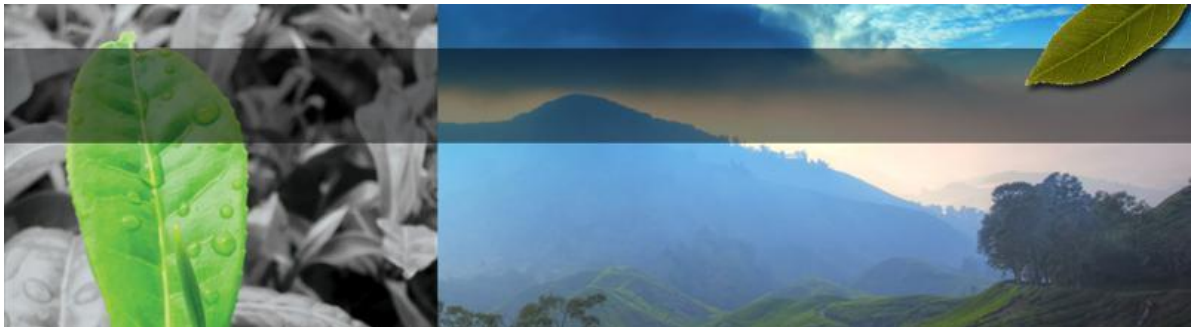


4th Quarter 2016



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Message from the President



Happy New Year! The year ahead promises to be an exciting time for the tea

The Motley Brew

Global Market Report: An Argentine Overview (and a Hot Tip for Iced Teas)

As most of the tea-producing world goes into hibernation, the growing season in Argentina is ramping up after a slow start. So far, we're expecting to see decent quality, but lower production, based on current weather patterns.

Spiders and Cold Spells

While the Argentine climate has generally been favorable, with ample rain, nighttime temperatures have



repeatedly plunged. Each cold snap lasts two to three days, resulting in more red spider mites and slower flushes. Instead of harvesting every 30 to 35 days, farmers are seeing flush intervals of 45 to 55 days.

These factors, combined with the season's late start, have led to a 40% decline in tea production through the end of December 2016, compared to normal harvest volumes.

industry, which shows no signs of market saturation.

Growing demand for healthier options, as well as more flavors and forms, offers new opportunities for expansion.

Even though things are quiet in much of the tea-producing world, Argentina is just getting started. A dry start and recurring cold snaps - not to mention the ever-present economic woes - have created some excitement, but nothing we haven't seen before.

Get the skinny in our Global Tea Report.

As much as Argentina seems to be a permanent part of the U.S. tea industry, it's a relative newcomer on the global tea scene. This month's snapshot offers a brief history of Argentina's rise to the world's ninth-largest tea producer.

We hope you enjoy this newsletter with a fine cuppa.

Eugene Amici

Financial Impact

Last month, a 2% increase in consumer prices brought 2016 inflation to roughly 40% on an annualized basis. A spike in the exchange rate will help cushion the blow. On the bright side, private industry forecasts predict inflation levels of (only!) 20-25% in 2017.

Bottom line: Current asking prices in Argentina are up 8-12% over last year. As a result, buyers are only picking up what they need, and producers - with low inventory - seem content to wait.

In Other News...

Highlights from the rest of the tea-growing world include the following:

- **India.** North India was stable, while production dropped in South India, where the change in currency offset higher prices.
- **Kenya.** This region saw a nice bump in production, which led to lower prices - mostly for the United Kingdom, their top customer.
- **Indonesia.** Even though production dipped, the demand for Indonesian tea remains sluggish. (BARGAIN ALERT: These non-clouding teas have a flowery, bright component that make an excellent addition to iced tea blends.)
- **Vietnam.** Tea growers saw another solid year with decent production and stable prices.

American Tea Tastes Go Upscale . . . and Other Trends

According to a report released last month, U.S. packaged tea sales reached a record \$7.6 billion in 2016, and they're expected to hit \$9 billion by 2020. These numbers reflect what we're seeing in the food service industry, as demand continues to grow for fresh-brewed iced tea.

What's fueling Americans' taste for tea?



- Studies show that Americans are increasingly concerned with a healthy lifestyle, and medical science supports the many health benefits of tea. (Even better, it's delicious!)
- Along these lines, more consumers are looking for premium products: more natural and organic ingredients, less sugar and preservatives.
- Adding functional ingredients - substances that support a specific aspect of health - is another hot trend, along with new flavors and varieties.
- New forms of tea are also hitting the market, such as sparkling teas and tea lattes.

If you're looking for ways to refresh your tea portfolio in 2017, give us a call.

Renewed Focus on Food Safety

Around the world, more countries are enforcing strict guidelines and educating farmers about the use of pesticides. Here at home, the FDA's Food Safety Modernization Act (FSMA) goes into effect later this year. The previous Hazard Analysis and Critical Control Points (HACCP) plan

now morphs into Hazard Analysis Risk-based Preventative Controls (HARPC), which moves beyond safety controls to emphasize prevention.

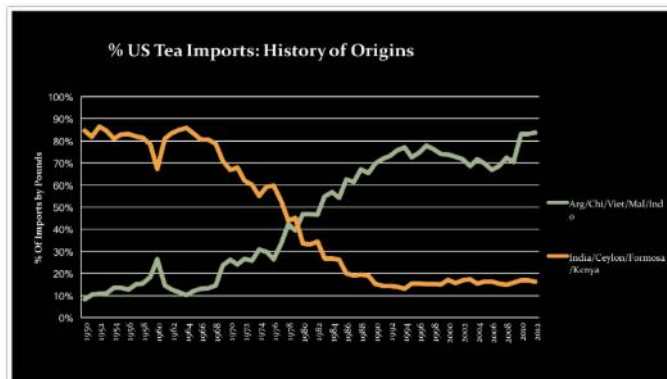
Your partners at Henry P. Thomson are already ahead of the game. Our team has already completed training. This week, in fact, we're in the midst of our Safe Quality Food (SQF) re-certification audit. We'll share the results in our next issue.

Snapshot: Argentina - A Young, Vital Partner

For many in the U.S. tea industry, Argentina has always played a key role in the American supply chain. In fact, the country arrived relatively late to the tea party.

- In 1923 Priest Tijón Hnatiuk came from Ukraine to visit his family in the Misiones province, bearing tea seeds as a gift for his brother, Vladimiro.
- Vladimiro cultivated the seeds and planted them across 4.5 hectares (a little over 11 acres), establishing a new industry - recognized in 1932 with a diploma of honor from the Ministry of Agriculture.
- During the 1950s, under Juan Perón, Argentina outlawed the import of many commodities, including tea. This act prompted the widespread planting of *Camellia sinensis* throughout Misiones.
- Misiones has since become the country's primary tea-producing region, with approximately 8,000 growers and 40,000 cultivated hectares (nearly 100,000 acres) accounting for 95% of national production.
- In the 1960s, high labor costs led to adoption of mechanical harvesting. Today 100% of Argentine tea is harvested mechanically, and many factories have also mechanized their processes, increasing exported tea volume.

Today, Argentina is the ninth-largest tea producer in terms of volume. The tea's low cost and clear color - combined with Americans' growing thirst for iced tea-make it an excellent base for the U.S. market, which buys 70% of the nation's exported tea (more than 50,000 tons per year).



Between 1950 and 2012, the U.S. tea market went through a major shift in suppliers. The rising popularity of iced tea allowed Argentina/China/Vietnam/Malawi/Indonesia to replace India/Ceylon/Formosa/Kenya since the former group produced teas better suited to cold beverages.