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State of the U.S. Tea Industry Review of 2019 and Look Forward for 2020

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2019 was a year that started with such optimism converting quickly to dogged determination as a combination of events turned it into as challenging year as we've had in recent memories.

The imposition of tariffs on tea by the Trump Administration was not a welcome event. Despite testimony being given to the Federal Trade Representative in D.C., by myself and several other members of the trade, the tariffs were imposed. While the initial proposal was 25% on tea from China, this was eventually imposed at the 15% level. At the time of this writing, the tariffs on Chinese Tea have been reduced to 7 ½%.

Our efforts to increase the number of tea tolerances continued in 2019 with an additional 7 new tolerances established by EPA. Our work in D.C. continued with the Tea Association speaking on behalf of the industry in the areas of Standards of Identity, definition of "Natural" and Dietary Guidelines.

Other topics in which we acted on behalf of the industry were: esophageal cancer; Heavy Metals (lead particularly); Country of Origin Labeling; HTIS classifications; Prop 65 and Nano-plastics. In fact, the Nano-plastic issue is still in play and we are working with the Tea & Herbal Association of Canada and the UK Tea & Infusions Association in this area.

Import volumes into the USA were mixed 2019. Both Green and Black volumes were down in the first half of the year by -4.9% and -3.9% respectively. However, as the year progressed, imports gained back some of the losses. Ultimately the year ended with Black Tea down on 1.7% and Green Tea was up 2.0%.

While total volume imports were down some 1.1% vs. 2018, consumption of tea in the U.S. continues strong in most tea categories and across all demographics. Green tea showed year-on-year strength with Green Tea now representing ~ 15.0% of total imports. Additionally, the dollar value of tea imports increased year over year vs. 2018.

Foodservice and Specialty Tea continue growth; RTD's Growth Flattens; Pressure on Traditional/Grocery

While ready-to-drink (RTD) tea continues to grow, the rate of growth has declined. Estimates are that 2019 exhibited around 2%. However, challenges even for RTD are clear: as they compete across other categories, e.g., health, refreshment and hydration, their ability to innovate and compete with other products will remain a key factor in continuing growth in both volume and dollars. While more expensive than bagged tea on a per-serving basis, consumers continue to reach for RTD teas for their flexibility, convenience and as a healthier alternative to sugary beverages. We continue to see separation and segmentation between premium, high quality RTD's and the value, CSD replacement segment.

Other formats including loose, bagged, mixes and pods continue to struggle, although share declines have slowed. Private Brands are growing in both volume and dollars.

Specialty Tea continues to be a star, driving growth, both volume and dollars across various outlets. Consumers across all demographics continue to seek new and different beverage options and flavors. Interest in terroirs, flavors, origins, bush to brand and sustainability of these high quality, higher priced teas, continues. Trends in Artisanal teas remain the same and continue to grow at a fast clip, albeit on small volumes. Consumers are becoming more engaged with their teas and 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. Buyers of Specialty tea are seeking to engage with their products of choice. They want to know that the dollars they spend are going to support the grower, workers and "brand" as a reward for a job well done in manufacturing quality products.

While still very small and generally non-commercial, tea growing continues its expansion in the U.S., in some instances, serving to answer the call of locally grown and farm-to-table trends. Countries of origin are also protecting and advertising their teas through geographic designations and copyrighting terroir trademarks.

Specialty iced tea continues in the top 10 on the National Restaurant Association's (NRA) *What's Hot Culinary Forecast* list of top non-alcoholic beverages. At the Natural Products EXPO WEST the trends are all plant-based and whole foods driven. Tea is the perfect beverage as health is a **huge** driver of food and beverage purchases. Additionally, WebMD lists tea as one of its 10 Superfoods offering Super Health Protection.

The foodservice market continues to grow with tea becoming a more and more important offering in all types of restaurants. Foodservice establishments that are creating and leveraging "tea culture" are experiencing both solid growth and loyal, repeat customers. Refrigerator tea, which is partially captured in this segment, continues a very strong upward trend.

Our Market Size estimates are:

	1990	2016	2017	2018	2019
Traditional Market (Supermarket, Drug and Mass Merchandisers)	\$0.87 Billion	\$2.54 Billion	\$2.58 Billion	\$2.33 Billion	\$2.26 Billion
R-T-D	0.20 “	5.80 “	6.00 “	6.20 “	6.14 “
Foodservice	0.50 “	1.35 “	1.50 “	1.55 “	1.59 “
Specialty Segment	0.27 “	2.25 “	2.50 “	2.58 “	2.68 “
Total Sales	\$1.84 Billion	12.0 Billion	12.5 Billion	12.66 Billion	12.67 Billion

Specialty tea continues to thrive as Gen X, Millennials and now Gen Z's, continue to seek out flavors and origins that pique their interests. RTD continues on its path of premiumization and Foodservice tea offerings continue to grow. Tea Bags/Grocery continue their struggles to connect with consumers.

One of our key market challenges is to continue to differentiate true tea (*Camellia sinensis*) from herbals and other botanicals, neither of which have the same level of AOX and Healthful qualities.

Key Food & Beverage Trends:

According to Kimpton Hotels & Restaurants' sixth annual “Culinary & Cocktails Trend Forecast”, which surveys 130 chefs, sommeliers, general managers and bartenders from 75 Kimpton restaurants and bars. I have highlighted the hottest trends they've identified that could affect our industry.

1. Alternative diets become mainstream.

Diets once considered alternative are now the norm, so expect to see gluten-free, dairy-free, vegetarian, vegan, and keto options become menu mainstays.

2. Healthy ingredients take the spotlight.

Superfoods are now commonplace, and we'll see more up-and-coming healthy items, like nutritional yeast, ashwagandha, collagen peptides, and seaweed. Tea hits this bullseye.

3. Plant-based goes mainstream.

The Kimpton study said that 51% of respondents predict plant-based meat alternatives will solidify their mainstream status in 2020, and there will be even more plant-based takes on traditional meat dishes. **4.**

4. Cross-cultural fusions increase.

Dishes that bridge culinary regions will be among the most popular trends, with more than half of chefs incorporating cross-cultural fusion dishes onto menus such as Mexican and Southeast Asian cuisine,

French with Scandinavian flavors, Cantonese Chinese and Peruvian (or Chifa), and American South with Japanese. Expect to see regional and indigenous-inspired cuisine, including more Native American, Scandinavian, Peruvian, and Russian influences.

5. Restaurants with a purpose emerge.

Partnerships with local artists, distillers, farmers, purveyors, community members, and more will be important to diners and restaurants alike. Sustainability will also continue to take center stage, as diners demand transparency across ingredients, sourcing and production, and policies to reduce restaurants' environmental footprints.

6. Spritzes will reign supreme.

Influences from Mediterranean regions will shape bar menus, according to nearly half (46%) of respondents. Light, refreshing, often low-alcohol spritzes will be all over bar menus in 2020. These lower-sugar, crisper cocktails are the next evolution of the Spanish Gin & Tonic, which took over bars a few years ago.

7. Spritz culture will also affect coffee (and tea!).

Coffee spritzes will be the drink of 2020, according to nearly a third of respondents. Drinks like the Espresso Tonic will be requested all year round. The other top coffee trends for 2020 include nitro coffee on tap, cold brew alternatives, and CBD coffee.

Beverage Trends – Beverage Marketing Corporation offers the following Trends to Watch in 2020:

What Is America Drinking?

These key trends are impacting consumer beverage choices today

Major Consumer Trends Impacting the Greater Beverage Market

			Implication
Health & Wellness		<ul style="list-style-type: none"> Growth across categories is attributed to products & sub-segments which provide consumers perceived or actual functional health benefits and/or health improvements over existing products 	<ul style="list-style-type: none"> Functional beverage innovation <ul style="list-style-type: none"> e.g. hemp-infused beverages
Premiumization		<ul style="list-style-type: none"> Beverage categories are seeing increasing numbers of premium offerings, both in terms of price point and brand marketing 	<ul style="list-style-type: none"> Niche categories <ul style="list-style-type: none"> e.g. kombucha, coconut water etc.
Consumer Convenience		<ul style="list-style-type: none"> Consumers want beverages that are easy carry The convenience of e-commerce will drive innovation to overcome the barriers that its faces with CPG 	<ul style="list-style-type: none"> Packaging Innovation Growth in E-commerce
Increasing Beverage Variety		<ul style="list-style-type: none"> Consumers are demanding an ever-widening variety of beverage option Sugar continues to be avoided and, in some areas, is being taxed (e.g. Chicago, Seattle) 	<ul style="list-style-type: none"> More new products and categories Manufacturing flexibility <ul style="list-style-type: none"> e.g. short runs
Environmental Concerns		<ul style="list-style-type: none"> Concerns regarding single-use plastic impact continue to accelerate, but have not yet reached levels to enact sweeping changes 	<ul style="list-style-type: none"> Higher demand for environmentally-friendly packaging



For Tea Specifically:

- *Whole Leaf Teas* – Whole leaf teas and naturally flavored teas are not only continuing to increase in popularity among consumers, especially millennials, but across all demographics. Consumers who are looking for the “story” behind their favorite products have a treasure trove of history, terroir and tradition to investigate with tea.
- *Green Tea* – Green tea continues to drive consumer interest. Americans appreciate this beverage for doing something good for their body, specifically:
 - Calming them down when they’re feeling anxious
 - Boosting their immune system
 - To maintain a healthy weight
 - To look less physically stressed
 - Reduce skin redness

Looking ahead to 2020, the Tea market will face four key issues in 2020:

1. Supply and Demand

Supply continues to outstrip demand and history has proven that if tea prices rise, the producers will manufacture more tea to take advantage of the higher prices. Producers, by skipping pruning cycles or plucking a little further down on the bush have an almost immediate ability to turn on a volume tap of 205 more tea. The result of more availability and poorer quality: lower 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: improve consumption or reduce production.

2. Free and Unencumbered Trade

International trade is becoming much more of a challenge to the entire supply chain.

- a. Lack of harmonization of crop chemical tolerances
- b. Political vs. Science based reactions (see Glyphosate decisions)
- c. Country of origin labeling
- d. Tariffs

Economic growth and stability cannot be achieved long term without free trade. The industry must work together to address the above issues.

3. 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

I submit that tea has demonstrated a strong commitment to ecological sustainability and it is the latter two that need action. Economic sustainability is the biggest threat. Producers (generally) are 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 allows for unsustainable economic models, impacting the means for people 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.

4. The Goodness of Tea

The number of positive attributes regarding tea continues to be buttressed by research and demonstrates why this great product should be consumed by EVERYONE! Yet, we continue to battle those negative articles on tea which do usually are based on false assumptions or purported facts. This "ClickBait Culture" serves only those who want to attract attention and encourage visitor to click on their linked or their particular web page. Further we see recycled stories from YEARS ago, that have long been disproven, continue to make their way into the news cycle. This attitude of whoever gets there first, or whoever publishes first, drives inaccuracies and turns the news reporter into newsmakers. This cannot continue. Tea needs to be celebrated for its healthful properties, not used as ammunition in some idiotic arsenal.

So, while we continue to face these challenges, I remain wholly optimistic. The tea supply chain is resilient; producers generally want to produce good product and consumers want to receive good value.

These are not conflicting goals. A great model to use is that of Specialty Tea: Quality, Uniqueness, Terroir "Stories" and Price/Margin make this a great business. The challenge is how to adapt this model across the entire tea supply chain.

Fundamentally, we need to set expectations with consumers, demand fair return for all in the supply chain and continue to shout from the rooftops about the goodness of tea, both for our world and our health.

And don't forget that the first International Tea Day as designated by the United Nations will be:

May 21st, 2020!

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President
March, 2020