

SUSTAINABLE DEVELOPMENT OF THE LAO TEA SECTOR

Industry Position Paper

Prepared by Earth Systems in consultation with the Lao Tea Sector Stakeholders

Supported by the Mekong Region Land Governance Project



July 2016



ACKNOWLEDGEMENTS

This Industry Position Paper was made possible through support from the Mekong Region Land Governance Project (MRLG) under the Quick Disbursement Fund Facility.

Earth Systems Consulting Pty Ltd acknowledges and thanks all partners that provided input and involved in the Paper's development both at the national and international level. These include: Phongsaly Provincial Industry and Commerce Office (PICO); Phongsaly Agriculture and Forestry Office; Oudomxay Provincial Agriculture and Forestry Office; Champasak Provincial Agriculture and Forestry Office; relevant line government authorities from Phongsaly district; Domestic and international tea industry and business representatives from Phongsaly, Oudomxay, Vientiane and Champasak; tea farmers representatives from Phongsaly province; Lao Chamber of Industry and Commerce (LNCCI); European Chamber of Industry Lao (ECCIL); Forum for the Future (Tea 2030); Vietnam Tea Association (VITAS); Lao tea consultant; International Development Organizations include: Helvetas: Community Organization, Participation & Empowerment Program (COPE); The Agro-Biodiversity Initiative (TABI), CCL; GIZ and OXFAM.

The following individuals are gratefully acknowledged: Mr. Thongsavanh Thammavong, Director of Phongsaly PICO and the team; Ms. Niphaphone Nampanya, Project manager / Gender & Social equity coordinator of Helvetas-COPE and the team; and Mr. Khamphan Chantingvong, owner of Phongsaly Green Tea and employees; Tea consultants: Tom Callander, Chris Smithies, Vonesili Saysana, Bounta Nuanvixay and Paggy Pan.

This Position Paper should be cited as:

Earth Systems 2016, Industry Position paper: Sustainability Development of the Lao Tea Sector (DRAFT), Vientiane Capital, August 2016.

Document Revision History

Revision Status/Number	Revision Date	Description of Revision
Revo	July 2016	Draft
Rev1	September 2016	Final

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FOREWORD

Partnerships in the Lao Tea Sector are fundamental to a sustainable future

The Lao Tea Sector is small in the global context but makes an important contribution to local economies in tea production areas in the North and South of Lao PDR. These areas are typically remote and have some of the highest poverty rates in the country. Tea is predominantly produced by ethnic minority communities; either sourced from forest tea resources or commercial plantations. Women play a dominant role in the sector.

The Lao Tea Sector has significant potential to grow and contribute further to the development of these local economies. Key to this are the country's high value ancient and wild tea resources; potential areas for cultivated tea production; and burgeoning investment in tea processing and development of higher value products. Yet to-date, the sector has been unable to fully capitalise on these comparative advantages. Further, some of these advantages are presently under threat. Key challenges include protection of ancient and forest tea resources; ensuring viable livelihoods from tea production; and development of equitable and mutually beneficial relationships between producers, processors and traders.

This Position Paper has been developed by leading tea industry stakeholders with the support of the Mekong Region Land Governance Project with the aim of generating awareness and support for the sustainable development of the Lao Tea Sector.

The paper outlines the current status of the sector; explores the key challenges and opportunities; and presents a commitment from the industry and a proposed program of collaborative action towards sustainable development of the sector.

Significant momentum has already been generated through the development of this Position Paper including:

- Initiation of a Tea Sector Working Group consisting of stakeholders from industry, government and civil society;
- Sharing of work and lessons learned from past and present tea sector development initiatives;
- Commitment from Lao Tea Sector actors to strive towards the sustainable development of the sector;
- Development of regional and global tea sector partnerships and alignment with the Tea 2030 – a global industry led initiative working towards a sustainable future for the tea sector; and
- Formal support from the Lao Chamber of Industry and Commerce (LNCCI); European Chamber of Industry Lao (ECCIL); Vietnam Tea Association (VITAS) and Forum for the Future (Tea 2030) for implementing a program of industry-led collaborative action for the development of the Lao and regional tea sectors in the years to come.

Raising the profile and value of the Lao Tea Sector and coordinating this journey to sustainability is expected to influence policy and investment practices in support for the protection of tea resources; and tenure security and livelihoods for rural tea producing communities and overall development of rural economies in Northern and Southern Lao PDR.

We look forward to continued cooperation and a vibrant and sustainable Lao Tea Sector in the years to come.

Regards,

The Tea Sector Partners

1 INTRODUCTION

After water, tea is the most popular beverage in the world with over three billion cups consumed every day.¹ Tea comes in many varieties of which the main two are black tea and green tea.² In line with large expected increases in demand for food and a growing global 'middle class', demand for tea is expected to grow significantly in the ten-year period to 2023.³ Global tea production is predominantly in developing countries by smallholder farmers which makes it a critical pro-poor crop for many emerging economies.

The Lao Tea Sector is small and underdeveloped but has the potential to grow and contribute significantly to poverty alleviation and rural development in Lao PDR. Tea production is reliant on rural tea communities, the majority of which are ethnic minorities and many women are involved in the sector. Tea producing communities interact with locally owned cottage industry processors as well as an increasing number of foreign owned processing facilities and foreign traders. Production areas are spread out across the country and include traditional, high value tea areas in the north – sold primarily to the Chinese market and emerging tea areas in the south which are developing alternative markets in western countries.

Further development of the Lao Tea Sector is facing the following challenges:

- Forest tea and ancient tea resources, which are integral to the livelihoods of tea producing communities are under threat due to a lack of land rights and customary tenure recognition of community forests - resulting in unsustainable resource extraction and land conversion;
- Investments in commercially cultivated tea are not providing the anticipated benefits to small-holder farmers because of a lack of continued technical support; access to finance; and access to markets; and
- There are inequitable relationships between producers, processors and traders, fuelled by market access arrangements favouring external investors / traders, poor land / resource governance and lack of coordinated and inclusive mechanisms (i.e. producer / processor groups) for the development of a sustainable sector.

Taken together, these challenges present threats to poor rural communities; issues for tea businesses and investors; and implications for the development of wider rural tea producing areas.

These challenges are not unique to Lao PDR. In 2011 a group of leading global tea industry stakeholders came together, identifying a list of 10 key challenges (incorporating challenges listed above), and committing to *Tea 2030*, a global initiative to 'create a shared vision for what the global tea industry can do together to ensure it has a prosperous and sustainable future'.⁴

The purpose of this position paper is to articulate the key (above mentioned) challenges facing the Lao Tea Sector and articulate a framework for 'collaborative action' to promote sustainable development of the sector going forward.



Figure 1-1 Cultivated tea plantation, Phongsaly, 2016

1.1 Aims & Objectives

Following Tea 2030's lead, and with support from the Mekong Region Land Governance Project, Lao Tea Sector stakeholders from industry, government and civil society have conducted a series of engagements with the aim of presenting a shared industry position on the challenges and opportunities, and a proposed collaborative action framework required for ensuring the sustainable development of the Lao Tea Sector.

Specific objectives of the Paper are to:

- Outline the status, key challenges and opportunities for the development of the Lao Tea Sector;
- Outline an industry commitment to sustainable development; and
- Present a way forward for collaborative action amongst tea sector stakeholders including government, industry and tea communities.

1.2 Scope and Structure of the paper

The following sections of this Paper will outline the current state of the global tea sector including the recognised need for sustainable approaches to ensure continued industry development (Section 2). The Lao Tea Sector and its unique challenges and opportunities are presented in Section 3 and 4. Section 5 articulates the need for collaborative action to help drive sustainable development in the sector. The paper concludes in Section 6 with recommendations and next steps.

2 THE GLOBAL TEA SECTOR

2.1 Market Overview

The global tea market provides employment for more than thirteen million people with annual global tea production exceeding five million tonnes and estimated revenue of over \$40 billion USD.^{4,5} Derived from the tea plant *Camelia sinensis*, tea is produced in over forty-five countries, primarily in Asia and Africa. The top tea producing countries include China, India, Kenya, Sri Lanka and Turkey which collectively account for approximately 76% of global tea production.⁴ These producer countries also have large domestic tea markets. The key export tea markets are Russia, the USA and Europe.

Tea production figures are generally divided into black tea and green tea. Tea production is expected to grow from 5.06 million tonnes to 7.14 million tonnes between 2013 and 2023. Underpinning this growth is a forecast tripling of green tea production from just over 1 million tonnes in 2013 to 2.97 million tonnes in 2023. In terms of exports, black tea is projected to reach 1.67 million tonnes by 2023 and green tea, 0.76 million tonnes.²

Multinationals account for over 85% of the global tea supply chain with three companies (Unilever, Tata Global Beverages and Twinings) collectively accounting for 20% of the global market.^{2,4}

2.2 Sustainable Development in the Tea Sector

There are a number of organisations that are working towards sustainable development in the global tea industry including the Ethical Tea Partnership (ETP), Fairtrade, IFOAM (organic certification), Rainforest Alliance and Utz Certified.⁶ The Rainforest Alliance and ETP have joined forces with other leading global tea industry stakeholders including Unilever, Tata Global Beverages and Twinings to establish *Tea 2030* - a sustainability initiative supported by the International Tea Committee.

The *Tea 2030* initiative is working with organisations to help them understand how the entire value chain can work together to secure the long-term sustainability of the sector. *Tea 2030* is designed to stimulate action by all organisations in the tea value chain, both individually and more critically, in collaboration, delivering new solutions to existing and future challenges facing the sector.¹ The *Tea 2030* initiative has identified ten key challenges and five core principles for sustainability, which are detailed below.

Ten key challenges for the global tea sector:

1. **Demographic changes** - Rising populations and a growing 'global middle class' which will drive demand for food including tea but also increase competition for available agricultural land.
2. **Resource constraints** - The future availability of water, energy and vital nutrients, such as phosphorous, will all put severe pressure on the tea industry.
3. **Climate change** - Changes in temperature and precipitation combined with expected increases in pests and diseases from climate change all pose significant threats to the sensitive tea plant.
4. **Competition for land and productivity** - Tea is not a staple crop and rising demand for agricultural land as well as the emergence of alternative higher value crops will put pressure on land availability and drive the need for productivity gains in the sector.
5. **Availability of labour and mechanisation** - Loss of available labour due to growing urbanisation as well as fewer employment opportunities for communities due to increased mechanisation of tea harvesting and processing are both issues that will need to be addressed in the future.
6. **Balance of power across the supply chain** - The tea sector has a large number of small players and a small number of large players. A more sustainable sector will ensure a balance in economic and social empowerment across the supply chain.

7. **Emergence of new business models** - Disruptive new technologies and products such as the recent 'ready to drink' market as well as social media and online trading platforms will have a significant influence on the future tea industry.
8. **Sustainability leadership of emerging economies** - Due to the environmental and social consequences of rapid development in developing nations, it is increasingly likely that these emerging economies will take a more active role in sustainability leadership.
9. **Improvement in wages and welfare in the supply chain** - Working in tea production is generally not regarded as an attractive option and this will need to be addressed in a future with greater competition for labour and consumer demand for ethical supply chains.
10. **Consumer attitude to food value** - Greater brand / product awareness and resulting demand for responsibly-sourced and produced goods are placing consumers in a better position to drive the sustainability agenda.

Core principles for a sustainable tea sector

The five core principles developed by the Tea 2030 Project can enable tea to become a 'hero crop' and drive sustainable development of the tea sector. A 'hero crop' is one that delivers major benefits to the millions of people involved in the sector, the planet, and the wider economy. It can achieve this through creating a transparent and fair approach to production, supply and distribution as well as addressing the environmental challenges associated with tea production and developing stronger connections between end-consumers and producers.

The five core principles are listed and described in Table 2-1. The *Tea 2030* initiative have now called on global tea stakeholders to use these principles as a framework for collaborative action in order to safeguard the future of the tea industry.

Table 2-1 Five Core Principles for a Sustainable Tea Sector

Core Principle	Description
To sustainable livelihoods and empowered producers	Working in the tea industry should provide participants with access to a sustainable livelihood. This should occur at all points along the tea value chain, from retailing to growing. However, in the future, a hero crop should also empower producers, to improve their skills so that they can create their own livelihood and take more ownership of the chain.
To ecologically sustainable restorative production	Tea should be produced using sustainable methods so that the production and processing of tea does not degrade the soils, biodiversity and water on which tea production depends, or negatively affect tea workers. A hero crop should look at how it can be restorative – replenishing soils, increasing biodiversity and minimising the use of water, energy, fertilisers and pesticides going beyond the field where tea is grown to examine its impacts on the wider community and environment.
To low carbon and resilience	The production and consumption of tea will face many challenges in the future and the sector needs to deliver a resilient value chain able to collectively manage its risk, particularly from climate change. Tea needs to play its part in reducing emissions – from the processing of tea leaves and transportation, to the boiling of water.
To value chain transparency and sustainable market mechanisms	How the market functions for tea is central to not only the price paid but also returns and cash flows to producers, how risk is managed and the liquidity and investment in the sector. A sector that produces a hero crop will help develop and deliver sustainable market mechanisms that provide wider sustainability outcomes than just financial ones.
To engaged and connected consumers	A hero crop is one that is connected with consumers. Consumers know where their tea comes from and how it is produced. Consumers can demand high sustainability standards and therefore give incumbents in the chain the mandate to improve sustainability standards.

Source: Forum of the Future 2014

3 THE LAO TEA SECTOR

Tea strains have been found in Lao PDR that are estimated to be at least 600 years old and evidence exists of tea trade connections with China as far back as the 7th Century. Despite this, the Lao Tea Sector is relatively underdeveloped compared to China, and very small in comparison with other agricultural sectors in the country.

In recent years, tea has been promoted by the Lao Government as a preferable alternative to swidden agriculture and poppy cultivation in the northern provinces.^{7,8} Tea is also identified as a focus crop in the recent Lao National Socio-Economic Development Plan 2016 - 2020 and the Agriculture Development Strategy to the year 2025 and Vision to 2030. Phongsaly has developed a Draft Provincial Tea Strategy which is expected to be finalised in 2016.

3.1 Lao Tea Sector Profile

3.1.1 Tea Resource

Current Tea Resources

Tea resources in Lao PDR can be divided into three main categories, wild forest tea, cultivated forest tea (locally known as 'ancient tea') and commercially cultivated tea (introduced strains). Endemic tea regions in the northern provinces account for 85% of tea production in the country with Phongsaly the epicentre. There is also emerging tea production in the south (Champasak, Salavan and Attapeu on the Bolaven Plateau). The majority of Lao's tea resource is located in upland areas that are usually populated by minority ethnic groups with women playing the dominant role in cultivation, collection, processing and sale of tea.⁹ Most tea production is considered 'organic by default' but only a few plantations on the Bolaven Plateau are certified organic.



Figure 3-1 Ancient Tea Garden in Ban Komen, Phongsaly 2016

A study conducted across the nine northern provinces in 2010-2011 identified approximately 8,500 households involved in tea cultivation.¹⁰ Another study identified the current tea resource as approximately 12,000 ha of which 72% was wild forest tea, 24% commercially cultivated tea and 4% ancient tea although evidence suggests that the current tea resource is under-utilised.¹¹

The majority of tea cultivation areas lie within village lands and have been zoned through the government's Land and Forest Allocation Program. A number of areas have been reallocated as concessions by the government and awarded to local or foreign producers.

A summary of the tenure and management of these different areas is provided below:

- **Wild forest tea**
 - » Communal village forest areas by managed and harvested by households (or household cooperatives) within those villages.
 - » Concession forest areas assigned to and managed by local or foreign producers employing local labour for harvesting.

- **Commercially cultivated tea**
 - » Communal or individual tea plantation areas within villages managed and harvested by households (or household cooperatives) within those villages.
 - » Concession tea plantation areas assigned to and managed by local or foreign producers employing local labour for harvesting.
- **Ancient tea (cultivated forest tea)**
 - » Communal village tea plantation areas, managed and harvested by households (or household cooperatives) within those villages.

Potential Tea Resources

There are more than 300 villages and 17,000 households situated within zones where tea is already cultivated.¹¹ A study evaluating land suitability for tea cultivation in Lao PDR found that almost 2.4 million ha were identified as suitable with over 200,000 ha identified as very suitable.¹² This study was based largely on climate and elevation and further research is required in order to obtain more reliable data on land suitability.

3.1.2 Tea Producers, Processors and Traders

Tea producers, processors and traders can be broadly categorised into northern and southern regions (Table 3-1).

Table 3-1 Tea Producer and Trader Categories in Lao PDR

Region	Description	Key Players
North	<p>Traditional wild forest tea, ancient tea gardens and cottage processing industry. Growing modern cultivation sector including 'contract farming' supported by Chinese traders and concession investors. Larger processing facilities planned.</p> <p>Key product is light green rough tea (mao-cha). Majority of tea is sold to the Yunnan market.</p> <p>Dominated by Chinese tea production approach and markets.</p>	<p>Numerous small holder tea producers and cottage processors across seven provinces</p> <p>Local social enterprises (i.e. Phongsaly Green Tea, Somneuk Tea Factory, Sengchan Agricultural Import Export Ltd.)</p> <p>International commercial investors (i.e. Lao Suyen Tea Classic, LandSun, Phufa Tea Factory)</p> <p>Chinese, Yunnan tea traders/brokers</p> <p>Local traders: i.e. Lao Mountain, Sinouk</p> <p>NGO supported projects (i.e. Helvetas-COPE, CCL, OXFAM)</p>
South	<p>Some traditional and a growing modern small holder and small scale cultivation. Finished products include Bolaven green, black and oolong tea.</p> <p>Broader range markets including Europe and America</p>	<p>Small holder tea producers: Lao Farmer Products; Batieng Products (Bapro) (unknown status)</p> <p>Mai Savanh Lao.</p> <p>Dao Heuang</p> <p>Tea traders (i.e. Sinouk)</p> <p>Numerous small holder tea producers (i.e. OngYa-Paksong KM 32, Ms. Soud-Paksong KM 40)</p>

Source: Earth Systems 2016

These tea producers, processors and traders remain unorganised. A national tea association is yet to be established and organisation in the sector is confined to a number of local tea producer / processor groups. The Lao Tea Alliance, a precursor to a potential national tea association was previously established with an advisory committee consisting of farmer representatives, processor representatives and officials from relevant ministries with support from international organisations including GIZ and Helvetas. However, this body has been inactive since 2014. There is no specific government entity or R&D centre for the development of tea.

3.1.3 Tea Production

Data on the country's total annual tea production is limited to ancient tea and commercially cultivated tea. In 2015 according to the Lao Statistics Bureau, approximately 3,400 ha of tea was harvested in Phongsaly, Oudomxay, Huaphanh, Luang Prabang and Champasak provinces with a yield of just over 6,100 tonnes of fresh leaves (about 1,400 tonnes of processed tea).¹³ This represents a 40% increase in harvested area since 2010 and more than double the 2010 yield.¹¹ Due to the presence of unregistered traders in the tea market, it is likely that tea harvest volumes are under reported. There is also minimal data on tea production in other northern provinces as well as production from wild tea resources.

3.1.4 Tea Processing

Most teas in the Lao PDR are produced using largely orthodox¹⁴ production methods at both the cottage / household and the factory level. Teas produced are divided into two main categories:

- 'Mao-cha' (rough tea) used for the production of 'Pu-erh' (a fermented tea); and
- Other finished teas such as white tea, black tea, yellow tea, red tea, green tea, oolong tea.

In addition, there are a number of herbal teas produced on a small scale including tea made from the mulberry, hibiscus and lemongrass plants. The most common final product is mao-cha which is sold to Chinese brokers and used to produce Pu-erh tea in China.

The number of processing factories to support tea production have rapidly increased in recent years. In Phongsaly alone, the number of factories has grown from three in 2010 to at least eleven registered companies in 2016. Of these companies, one is Lao (Phongsaly Green Tea), one is Malaysian and the remainder Chinese. Another local Lao company, Somneuk Tea, is currently undergoing the registration process.¹⁵

3.1.5 Tea Markets and Prices

The vast majority (85-90%) of tea produced in Lao PDR is exported, primarily to Yunnan Province in China. In some cases, Lao teas are mixed and packaged in Yunnan to prepare final tea cake products and the origin of the raw material is concealed due to tea trade and product protection in China. Other Chinese tea traders/retailers promote the origin of Lao teas to customers looking for organic and chemical free tea. The ancient lineage and perceived health giving qualities of Lao forest teas are also well known within high value Chinese tea markets.

Other export markets which are sourcing small quantities of Lao tea include Russia, France, Germany, the USA and other nearby countries in east and south-east Asia. There has been strong recent interest from the Taiwanese market for Lao red tea but in order to access the market Lao suppliers will need to meet challenges related to large supply volumes and consistent quality control.

According to International Trade Centre statistics the estimated value of tea exported from Lao PDR in 2014 was \$10,000 USD per tonne.¹⁶ Tea is purchased from smallholders mainly in unprocessed (fresh tea leaves) or partially processed (rough tea) form by processing factories or unlicensed traders and then final processed in country by the former or in China by the latter before exporting to market.

Lao tea prices are highly variable and dependent on origin, variety, intrinsic quality of the raw material and processing quality. Harvest times also have a significant influence on price with dry season tea obtaining a price premium over wet season tea for which there is less demand. A range of prices for dry season tea were obtained from industry stakeholders during early 2016 and are detailed below in Table 3-2. Prices obtained for processed Lao tea compare favourably with the current FAO composite price for processed tea of \$2.42 USD / kg.¹⁷

Table 3-2 Tea prices quoted for dry season tea by Lao tea industry stakeholders in March 2016

Source	Type	Price per kg (USD)
Unprocessed		
Paksong District, Champasak	Commercial green tea	\$0.37 - \$0.62

Source	Type	Price per kg (USD)
Pakbeng District, Oudomxay	Commercial green tea	\$0.84
Phongsaly District, Phongsaly	Commercial green tea	\$1.00
Phongsaly District, Phongsaly	Ancient green tea	\$2.84 - \$3.70
Processed		
Paksong District, Champasak	Commercial green tea	\$4.93 - \$8.63
Paksong District, Champasak	White tea	\$61.65
Phongsaly District, Phongsaly	Ancient green tea	\$61.65
Nyot Ou District, Phongsaly	Wild tea	\$370

Source: Earth Systems 2016

The higher prices for processed tea reflect the value adding process as well as the fact that it takes 5-6 kg of unprocessed tea to make 1 kg of dried, processed tea. The premium paid for ancient tea from Nyot Ou District is a reflection of its status in the Chinese market. Processed tea may undergo further value adding steps before reaching the final consumer. There was anecdotal evidence from Paksong that white tea is sold in specialty cafes and restaurants in Bangkok for up to 1,500 Baht per cup.¹⁸

3.2 Development Initiatives

In the last decade a number of initiatives have been implemented to support the Lao Tea Sector both at national and regional levels. Some of the key past and current projects are summarized in Table 3-3 and Table 3-4 below. A key lesson arising from these initiatives is that coordinated industry representation in policy development and planning is critical to the development of the tea sector.

Table 3-3 Past Tea Sector Development Initiatives

Project	Implementing Partners
The Forest Tea Project (2010-2011)	SDC and CARE
The Human Resources for Development for the Market Economy Program (2010-2014)	GIZ and LNCCI/PCCI, ECCIL, MoIC-DoSMEP, and PSL PAFO
Community Organisation, Participation and Empowerment (COPE) – under the Shan Tea Project. Phase 1 (2011-2016)	SDC and Helvetas

Source: Earth Systems 2016

Table 3-4 Current Tea Sector Development Initiatives

Project	Implementing Partners
Community Organisation, Participation and Empowerment (COPE) – under the Shan Tea Project. Phase 2 set to start in 2016.	HELVETAS; SDC; Local government partners
The Agro-biodiversity Initiative (TABI)	SDC; MAF; Local government partners
Shan Tea Project	SDC; HELVETAS
IDH Sustainable Trade Initiative – Tea Program (currently being implemented in Vietnam)	IDH; Unilever; Rainforest Alliance, Vietnam Tea Association (VITAS)
GIZ Capacity development for private sector development in Myanmar	GIZ; Development partners; Local government partners
Oxfam Agri-business Engagement for Responsible Land Governance in CLMV	Oxfam; SDC; GIZ

Project	Implementing Partners
FAO/AFD Project on the Promotion of Rural Development through Development of Geographical Indications (GI)	FAO; AFD; Local government partners
Tea 2030	Unilever, IDH, Tata, Twinings, Fairtrade, Rainforest Alliance, Ethical Tea Partnership etc
Ethical Tea Partnership	GIZ, IDH, Oxfam, UTZ, Fairtrade, Rainforest Alliance, Unilever, Twinings etc

Source: Earth Systems 2016

4 CHALLENGES AND OPPORTUNITIES TO SUSTAINABLE DEVELOPMENT OF THE LAO TEA SECTOR

As outlined in the introduction section of this paper, the Lao Tea Sector has the potential to grow and contribute significantly to poverty alleviation and rural development in the northern and southern areas of the country. This section explores key challenges and opportunities identified by the Lao Tea Sector to achieving this; presented under the Tea 2030's framework for sustainable development (see Table 4-1).

Table 4-1 Tea 2030 Principles and Challenges Facing the Lao Tea Sector

Principle	Challenges facing the Lao Tea Sector
To sustainable livelihoods and empowered producers	<ul style="list-style-type: none"> Improving tenure security for small-holders and community producers. Ensuring sustainable livelihoods can be derived from tea (labour conditions; wages; income generation; gender dimensions). Empowerment of producers to realise more benefit and value from tea.
'Ecologically sustainable / restorative production	<ul style="list-style-type: none"> Protecting and managing existing forest tea and ancient tea resources. Moving to higher productivity without compromising ecosystem services and landscape quality.
To low carbon and resilience	<ul style="list-style-type: none"> Adapting to changing weather patterns and volatility. Maintaining low carbon footprint whilst increasing production and processing volume
To value chain transparency and sustainable market mechanisms	<ul style="list-style-type: none"> Developing more equitable and robust market mechanisms and an understanding of value and sustainability across the value chain
To engaged and connected consumers	<ul style="list-style-type: none"> Marketing the value of Lao tea (the value of ancient tea; market diversification including niche organic and fair trade markets).

Source: Tea 2030 (2014) and ES (2016)

4.1 To sustainable livelihoods and empowered producers

4.1.1 Improving tenure security for small holders and community producers

As the competition for Lao's land and forest resources intensifies improving tenure of commercial, ancient and forest tea resources (current and potential) will be critical for securing long-term livelihoods for producers and enhancing the protection and management of tea resources for the development of the sector. There is a need for smallholders, communities and tea processors / traders to work together to develop successful tea-based livelihood models.

Current status:

- Wild forest tea resources often fall in village areas designated as communal village forest. These communal areas do not have the level of land security as those areas held by individuals and are vulnerable to land use reallocation for development. As a result, current and potential tea resources, which are often not properly identified, are under threat from large scale development activities.
- Small-holder commercially cultivated tea areas, while enjoying a greater level of land security, rely on proof of tenure. In many cases if these areas have been abandoned (as many were over the last 10 years due to poor yields / returns), the combination of untended lands and failure to pay land tax can result in these areas

being less secure. As a result, original investments in tea cultivation made by smallholder farmers in local communities are under threat unless further investment is made to restore this resource.

4.1.2 Ensuring sustainable livelihoods can be derived from tea

A key aspect of developing a sustainable Lao Tea Sector is about making it a viable and attractive livelihood option for those engaged in tea production including commercial cultivation, wild tea harvesting and employment within processing centres.

Current status:

- *Commercially cultivated tea:* Over the last 15 years many small holder farmers in northern Lao PDR have been encouraged by the government and private tea processors to cultivate commercial tea as a viable household cash crop and alternative to opium production and swidden. Due to a variety of factors (i.e. plot management requirements and farm-gate prices), the return on many of these tea investments has not met expectations. In some cases, cultivated plots have been abandoned presenting potential land tenure implications for farmers (see Section 4.1.1). For many remaining tea farmers, maximising farm-gate price (i.e. selling to individual traders) is prioritised over security of formal commercial agreements with local processors. This has been addressed in some communities with the development of development driven / social enterprise farmer cooperatives (see Section 4.1.3).
- *Harvesting wild tea resources:* Harvesting wild forest tea can be an attractive livelihood option as returns are high compared to commercially cultivated tea; and a number of communities have established effective community organisations to management and harvest this resource. However, harvesting wild tea presents a number of challenges including the time and resources that are required to extract the resource; seasonality of the resource; low quantities available; and competing livelihoods / responsibilities – especially for women during harvesting periods. The quality and potential value of multiple tea varieties are often not properly understood by tea pluckers and local processors – limiting their ability to secure appropriate prices from traders.
- *Tea Processing Employment:* Wage based employment in tea processing facilities; both permanent and seasonal is viewed by male and female workers as an attractive employment option where alternative options are limited. However, where other opportunities do exist, it is less popular.



Figure 4-1 Tea pluckers in Phongsaly, 2016

4.1.3 Empowerment of producers to realise more benefit and value from tea

Livelihoods of tea smallholders can be improved by support for value adding activities within the tea sector. This requires the development of stronger and mutually beneficial relationships between producers and processors.

Current status:

- There are a number of organised cooperatives (i.e. under the support of HELVETAS-COPE project) working in the sector and undertaking value adding activities including technical assistance programs, market access and community development activities with profits reinvested back into the community. However, the majority of producers (predominantly women) operate independently and have limited opportunities for empowerment.
- Local processors have differing levels of connection with the communities in which the tea is produced. Some maintain strong connections with local communities' year round allowing for relationships that can translate into mutual benefits and increased value for all stakeholders. Others only maintain a strong presence during peak harvesting periods - limiting their ability to connect with local communities.
- A key government policy that is currently impacting producer / processor relationships is the introduction of tea zoning in northern production areas. Under this policy, processors are assigned exclusive rights to produce from designated tea growing areas. While one aim of this policy is to strengthen producer / processor relationships, in practice, zoning has not been functioning effectively as unregistered traders enter the market during the dry season harvest and outbid designated processors for harvested tea. While smallholders may benefit from higher prices for their dry season tea, traders are not generally interested in the wet season harvest and local processors are less enthusiastic about purchasing the lower value wet season harvest if they cannot access adequate volumes during the high value dry season harvest.
- Access to low cost finance is a key factor for the development of the Tea Sector for both producers and processors. Access to finance can help to drive investment by providing funds for equipment, working capital, agricultural inputs and research and development (R&D). According to the *National Socio-Economic Development Plan 2016 – 2020* (NSEDP), the Bank of Lao PDR has carried out policies and regulations to enable commercial banks to approve loans at low cost. Finance for the sector can also potentially be sourced from other avenues including development programs to support gender equity and ethnic minorities as well as international organisations such as Fair Trade and the Ethical Tea Partnership whom assist with access to affordable finance as part of their support programs.

4.2 Ecologically sustainable / restorative production

4.2.1 Protection and Sustainable management of ancient and forest tea resources

Ancient and wild forest tea are highly prized in the Chinese market. Wild tea resources are believed to have significant market potential although the extent, age and quality of the resource is largely unknown. There is an opportunity to increase protection and sustainable management of ancient and forest tea resources in parallel with increased tenure security (see Section 4.1.1).

Current status:

- Wild forest tea forms part of the forest ecosystem and cannot be harvested in the same way as cultivated commercial tea. There have been some incidences where investors have gained concessions for wild forest tea and then cut down the large forest tea trees in order to harvest tea leaves and genetic material. This is due to a lack of appropriate management regimes in place and tea resources are vulnerable to over exploitation as well as loss due to land clearance from other forms of development.
- While initial efforts have been made to identify and quantify the potential resource, there is very limited information on forest tea resources. A detailed forest inventory could help to identify new valuable tea strains and aid in management of the resource which could also protect pockets of biodiversity in areas where the tea occurs.

4.2.2 Moving to higher productivity without compromising ecosystem services and landscape quality.

There are opportunities for the Lao Tea Sector to better consider the environmental impacts of tea production, minimise these impacts and seek to improve that natural capital upon which tea production depends.

Current status:

- As highlighted in Section 4.2.1, forest tea lies in natural forest ecosystems, many of which are poorly managed. There is an opportunity to better understand and better manage the resource for greater productivity while protecting the forests in which it grows.
- The majority of cultivated tea plantations have been established without ample consideration of potential impacts on surrounding ecosystems and the services they provide. Potential impacts of land conversion include loss of habitat, pollution of waterways; and impacts on terrestrial and aquatic biology.
- Technical expertise in the sector and knowledge relating to good management practices is limited. One example of this is with poor pruning practices by smallholders / pickers, often using inappropriate tools. As a result, plants in both cultivated and forest landscapes are less productive and susceptible to disease from damaged wood.
- Current cultivated tea production methods are overwhelmingly 'organic by default'. The lack of agricultural inputs lowers the potential impact on surrounding ecosystems however has had an impact on the production and quality of tea. Agricultural inputs are now on the rise, and often the application of such inputs is not done correctly, increasing the risk of pollution of soil and waterways.

4.3 Towards low carbon and resilience

4.3.1 Adapting to changing weather patterns and volatility and Maintaining low carbon footprint whilst increasing production and processing volume

There is acknowledgement amongst industry stakeholders of the risks posed by climate change – particularly to a climate sensitive crop. With a focus on the expansion of the sector, there is a need to consider the potential impacts to current and future tea production areas including, changing climatic conditions; increased threat of pests and disease; and increased frequency of extreme weather events.

Current status:

- Although there have been studies relating to climate change in agriculture (including the tea sector) in Lao PDR, there is currently limited understanding of the potential impacts of climate change amongst tea producers and processors.
- Climate change mitigation has not been a significant concern for the sector to date. Potential emissions associated with the conversion of forest habitats; intensive processing technologies and product transportation are not commonly considered.

4.4 To value chain transparency and sustainable market mechanisms

4.4.1 Developing more equitable and robust market mechanisms and an understanding of value and sustainability across the value chain

The negative effects of current market mechanisms in the Lao Tea Sector are being experienced by producers, processors and traders alike. There is an acknowledgement from industry stakeholders of the need to develop more transparent, informed and technically advanced mechanisms that allow for greater equity across the value chain.

Current status:

- In recent years, international development partners have conducted a number of projects in support of the tea sector. A number of international experts have provided technical assistance relating to best practice and value-adding activities with Lao tea stakeholders (government and industry).
- Smallholder farmers / producer groups are 'price takers', selling to local processors or unregistered traders, often with a lack of accurate market information about product demand and market prices.

- The lack of association or dialogue platform in the tea sector limits information sharing between stakeholders. Many actors are unaware of the benefits that can be obtained from a transparent marketplace and therefore have little incentive to collaborate and share information.
- Computer literacy is limited in the sector and this restricts easy access to technical and market information. Language can also be a barrier in the north between Lao and Chinese tea stakeholders.
- Product quality is seen as a barrier to some markets and there is an opportunity to implement a 'stepping stones to standards' approach similar to that employed by IDH in other national tea sectors.¹⁹

4.5 To engaged and connected consumers

4.5.1 Marketing the value of Lao tea

Opportunities exist within the Lao Tea Sector to market its natural advantages such as chemical free status, perceived health giving properties and ancient origins to a wider audience.

Current status:

- Lao tea is known in some Chinese markets for its chemical free status as well as its ancient lineage and perceived health giving properties. However, outside of the Chinese market, little is known about Lao tea. In addition, there are many cases where Lao tea is packaged and sold as Chinese tea in order to circumvent trade restrictions.
- Domestic tea consumption is still very small. Lao tea brands are sold at premium prices primarily in tourist hubs such as airports and border posts and no distinction is made between the high value Lao teas and the low cost, mass produced imported teas from Vietnam, Thailand and China.
- Certification programs such as Organic and Fair trade can potentially open up new markets for the Lao Tea Sector. There is already one producer in southern Lao PDR producing Fair Trade tea in small volumes and a number of cooperatives that follow Fair Trade principles. Lao Tea is seen as 'organic by default' and there is potential to build on this natural advantage utilising the experience of stakeholders that have already achieved Organic Certification.
- There is potential for the tea and tourism sectors to establish stronger links and capitalise on the ancient tea gardens in the north of the country that form part of the 'Ancient Tea Horse Road'. GIZ has already done some past work in Phongsaly on the links between tea and tourism. The ADB has already partnered with the Lao Government to create a 'Tea Caravan Trail' in Lao PDR and China as part of their Greater Mekong Sub-Region Infrastructure Program and work could be done to build on this initiative both in Lao PDR as well as forming an 'Ancient Tea Trail' with other neighbouring countries including Vietnam and Myanmar.



Figure 4-2 Some current Lao tea brands, 2016

5 INDUSTRY COMMITMENT AND COLLABORATIVE ACTION TOWARDS SUSTAINABLE DEVELOPMENT OF THE TEA SECTOR IN LAO PDR

5.1 Industry Commitment

Industry stakeholders recognise that an industry-led approach will ensure industry wide adoption and the collective power to address key industry constraints while taking advantage of new opportunities in the Lao Tea Sector. Participation and support from government and development partners is critical to the tea sector; however, it is ultimately up to the producers, processors and traders to drive future growth.

Southern and northern private sector stakeholders in the Lao tea industry need to work together to create a 'collective voice' on shared issues, address industry needs and harness new opportunities for the benefit of all Lao Tea Sector stakeholders.

5.2 The Approach

The proposed approach is to facilitate industry-led collaborative action to facilitate the development of a sustainable and vibrant tea industry in Lao PDR, which supports sustainable livelihoods; empowers producers; protects natural resources; and contributes positively to the country's socio-economic development and poverty alleviation goals.

This approach seeks to:

- Raise the profile and value of the Lao Tea Sector and coordinating this journey to sustainability to influence policy and investment practices in support for the protection of tea resources and tenure security for rural tea producing communities across Lao PDR; and
- Promote industry leadership alongside the efforts of government and civil society; and links the Lao Tea Sector with the regional and global tea sectors and efforts being made through Tea 2030.



Figure 5-1 Tea stakeholders coming together to discuss future challenges and opportunities, Phongsaly 2016

5.2.1 Objectives

Key objectives of this collaborative action are to:

- Establish an on-going Lao Tea 2030 Platform consisting of leading industry (producers, processors and traders), government and civil society stakeholders;

And through the Lao Tea 2030 Platform,

- Promote industry leadership and commitment in addressing current challenges (and recognising the value in doing this) alongside efforts of government and civil society;
- Provide a coordinating mechanism (in the form of a national tea strategy and action plan) for generating momentum, resources and responsible investment from industry, government and civil society for activities that work towards a sustainable and vibrant tea industry; and
- Connect the Lao Sector with leading regional and global organisations currently working towards a sustainable tea sector globally.

5.2.2 Expected Outcomes

Collaborative action towards the development of a sustainable Tea Sector in Lao PDR is expected to change the way all stakeholders in the Lao Tea Sector interact with each other (and regional / global stakeholders); and the approach currently being taken to develop the sector.

Key changes / outcomes are expected to include:

- Increased dialogue and collaboration between stakeholders and the strengthening of industry organisation and capacity to engage;
- Increase recognition of the shared challenges facing stakeholders in the sector and the benefits of collaboratively moving towards a sustainable Tea sector;
- Broadening of the policy agenda to include national and regional contexts and a focus on sustainable development;
- Development of the Lao Tea brand and opportunities for increasing its value (i.e. product quality, premium products / prices; access to finance, access to markets etc.); and
- Initiating collaborative action (with national, regional and global stakeholders / investors) towards a sustainable tea sector focusing on supporting local tea communities and smallholder farmers to realise more value from tea production and processing.

5.3 Priority Work Areas

Three priority work areas are proposed and outlined in the sections below.

5.3.1 Establishment and Operation of the Lao Tea 2030 platform

Building on the Lao tea dialogue developed in the initial MRLG activity, a Lao Tea 2030 Platform will be established. The platform, consisting of industry-led tea producer and processor groups and relevant GOL authorities will be endorsed by LNCCI with the support of ECCIL and will pave the way for a future Lao Tea Association.

Activities to establish the Platform will include:

- Stakeholder consultations to confirm the structure of the Platform;
- Selection of 'industry leaders' and expert advisors as well as provision of support to drive the platform in its initial stages;
- Development of terms of reference for the Platform;
- Development of a code of conduct for the industry;

- Development of a Sustainable Financing, Institutional Development and Capacity Building (SFIDCB) Plan; and
- Development of partnership agreements with key regional and global tea sector actors to support the platform.

Activities for the operation of the Platform will include: bi-annual meetings over the project period and a number of smaller working engagements. Engagements will concentrate on the development of the National Tea Strategy and Roadmap and the on-going operation of the Platform (and Association).

5.3.2 Develop a National Tea Strategy and Road Map towards Sustainable Development

A National Tea Strategy and Road Map will be developed to provide a framework for collaborative action towards the sustainable development of the Lao Tea Sector. The National Strategy will align tea sector development with national socio-economic development goals as well as shared regional and international tea industry objectives.

Activities to support strategy development will include:

- Review of the previous studies and policy (i.e. Phongsaly Tea Strategy and Lao Coffee Strategies);
- Strategy development engagements with southern and northern stakeholders;
- Lao Tea 2030 Platform meetings at key development stages to ensure relevance and buy-in; and
- Strategy (and code of practice) dissemination activities at national, provincial, district and community levels.

5.3.3 Establish a Regional Tea 2030 Initiative

A regional Tea 2030 initiative will be established to strengthen the links and promote collaborative work between the tea sectors in CLMV countries and provide a mechanism with which to engage international tea industry partners as a regional bloc. Regional partners will meet once a year and chair the initiative once every 3 years.

Activities to support the development of the regional Tea 2030 Platform will include:

- Individual consultations with potential regional tea sector platform partners;
- Regional engagements to bring regional platform partners together, agree on shared interests and discuss avenues for continuing collaboration;
- Development of a regional Tea 2030 webpage to facilitate information sharing; and
- Securing partnership agreements with regional /global tea actors and/or development partners for implementation of the Strategy.

5.4 Collaborative and Leveraging Opportunities

There are a number of on-going programs and initiatives being conducted to achieve better outcomes for rural tea communities in Lao PDR and across the region. The proposed work program outlined above is intended to provide a mechanism for coordinating and leveraging the efforts of these initiatives. Consultations have been conducted with lead implementers of these initiatives and strong opportunities for collaborative action have been identified (see Table 5-1).

Table 5-1 Ongoing Projects and Collaborative Opportunities

Project	Implementing Partners	Opportunities
Lao Projects		
Community Organisation, Participation and Empowerment (COPE) – under	HELVETAS; SDC; Local government partners	<ul style="list-style-type: none"> • Support for scaling up the Phongsaly Tea Strategy into a National Tea Strategy

Project	Implementing Partners	Opportunities
the Shan Tea Project. Phase 2 set to start in 2016.		<ul style="list-style-type: none"> Helping to represent smallholders in a Lao Tea Dialogue Platform (supported by ECCIL and LNCCI) Providing value-adding and market access opportunities for smallholders
The Agro-biodiversity Initiative (TABI)	SDC; MAF; Local government partners	<ul style="list-style-type: none"> Potential collaboration on their current Lao Tea profile work. ECCIL have been approached and have agreed to build on this work with a Tea Industry Profile and representation at the international fair in Paris in late 2016.
Regional Projects		
Shan Tea Project	SDC; HELVETAS	<ul style="list-style-type: none"> Opportunities for collaboration on livelihood improvement activities in tea growing communities across the Mekong Region Potential collaboration on formation of a Regional Tea Dialogue Platform
IDH Sustainable Trade Initiative – Tea Program (currently being implemented in Vietnam)	IDH; Unilever; Rainforest Alliance	<ul style="list-style-type: none"> Establishment of a field farmer school (FFS) in Lao PDR based on the IDH Tea Program model Introduction of 'stepping stones' certification to Lao and Myanmar tea sectors Knowledge sharing and pilot activities with key regional tea stakeholders
GIZ Capacity development for private sector development in Myanmar	GIZ; Development partners; Local government partners	<ul style="list-style-type: none"> Information sharing and collaboration on integrating climate change adaptation strategies within tea value chains
Oxfam Agri-business Engagement for Responsible Land Governance in CLMV	Oxfam; SDC; GIZ	<ul style="list-style-type: none"> Information sharing and collaboration on agri-business models in the tea sector context
FAO/AFD Project on the Promotion of Rural Development through Development of Geographical Indications (GI)	FAO; AFD; Local government partners	<ul style="list-style-type: none"> Tea is a focus product for future GI work by FAO / AFD in Lao PDR and the Mekong Region
International Projects		
Tea 2030	Unilever, IDH, Tata, Twinings, Fairtrade, Rainforest Alliance, Ethical Tea Partnership etc	<ul style="list-style-type: none"> Support as an implementing partner for regional tea projects Market access opportunities Identification of finance / investors
Ethical Tea Partnership	GIZ, IDH, Oxfam, UTZ, Fairtrade, Rainforest Alliance, Unilever, Twinings etc	<ul style="list-style-type: none"> ETP membership opportunities for tea sector companies Training programs on sustainability issues Support for Standards raising activities

Source: Earth Systems 2016

6 CONCLUSION

Lao PDR has significant potential to improve and expand its tea sector and in doing so, build on the important contribution this sector makes to the development of remote rural communities in the North and South of the country.

The Lao Tea Sector has a number of challenges and opportunities to ensure its continued success. These include:

- Raising the profile value of the Lao Tea Sector and coordinating the journey to sustainability can influence policy and investment practices in support of the protection of tea resources and tenure security for rural tea producing communities across Lao PDR;
- Ongoing technical support for tea production is essential to ensure that tea continues be an attractive livelihood option in order to further development of the sector;
- Specialty teas are a growing, high value market. There is an opportunity to increase protection of wild and ancient tea resources which will foster the sustainable management of natural forests and generate income and employment in remote rural communities;
- Development of mutually beneficial relationships between producers and processors will create an enabling environment and allow stakeholders to capture value adding opportunities and address market constraints;
- A sustainable tea sector needs to consider the environmental impacts of tea production, minimise these impacts and seek to improve the natural capital upon which tea production depends;
- There is a need to consider and plan for the potential impacts of changing climatic conditions to current and future tea production areas including the increased threat of pests and disease and greater frequency of extreme weather events;
- Increased transparency and information between producers, processors and traders can lead to greater equity across the value chain;
- The specialty tea resource combined with the sector's organic potential can be further developed and promoted to strengthen Lao tea brands, thereby improving returns and creating new opportunities for producers, processors and traders; and
- A thriving tea sector will provide flow on benefits to other sectors such as tourism that will in turn, help to grow the Lao tea brand.

6.1 Recommendations & Next Steps

It is recommended that the Lao Tea Sector implement the following activities to enable the sustainable development of the sector:

1. Establish a body that brings together the Lao Tea Sector as a unified and representative group;
2. Develop a strategic roadmap for the Lao Tea Sector to strengthen the sustainability and economic opportunity of the sector;
3. Engage as a body with the Government of Lao PDR to establish on-going dialogue to promote and develop the sector; and
4. Seek the support of the other stakeholders to help the Lao Tea Sector achieve its strategic objectives.

Expansion of the tea sector sustainably will require careful consideration and planning. Lao Tea Sector stakeholders are aware of the sustainability challenges facing the sector and are committed to a collaborative approach. Through 'collaborative action', the industry can begin to collectively address the challenges outlined in this position

paper and leverage new opportunities for the sector through strategic partnerships at the national, regional and international level.



Figure 6-1 Tea cupping ceremony, Phongsaly 2016

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This Discussion Paper was produced with support from
the Mekong Region Land Governance Project



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