Value Chains and Chains of Values: Tracing Tanzanian Tea

Loconto, A.[1]

[1] Center for the Study of Standards in Society, Department of Sociology, Michigan State University, East Lansing, MI USA

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Abstract— **The objective of this paper is to examine value chain governance through case studies of four different certified value chains for Tanzanian tea. This paper takes a look at a traditional export commodity, tea, and discusses the implications of involvement in value-based certification schemes (Ethical Trading Initiative, Fairtrade, Organic and Rainforest Alliance) on certified producers in Tanzania. Each of these certification schemes makes claims on specific values that it is instilling in a particular 'value chain'. This paper specifically analyses the network construction of each certified value chain and answers the questions: 1) which actors are involved in each value chain, 2) which values are claimed as organizing principles of these value chains, and 3) what does this mix of actors and values contribute to our understanding of value chain governance. Between 2008 and 2010, eighty in-depth interviews were conducted with stakeholders who are certified against sustainability standards. Twenty-one focus groups were formed comprising certified smallholders and hired labourers. The conclusions suggest that despite claims about the ability to change trading relationships through the certification systems, most of the old networks are still in place. The certification systems only add additional buyers to global value chains that were already governed by highly relational and hierarchical mechanisms. These conclusions thus place in question some of the claims made by certification bodies as to their abilities to change practices.**

Keywords— **Certification, Governance, Global Value Chains**

I. INTRODUCTION

Changes in the global food regime have brought increasing pressure on African producers as they are being included in global agri-food value chains in both old and innovative ways. This focus on a global value chain has increased support for export driven agriculture, while diversifying the nature of crops cultivated for export. The traditional commodities of coffee, cotton, cocoa, and tea are still being promoted through these systems, while new crops such as horticulture and cut flowers are becoming more popular. With these new crops and the use of a supply chain management approach to global sourcing, some of the value-added practices such as processing and packaging are also moving into the African agricultural landscape. Moreover, the shift towards retailer-driven global supply chains for agri-food products and the provisions made to protect against Technical Barriers to Trade and Food Safety in the World Trade Organization agreements have increased attention to the use of standards to regulate quality and production around the world [cf.1]. As a whole, these practices are changing the shape of African agriculture for those who can afford to be included in the process. Who then are included in this process and who is excluded?

Within these broader trends in the global agri-food system, this paper examines the traditional export commodity of tea. Tea has been grown commercially in Tanzania since the 1930s, first on colonial plantations and second by smallholders beginning in the 1960s. In the case of tea, the first stage of processing green leaf tea into dried made tea (MT) has traditionally been located close to the fields in Africa. Thus the recent shifts in processing locations are not new to the tea sector. However, the use of Supply Chain Management techniques by large buyers and supermarkets are influencing the tea trade. Specifically, certification for social and environmental standards in tea production has recently received substantial attention in the tea industry as some of the largest international tea buyers (e.g., Lipton and Tetley) are making certified tea a mandatory requirement for inclusion in their value chain.

This paper discusses the governance trends in value-based certification schemes, namely the Ethical Trading Initiative, Fairtrade, Organic and Rainforest Alliance. Each of these certification schemes makes claims on specific values that it is instilling in a particular 'value chain'. This paper specifically analyses the network construction of each certified value chain and answers the questions: 1) which actors are involved in each value chain, 2) which values are claimed as organizing principles of these value chains, and 3) what does this mix of actors and values contribute to our understanding of value chain governance. The remainder of the paper follows in four sections. The materials and methods section also introduces the conceptual framework of Global Value Chains (GVC) analysis that is used in this paper and explains the traditional value chain for Tanzanian tea that is followed by non-certified producers. The results section traces the four value chains that are emerging within the Tanzanian tea sector based on the qualities of certified production. The discussion section analyses, from a global value chains perspective, which actors are included in these values-based value chains, the values they claim to promote, and the governance implications of this involvement. Conclusions and recommendations for further research are presented in the final portion of this paper.

II. MATERIALS AND METHODS

A. Methods of Data Collection and Analysis

Data was collected for this study in Germany, Kenya, Tanzania and the United Kingdom between 2008 and 2010. Documents, such as annual reports, press releases and member lists, were collected from actors in each of the four value chains and were analysed based on the value claims made and as a way to trace who was involved in each chain. A total of eighty in-depth interviews were conducted with certified and non-certified stakeholders who are participating in these four certified value chains. Additionally, twenty-one focus groups were formed comprising both certified and non-certified middle-managers, smallholder farmers, and hired labourers. A purposive sampling technique was used to select research participants as the population of certified stakeholders is small and availability of smallholders and hired labour was limited to their ability to participate in the focus groups. Purposive sampling was also used to select participants from the non-certified population of tea producers in Tanzania for the purpose of comparison. Qualitative analysis was then conducted using NVivo8 software to extract themes in the value claims made by the different actors involved. The results are analysed thus on the basis of the conceptual framework outlined below and the value claims that are illustrative of each chain.

B. Conceptual Framework

Global Value Chains (GVC) analysis proposes that research on value chains follow a product from field to cup [2]. GVC analysis has emerged from research in the 1980s on commodity systems [3, 4], which are describe to consist of the value chain that converts a natural resource into a consumer item and the supplementary activities that support that value chain. A value chain typically has about five stages: production, processing, distribution, retail, and consumption. Recent research has shown, however, that rather than static vertical chains, value chains are indeed webs of interaction, where negotiations take place between actors at each node [5, 6].

Table 1: Global Value Chain Governance Typologies

Power Asymmetry	Type	Characteristics
Low	Market	Market linkages can persist over time with repeat transactions. Costs of switching to new partners are low for both parties.
Semi-low	Modular	Products made to a customer's specifications (i.e., 'turn-key services') Suppliers take full responsibility for: Competencies surrounding process technology, Use generic machinery that limits transaction-specific investments, Make capital outlays for components and materials on behalf of customers.
Medium	Relational	Complex interactions between buyers and sellers Mutual dependence and high levels of asset specificity. Managed through reputation, or family and ethnic ties. Spatial proximity or Trust and reputation in spatially dispersed networks
Semi-high	Captive	Small suppliers are transactionally dependent on much larger buyers. Suppliers face significant switching costs (i.e., 'captive') High degree of monitoring and control by lead firms.
High	Hierarchy	Vertical integration Managerial control: managers - subordinates or headquarters -

subsidiaries.

Adapted from: Gereffi et al. 2005

Gereffi et al. [2] identify five types of GVC governance – hierarchy, captive, relational, modular, and market –ranging from high to low levels of power asymmetry (Table 1). These types of governance are differentiated according to: (1) complexity of inter-firm transactions; (2) the degree to which this complexity can be mitigated through codification; and (3) the extent to which suppliers have the necessary capabilities to meet the buyers' requirements [2].

There are three main trends in GVC governance:

- Producer-driven – where low-profit activities are out-sourced upstream to networks of suppliers, bound by contract to produce according to rigorously specified product and process standards) [7];
- Buyer-driven – with high barriers to entry and high profits located at the retail end with the protection and promotion of brands [2, 7, 8]; or where large retail establishments use their market power to effectively govern the production of commodities with the desired attributes [9, 10];
- Twin-driven – where lead firms govern the supply network, while environmental groups/movements and third-party certifiers/standards developers govern the regulatory aspects of the network, sometimes both working in an overlapping manner [11].

While these typologies focus on economic power within the organization of value chains, cultural power is also vital to their governance [cf. 12, 13], particularly with respect to notions about quality [5, 14] and stakeholder preference [cf. 15, 16]. I utilize these notions to show how standards and certification are thus used within value chains to facilitate transactions and to discipline the people, processes and products in the chain.

The presentation of the case studies in the results section thus sets out to identify the actors involved at the different stages of value addition between production and packing. The identification of retailers and consumers is not fully explored in this study as time and budget constrains did not allow for a full analysis of this portion of the value chain. Moreover, governance relations are also identified and power relations in terms of 'drivenness' are explored. First, however, I introduce the construction of the traditional value chain for Tanzanian tea.

C. Description of the Traditional Tea Value Chain

There are certain structural differences related to the way by which tea is produced and traded that differentiate it from other traditional export commodities and value chains (Figure 1). Tea (black, green and white) comes from an evergreen bush (*Camellia sinensis*) which thrives at fairly high altitude in the humid regions of the tropics and sub tropics (1400 – 2500 m). In Africa, tea is produced mainly in East Africa with Kenya, Malawi, Uganda and Tanzania being the largest producers and exporters of tea. In terms of comparison, Tanzania's 33,000 tons of made tea (MT) per year is 10% of Kenya's production. Kenya is the top exporter of tea in the global market. All factories in Tanzania use the cut-tear-curl (CTC) method of tea processing for teas that will be sold in tea bags. However, two of the Fairtrade and Organic certified factories are also producing Orthodox tea, which means that the tea leaves are rolled rather than cut before the oxidization process that produces black tea.

Tea production is labour intensive. It has a year-round harvest where each field is plucked every 7-20 days depending on the season. The green leaf collected from the fields must reach the processing factory in less than 12 hours. This translates into very restricted catchment areas around factories where both estate grown and smallholder grown tea is found [17]. This ties factories and farmers together in close geographic proximity with little option for competitive markets for green leaf. As a result, contract farming schemes, which link smallholders to processing factories, have long been used. In this system, small-scale farmers have access to inputs, agricultural technology and markets through contracts which require them to produce according to international market requirements [18]. Smallholders receive monthly payments for the delivery of green leaf, which is currently at an average of US$ 0.11/kg for the Southern Highlands region and US$0.09/kg in the Usumbaras.

Figure 1 Traditional Tea Value Chain (van Reenen, M, Panhuysen, S, Weiligmann, B 2010)

A tea-processing factory is considered to be the anchor of the tea value chain in Tanzania: a specialized stage where involvement of high capital costs lowers the likelihood of competitors joining the chain. Most of the activities upstream (greenleaf production) as well as downstream (marketing and sales) are usually controlled by the decisions made at the tea-processing factory (e.g, to process orthodox or CTC) [17]. Most investors have purchased made tea (MT) processing factories together with the purchase of large-scale estates. In Tanzania, the tea packing companies have also invested upstream through joint investments in MT processing factories and/or estates that provide the majority of the MT that is packed domestically (e.g., Afritea & Coffee Blenders have a joint interest in the Lushoto Tea Company which owns the New Mponde Factory in the Usumbaras). There are 19 MT processing factories in Tanzania,[1] 17 of which have estates and two of which are sourced solely by smallholder farmers. There are currently three different organizational relationships between tea growers and factories in Tanzania. These relationships are (1) full ownership of growing and processing by a single private company, (2) full ownership of processing by a single investor company and contracted growing by smallholders, and (3) shared ownership between a single investor company and smallholder cooperatives of processing, and contracted smallholder production. These three organizational relationships are present to different extents in the certified value chains.

Market prices are fixed at the weekly Mombasa Auction (Kenya), although a majority of Tanzanian tea is sold outside of the auction through private contracts [19, 20]. Tea quality plays a vital role in determining the final value at auction. Although market forces may affect the general price levels, it is quality which distinguishes the value of tea across different factories irrespective of demand and supply patterns in the market. At the Auction, brokers sell tea on behalf of the producers. This tea is bought by the first set of buyers (a.k.a. blenders or international traders) who purchase lots of 40-60 packages of tea that have an average weight of 60 kgs. In the auction house, these lots can be split during the bidding process so to stop endless bidding on the same lots and keep the auction running smoothly.

These buyers blend the single estate teas into what they call a ‘standard’ and ship this to their international buyer, who put in their orders for tea from specific estates and exhibiting specific quality attributes prior to the weekly auction. This

1. During the time of data collection, three of these factories were not operating: Mwakalele, Chivanjee, and Lupembe. This was due to insufficient leaf, rehabilitation, and legal disputes respectively.

international buyer is considered a tea blender or tea packer. The main destinations for tea from Tanzania are Egypt, UK, Pakistan, and Sudan [19]. At this stage the 'standard' blend bought in Mombasa is blended again with tea bought from auctions in other tea producing regions and is packed for consumption. This packed tea is then sold to a variety of retailers who sell to consumers.

III. RESULTS

In this section, the four value chains are traced including the different actors who are involved at the different points of value addition outlined above as well as those intervening in the broader institutional context of each value chain. In Figures 2-5, the core industry actors in each value chain are represented by the green boxes. The orange-dotted boxes to the right of the chains represent the standards organizations, other non-governmental organizations (NGOs), and industry actors who intervene at that point in the chain. Those listed in the long orange-dotted box that runs up the right side of the figure are those organizations that are intervening at the institutional level in terms of policy support.

A. The Ethical Trading Initiative (ETI)

The role of the ETI standard in Tanzanian tea value chains takes two main forms, first in the form of Typhoo Tea and second through the Ethical Tea Partnership (ETP) which is the form that is most discussed in the industry (See Figure 2). Both ETP and Typhoo are members of the ETI and run a 'monitoring' program based on the ETI base standard.

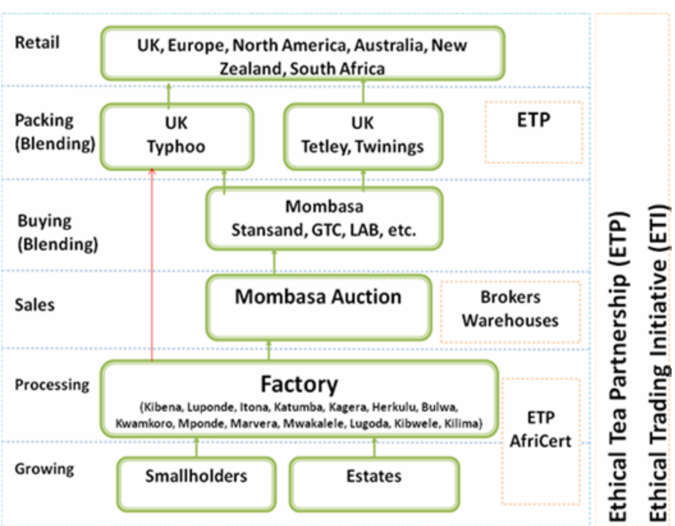

Figure 2 ETI Value Chain

Typhoo Tea Limited is a UK based blender that has its blending and packing factories near Liverpool in the UK. It was established in the UK in 1903 and since then has grown to sell their products in over 40 countries including USA, Canada, Australia, and South Africa. Typhoo has a number of diverse and successful brands such as Typhoo speciality tea and fruit infusions, London Fruit & Herb, Ridgways Tea, Heath & Heather, Melrose's Tea, QT Instant Tea, Lift Instant Tea, Brook Bond D Tea, and Fresh Brew Tea.

The Typhoo factory is also linked with Global Tea and Commodities Limited (GTC), which is another UK tea agribusiness that is vertically integrated by owning estates, MT processing factories and blending and packing factories in East Africa under the name of Gold Crown Foods (Epz) Limited. The Typhoo operations in Liverpool also blend and pack tea for GTC contracts and as such, blends tea for some of the main supermarket brands in the UK. In the Auction system, GTC acts as the International Trader or first Buyer for Typhoo. Thus for Tanzanian tea, Typhoo buys directly from the producer factory and utilizes the traditional value chain.

Typhoo claims to "have a long tradition of working closely with [their] suppliers," which enabled them to launch the Quality Assurance Programme (QAP) in 1992 [21 p. 1]. This was one of the first in-house supplier monitoring programmes in the industry. The way that the Typhoo QAP works is that Typhoo sends a self-assessment questionnaire to the producers that it consistently buys from and these producers send back filled in forms. The forms also ask if the producer is certified against the HACCP, Fairtrade, Rainforest Alliance and UTZ Certified standards. The quality assurance manager at Typhoo will typically also make a field visit, but due to budget constraints these field visits are few and far between. Moreover, certification against these standards typically makes a field monitoring visit unnecessary.

The ETP began in 1997 as the Tea Sourcing Partnership when "a number of large tea companies made the ground-breaking decision to work together to promoted sustainability in the sector, rather than competing on ethics" [22 p. 1]. It currently consists of 20 international tea packers who sell tea in Europe, North America, Australia and New Zealand. The most notable are Tetley, Twinings, The Republic of Tea, TAZO, Taylors of Harrogate and Sara Lee. Founding members Unilever and James Finlay have pulled out of the partnership since 2007 in favour of the Rainforest Alliance and Fairtrade standards respectively.

The ETP developed its tea specific standard from the Ethical Trade Initiative base standard [23]. The ETP looks at five areas: employment (including minimum age and wage levels), education, maternity, health and safety, housing and basic rights. It also added an environmental component in the 2009 version of the standard [24]. The purpose of the ETP standard is "to make this picture transparent – to monitor living and working conditions on tea estates, with the aim of making sure that the tea you buy from the members of our Partnership has been produced in a socially responsible way"[24]. In the past this has been done by 'monitoring' producers. As such, the UK based tea blenders/packers are members of the ETP and 'monitoring' (or certification audits) of the producing estates and factories are paid by the members. Producers are approached by ETP monitors through the buyers to which they sell their tea. Producers begin with a self-assessment questionnaire about their practices. Non-conformances are then identified and monitored by ETP every three years.

Of the 19 MT processing factories in Tanzania, 13 of the factories with estates and one factory supported solely by smallholder tea were exporting their tea for the international market during the period of data collection. All of these exporting factories in Tanzania have been certified by ETP at some point over the past ten years, many remembering that the last audit occurred in 2007. In theory factories should lose certification if they exceed the maximum level of non-conformances, but in practice this is not often the case (Interview 080725). Put differently, the ETP members continue to rely on the traditional value chain to purchase tea from the same producers that they usually do, despite the results of ETPs monitoring efforts.

The original 'monitoring' was completed by Price Waterhouse Cooper (a financial auditing firm), first sending auditors from London and subsequently from Nairobi. However, both ETP and producers reported numerous problems with the audit process and the 2009 revised standard was also accompanied by a new auditor – AfriCert Ltd., a Nairobi based agricultural certification agency that is also accredited for GLOBALGAP, BRC and is contracted for the Rainforest Alliance audits.

Recent developments show the ETP moving into a "capacity building" role within the tea sector [25]. Within this role, ETP plans to assist producers in becoming certified against Rainforest Alliance and UTZ certifications. The focus is thus shifting from monitoring non-compliances to identifying core issues in the industry and working with producers to eliminate them. While there is no clear presence of ETP in Tanzania, the organization claims to be working hard in Kenya to reduce child labour and sexual harassment in the Kenyan tea sector [22]. ETP is beginning to collaborate with the ISEAL Alliance, which is the Accreditation body for social and environmental standards development organizations.

B. Fairtrade

In the context of Tanzanian tea, Fairtrade[2] refers to the Fairtrade Labelling Organizations International (FLO) standards and certification system which was officially established in 1997 to bring together the already existing fair trade marks in Europe and North America. FLO standards act as the rules for those who are governed within their value chains and are based on the ideas of "transparency, partnership and participation, representative democracy, and equal exchange" [26]. Within the Fairtrade system traders and producers must be certified in the tea value chain this translates into certification for producers (farms and factories), buyers (international traders) and blenders/packers. FLO certified traders (the buyers and blenders) must:

- pay a price to producers that covers the costs of sustainable production and living;

2. I differentiate between Fairtrade and fair trade throughout this paper. Fairtrade refers to the standard and organizations affiliated with the Fairtrade Labelling Organizations International (FLO), while fair trade refers to the concept and other groups not associated with FLO.

- pay a premium that producers can invest in development;
- partially pay in advance, when producers ask for it; and
- sign contracts that allow for long-term planning and sustainable production practices.

Producers are evaluated according specific ‘social, economic and environmental development indicators’. Both estates and smallholders can become certified for tea.[3] With tea plantations, the ultimate aim of the fair trade movement was to help hired labor and end child labor. This meant devising a contract with the plantation owners to ensure benefits were given to workers, good labor practices were being maintained, and the extra benefits were helping social development objectives [27]. To this end, a ‘sustainability margin’ was added to the Fairtrade tea premium to encourage factories to participate in the system. The structure of the Fairtrade tea premium varies according to the product (CTC or Orthodox) and the type of producer, Hired Labour company (HL) or Small Producer Organisation (SPO). The ‘sustainability margin’ is a payment of 0.10 $/Kg out of the 0.50 $/Kg that goes to the estate management to support improvements in working conditions as part of ongoing certification and compliance with Fairtrade standards.[4] This sustainability margin does not exist for SPOs because they are” free to allocate their premium for that purpose if they wish” [28 p. 9].

As Figure 3 illustrates, the value chains for Fair trade are numerous and there are a large number of different actors involved at each level. Fair trade certification in Tanzania began in 1994 with Mufindi Tea Company’s (MTC) factories, Luponde and Itona, being the first to receive fair trade certification through Tradecraft – “because [they] believed in the ethics that fair trade represented” (Interview 091008). There are currently four factories certified against the Fairtrade standards. Three of these have estates that are certified via the HL mechanism, while the fourth sources from a certified SPO. The certified SPO,

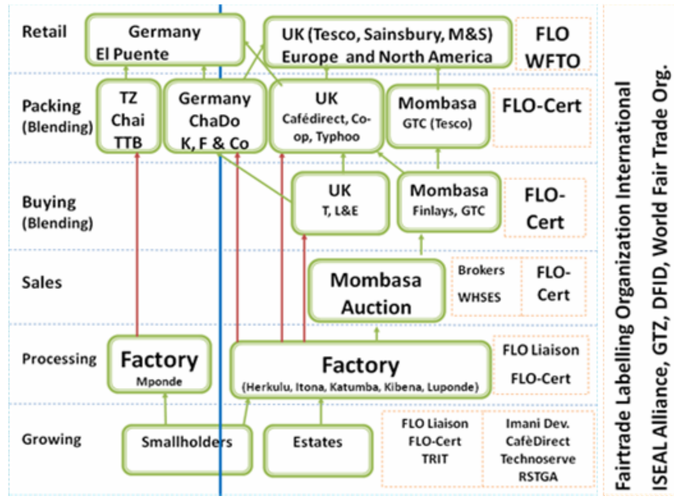

Figure 3 Fair trade Value Chain

Rungwe Smallholder Tea Growers Association (RSTGA), also owns 25% shares in the Wakulima Tea Company (WATCO) that owns the Katumba and Mwakalele[5] processing factories). There are also two additional groups that have lost their Fairtrade certification in 2008/2009. One was a factory with its own estates and the other was a smallholder association that supplied tea to the MTC certified factory called Kibena.

Fairtrade certified tea, accounted for 7% of UK’s tea sales in 2009 with the top 3 retailers being Tesco (market share 31%), Asda (17%) and Sainsbury (16%). Supermarket own brand teas already claim a large share of the shelf space and this is expected to gradually increase in the coming years with the share of Fairtrade tea growing rapidly in 2010. Sainsbury has announced it will purchase 6000 tonnes of Fairtrade tea to meet the full requirement for its own brand teas and smaller retailers like the Co-op and Marks & Spencer have also started offering their Fairtrade certified own brands with a commitment towards 100% in the future [29]. FLO has also indicated the interest of large supermarket brands in their 2010 Tea revision document where they propose to producers a trade-off of lower premium funds for higher volumes of sales in order to attract the business of larger buyers. The current percentage of total sales

3. The Fairtrade Tea standard and statistics cover black, green, white and oolong tea, they also include herbal infusions (i.e., camomile, hibiscus, mint), spices and rooibos tea.
4. Some Fairtrade buyers (e.g., Cafedirect) will pay the 0.10 $/kg to the factory in addition to the 0.50 $/kg premium to the SPO.
5. Mwakalele factory is not included in the graphic because at the time of data collection it was not operational due to low volumes of greenleaf.

for the Tanzanian Fairtrade sector was an average of eight percent in 2009.

The Fairtrade certification also allows for the continued use of the traditional value chain via their provision for retroactive certification of bought tea. Retroactive certification is defined as when a buyer has bought product from a certified producer or conveyor under ordinary conditions (non-certified), and wants to convert it into a certified product. "In 2008, systematic retro-certification of Fairtrade teas was phased out to overcome a lack of transparency and 'unfairness' associated with the practice and perceived inconsistency with Fairtrade trade rules" [28 p. 12]. Now, retro-certification is allowed by exception only and is determined on a case by case basis by FLO-CERT (the separate certification body accredited by FLO). However, the 2010 revision of the Tea standard proposes to reintroduce retro-certification across the board [28]. Thus many of the large multi-nationals and UK supermarkets continue to rely on the auction system for purchasing their tea through their usual channels. However, we do see a number of deviations from this model in the Tanzanian case. Most notably are the cases of Cafèdirect and the German market.

Cafèdirect purchases tea directly from two FLO certified factories in Tanzania (Kibena and Katumba). Cafèdirect has been sourcing from these two factories since 1998 when Kibena was first operational and 2003 when Katumba first gained their Fairtrade certification. These two factories are also shareholders in Cafèdirect and are involved in a number of additional 'development' projects in collaboration with Cafèdirect. As one of my research participants explained: "our business model definitely goes much beyond the FT minimum!! [...] What I would like to stress however in line with above that this intiative (as a public-private-partnership with GTZ/ Germany)[6] is precisely NOT Fairtrade Value Chain but a specific Cafedirect value chain and understanding of what a responsible & ethical business should do nowadays" (personal communication with research participant, research participant's own emphasis).

The case of the German market is quite different from the UK market both in terms of scale and in terms of their relationships to Fairtrade producers. In 2009, Fairtrade tea sales grew by 13 percent from 2008 to 229 tonnes of tea (which represents about one percent of the tea market), 77 percent of which were also certified Organic. These sales provided €136.000 ($195,000) in Fairtrade premiums [30]. Critical to this step forward was the many new introductions of Fairtrade certified tea packers: Cha Dô, GEPA, Teekanne, Tee Geschwendner and Rossmann. The German tea industry imports a lot of its tea from India, China and Vietnam. The specific use of Tanzanian tea is to add this tea to its blends and is based purely on the purchase of tea from the two organic certified factories: Herkulu and Luponde (a MTC factory). As such, only Cha Dô and Kirchner, Fischer & Co. GmbH (K, F &Co) are involved in the Tanzanian Fairtrade value chain. I will explain these relations in the next section on the organic value chain. However, I will note here that Cha Dô is highly engaged in the FLO system and sits on Product Advisory Council (Interview 100331).

On the left side of Figure 3, I have included a value chain that is part of a fair trade value chain but is not part of the certified Fairtrade value chain. Specifically, the Fairtrade certified trader, El Puente GmbH, is considered to be an Alternative Trade Organization (ATO) and buys non-certified packed tea from a Tanzanian tea blender and packer, Afri Tea and Coffee Blenders (1963) Ltd. (Chai TTB), which sources its tea directly from its own MT processing factories that are supplied directly from smallholder farmers. These two factories (Mponde and Lupembe[7]) are not Fairtrade certified, but the smallholder associations do hold 50% shares in the factory ownership. In addition to paying premium prices for the packed tea, El Puente also contributed to a specific development project meant to help rehabilitate the Mponde factory and improve the tea production of the smallholder farmers.

We also see a large number of non-governmental and governmental organizations involved in providing policy and capacity building support to the Fairtrade system. Many of these initiatives take place at the 'growing' level of the value chain and consist of commercial extension services by the Tea Research

6. Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) is the German Development Agency

7. Lupembe is not included in the graphic because it was closed during the period of data collection due to a legal dispute over ownership.

Institute of Tanzania, awareness-raising by Technoserve, capacity building by Imani Development and Technoserve and 'liaison' services by FLO. Most of these projects have been involving the Rungwe Smallholder Tea Growers Association (RSTGA), as it is the only certified SPO in Tanzania. At the policy level FLO receives support from GTZ and the UK Department for International Development (DFID) in terms of public-private partnership programs at the producer level. For example, GTZ helped Cafèdirect fund the three-year long AdapCC pilot projects that brought together Cafèdirect's coffee and tea producer members from around the world to conduct risk assessments for adaptation to Climate Change. FLO originally worked in partnership with the World Fair Trade Organizations (WFTO), but this relationship has been described recently as a contested as they are now seen by WFTO members as a competing fair trade systems in the struggle to define what 'fair trade' means in the market (Interview 100525). Finally, FLO is also a full member of the ISEAL Alliance.

C. Organic

The organic agriculture system is based on the principles of "health, ecology, fairness and care" [31]. It is a holistic system certification system that has been incorporated into law in many countries around the world. Particularly important for Tanzanian tea are the EU regulation (EEC 2092/91) and the US National Organic Program (NOP). The Organic certification is also the only certification that covers all stages of the value chain, which is fundamental to its principle of traceability.

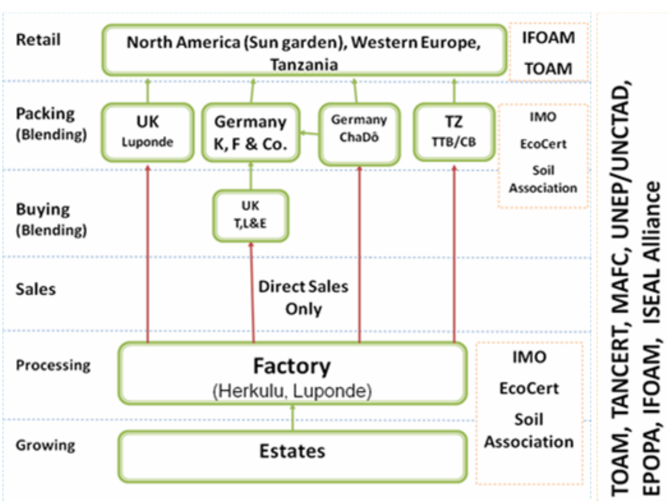

Figure 4 Organic Value Chain

In Tanzania, as mentioned above, the two estates that are certified Organic are also certified Fairtrade. The move to Organic was made before the Fairtrade certification as both the organic certified companies claimed that they first joined the system because they had acquired overgrown fields and the costs for conventional rehabilitation were much higher compared to the Organic certification (Interviews 091105 and 100115). Since 1989/90, the Herkulu Estate (230 Hectares), owned by Bombay Burmah Trading Corporation Ltd., has been organically cultivated, beginning in 1994 it was certified organic by the Institute of Marketecology, Switzerland (IMO) [32]. Luponde received organic certification in 1988 from the Soil Association (Interview 091105). Luponde is currently certified organic through Ecocert, Madagascar. The decisions to use a specific certification body are made by factory management based on the instructions given by their international buyers who inform them of the certifier that must be used. It is interesting to note that the local Tanzanian certifier who conducts the IMO audits also conducts the FLO-CERT audits as the auditors themselves are certified according to a number of different certification systems and are not employees of one specific certification body.

Organic tea is currently only bought through direct contracts and accounts for an average of 25% of total sales for 2009. Organic tea is paid a price premium, which is difficult to determine because the majority of certified organic tea that is exported from Tanzania is actually of the orthodox method rather than CTC. This also adds an additional price premium. Luponde and Herkulu are the only two factories in Tanzania that are currently manufacturing orthodox tea in addition to CTC. Luponde is also producing organic and Fairtrade certified chamomile, mint, lemon verbena (not Fairtrade certified), green and white tea.

Germany is the largest organic food market in Europe and labeled Organic tea accounts for about 4 percent of the German tea market [29], and as mentioned above, 77% of the Fairtrade certified teas are cross-certified with Organic. Also, the largest organic and Fairtrade specialty blender in Germany –

Cha Dô – supplies blended teas to the UK and North American markets as does the other organic blender in my study (Kirchner, Fischer & Co GmbH). Cha Dô buys exclusively from Herkulu in Tanzania to mix with organic tea from other producing regions and is an agent of the company that markets Herkulu's tea. In addition to purchasing under both the organic and Fairtrade labels, Cha Dô provides technical assistance on quality standards (Interview 100331). Kirchner, Fischer & Co GmbH (K, F & Co.) own the label Mt. Everest Tea company, which is one of the oldest specialty tea companies in Germany. Specializing in orthodox blends, K, F & Co. have only begun purchasing Luponde teas in 2010. They first learned of it by tasting a sample that was sent to them from the UK based wholesaler Thompson, Lloyd & Ewert, who has a long-standing relationship of buying teas directly from MTC and WATCO (Interview 100526).

Organic orthodox teas from Luponde also have a direct route to retail in the UK market. Luponde Tea is a shop in the Burlington Arcade in London, which sells exclusively tea from the Luponde estates. While this retail company is separate from the Luponde estates, they share a common investor, which has facilitated the direct trade route from farm to shop. Currently only the packing and retail of the tea occurs in the UK, but there are plans for the future to pack the tea in Tanzania also.

There is also a domestic value chain for organic tea. Chai TTB and Chai Bora, the two leading tea packers in the Tanzanian market, both offer organic brands for the local market. These include black tea, green tea, mint, chammomile, lemon verbena and habiscus infusions which come mostly from Luponde. These are sold in the main supermarkets in the large urban centers in the country, in the airport shops and in the tourist areas.

There are also a large number of actors who are listed on the right side of Figure 4. This illustrates the highly developed institutional context that has been developed to support organic agriculture in Tanzania. Between 1997 and 2008, Sida (Swedish International Development Co-operation Agency) financed a program to promote exports of organic products from Africa. Through this program the Tanzanian Organic Agriculture Movement (TOAM) was created to organize organic producers in the country, to lobby policy makers for the inclusion of organic agriculture in its agricultural policy and to liaise with the International Federation of Organic Agriculture Movements (IFOAM). IFOAM is also a full member of the ISEAL Alliance. In 2007, the East African Organic Products Standard (Kilimo Hai) was developed as a common standard for organic agriculture in Tanzania, Kenya and Uganda and TANCERT was also created as a certification body accredited to certify against this standard. Unfortunately, TANCERT is not accredited for any other organic standard which creates a barrier for them to join the organic tea value chains. Additional support for developing this standard came from UNCTAD and the United Nations Environmental Programme. Moreover, the Ministry of Agriculture, Food Security and Cooperatives provided support and have worked together with various stakeholders to create a national organic policy.

D. The Rainforest Alliance

The largest company in Tanzania, Unilever (PG Tips and Lipton brands), is a key player in the global consumer market, buying 12% of the global black tea supply, and is perceived to dominate the trade [33]. In 2005, Unilever began an initiative, starting in Kenya and Tanzania, to make its tea supply chain "sustainable" by 2015 [34]. In 2010, Tetley, Twinings, and Taylors of Harrogate have also followed suit [35]. This sustainability will be achieved by sourcing only from tea gardens that have been certified against the Rainforest Alliance (RA) standard for 'sustainable agriculture', as extended to include tea in 2007.

The RA Certified seal is awarded to farms that have met the environmental, social and economic standards of the Sustainable Agriculture Network (SAN), a coalition of local conservation organizations that first set the standard for sustainable farming in rainforest areas in the early 1990s. The SAN standards cover ecosystem conservation, worker rights and safety, wildlife protection, water and soil conservation, agrochemical reduction and education for farm children. In this way the Rainforest Alliance strives to foster the values of 'economy, ecology and ethics' in its value chain [36].

Since 2008, RA has one broad agricultural standard for more than 100 crops with tea specific criteria. The original audit of tea plantations in Tanzania was done by RA certifiers; subsequent audits will be done by Africert (a Kenyan agribusiness certifying agency that also certifies against GlobalGAP, ET, BRC and Utz Kapeh). In Tanzania, to date, the Rainforest Alliance has only been adopted by Unilever. However, MTC and WATCO were in discussion with RA in 2010 to try to negotiate their involvement in the system.

Unilever factories in Tanzania source mostly from medium scale growers and 95% of green leaf comes from their own plantations. Unilever operates a vertically integrated value chain where Unilever owns green leaf production, MT processing factories, blending and packing. Green leaf that is not bought by Lipton (Unilever's buyer) goes into the traditional market through Mombasa and into non-certified tea (despite being produced according to RA standards). While most tea is being bought directly from factories due to the commitments that have been made and the scarcity of certified tea, there is also no mechanism within the RA standard to prevent the use of the auction system. In fact, the aim is to continue to rely upon the auction system for tea trading (Interview 091204).

To date the cost of certification has been born by Unilever. However, there is no clear articulation of how the outgrowers in Tanzania will become certified. The Rainforest Alliance has been looking to donors for funds that can be used to provide the training and technical assistance that is needed for helping small farmers meet the certification requirements (Interview 100609). In Kenya, Unilever and Rainforest Alliance leveraged funding from DFID to certify smallholders who had been part of their farmer field school project.

To encourage other brands and producers to join the Rainforest Alliance system, Lipton was offering a $0.10/kg premium that is being phased out in 2010. This has helped to create more interest in the system and other large Tea blenders (notably Tetley and Twinings) have committed to joining the system. However, the 'demand-driven' approach to certification that the Rainforest Alliance has adopted translates on the ground into a large number of producers who are interested in becoming certified, yet to date have not been able to because of a lack of RA presence in the region and their policy of certifying those producers first who have an existing

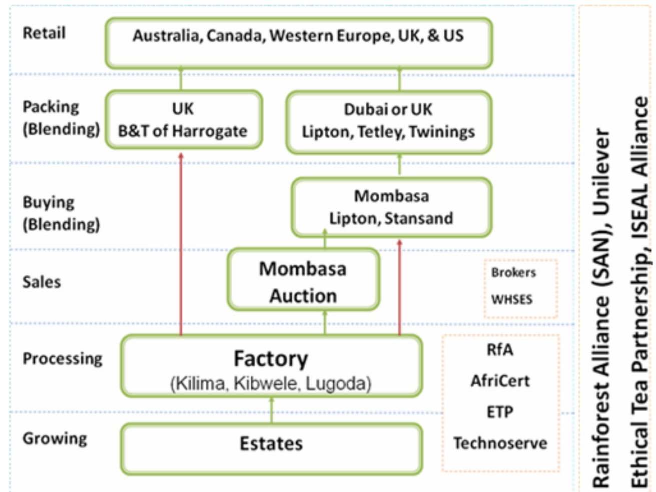

Figure 5 Rainforest Alliance Value Chain

demand for their tea (i.e., Lipton, Tetley and Twinings' preferred producers).

In addition to the value chain for the large blenders, Taylors of Harrogate have also made a commitment to sourcing RA certified tea. The commitment here is rather different than that made by the large blenders. This commitment can also be linked to the type of company that Taylors is and their relationship with the tea producers. Taylors of Harrogate is a family-owned company that maintains 'trust-based' relationships with the producers that they buy from. Therefore, the move toward RA certified tea was a product decision based on the decisions that were made by their producers. Let me explain, in coffee, Taylors of Harrogate has opted for Fairtrade certification because the majority of their producers were going for that certification, whereas in tea they found that their producers were leaning towards the RA certification. Therefore, in order to keep their long-term relationships with their producers, Taylors decided to use the RA system (Interview 100603). As such, Taylors continues to purchase their tea directly from the producers that they have always purchase from.

In terms of the institutional actors, there are still relatively few as the RA network is so new to the tea industry. However, RA has signed a memorandum of understanding (MOU) with the ETP and RA is a full member of the ISEAL Alliance.

IV. DISCUSSION

For Gibbon and Ponte [5], African commodities have been subjected to buyer-driven chains guided by international lead firms. These firms assert monopoly power because their size and their ability to define quality standards. The quality standards pose a major entry barrier for many African producers who are unable to maintain predictable supplies of the product at the specified standard, making it impossible for African exporters to guarantee market supply. Thus, African producers face a buyers' market that demands exacting quality standards that have little direct contact with them. While African-based suppliers have managed to hold their own, much of their success has owned more to private coordination, usually associated with powerful non-African business elites, rather than public action. The case of tea fits well within their description of African commodity chains. For example, the Tropical Commodity Coalition claims that "the buying and retailing end of the [tea] market is dominated by a handful of powerful multinational companies that are in a strong negotiation position and are able to skim off most of the value in the chain" [29].

However, as shown in the case studies of certified Tanzanian tea, governance also includes the social actors that influence decisions made about sustainable production at the various stages of the value chain. These include trade the many non-governmental organizations that attempt to influence both public and private policies and behaviour concerning sustainable production [37]. Some of these non-governmental organizations (e.g., Fairtrade) both set standards for sustainable agriculture, and assess and certify compliance with those standards. This shift represents the shift that we have seen in the agri-food system, that is, a decrease in regulation and an increase in voluntary forms of governing value and supply chains. In this sense, these case studies are examples of what Islam calls twin-driven commodity chains [11] or what Tallontire claims is a form of horizontal governance [38]. In other words, those stakeholders who are not necessarily party to the exchange may govern value chains and the standards used by them (e.g., Fairtrade and Organic value chains), in this way governing power within value chains can extend horizontally as well as vertically.

With the notion of twin-driven commodity chains, there is a bias of relational governance between chain actors. However, as these four cases illustrate, drivenness is not quite a simple as buyer or twin-driven. A variety of contextual and embedded relationships have resulted in differing patterns of governance even within value chains. Let me summarize each of the four chains in turn.

For the ETI value chains, the reliance on the traditional supply routes results in a highly captive, buyer-driven GVC. Participation or input by upstream actors is absent in most cases and textually mediated in those cases where their input is requested (e.g., via self-assessment questionnaires). However, producers are exhibiting power in some negotiations ongoing in this chain, particularly with regards to their compliance with these standards and their ability to remain within the network despite non-compliance.

The Tyhpoo QAP is a first party assurance scheme while the ETP has also taken the form of a corporate social responsibility exercise for its members. The lack of a consumer label has thus lessened the legitimacy of the ETP program as an effective external check on suppliers, which may explain why many of its original members have either left the partnership or have joined the Fairtrade and Rainforest Alliance systems. The MOU with Rainforest Alliance is an example of the change that ETP is attempting to make in its practices as well as an attempt to exert more power in developing a twin-driven value chain.

The fair trade value chain is the most complex of these four chains. Given the values of collaboration and partnership that Fairtrade espouses, it might be expected that the Fairtrade tea value chain would be coordinated through relational governance, where chain drivers coordinate exchange through norms of trust, obligation, and shared expectations [2]. The criteria of Fairtrade – stable supply chain relations, the social premium, and the 'fairness' of the transaction – should in theory facilitate relational governance as exchange is predicated on symmetry, 'partnership,' and interdependence [39]. Yet the reliance on the auction system in much of Faitrade tea marketing militates against the longer-term buyer commitments and the symmetrical supply chain relations that relational governance implies [40]. Moreover, the relatively low percentage of sales to Fairtrade buyers in Tanzania (average 8% of certified production) means that much of the certified product is being sold through traditional marketing channels, thereby reducing some of the Fairtrade sales to market-mediated relationships.

However, the diversity of trading routes within the Fairtrade system illustrates the difficulty involved with relegating Fairtrade to a pure definition of governance. For example, we also see examples of hierarchical governance in the case of Herkulu and relational governance in the relationship between Cafèdirect and its producer partners.

The organic value chains are exhibit hierarchical and relational governance, depending entirely on direct purchasing relationships and sharing of information between buyers and producers. Moreover, there is a paradox in the Tanzanian context between policy and practice. While much work has been completed to create an 'enabling environment' for organic agriculture, they are not connected in any way to the value chains for organic tea that begin in the country. In fact, one research participant from the policy group did not even know that Herkulu was certified organic (Interview 090930).

Finally, we return to buyer-drivenness in the case of the Rainforest Alliance where decisions made at the corporate level dictated which certification system to join and facilitated the certification of their own hierarchically governed value chains. Moreover, the 'demand-driven' approach that Rainforest Alliance is using to roll out its certification, in addition to the intensive training required by farmers before meeting the certification requirements, militate against the ability of producers to initiate involvement in this value chain and gain access to more lucrative direct sales contracts. However, the relational governance relied up by Taylors of Harrogate adds a new layer to the Rainforest Alliance system and presents a case where alternative power relations between value chain actors might develop.

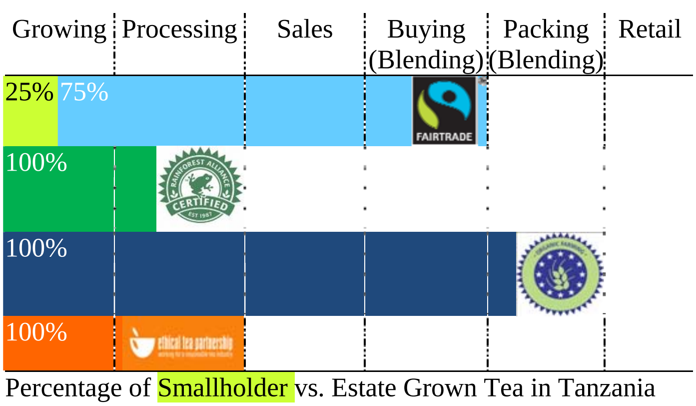

Figure 6 Value Chain Coverage of Standards Systems

Figure 6 summarizes the value chain coverage of the four standards in Tanzania. Only Organic requires certification and separation of certified and non-certified products throughout the chain until the packing stage. No standard covers the retail end of the chain. These shortcomings further illustrate why there is such variation and complexity in the governance of these chains, thus making the characterization of twin-drivenness over buyer-drivenness incomplete.

V. CONCLUSIONS

As explored in the discussion above, there is no clear pattern in the relationship between standards regimes and governance relations. What we do see are pragmatic strategies to influence power within the market through the inclusion of different actors into 'value-added' chains.

The conclusions suggest that despite claims about the ability to change trading relationships through the certification systems, most of the old networks are still in place. The certification systems only add additional buyers to global value chains that were already governed by highly relational mechanisms. These conclusions thus place in question some of the claims made by standards development organizations as to their abilities to change practices.

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(locontoa@msu.edu)