

Tea Auction Guide

The weekly Mombasa auction is at the centre of the tea trade in Kenya, and an important reference point for the global tea industry. It is the only centre where teas from different countries are sold alongside each other, and therefore helps to establish price levels and differentials for teas all over the world.

It is important to understand how the auction works, and this short guide is designed to help those visiting for the first time, and anyone else who needs a basic understanding.

Tea Production

It is useful to have a basic idea of tea production in order to understand the auction catalogues.

Teas are sold under Factory Marks, i.e. the names of the factories where they are produced. The tea is sorted into various leaf sizes, known as 'grades'. These are known by standard abbreviations such as PF1. Each batch production of a single leaf grade will be given a unique invoice number, before being packed into standard paper sacks, which in turn are put onto pallets.

The standard unit of tea is a single pallet of 20 packages, and a single invoice will therefore be made up of a number of pallets of 20 packages. The number of pallets per invoice will depend on the total amount of leaf processed in the day, and the percentage of each grade.

Before the Auction

Tea factory companies do not sell their own teas, but each is represented by a Selling Broker, who is responsible for cataloguing the teas for sale.

Each factory invoice is allocated a lot number, and this becomes the main reference for each tea in the auction. Buyers are provided with samples in advance of the auction so that they can be measured and tasted.

The broker gives each lot of tea a valuation, based on factors such as the previous week's price for similar tea, and any changes in quality.

The catalogues have a standard format: lot, factory mark, grade, invoice, number of packages, package type, net weight, weight per package. The standard unit is a pallet of 20 sacks, and most lots will comprise multiple pallets.

The Auction

The auction is held in public and is an 'open cry' system, i.e. buyers compete for lots of tea by bidding against each other in an auction room.

Each lot is sold ("knocked") to the highest bidder, as long as the price has reached a minimum level set by the broker.

Because most lots comprise multiple pallets, each lot can be divided between several buyers, each taking one or more pallets.

Buyers must pay for their purchases within ten days, and these payments are automatically transferred to producers via an electronic payment system.

Buyers

Buyers fit into 3 broad categories:

1. Those who buy and ship individual lots on orders from clients.
2. Those who buy teas for blending as bulk standards for clients.
3. Those who buy on their own account for stock and trading,

They will put their own valuations on each tea, depending on its suitability for their requirements. Buyers will then set their own quantity and price targets, or receive instructions from clients.

Market Prices

Buyers operating in the auction will have different quantities to buy, and different price limits. The bidding for each lot continues, and the price continues to rise, until some buyers' limits are reached and the demand for tea reduces to the amount of tea on offer.

The auction follows the normal pattern of supply and demand: prices rise when there is strong competition and fall when there is less demand.

Teas for which there is no demand, or where prices offered are not considered high enough by the broker, are "taken out", i.e. not sold.

Key factors affecting price movements are tea supply (weather and crops), buying activity in export markets, movements in other world auction prices, availability of cash, and currency fluctuations.

Why do teas fetch such different prices?

Although the teas on sale can at first appear similar, differences can in fact be significant. Even if teas have the same 'grade' (e.g. PF1), this is a nominal way of categorising teas and the grades

themselves have no strict definitions. Two teas graded PF1 can easily have very different taste characteristics and even a different leaf size and appearance.

Leaf density is becoming increasingly important in key markets, where some customers have very strict standards. Teas that are light (i.e. have a high volume per 100g) cannot be bought for these customers and are therefore discounted or even ignored by buyers.

Differences in the taste and appearance of tea liquors also affect price differentials, and tend to follow regional patterns. Generally speaking, teas that have a more yellow/golden colour get higher prices than those with a browner/redder colour.

Is there real competition between buyers?

The Mombasa market is dominated by a few large buyers, reflecting the concentration of Kenya export volume into the key markets of Pakistan, Egypt and the UK. The market is however very competitive, with some client contracts changing hands for a few cents difference in price. The job of the buyer is to meet his clients' requirements as efficiently and as cheaply as possible, or risk losing clients to competing buyers.