Q&A: Chai Trading Kenya Company Managing Director

We are not opposed to tea reforms, says Mbui

By Frankline Sunday
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In the recent past, the Agriculture Ministry has been at loggerheads with the Kenya Tea Development Agency (KTDA) over the implementation of reforms in the tea sector. Last month, KTDA was in court seeking to revoke the gazettement of a steering committee appointed by Cabinet Secretary Peter Munya to oversee the changes in regulations. *The Financial Standard* spoke to Dr Charles Mbui, the managing director of Chai Trading Kenya Company Ltd, a wholly-owned subsidiary of KTDA, to discuss this and other issues affecting the tea sector.

Why is the KTDA opposing the proposed reforms by the Agriculture CS?

KTDA is not opposed to reforms in the tea sector. Tea is the only cash crop we have left that gives value to farmers, and after the collapse of industries like pyrethrum and sugar, all stakeholders should be working to ensure this does not happen. Our concern has been the inadequate stakeholder consultation in the development of the regulations where the formulation of the National Steering Committee and its gazettement was done without involving other stakeholders and the public. It is not proper to kick off such a process without the full buy-in of the farmers, who we represent, and that should ideally be the biggest beneficiaries of any reforms in the sector. The support of players like ourselves is, therefore, crucial as we play our facilitative role.

What role does Chai Trading play in the sector, and how is this function executed?

Chai Trading is a wholly-owned subsidiary of Kenya Tea Development Agency (KTDA) Holdings, which, among others, was created following a Sessional Paper No 2 of 1999 that mandated KTDA to invest in the value chain to improve efficiency and profitability for the benefit of the smallholder tea farmers at the time of privatisation. We offer warehousing, clearing and forwarding services and are also engaged in tea trading, which entails buying producer teas from the auction and aggressively looking for markets globally. Our business operates profitably and the earnings are paid to KTDA (H) Ltd, which pays dividends every year to the farmers through their factory companies. The company pays the necessary taxes to the government and offers employment to many Kenyans.

What is the scale of Chai Trading's operations and how do you ensure the farmers you represent get the best value from their crop?

Kenya, as you are aware, is the largest tea exporter in the world and Chai Trading is proud to have greatly contributed to opening new markets to achieve this leadership position. Chai Trading is an ethical and fair participant in the tea value chain and welcomes progressive reforms that can improve the farmers' earnings. Chai Trading is the market leader in warehousing business in the region, operating over 1 million square feet of warehouse space in Mombasa.

In the past there has been concern from farmers in some regions about the level of support they get from trade groups like yourselves, such as the bonus structure and inadequate field support. What is your take on this?

Chai Trading handles imports of machinery and other equipment as well as fertiliser for the smallholder tea farmers. This is achieved cost-effectively due to economies of scale. Chai Trading is a buyer member of East African Tea Trade Association (EATTA), currently ranked amongst the top five tea buyers at the Mombasa Tea Auction. As a buyer member, Chai Trading is governed by EATTA rules, which regulate, among others, the sale and payment of auction tea purchases. Chai Trading bids and competes for teas at the auction like other buyers and pays for auction purchases within nine working days.

How does Chai Trading ensure farmers get linkages to access to external markets?

Chai Trading has invested in a foreign subsidiary company known as KTDA Dubai Multi Commodity Centre (KTDA DMCC) based in Dubai Tea Trade Centre at Jebel Ali free zone. KTDA DMCC competes amongst other multinational companies from across the globe operating from Jebel Ali free zone in Dubai.

Efforts to boost domestic garment industry have left EAC country sidelined.

Rwanda's clothing spat with the US major boon for China

Washington has singled out Kigali for proposed ban on second-hand clothes, saying it would violate free-trade agreements.

By BBC
Kigali

More than 100 sewing machines rattle away at a factory on the outskirts of Kigali, the capital of Rwanda.

A cooperative of 83 of the African nation's tailors established the company - the Kigali Garment Centre - last year.

Located in an industrial area built on one of the rolling green hills surrounding the city, it was set up in line with the Rwandan government's strategy of boosting the country's clothing manufacturing sector.

"We've trained 130 youngsters, 97 per cent of which are female, since the factory launched," says the firm's director general and co-founder Jerome Mugabo.

Behind him on the main factory floor, employees, all who seem to be in their teens or 20s, are producing chino trousers.

Rwanda's efforts to boost its domestic garment industry have seen it fight a lonely and continuing trade battle with the US that dates back to 2015.

Back then the six members of the East Africa Community (EAC) bloc of countries - Burundi, Kenya, Rwanda, South-Sudan, Tanzania and Uganda - announced that they would all put in place high tariffs on the import of second-hand clothing or "chagua".

The idea behind the de-facto ban was to stop the importation of large quantities of cheap used clothing, mostly from the US and the UK, which the African nations said were stifling the growth of their nascent garment industries.

The extent of the issue for the six countries was shown by widely reported 2015 figures from the US Agency for International Development (USAid).

The USAid said that in that year the EAC states accounted for almost 13 per cent ($274 million or Sh29.5 billion) of the global imports of used clothing.

The study also found that almost two-thirds of the combined populations purchased some second-hand clothes.

Keen to hang on to its share of these exports, the US responded that the proposed ban would violate free-trade agreements, and it threatened to remove the EAC countries from the African Growth and Opportunity Act (Agoa).

Enacted back in 2000, this allows 39 sub-Saharan African nations to export thousands of goods duty-free to the US.

After the USA's announcement, all EAC members, except for Rwanda, backed out. It went on to introduce a tariff of $4 per kilogramme on imports of used clothing in 2018. The US responded by putting tariffs of 30 per cent on Rwandan clothing, where there had previously been none.

While Rwanda was only exporting about $1.5 million of clothing per year to the US at the time, this stopped that overnight, and meant that the African nation could not hope to increase it.

However, Jerome Mugabo says he remains pleased by Rwanda's decision to go it alone. "It helped us to set up our business, as we get more customers since the ban," he says. Ritesh Patel, managing director of Rwanda's oldest garment factory - Utexrwa, which was founded in 1984 - agrees.

"Rwanda needs to do this to be able to grow its economy," he says. "As people were able to buy a second-hand men's shirt for R 800 (84 US cents; 64p), they were not interested in a new men's shirts of R 4,000 that we could produce."

For years Utexrwa had focused solely on the production of uniforms, for the police, companies and schools. But since the ban on second-hand clothing imports, it has expanded into ordinary clothes, like men's shirts.

"It really helps that we no longer have to compete with cheap chagua, while we simultaneously witness a quickly growing middle class that will be able to afford "Made in Rwanda" products," adds Mr Patel.

Yet where there are winners, there are also losers. "Life has become very difficult," says Rajabu Nzeyimana, who stands behind a wooden market table piled high with second-hand boxer shorts, and a basket full of second-hand socks.

THE ODDS

- Some experts doubt if Rwanda will be able to build a competitive clothing industry
- While Uganda, Kenya, Tanzania, Ethiopia and Burundi are major cotton-producing countries, Rwanda needs to import this raw material, as the tiny state isn't suitable for major cotton production, being a mountainous and extremely densely populated country

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