

State of the U.S. Tea Industry Review of 2021 and a Look Forward into 2022

2021 continued with COVID is the prevailing headline and it stayed that way throughout the year. Whether it was masking policies, availability of vaccinations, booster, Delta variant, Omicron variant, proof of vaccination, travel restrictions... well you get it!

No matter what happened, everything seemed to revolve around COVID. In reality, so much more was happening albeit influenced by this horrible pandemic. We just need to part the curtain and see what happened backstage.

As far as tea was concerned, the pandemic was a mixed blessing.

Overall, the tea market grew in 2021. In reviewing tea import figures through September, total tea imports are up over 8%, with Black Tea exceeding 2020 by more than 9%. As reported last year, a qualitative study sponsored by the Tea Association reported that consumers turned to tea during those difficult times. This trend continued in 2021. Tea's perception as being an enabler for de-stressing as well providing a feeling of "centeredness" during these anxious times. This complements tea's perception as a plant-based, healthful drink, consumed for its variety of benefits, rooted in its high flavonoid content. In fact, several new research papers were published in 2020 and 2021 illustrating tea's extraordinary ability to act as a booster of human immune systems.

Further, consumers seem to truly embrace the entire process of brewing tea in their home. It is known that personal "tea ceremonies" whether using a family recipe or a "mom's" kettle or a certain mug, in and of itself calms and relaxes. This coupled with tea's natural ability to induce a "relaxed but ready" mental state, heightens the feeling of serenity and internal quiet, mental states that were at a premium during this past year.

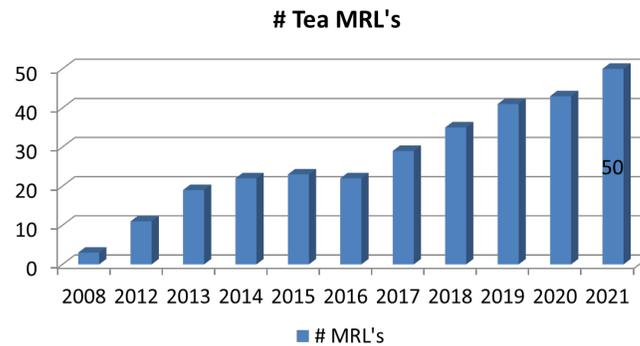
And as we know, mental health is only part of tea's attraction. Literally thousands of published scientific journals have documented tea's ability to positively impact human health. Whether potentially interfering with cancer mechanisms, enhancing heart health, slowing neurological decline, positively impacting weight management and preventing diabetes or improving bone health and lastly boosting immune functionality, tea is good for you and tastes great!

While tea consumption generally benefited positively, COVID impacted businesses, forcing different ways of working in companies and supply chains.

Inventory declines were one of the results of the shipping imbalances caused by our emergence from isolation. Container vessels were stuck offshore while ports struggled to move cargo onto trailers for delivery to customers. Ocean freight companies raised rates to unconscionable levels with some export regions, particularly Asia, seeing the cost of a FEU going from \$3,000 to \$17,000. Further a container imbalance prevented a faster recovery. The situation was so dire, that the FMC and even President Biden got involved in an attempt to get supply chains back to some semblance of normalcy. Our participation in a Freight Coalition consortium assisted us in helping to apply pressure and notice to key players in the government and maritime bureaucracies to act on consumers behalf.

Tariffs on tea from China continued as a holdover from President Trump's administration and continues under President Biden. We continue to advocate for removal of this tariff on Chinese tea.

Our efforts to increase the number of tea tolerances continued in 2021 with an additional 3 new tolerances established by EPA. The Tea Association will again act as registrant for Cypermethrin in early 2022. The Tea Association successfully continues to drive this initiative on behalf of the industry and leverage the successes to date as indicated in the following chart.



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 and port congestion issues. Even more exciting is that we will be hosting the 6th International Scientific Symposium on Tea & Human Health in 2022.

Support and defense of the industry is our mission. This support is seen in a variety of areas, addressing such topics as heavy metals; HTIS classifications and modifications; Prop 65 actions; sustainability issues and nano-plastics in tea bags. Sustainability continues to be an important driver for consumers, customers and industry supply chains. In all efforts we attempt to ensure cohesive messaging across borders by liaising with the Tea & Herbal Association of Canada and the UK Tea & Infusions Association.

As important as our work is, it is no secret that the Tea Association, as well as most Associations, struggled with the financial impact of the pandemic. We compete for support from our members in the form of both human resources, e.g., committees, and financial support, through your dues. Our budget continues to be negatively impacted as some member companies have not paid their 2021 dues or have left the Association due to their own financial situations. As we have reported in the past, we have met these challenges head on by reducing our own costs: suspending or delaying non-essential work; reducing overheads and squeezing every dollar that we receive. I would note that Associations were initially not eligible for any government relief funds. This was changed earlier in the year and we did qualify for minimal grants through the CARES Act. This money was applied per regulations to rent and salary.

Foodservice Improves; Specialty Tea continues growth; RTD growth slows; Traditional/Grocery works to hold on to previous gains

2020 proved devastating to the foodservice market which was hugely impacted by COVID. The accompanying stay-at-home orders, prohibition of indoor dining and social distancing requirements kept people far away from their favorite restaurants, deli's and convenience stores. The entire restaurant, hotel and event categories of businesses, along with the airline industry, kept people, not only close to home, but IN their homes. It is estimated that in 2020 loss of revenues was somewhere between 50% - 70%. Fortunately, this sector began to come back in 2021 as vaccination rates increased, domestic travel resumed and federal and state governments eased restrictions.

Specialty Tea continues its rise in both pounds and dollars, bolstered by continued growth with in-home delivery and in-home consumption of tea. While Millennials and Gen Z's led the way, consumers across all demographics continued to consume tea for its variety of origins, types and flavors. Tea generates interest in terroirs, flavors, origins, bush to brand and sustainability, particularly in these high quality, higher priced teas. Artisanal teas remain of high interest and continue to grow at a fast clip. 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. Specialty tea buyers, in particular, seek to engage with their products of choice. They want to know that the dollars they spend are going to support the grower, tea workers and the "brand" as a reward for a job well done in manufacturing quality products.

Ready-to-drink (RTD) tea category continued its growth. Estimates are that 2021 exhibited circa 3%- 4% growth in volume and 5% - 6% in dollars. Challenges for RTD remain clear: competition across other categories, e.g., health, refreshment and hydration, will challenge this category's ability to innovate and compete in order to continue volume and dollar growth. 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. Innovation, flavor variety and healthful positioning will continue to be legs of growth.

Traditional tea (Grocery/DMM (Drug/Mass Merchandisers) fought hard to maintain the gains from 2020. Tea bag sales grew some 18% last year and preserving that expansion was a focus of most companies. Communication to consumers through traditional media and social media was at a much higher level than previous years that speaks to the improved bottom lines and need for re-investment in brands. As the foodservice sector expanded and out of home consumption increased, pressure on keeping gains was clear. Increased per capita consumption occurred across all sectors and Traditional purveyors are working hard to keep their progress.

As an industry, we are challenged to continue educating the consumer in the difference between true teas (*Camellia sinensis*) from herbals and other botanicals, neither of which have the same level of AOX 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.

The cultivation of *Camellia sinensis* continues to expand in the U.S., serving both to answer the call of locally grown and farm-to-table trends as well as providing alternate, sustainable crops for growers. It is still very early days and any thought of a U.S. based tea supply for mainstream teas is at least several decades away. However, if margins become attractive enough, more resources may be brought to bear and faster YOY volume gains could be seen.

Internationally, producer countries of origin are also protecting and advertising their teas through geographic designations and trademarking their unique terroirs. The adoption of wine-like appellation marketing and protection serves to differentiate one region from another as well as communicating 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 CPI for food inflation so far in 2021 is 3.1%. Please use these figures as a guide.

	1990	2018	2019	2020	2021 Est.
Traditional Market (Supermarket, Drug and Mass Merchandisers)	\$0.87 Billion	\$2.33 Billion	\$2.26 Billion	\$2.67 Billion	\$2.51 Billion
R-T-D	0.20 “	6.20 “	6.14 “	6.45 “	6.70 “
Foodservice	0.50 “	1.55 “	1.59 “	.80 “	.96 “
Specialty Segment	0.27 “	2.58 “	2.68 “	3.20 “	3.30 “
Total Sales	\$1.84 Billion	12.66 Billion	12.67 Billion	13.12 Billion	13.47 Billion

The 2021 Pollock Communications and Today's Dietitian "What's Trending in Nutrition" survey, with 1,165 registered dietitian nutritionists (RDNs) responding, provided an in-depth look at how dietitians believe consumers' diets have changed due to COVID-19.

COVID-19 Transformed the Way Consumers Eat and View Food

As a result of the pandemic, 78% of RDNs believe that consumer eating habits are shifting away from the traditional 3 meals a day to more frequent snacking. In addition, with anxiety about health, wellness and the challenging economy looming in consumers' minds, RDNs predict the top purchase drivers of 2021 will be foods and beverages that:

1. Support immunity
2. Are affordable and value-based
3. Promote comfort and emotional well-being

Tea not only benefited from COVID in 2021, it hits the bullseye of these drivers by being beneficial to our immune system; readily available and of good value; and an enabler in achieving emotional well-being. Tea will continue to be one of the go-to products in 2021.

Further, WebMD continues to list tea as one of its 10 Superfoods offering Super Health Protection as do Dietitians and Nutritionists.

2022 Predictions:

- *Tea Will continue to grow across all sectors.*
- *Whole Leaf Teas/Specialty Tea* – 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.

COVID continues to spotlight the “Power of Tea”

- **Cardiovascular health, immune boosting properties, and improvement of mood** are the **most popular** reasons as to why people drink tea according to a qualitative survey by Seton Hall University. A

new study has been commissioned for 2022, but we can continue to see how tea is viewed by the important Millennial and Gen Z demographics.

- *Black Tea* – Is beginning to emerge from under the shadow of green tea’s health aura with ownable health properties
 - Cardiovascular Health
 - Physical Health
 - Immune System Boost
 - Satisfy Thirst/ Hunger
 - Pick-Me Up
- *Green Tea* – Green tea continues to drive consumer interest. Americans appreciate this beverage for doing something good for their body, specifically:
 - Emotional/ Mental Health
 - Immune System Boost
 - Drank when feeling sick sore throat/stomach ache
 - Stress Relief
- Foodservice will continue modest growth on its return to pre-pandemic levels.
- 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 will continue to grow, albeit at lower levels.
- 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 2022:

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. 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.

2. 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 20% more tea. The result of higher 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: drive consumption or reduce production. Note that these solutions are not exclusive and should be done in tandem.

3. **Free and Unencumbered Trade**

International trade is becoming much more of a challenge to the entire supply chain. We have all seen the impact of the global shipping supply chain, the piling up of containers at the ports, increased freight rates, lack of trucks and truck drivers and poorly positioned empty containers at origin. We have also seen ocean carriers and ports use this disruption to their favor and increase costs to an almost unconscionable level.

Further, we continue to see barriers to trade through:

- a. Lack of harmonization of crop chemical tolerances
- b. Political vs. Science based regulatory decisions (e.g., Glyphosate)
- 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**

The number of positive attributes regarding tea continues to be buttressed by research and demonstrates why this great product should be consumed by EVERYONE! More research continues to be published highlighting the Power of Tea. In fact, the Tea Council of the U.S.A. will be sponsoring the 6th International Scientific Symposium on Tea & Health in Q2 of 2022.

The papers presented will provide further platforms for celebrating tea's healthful properties and getting the message to consumers that consuming tea is a great way to take care of yourself, both mentally and physically.

I remain firmly optimistic going forward. Tea has so much to offer to its consumers. Tea's supply chain is resilient; producers generally want to produce good product and consumers want to receive good value.

As I stated last year, we, the tea community, 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.

Peter F. Goggi
President
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