



EAST AFRICAN TEA TRADE ASSOCIATION

Tea Trade Centre, Nyerere Avenue

TEA BROKERS AND THEIR ROLE IN THE MOMBASA TEA AUCTIONS

Tea Brokers operate under the auspices of the East Africa Tea Trade Association (EATTA) which is a voluntary, non-profit umbrella body representing the interests of the tea industry in Africa. EATTA has 180 members comprising of Producers, Brokers, Buyers (Exporters), Warehousemen and Packers drawn from 9 countries (Kenya, Uganda, Tanzania, Rwanda, Burundi Democratic Republic of Congo, Malawi, Madagascar and Mozambique).

EATTA is the auction organizer that runs the weekly Mombasa Tea Auctions and is guided by clear rules and regulations that are under periodic consultative review. The Tea Brokers hold a key position in the value chain within the trade. In the information age, they sit at the confluence of multiple streams of data, creating value for the teas that they handle, and based on such factors as quality, supply and demand and prevailing market environments.

These Brokers are Limited Liability Companies registered under the Company's Act, Cap 486, under the Laws of Kenya. Although they constitute a small percentage of members within the tea trade, they generate disproportionate attention due to the critical role that they play in the value chain. Much like surgeons, lawyers and financial advisors, Tea Brokers are professionals who charge brokerage fees, and who through the years have earned their respect the world over for professionalism and integrity.

A prospective Tea Broker must be registered as a business with the government, and licensed by the Tea Directorate. The subsequent application for membership to the EATTA must be able to furnish proof of human resources with demonstrable skills principally in tea tasting, reporting and evaluation, as well as market analysis, consulting and auctioning. In addition, the prospective Broker must provide evidence that he has sustainable Producer support, as well as appropriate financial resources or a guarantee of at least Ksh.10 million as further protection of the Producer's interests during the Broker's day to day management of the teas allocated for sale. Ultimately, it is the Tea Producer who appoints the Broker depending on that Broker's credentials and his ability to satisfy the Producer that his teas will be managed professionally and always in the Producer's best interests.

Tea Auction

A tea auction is a platform superintended by the Tea Brokers so as to facilitate the buying and selling of tea offered for sale, subjected to competitive bidding and the acceptance of the highest bid as the selling price to the buyer. Tea auctions have the overriding advantage of enabling the unhindered participation of sellers and buyers so as to generate robust competition and produce an optimal price for each tea.

Functions of a Tea broker

A Tea Broker is an INTERMEDIARY between the TEA PRODUCERS and BUYERS (EXPORTERS). In order to fulfill this role, a tea broker is expected to have acquired the skills to handle the following functions:

- Receive samples from producers and distribute to buyers.
- Tea tasting and quality assessment.
- **Market intelligence:** understanding existing tea market dynamics through consulting widely with producers and buyers to appreciate the supply and demand positions of both parties, and by doing so to arrive at projections of anticipated market behaviour. Additional knowledge is garnered by research in local and international news on tea, and by keeping abreast of local and international regulatory initiatives affecting the sector.
- **Marketing:** the Broker's constant interaction with the Buyers (Exporters) enables him to understand the market requirements, which he passes on to the Producer to meet.
- **Auctioning:** this crucial skill enables a Broker to conduct the sale of teas in a regulated and highly competitive setting aimed at selling large amounts of teas to Buyers (Exporters) at the highest possible market price. The ability to make correct instantaneous decisions under pressure in accepting or refusing Buyers' (Exporters) bids is a crucial ability.
- **Consulting:** Producers focus on manufacturing teas that the Buyers (Exporters) are willing to purchase, and Buyers (Exporters) worldwide endeavour to procure high quality teas for their clients. The Broker consults with both Producers and

Buyers (Exporters) so as to gain knowledge that can be conveyed from one party to the other. A Broker uses this knowledge to contribute consultatively towards the production of an acceptable quality of tea, and by so doing maintain Buyer (Exporter) loyalty and help to improve the auction price realised.

- **Monitoring the timely payment of sales proceeds by Buyers (Exporters) and remittance of the same to Producers.** (Buyers (Exporters) must pay in full for their purchases within a specific deadline known as the "prompt date," which in the case of Mombasa auctions is 10 working days from the date of auction. Once this is fulfilled, Brokers release documents of title to the teas to the Buyers (Exporters), enabling them to take delivery for shipment to their clients.

Tea Brokers carry out similar functions in auction centres in India (Calcutta, Guwahati, Cochin, Coimbatore, Siliguri, Coonoor), Sri Lanka (Colombo); Indonesia (Jakarta); Bangladesh (Chittagong), and Malawi (Limbe).

Brokers' Revenue

Broker's earnings are in form of a commission based on the realized sale price of the tea, and expressed in terms of a percentage. It is therefore in the Broker's best interest to always strive for the highest possible price for each tea on offer.

As with comparable tea industries globally, the EATTA chooses to consultatively regulate commissions paid to Brokers, so that they are differentiated only by the quality of services they offer to Producers and Buyers (Exporters). Brokers serving the Mombasa auctions earn a commission for service rendered to the Producers and Buyers (Exporters).

The Tea Auction as a principal sale and distribution channel

Tea broking has existed for over three centuries, and most of the world's leading Tea Producers acknowledge auctions as the most viable method for the regular selling and buying of large volumes of tea. The first reported tea auction was held in London in 1706, in Kolkata (India) in 1861, in Colombo (Sri Lanka) in 1883 and in East Africa in 1956, initially in Nairobi then moving to Mombasa in 1969.

Whether overseen by regulators such as in India and Sri Lanka, or by private enterprise such as the EATTA in Africa, tea auctions offer the benefit of being public and transparent in value realization. Accordingly, regulators in India and Sri Lanka have continued to refine and reinforce the auctions, and increasing volumes are now sold through this channel. Between the year 2009 and 2012, Sri Lanka and Kenya traded 96% and 64% of their tea production through the auction and fetched average prices of USD/Kg of 3.71 and 2.91 respectively.

Distribution of Auction Teas among Brokers

Brokers in the EATTA compare well with their counterparts in other countries in terms of the ratio of brokers to the volumes auctioned.

India: India has an annual production in excess of 1.2 billion Kgs of tea. Teas allocated to auction are sold in 8 main auction centres dispersed in the proximity of the tea growing regions, and serviced by the relatively low number of 18 Brokers; some operate in only a single auction centre, but many of them have branch offices in multiple auction centres. Most of the teas traded in the Indian auctions are for consumption within India.

Sri Lanka: Sri Lanka has one auction centre located in the capital Colombo. National tea production averages 330 million kgs annually, and the auctions system is serviced by 8 Brokers. Most of Sri Lankan tea is value added.

Africa: The majority of African teas are exported. Typically, the recent volume of tea grown by EATTA member producers is over 640,000,000kgs, of which 60% is sold in the auction by 10 Brokers. (In the past this number has been 12).

Tea Brokers Association, EATTA

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