

State of the U.S. Tea Industry Review of 2020 and a Look Forward into 2021

2020 began with a somewhat upbeat feeling. We had just finished a challenging 2019, in which the imposition of tariffs on teas from China by the Trump Administration, while reduced from 15% to 7 ½%, were still in force. Rumors of a potentially dangerous virus first seen in Wuhan was on the news, but was really just an afterthought for most of us here in the U.S.A. By the middle of March, we were experiencing government enforced lockdowns; hospitals and emergency rooms being overrun with patients and the death toll continuing to rise.

The remainder of the year was one that we wish we could just forget!

The businesses of many of our members are operating under completely different rules and regulations, or in some cases, not at all. The tea business, like many others, is operating across an unknown divide, with retail brands and product sales booming while foodservice, OCS and out of home sales are struggling.

Associations are struggling as well, as we compete for your support in the form of both human resources, e.g., committees, and financial support, through your dues. Our budget has been negatively impacted, as some member companies have not paid their 2020 dues and others have not met their commitments. We have met these challenges by reducing our own costs: suspending or delaying non-essential work; successfully negotiating our rent down by some 30%; and squeezing every dollar that we receive. (I should note that Associations such as ours were not eligible for any government relief funds.)

However, even during this horrible storm, there were some clouds with silver linings, particularly around tea consumption.

The Specialty Tea sector is one in which the pandemic actually spurred growth. Qualitative research indicates that consumers are turning to tea in these difficult times. Tea is seen as an enabler for destressing and helping consumers achieve “centeredness”. This complements tea’s perception as a healthful drink, consumed for its variety of benefits, rooted in its high flavonoid content. In fact, new research published in 2020 illustrated tea’s extraordinary ability to act as a booster of human immune systems, something much needed in times of COVID.

Our efforts to increase the number of tea tolerances continued in 2020 with an additional 3 new tolerances established by EPA. The Tea Association was again successful acting as registrant for Hexythiazox; the other two tolerances established were for Permethrin and Difenconazole. Work continues on this important initiative on behalf of the industry.

Our work in D.C. continued with the Tea Association communicating our positions on behalf of the industry in the areas of tariffs, labeling (country of origin and nutritional), Dietary Guidelines and port congestion issues.

Other topics in which we acted on behalf of the industry were: heavy metals; HTIS classifications and modifications; sustainability issues and nano-plastics in tea bags. 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.

It was clear that COVID impacted much of our industry, surprisingly in both negative and positive ways.

Import volumes into the USA were lower in 2020 vs. 2019. Both Green and Black volumes were down by -10.7% and -8.6% respectively. The limited good news is that imports rebounded from very low levels in the middle of the year and total imports made a small comeback in Q4. Green tea showed slight year-on-year growth vs. 2019, remaining at ~15% of total imports.

While overall tea imports were weaker in 2020, consumption of tea in the U.S. continues strong in most tea categories and across all demographics.

Qualitative research done at the end of 2020 clearly indicated that the health benefits of *Camellia sinensis* helped to increase tea consumption throughout COVID. Gen Z's and Millennials found tea consumption to be very helpful, using terms such as "Calming", "De-stressing", "Centering" and "Relaxing" as key reasons for consuming tea and helping them deal with the pandemic.

Foodservice Decimated; Specialty Tea accelerates growth; RTD's Grow; Traditional/Grocery shows unprecedented year-on-year growth

The foodservice market was hugely impacted by COVID and its accompanying stay-at-home orders, prohibition of indoor dining and social distancing requirements. 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. Sales of tea products through this channel came to a virtual standstill. Total decline in 2020 is estimated to be between 50% - 70%, although some bounce-back occurred towards the end of the year as state governments eased restrictions.

Specialty Tea continues its rise in both pounds and dollars, bolstered by growth in at-home delivery and in-home consumption of tea. Consumers across all demographics, though led by Millennials and Gen Z's, continued to consume tea for its variety of options 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 to grow. Estimates are that 2020 exhibited circa 3%- 5% growth. 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.

The big winner in 2020 were teas sold through the Grocery/DMM (Drug/Mass Merchandisers). Preliminary numbers indicate that tea bag sales grew over 18%, an unprecedented increase. Clearly, stay at home orders coupled with consumers seeking a "calm within the pandemic storm" turned to tea. Consumers not only were trying tea, but tea consumers drank more of the beverage they love. The trend of increased per capita consumption is expected to continue going forward.

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.

Tea growing continues its expansion 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. Internationally, producer countries of origin are also protecting and advertising their teas through geographic designations and trademarking their unique terroirs.

Our Market Size estimates are:

	1990	2017	2018	2019	2020 Est.
Traditional Market (Supermarket, Drug and Mass Merchandisers)	\$0.87 Billion	\$2.58 Billion	\$2.33 Billion	\$2.26 Billion	\$2.67 Billion
R-T-D	0.20 “	6.00 “	6.20 “	6.14 “	6.45 “
Foodservice	0.50 “	1.50 “	1.55 “	1.59 “	.80 “
Specialty Segment	0.27 “	2.50 “	2.58 “	2.68 “	3.20 “
Total Sales	\$1.84 Billion	12.5 Billion	12.66 Billion	12.67 Billion	13.12 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.

What we can look forward to:

- *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.

COVID helped highlight the “Power of Tea” to the important Millennial and Gen Z demographics

- **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.
 - *Green Tea* – Green tea continues to drive consumer interest. Americans appreciate this beverage for doing something good for their body, specifically:
 - Emotional/ Mental Health
 - Drank when feeling sick sore throat/stomach ache
 - Stress Relief
 - *Black Tea* – Is beginning to emerge from under the shadow of green tea’s health aura
 - Physical Health
 - Satisfy Thirst/ Hunger
 - Pick-Me Up
- Foodservice will make a comeback, but will not approach 2019 levels until the end of 2021
- Consumers will continue to enjoy tea and the new levels of tea consumption will be maintained, bolstering Grocery/DMM sales
- RTD will continue to grow, albeit at lower levels

The tea market will continue to face the following challenges in 2021:

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 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.

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 regulatory decisions (e.g., Glyphosate)
- c. Country of origin labeling
- d. Tariffs

We cannot fully return to economic growth and stability without free trade. The industry must work together to address these 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. The absence of 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 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.

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 are based on false assumptions or purported "facts". This "ClickBait Culture" serves only those who want to attract attention and encourage visitors to click on their link 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.

I look forward to an exciting year...And don't forget that the 2nd International Tea Day as designated by the United Nations will be:

May 21st, 2021!

Peter F. Goggi
President
February 2021

