

Policies in Vietnam's Tea Industry

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Major issues of the tea sector in Vietnam

Nowadays, Vietnam is considered to be one of the cradles of the world's best tea. Since the beginning of 20th Century, when the French invaded Viet Nam, they paid special attention to tea plants with much research and many investigations into the quality of Vietnam tea.

However, as 90% of total Vietnam's tea quantity for exports are raw materials in over 3 kg package, the country is holding a modest position of material supplier and pre-processor in the world chain value with little power in price bargaining.

Most farmers and even their collectors can only sell very raw tea which is later re-processed, re-packaged by foreign companies or joint ventures, and labelled under their brands, and afterwards exported to consumer markets, or even back to supermarkets and store networks in Vietnam under brands like Unilever and Nestle. These foreign companies surpass Vietnamese counterparts in capacities in distribution and international trade; therefore it is easy for them to control a more significant market share in both local and export markets, especially in the context that Vietnam is integrating further and deeper globally. Therefore tea price offered by foreign companies is generally higher than that of Vietnamese companies.

Vietnam's tea exports for calendar year 2014 dipped by 5.30% in volume and 0.20% in value on-year to 134,000 tons valued at US\$229 million (MARD, 2015) but foreign tea companies normally gain the highest value in the chain through the processes of mixing and packaging, although they are not directly tea suppliers. Being raw material suppliers, developing countries like Vietnam lose the opportunity of higher export turnover gaining from re-processing. Last year, the price of Vietnamese tea in the global marketplace jumped by 5.76% compared to the sales price in 2013 and stood at US\$1.711 per ton. This was only 65% of the top world price for the highest quality tea, equalling only 40% of the average price of tea export in the world. Upon comparison with other major sources of tea in the world such as China, India, Kenya, Vietnam's tea export price is also just roughly half of their export prices, showing the inefficiency in Vietnam's export tea industry. Another estimated by Sustainable Trade Initiative (the Netherlands), tea products labelled under the brands of well-known firms can add 6-time value over raw products. The labelled

products are distributed to consumers through 2 main channels of i) distributed to local consumers through retailing networks of stores and supermarkets, etc. and food supplying system to organisations, companies and vending machines, etc. and ii) re-processed products exported to other markets.

Main policies in the tea sector

As tea is one of Vietnam's important agricultural products for many remote areas, the Vietnamese Government issued a number of policies to promote the industry growth over the recent years.

In Decision no. 824/QĐ-BNN-TT dated 16/04/2012 approving the proposal to develop the cultivation industry to 2020, with vision to 2030 the Ministry of Agriculture and Rural Development (MARD) plans for the country's tea growing area to reach 150,000 hectares in 2020, from about 124,000 hectares in 2012 and devise a zoning plan for tea development in the provinces of Nghe An, Son La, Yen Bai and apply Vietnamese Good Agricultural Practices (VietGAP) standards to improve the quality of tea exports.

To support production, the Government has enacted a number of support policies and mechanism such as 1) the Prime Minister's Decision No. 142/2009/QĐ-TTg dated 31/12/2009 on the mechanism and policy to subsidize seedlings, breeds and aquatic breeding for production recovery in regions destroyed by natural disasters and diseases. 2) the Government's Decree No. 48/NQ-CP of 23/9/2009 on the mechanism and policies for post harvest loss reduction for agricultural and fishery products, 3) the Decision No. 162/2008/QĐ-TTg of 04/12/2008 issued by the Prime Minister on agricultural and fishery extension policy in remote areas and communes, 4) the Decision No. 01/2012/QĐ-TTg of 09/01/2012 of the Prime Minister on a number of support policies for application of good practice in agriculture, forestry and fishery.

In terms of technology and science development, the Prime Minister's Decision No. 1895/QĐ-TTg of 17/12/2012 approved the programme for development of high technology agriculture within the national program to develop high technology in the year 2020. In Lam Dong province where high-tech agriculture has been implemented, tea industry has made a comprehensively scientific and technological revolution from the stages of planting to processing. The experiences from Lam Dong show that thanks to efficient support and incentives from the Government, tea varieties are more diverse (new varieties include TB14, LD97, O Long, Ngoc Thuy, Kim Tuyen and Tu Quy). The adoption of new tea varieties has increased economic value by dozens of times.

For investment encouragement, the Government issued Decree No. 210/2013/NĐ-CP dated 19/12/2013 of the government on encouraging businesses to invest in agriculture and rural areas.

For fee and tax incentives, Circular No. 95/2004/TT-BTC of 11/10/2004 issued by the Ministry of Finance guides a number of policies for financial supports and tax incentives on development of material areas and the agricultural, forestry, fisher and salt processing industries.

For trade promotion, the Decision No. 23/QĐ-TTg of 06/01/2010 signed by the Prime Minister approves the proposal “Development of rural trade during 2010-2015 with orientation to 2020” regulating the organization of business network as per product lines.

In addition to these above policies, Vietnam is one of 11 countries in the world testing the PPP model in agriculture, with the participation of 20 leading groups and companies including Unilever, Nestle, Archer Daniels Midland, Bunge, Cargill, Dupont, Metro Group, Monsanto, PepsiCo, Swiss Re, Syngenta and Yara International. The PPP Tea group's objectives are to enhance exports via Unilever, and to improve the quality of Vietnamese tea from 3.6 to 4.0 standard under the brand name, Tea Made in Vietnam. This group operates in Phu Tho province, focusing on cooperation and strengthening the components of technology transfer, including harvesting, fertilising, caring, packaging, and forms of market development for tea businesses. Each year, Unilever collects about 30,000 tons of tea and 10,000 tons have to be in compliance with the international standard certified by the Rainforest Alliance, the mandatory standard for exporting tea under the Unilever system.

Limitations and gaps in policies

Recently, Vietnam has issued many preferential policies to attract investments from the non-state sector into the agricultural sector, including the tea industry. However, investments in this field are still limited. In addition, area of high yield and quality varieties is small; tea growers still have fragmented production, and are not capable of supplying stable amounts of raw materials to processing facilities. Not only farmers, many processing facilities have not accessed new technologies and invested in modern processing lines.

Most of stakeholders in the tea supply chain lack support on business skills and market information so that most of them are passive in the market and cannot compete with foreign companies. Very few farmers and traders could implement advertising and product branding well.

The central government and many provincial governments also lacks policies to help farmers, enterprises and traders to update themselves in international regulations on, tea quality, hygiene and safety.

Recommendations

Long-term planning must tackle the challenge of supplying land for large-scale plantations, monitoring quality throughout the supply chain and restructuring the production of tea products according to market demand.

To help tea products really stand firm on the market, Vietnam needs to start from quality. According to economic experts, along with the brand, quality tea must be placed on top. Therefore, along with the application of more scientific methods to production techniques, especially on the structure of new varieties, harvesting, and processing quality assurance, tea production enterprises should strengthen production and guarantee quality to produce standard tea for food safety.

The Government needs to organize a tea trading floor for businesses to introduce and sell their products in a transparent and fair way, to set the stage for the birth of the tea auction center in the future. Doing this not only helps businesses enhance the tea brand, but also limits sewn-mediated sales, and eliminates indecent tactics of the traders. In addition, the units of production and tea processing should actively seek domestic and foreign markets in order to develop appropriate strategies to meet their markets

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Trade promotion activities should be focused on organising more direct meetings between Vietnamese businesses and foreign importers and diversifying types of tea products should be displayed at international exhibitions.