

RECLAIM SUSTAINABILITY!

Indonesia's Tea Sector Condition in 2021



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Introduction

The tea sector, like other agricultural commodities, is volatile and vulnerable to market-changing dynamics. As the seventh-largest tea producer in the world, Indonesia's tea sector plays an important role economically, socially, and environmentally. The actual contribution and plantation commodities can be seen from the contribution to the country's foreign exchange with an export value of US \$ 96.3 million in 2020, labor absorption of up to 1.2 million workers, and environmental conservation. Nevertheless, Indonesia's tea sector has continued to decline over the past decade, from plantation area, production tonnage, and productivity.

In Indonesia, three main actors in the tea sector are distinguished based on land business, namely State Large Plantations managed by the government/state, Private Large Plantations by private parties, and Smallholder large Plantations by the independent community. Although all three are experiencing a slump, the real market structure always makes the local farmers the most vulnerable side. This condition is caused by limited capital, capabilities, and technology that boil down to the low bargaining position of the farmers. As a result, farmers are likely to be powerless facing the changes of the conditions and the dynamic market structures, including the COVID-19 pandemic that is still undermining trade in 2021.

More than just a health crisis, the COVID-19 pandemic also concerns economic and social issues. The negative impact of the COVID-19 pandemic has still shaken the nation's economy since the first case in early March 2020. Several restrictions applied by the authority affects the balance of demand and supply, both at the domestic and global levels. Including Indonesia's labor-intensive and export-oriented tea sector. The pandemic significantly affected the tea sector which is actually the life support for millions of workers along the supply chain.

As the saying goes 'Rub salt into the wound', the national tea sector is getting worse due to the COVID-19 pandemic. A disruption or bottleneck in any of the activities in the supply chain will affect the entire node. For example, the impact of stopping tea exports can be felt directly by all supply chain actors, started from tea companies (*packers*), local factories, warehouses, tea collection and transportation services, to tea cultivation. Farmers, farmworkers, and tea pickers are the most vulnerable and hard-hit group in these economic shocks.

Haven't been completely back to normal, the world economy begins to rise from the shock of the pandemic in 2020. Some export-import, manufacturing, and production activities begin to recover along with declining active cases and increasing vaccination coverage. Therefore, 2021 brings a glimmer of hope for global trade which starts to adjust to the limitations of conditions and regulations. Therefore, this paper will specifically review the condition of Indonesia's tea sector in 2021.

Area of Indonesian Tea Plantation

The area of tea plantations is one indication of the tea sector's sustainability. Unfortunately, the trend of shrinking plantation areas over the past two decades continues in 2021 due to various old problems that have not been unraveled. This slump is equally experienced by the State-owned Large Plantations, Private-owned Large Plantations, and Smallholder Plantations.

Table 1. Area of tea plantation based on its ownership 2020 – 2021

Plantation	Area of tea plantation (Ha)	
	2020	2021*
State-owned	38 928	38 610
Private-owned	22 595	22 411
Smallholders'	51 170	51 033
Total	112 307	112 053

*Estimation

Source: Ditjenbun. (2020). Statistik Perkebunan Unggulan Nasional 2019 – 2021

During this time, the land transfer has been the main cause of the reduced plantation area in Indonesia. Tea commodities are considered unprofitable because the selling price of fresh tea leaves is low and does not worth the cost of production, thus the farmers are often on the brink.

The COVID-19 pandemic further strengthens this problem. Even though the cultivation of tea and the picking of fresh tea leaves continue to run, export sales are hampered, processing companies and local factories halt or shut down production activities. It results in a drastic decrease in the absorption rate of the tea. Even the cost of production and the wages of the pickers remain paid, however, the reduction of tea uptake due to quota restrictions by factories makes many tea leaves unprocessed, wasted, and not produced. This condition is surely very detrimental for the farmers.

The faltering income also affects the fulfillment of farm maintenance needs, such as fertilizing to pruning. As a result, the productive tea plants are decreasing along with the farm maintenance cost that must be cut.

Table 2. Area of tea plantation based on plants condition 2020 – 2021

Plants condition	Smallholders' Plantation (Ha)		State-owned Plantation (Ha)		Private-owned Plantation (Ha)	
	2020	2021*	2020	2021*	2020	2021*
Mature	33 147	32 505	31 650	31 376	19 813	19 651
Immature	2 960	3 848	248	245	791	785
Damaged	15 062	14 680	7 030	6 989	1 991	1 975

*Estimation

Source: Ditjenbun. (2020). Statistik Perkebunan Unggulan Nasional 2019 – 2021

National Tea Production

In 2021, national tea production starts to recover as trade sector begins to creep towards normal. After experiencing a decrease in the amount of production from 129,832 tons in 2019 to 128,016 tons in 2020 due to the initial wave of the COVID-19 pandemic, national tea production increases to 129,529 tons in 2021. Although the area of people's plantations is almost half (about 46.2%) of Indonesia's total tea farms, the production rate is still low. Smallholder plantations only contribute for 38% of the total national tea production.

Table 3. Production of Made Tea in Indonesia, year 2020 and 2021

Plantation	Production 2020 (Tons)	Production 2021* (Tons)
State-owned	49 335	49 917
Private-owned	28 967	29 310
Smallholders'	49 715	50 302
Total	128 016	129 529

*Estimation

Source: Ditjenbun. (2020). Statistik Perkebunan Unggulan Nasional 2019 – 2021

Local farmers as the suppliers of raw materials for tea beverage have a major role in the national tea industry. However, the current condition of tea farmers is not considered good, so it affects the condition of the tea farm since the minimal income forces farmers to reduce the cost of farm maintenance. As the result, the productivity of farmers' fresh tea leaves tends to be smaller compared to the state or private plantations.

Table 4. Produktivity of Tea Fresh Leaves, 2020 – 2021

Plantation	Production of fresh leaves (Kg/Ha/Month) 2020	Production of fresh leaves (Kg/Ha/Month) 2021
State-owned	980	1200
Private-owned	1150	1400
Smallholders'	700	900

Indonesian Tea Trade

Indonesian tea production is mostly marketed to foreign countries, especially the products of state and private plantations. While a small portion of the rest is used to meet domestic demand with local farmers as the main supplier of fresh tea leaves which are processed in factories and marketed.

Globally, the COVID-19 pandemic causes a raise in the logistics costs of sea transportation for export purposes and the Implementation of Restrictions Towards Community Activities (knowns as PPKM) that burdens business and production activities. This condition affects

the tea's marketing and sale of the state plantation that exports 60% - 70% of its product. This condition also has an impact on exporting farmers and those who become suppliers for tea export. While at domestic scope, processing manufactures, both private and local, stop production activities and limit the uptake of raw materials or fresh tea leaves from the farmers.

However, data from BPS shows that there is an increase in export tonnage of 5.73% from 42,811 tons in 2019 to 45,265 tons in 2020. This is due to an increase in global demand for tea for health reasons that draws smallholder attention during the pandemic. About 80% of the tea exported is black tea. The main markets of Indonesian tea include Russia, Malaysia, the United States, Pakistan, and Taiwan. However, Indonesia's tea export volume falls into 42,770 tons or about 5.5% in 2021.

Meanwhile, Indonesia's tea import decreases about 8.7% from 16,326 tons in 2019 to 14,909 tons in 2020. One of them is caused by the reduced uptake of domestic tea. This low-quality imported tea is widely used by private tea companies because of its low price. But since the government-imposed restrictions towards community activities, including community events that mostly serve tea, there has been a decrease in tea uptake and demand. *Ready to drink* (RTD) beverages that are the main uptake of imported tea also experiences a drastic decline in sales up to 40% due to the implementation of 'at home' regulations, whereas RTD highlights the practical side for consumption out of home.

Tea Consumption Level

Over the past few years, the growth of global tea consumption trends has shown positive vibes. This development is driven by the benefit of tea for health reason which has increasingly surfaced during the COVID-19 pandemic. In addition, the growth of global consumption is also heavily influenced by the increasing urban populations that associate tea with lifestyle. Tea as a functional drink is believed to boost body immunity and reduce stress. This health attraction gains tons of new tea consumers during pandemic times to enjoy tea at home. This trend can be seen from the surge in tea demand in some countries such as UK over the past 2 years, even the world's premium tea sale grows by 18% in 2020.

Unfortunately, domestic tea consumption rate still tends to be low compared to other producer countries. Tea consumption per capita in Indonesia is only 0.35 Kg/person/year. In Indonesia, tea is usually served in large gatherings, weddings, banquets, and becomes favorite menus in restaurants. The COVID-19 pandemic and applied regulations restrict major events, resulting in the shrinking consumption levels. However, new market segments in the country begins to form because consumers are increasingly concerned about the functional benefits of tea, such as helping to lose weight, helping to sleep, and increasing body immune system. One of them comes from millennials or young people who are starting to take an interest in the UMKM (Small and Medium Enterprise) tea business. Therefore, tea business actors are expected to adapt to the changing of consumer preferences in order to take advantage of tea uptake opportunities as much as possible.

Nevertheless, the distribution of profit margins in the tea supply chain is still uneven. Big profit flows to big brand companies at the end of the supply chain, while farmers at the upper parts of supply chain have to be competed against imported tea and are often pushed to lower the selling price of fresh tea leaves. Farmers are also powerless when factories unilaterally reduce tea shoot receipt quotas and choose to use tea stock in their warehouses. Farmers must also be willing to accept term of payment system set by the processing companies rather than unsold crops. Whereas, besides the cost of production, farmers also have to support their families.

Impact of COVID-19 on Indonesia's Tea Sector

The COVID-19 pandemic started in 2020 has a significant impact on Indonesian tea sector players. The tea industry from upstream to downstream experiences the effects of the pandemic. Even for tea plantations, both managed by the state, private, and local people which are quite hard hit by the stagnation of tea production in several factories, as well as the congested export and domestic tea trade.

1. State-owned Tea Company

For state tea company, the COVID-19 pandemic complicates access to tea promotion and global tea marketing, but the company and its employees are still quite viable since the authority/government provides guarantees of continuity for plantations and factories.

2. Private Tea Company

Private tea companies (*packers*) mostly close their tea production and prefer to use the tea stock in their warehouses. Sales of tea by private factories during the pandemic can still be running but sales and trade levels decline by 40% in a year. This is due to the limited events, meetings, weddings, and ceremonial events held by the communities where tea is usually consumed.

To the result of this impact, some tea companies (*packer*) do layoffs (Termination of Employment) for some employees since the company cannot fulfill the employee salary rights indeed. In addition, pandemic conditions are taken advantage by several tea companies to lay off their employees even though financially the companies can afford the employee salaries. However, they prefer to reduce some employees to minimize the burden of company costs.

Table 5. Staff Reduction and Addition in Private Tea Company, year 2020 - 2021

No	Company (packer)	Staff Reduction (persons/ year 2020)	Staff Addition (persons/ year 2021)
1	PT. Sariwangi AEA	412	152
2	PT. Kartini Teh Nasional	188	71
3	PT. Gunung Slamet	263	47
4	PT. Gopek	139	87
5	PT. Tong Tji	66	-
6	PT. Pagilaran	192	11

Compiled from various sources: Kementerian Perindustrian (Brief Speaking), Kementerian Ketenagakerjaan (Random Paper), and interview. Total staffs in the companies is not available.

Case Example

PT. Pagilaran is one of the large private tea companies located in Yogyakarta and has 4 units of tea processing factories located in Pekalongan, Banjarnegara and Batang Regencies. Before COVID-19, PT. Pagilaran has experienced a crisis, so it closed one of its factories in Sidoharjo Village, Bawang District, Batang Regency, and laid off about 90 employees. In 2020 at the time of the COVID-19 pandemic, the company closed 2 more factory units at once, located in Pekalongan and Banjarnegara Regencies and at least laid off nearly 200 employees, due to the burden of unbearable expenses and a *buyer* from the Middle East who cut off tea purchase contracts. To this day, PT. Pagilaran only conducts its production activities from 1 unit processing factory located in Blado Subdistrict, Batang. While the other 3 factories hold *Idle* status and stop their production.

3. Smallholder's Tea Plantation

The impact of the pandemic experienced by smallholder tea plantations, in this case, felt by tea farmers and farmworkers is much different from state-owned and private tea businesses. Smallholder tea plantations are independent plantations with limited capital, applying a personal or group management system, relying only on the sale of wet tea leaves as tea raw materials. Fresh tea leaves from the people are usually purchased by local factories or private factories.

During the pandemic, the farmers struggle to sell fresh tea leaves because many local factories are closed. Almost 80% of local factories in West Java (Garut, Majalengka, West Bandung, Bandung, Cianjur, Sukabumi, Tasikmalaya) close their tea production due to less dry tea uptake from large companies/ *packers*. In addition, the price of fresh tea leaves also experiences a significant decrease.

Table 6. Processing Unit owned by Smallholders/Individual year 2020-2021

District	Number of factories	Closed factories 2020 (No production activities)	Factories re-open in 2021	Production year 2020 (Tons/month)	Production year 2021 (Tons/month)
Tasikmalaya	69	55	50	175	1 625
Garut	52	39	39	162.5	1 300
Bandung	22	7	7	87.5	550
Bandung Barat	16	11	9	87.5	325
Purwakarta	7	6	4	25	125
Majalengka	5	5	2	-	50
Sumedang	5	5	2	-	50
Subang	11	11	7	-	175
Cianjur	42	38	22	50	650
Sukabumi	25	4	4	262.5	625
Pekalongan	6	6	5	-	125
Batang	8	7	4	12	125
Banjarnegara	3	-	-	75	90

Table 7. Price of tea leaves at farmers level 2020/2021

District	Price (Rp/Kg) year 2020	Price (Rp/Kg) year 2021	Payment Period year 2020	Payment Period year 2021
Tasikmalaya	1900	2500	After 30 days	7 days
Garut	1800	2500	After 30 days	7 days
Bandung	2200	3000	After 30 days	Cash
Bandung Barat	1900	2400	After 30 days	Cash
Purwakarta	1800	2000	After 60 days	7 days
Majalengka	1500	1900	After 90 days	After 30 days
Sumedang	1500	1900	After 60 days	7 days
Subang	1500	2000	After 30 days	7 days
Cianjur	1750	2400	After 30 days	7 days
Sukabumi	2000	2400	After 30 days	3 days
Pekalongan	1500	1800	After 12 months	After 30 days
Batang	1500	1800	After 12 months	After 40 days
Banjarnegara	1500	1800	After 12 months	After 40 days

The Condition of Indonesian Tea Farmers

The COVID-19 pandemic has an impact on tea farmers, especially on the welfare of farmer families. These impacts include:

First, during the COVID-19 pandemic, the price of tea leaves is lowered by factories (buyers) by about 20% - 30%. It is because the factory cannot sell dry tea easily.

Second, the factory also reduces the quota or the amount of tea shoot tonnage per day to a maximum of 3 tons. Farmers cannot sell completely the number of tea leaves they harvest, thus causing tea farmers' leaves couldn't be bought or paid off. As the result, during the pandemic a lot of tea leaves from farmers are wasted and not processed by factories. This causes a loss for tea farmers because they have paid the wages of tea pickers, yet the tea leaves are not paid by the factory since the factory applies a system of production restrictions.

Third, changes of the processing restriction system make farmers reduce the number of tea leaves picked. For example, at a normal condition, a farmer group can produce 10 tons of fresh tea leaves per day. While during the pandemic it will only harvest as much as 3 tons of fresh tea leaves or even less. This surely affects tea pickers, if their wage is Rp 700 / Kg of 10 tons in total, then the income of the pickers can reach Rp 7,000,000 per group (around 12 people). But with these restrictions, the income of tea pickers is only around Rp 700 / Kg x 3,000 Kg = Rp 2,100,000 which must be divided by 12 people, so that each picker only receives Rp 175,000.

Other impact for tea pickers such as in Majalengka and Sumedang regencies is that the wage of tea pickers is lowered from Rp 700 /Kg wet shoot to Rp 500 /Kg wet shoot. As estimated, each tea picker can pick 30 Kg per day and for a month they work in 16 days. Then, the wage received by a tea picker is Rp 500 /Kg x 30 Kg x 16 days = Rp 240,000 / month.

Fourth, during the COVID-19 pandemic, tea factories and tea companies apply term of payment system on tea leaves so that the companies could split their capital for production. It means when farmers deliver tea to the factories, they do not directly receive payment, but they have to wait approximately 30 days to get payment from the tea leaves they sell to the factories. Even tea farmers in Central Java must wait for the payment up to 1 year or 12 months. This condition troubles the farmers economically since they need income to support their families.

To support their families, some of tea famers have sold their farmlands. 103 Hectare tea farms from the members of Tani Lestari Association have been sold, including those in Cianjur, Garut, West Bandung, Majalengka, Sumedang. Besides selling farmlands, many tea farms have switched their functions into other commodities such as vegetables, coffee, and other stand plants. The total area of the tea farm that has switched its functions is unknown. However, in Batang Regency, the total tea farm is about 650 Ha, and 184 Ha or about 30% of it has switched its function. In addition, most tea farmers in West Java from 2020 - 2021 have converted crops to vegetable commodities such as carrots, cabbage, chili, pumpkin, and others. Vegetable plants are more profitable than tea. Although vegetable prices tend to be volatile, vegetables have a fixed market so that the farmers' income can also be estimated.

Another effort that the farmers and farm workers can do in times of crisis is to find loan money that is urgently needed. Tea farmers are heavily in debt to "Daily Bank" which offers easy loans yet at a high-interest rate. The problem of debt becomes a serious problem for farmers (for those who do not get any help from the government).

When tea plantations are unable to provide a decent income, tea farmers try other jobs. Usually, they work as construction workers in the city, hawkers/street vendors, housemaids, shopkeepers, or factory workers for farmers who are still young. Slowly tea farmers try to leave their tea farms and move to other jobs.

Table 8. Survey on Tea Farmers' Occupational Changes/Shiftings

District	Hard labour (construction)	Peddler/Street vendor	Shop/Retailer Staff	Labour (factory)	Other	N = Error
Tasikmalaya	21	6	1	0	NA	22
Garut	35	11	3	2	1	2
Bandung	16	14	11	9	1	1
Bandung Barat	28	9	10	3	6	6
Purwakarta	29	3	6	8	4	0
Majalengka	14	8	6	15	NA	7
Sumedang	32	2	9	3	0	4
Subang	22	1	7	12	1	7
Cianjur	14	12	4	10	4	6
Sukabumi	8	11	12	7	5	7
Pekalongan	16	10	4	15	3	2
Batang	20	5	6	19	0	0
Banjarnegara	28	15	0	7	0	0
Total	283	107	73	110	36	64

Survey used random sampling of tea smallholders (land owner) age 19-60 years old

N = 50 tea smallholders per district = 650 person

F = age range and sex are not mentioned

NA = no answer/do not know/more than 1 answer

Sampling Error 53 persons or 8,1 % of population (650 respondents).

Note: error threshold is 5% of N population, if error 9,8% data can be presented with exception

Fifth, the income of tea farmers decreases during the COVID-19 pandemic. Landowners are the ones who get the most impact during the COVID-19 pandemic. Normally, the average price of wet shoot is Rp 2,500/Kg and drops to Rp 1,800/Kg during a pandemic. If in average a farmer has 4,000 meter square (0.4 ha), it produces 280 Kg of tea leaves/month multiplied by Rp 1,800 = Rp 504,000 / month. Those has not been subtracted by picking fee and others.

Table 9. Farmer's Income per month, year 2020 – 2021

District	Year 2020 (IDR/Month)	Year 2021 (IDR/Month)	Kenaikan (%/Year)
Farmers (land owner)	504 000	700 000	28
Farmers (workers)	360 000	720 000	50
Pluckers	192 000	420 000	54

For farmworkers, the sluggishness of smallholder tea plantations forces them to reduce work on the farm since landowners reduce intensive farm maintenance and management activities. The farms are left untreated, then many of them are damaged and neglected.

Meanwhile, the tea pickers in 2020 experiences a drastic decline in income and they have no other money-making skills, except relying on the government's help.

Table 10. Condition of Smallholders' Tea Plantation 2020 – 2021

Condition of Plantation	2020 (Ha/Year)	2021 (Ha/Year)	Description
Abandoned	24	22	Plantation is abandoned for more than 1 year
Damaged	49	31	Tea plantation is not being tended to, but farmers still harvest from the plantation
Not optimally maintained	30	45	Plantation is being maintained but not optimally, and leads to low yield
Converted	9	14	Plants are changed from tea to other commodities.
Total	112	112	

Survey Random sampling

N = 112 Ha in Banjarnegara, Batang, Pekalongan, Cianjur, Purwakarta, Bandung Districts

Conclusion and Recommendation

The development of Indonesia's tea sector continues to follow the dynamics of global market that continues to change. Labor-intensive and export-oriented national tea is certainly experiencing the negative impact of the COVID-19 pandemic that is still ongoing in Indonesia since 2020 to 2021. The new regulations applied obstruct exports, disrupt factory processing activities, and lower tea uptake rates which then affect a decline in factory production, labor reduction, and tea cultivation. The amount of production and area of tea plantations is reduced, and the surviving lands are less managed because the maintenance cost is cut down. It has a tremendous impact in the income of tea farmers who rely on tea business and are vulnerable to poverty. Although the condition of the tea business in 2021 is better than the previous year, the welfare of farmers and their families has not improved and tends to be the same.

In response to it, the government provides social assistance and tea plant development programs to farmers in rural areas affected by the COVID-19 pandemic. However, farmers are still overwhelmed to meet the needs of family life and land that must be maintained. Reflecting on the condition of Indonesia's tea sector, the government is expected to intervene, in order to help tea farmers in maintaining and developing farming business, as well as optimizing business opportunities in tea sector, such as:

1. Running *Gernas Teh* Program that includes intensification, rehabilitation, and *replanting* or reforestation to boost the productivity and quality of Indonesia's tea sector

2. Supporting and facilitating farmers to increase the added value and competitiveness of local tea, both in the form of fund capital and social capital
3. Promoting and socializing synergistically to increase the level of domestic tea consumption
4. Providing and facilitating access to farm business loans so that farmers can maintain and develop tea business

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