetes and obesity in this population.

The Dietary Guidelines are due for updating and the Tea Association of the U.S.A, Inc., has been submitting comments supporting the inclusion of tea in this important government publication that recommends dietary choices.

So, where are we?

Sadly, not much has changed since my summary last year: too much tea is being produced; prices are too low; we are leaders in ecological sustainability, but social and economic legs are struggling; retailers continue to push down pricing; costs are being pushed up the supply chain; and producers continue to suffer.

1. As an industry, we need to continue to meet in multiple forums to discuss honestly and openly our excess supply. FAO, Tea Associations, Tea Boards, Tea Producers and governments need to collaborate and create pathways for crop/surplus reduction, while striving to protect the lifeblood of tea producers, and, in particular, smallholders.
2. Efforts must continue to drive tea consumption. Tea & Health is **THE** platform from which powerful messaging can be developed to incent and motivate consumers to drink tea. If we all help to drive this message, think of the potential influence we could have on driving tea consumption! Additionally, bio-actives research points to more positives in tea's positive impact on human health.

3. Costs of sustainability efforts must be shared throughout the supply chain, not borne just by producers. Is there a mechanism currently? No...but this has to be addressed. If consumers want sustainable products they must pay. If retailers want to sell sustainable products, they need adjust their margins. If packers want to pack sustainable products, they must pay OR they must support sustainability programs through pricing mechanisms.
4. Leverage existing Associations and Councils as representatives and speakers for the Industry. I continue to be shocked at how easily some companies withdraw from Associations based solely on cost, yet, it is these very groups that most effectively represent the industry and protect brands; interpret governmental regulations and provide a single point of contact for both internal and external communication. My continuing thanks go to Tea & Herbal Association of Canada and UK Tea & Infusions Association, who work tirelessly with us on joint efforts to represent the industry.

Tea is an optimistic beverage and I remain an optimistic player in the industry! Tea offers much to its consumers; Tea's supply chain is resilient; producers generally want to produce good product and consumers want to receive good value.

Let's support this great product as best we can and drive this business forward!

Peter F. Goggi
President
February 2024