



CASE STUDY 1

Rooibos Tea Value Chain Lessons for Policy and Practice

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1 Introduction

This case study of the rooibos value chain seeks to identify key issues and insights about agricultural value chains that may be helpful to policy-makers and practitioners working in the field of economic development.

A focus on the rooibos value chain is particularly relevant to regional economic development because:

- It is a product that is highly regional in character with production concentrated on the West Coast area of the Western Cape. It can only be grown successfully within this regional biome;
- It illustrates the potential of biodiversity assets in securing competitive advantage and shows how these can be commercialised for economic development;
- It demonstrates the importance of protecting the intellectual property of agricultural products; and
- It highlights the different interests of different parties in the value chain as well as the potential for parties to work together in the common interest.



2 Background

Rooibos (scientific name *Aspalathus linearis*) is a broom-like member of the legume family of plants growing in South Africa's fynbos. The red shrub-like bushes are endemic to South Africa and only grow in the Cederberg, about 200 kilometres north of Cape Town.

The indigenous San and Khoi people of South Africa, are believed to have been the first to discover medicinal uses for the plant and that the fine, needle-like leaves could be used to make a tasty, aromatic brew. Settlers to the Cape also subsequently adopted Rooibos. Visiting European botanists wrote about rooibos as early as 1772, but its potential was not realised until 1904 when Benjamin Ginsberg, a Russian immigrant with a family history in the European tea industry started trading rooibos he bought from the locals in the Cape. He later persuaded a local doctor and amateur botanist Dr Le Fras Nortier to experiment with the cultivation of the plant. Nortier was able to successfully germinate the rooibos seeds and Ginsberg encouraged local farmers to cultivate the plant hoping it would become profitable. By 1930, using refined cultivation methods, rooibos production in the Cederberg began on a much greater scale for commercial use. Ginsberg became the first exporter of rooibos tea.

After the Second World War the rooibos market collapsed. In 1948 the rooibos producers established the Clanwilliam Tea Cooperative. At its request, government then established the Rooibos Tea Control Board in 1954, which was tasked with regulating marketing, stabilising prices and improving standards and quality. In 1993, this board was converted into a fully

privatised company, Rooibos Limited as part of a broader process of privatising agricultural marketing. Rooibos Limited now had to function on a profitable basis. It remains the dominant supplier of rooibos tea and markets globally.

The traditional knowledge gained from the Khoi and San people is still used in modern cultivation of Rooibos. Methods are now mechanised and more refined. Generally, the leaves are oxidised, a process often referred to as fermentation in accordance with tea processing terminology (strictly speaking rooibos tea is a herb not a tea, although it is produced like a tea). This process produces the distinctive reddish-brown color of rooibos and enhances the flavor. Unoxidised “green” rooibos is also produced, but the more demanding production process for green rooibos (similar to the method by which green tea is produced) makes it more expensive than traditional rooibos. It carries a malty and slightly grassy flavour somewhat different from its red counterpart.

Rooibos has become increasingly popular both locally and abroad, particularly among health-conscious consumers given that it is high in anti-oxidants and caffeine free and is used in a wide variety of other health and beverage products.

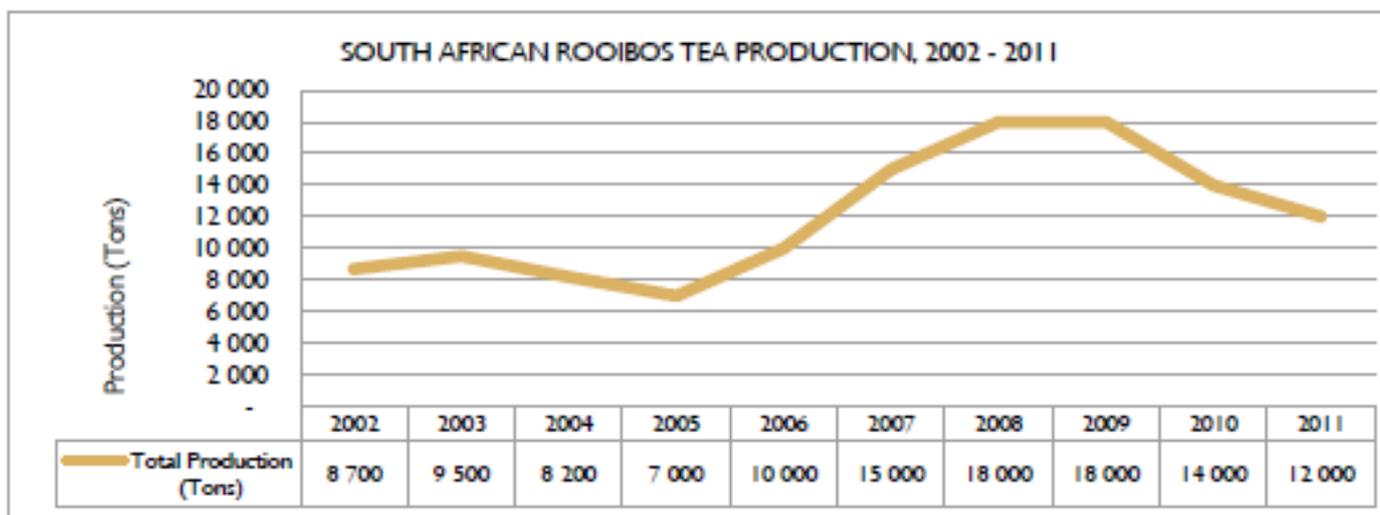
More than 5 000 people are now employed in this industry, both in the farms and processing plants. The industry is valued at more than R600-million per year.

3 The Value Chain

3.1 Production

There are approximately 450 commercial rooibos farmers in South Africa. There are roughly 150 small-scale farmers who are either independent or belong to cooperatives based in the communities in which they live. The two major tea cooperatives are Heiveld and Wupperthal.

Production of rooibos tea has increased from 4 293 tons in 1993 to as high as 18 000 tons in 2008 and then declining from 2010.



Source: WESGRO. Rooibos Fact Sheet, 2012.

The rooibos plant grows best in a semi-desert environment, which makes production cyclical and requires an extensive production area. This is advantageous as diseases are easier to control, per unit production costs at the farm level are lower, and, if stored properly, the product is not perishable. However, it has one major disadvantage, as the processor needs the wherewithal to be able to buy stock in years of surplus production and to carry the costs of storage for the lean years so that supply to the market is maintained. Consequently, to operate successfully in this market requires the capacity and the financial means to manage the cycles of production inherent to the industry.

Cooperatives

While the majority (roughly two-thirds) of farmers supply Rooibos Limited, the remaining mostly small-scale farmers are either independent or belong to cooperatives. There are two main rooibos cooperatives – Heiveld and Wupperthal.

Heiveld Cooperative

Initiated by farmers wanting a more productive and profitable way of farming and marketing their own rooibos, The Heiveld Co-operative was founded in 2001 with 14 members. Heiveld has received support from local NGOs and university researchers who have secured research and development grants for them. It has since grown to 64 members and annual production is between 50-80 tons. The rooibos is grown and processed in the traditional way with minimal use of machinery and is harvested carefully by hand.

The cooperative is organic and Fairtrade certified. Their rooibos is exported to Germany, the United Kingdom, Switzerland, Italy, France, Belgium, USA, Canada, Japan, New Zealand and Australia.

Wupperthal Original Rooibos Cooperative

The Wupperthal Original Rooibos Cooperative has its roots in the Wupperthal Association, which has been cultivating and jointly marketing rooibos in the area since 1998.

The Cooperative started in 2009 with 53 members and has since increased to 93 members, 39 of whom are female. They have been assisted by the Moravian Church in the area, which inter alia provided building access for operations. Their tea is both organic and Fairtrade certified.

Rooibos is not only the main source of income for cooperative members, it is also linked to the culture and economic and social well-being of its members. The growth of the Rooibos industry has enabled members to make significant strides in improving their communities through efforts such as building schools and providing support for disadvantaged people.

These smaller cooperatives do not cultivate rooibos, but use their traditional knowledge to harvest it from wild plants and process it. Rooibos products from these cooperatives are Fairtrade certified and therefore command a premium over similar products from the larger producers. A portion of the premium is typically reinvested in developing business opportunities and running training programmes for cooperative members.

According to the Department of Agriculture, Forestry and Fisheries, the international Fairtrade tea market was estimated to have a retail value of approximately 200 million euro's (R1.9 billion) in 2011. While organic and Fairtrade certification have enabled these cooperatives to inter alia access international markets, increase their profits and invest in their communities, there is still some concern re the sustainability of these cooperatives. Firstly, Fairtrade definitions allow not only cooperatively minded smallholders to attain certification, but also white commercial farm owners are able to comply with the Fairtrade conditions. There is some question as to whether this then further entrenches structural inequalities. In addition, with commercial farmers also vying for the Fairtrade market, the small-scale farmers have had to respond by emphasising traditional methods of harvesting wild rooibos in the hopes of developing a new niche market for themselves.

Fairtrade is an alternative approach to conventional trade and is based on a partnership between producers and consumers. By setting a minimum price and premium, Fairtrade offers a better deal and improved terms of trade. When a product carries the Fairtrade mark, it means the producers and traders in the value chain have met all the criteria as laid out in the Fairtrade standards.

The standards are set by the Fairtrade Organisation International (FLO) and are divided into four distinct sections:

1. Social development
2. Socio-economic development
3. Environmental development
4. Labour conditions

The Fairtrade minimum price is set to cover an average farm's production costs while allowing them to make a profit. The Premium is an amount set by Fairtrade International that should be paid over and above the minimum price. The Fairtrade Premium needs to be used for social development of the farm workers, the communities and/or the members of the small farmers' organisation.

In 2008, the Fairtrade Labelling Organisation (FLO) International introduced a minimum price for Rooibos tea, setting the minimum price paid to producers at ZAR 30.35 (US\$ 3.00) per kilogram.

Source: Handbook for Implementing Rooibos Sustainability Standards. 2011.

3.2 Processing

About two thirds of the farmers deliver their crops to one processor – Rooibos Limited - the industry's largest role player which lays claim to about 70% of the global market share, exporting to more than 50 countries worldwide and has a contracted farmer base of more than 200 farms. It has an extensive product range and offers customized product development and a host of additional services from packaging to flavouring.

As the dominant player in the industry, it emerged as the custodian of the rooibos name as the entire industry was threatened by the potential loss of the rooibos name on trademark grounds over the past two decades.

Product innovation and extending the product line is also important. Examples include the launching of green or unfermented Rooibos in 2003, the inclusion of Honeybush tea in the product line-up and the production of extracts with a wide range of applications that commenced in 2011.

3.3 Marketing

Currently production is estimated at 15,000 tons of Rooibos tea annually - which is equivalent to 15 million kilograms with 400 cups of tea in every kilogram. Out of that, roughly between 6 000 – 7 000 tons is for the domestic market, with the remainder being exported. In fact, the biggest portion of rooibos tea is exported in bulk and is packed abroad before being distributed under foreign trademarks. The top five international markets are Germany, Netherlands, United Kingdom, Japan and the USA – accounting for 84% of the total exports in 2013.

South Africa has a natural competitive advantage as the sole producer of rooibos in the world.

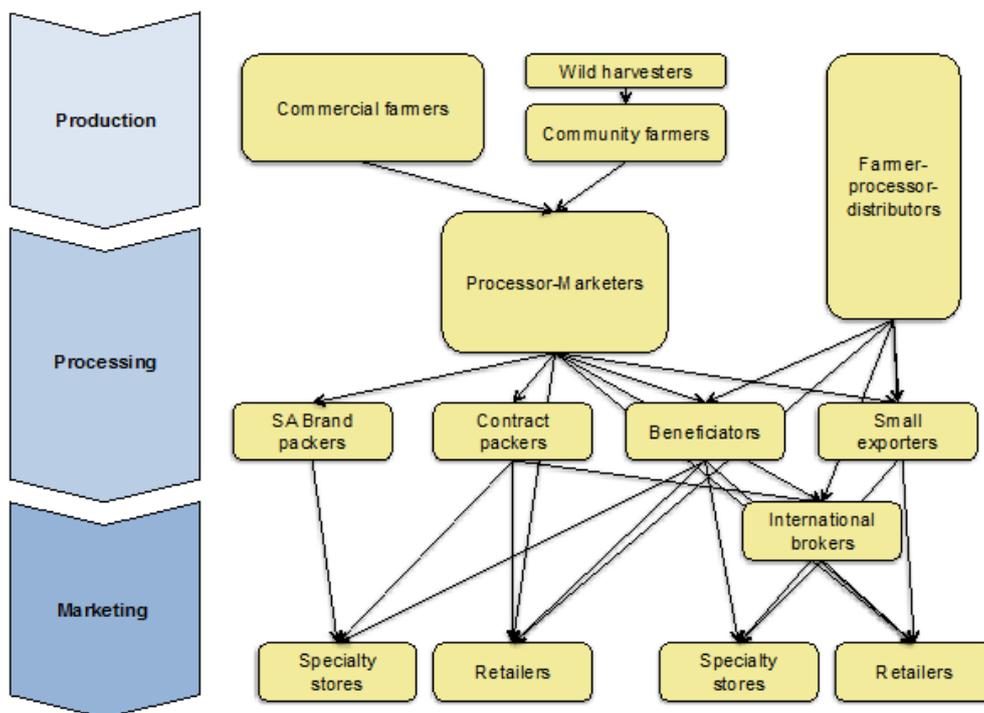
While South Africa is the monopoly producer of the tea, unlike in other industries, it has not been able to dictate the price of rooibos. The tea is pegged against the price of black tea and is arguably relatively undervalued for a product that is unique and only produced in one place in the world. Export volumes and returns are largely dependent on exchange rate movements, especially in European markets.

The industry is also subject to the volatility of local and export rooibos tea prices. The price volatility is due to producer prices being based on perceptions of supply and demand and set at a predetermined annual rate. Depending on the harvest, prices in the rooibos industry are prone to great variations. Sustainable pricing would be of significant benefit to the various players in the industry, as it would promote stability.

Other ongoing market-related challenges includes creating opportunities to:-

- Increase domestic and international market awareness and presence of rooibos; and
- Increased export volumes of Rooibos tea and other products into emerging markets.

3.4 The value chain



The discussion above is reflected in the overview of the rooibos value chain in the picture below. A number of issues should be noted:

- Production is dominated by commercial farmers but there is significant niche production by community farmers and wild harvesters who have attempted to improve the price they receive through Fairtrade and organic certification and branding.
- Rooibos Limited is the dominant processor and marketer of rooibos. However, a number of farmers and groups of farmers have attempted to participate in larger part of the value chain by processing and packing on the farm, developing their own brands, and by developing their own marketing capacity.

- There is a small but growing trend of beneficiating rooibos to produce new products including other beverages (such as iced tea), toiletries, cosmetics, personal care products and pharmaceuticals.
- In regard to the rooibos exports, largely German international brokers play a very important role. There is some suggestion that they capture a significant part of the value involved in rooibos exports and some local exporters have tried to create direct links with international retailers and specialty stores.

4 Environment/Sustainability

Rooibos is a unique plant, grown in a rare habitat. Attempts to grow this unique plant elsewhere in the world have failed. Rooibos grows in a symbiotic relationship with local micro-organisms, forming part of the fragile fynbos biome. The increase in production and expansion of the production area has significant impact on this sensitive biodiverse environment. In addition, climate change threatens the future survival of the plant and the entire rooibos industry. Increasing temperatures and erratic rainfall with the possibilities of drought could all cause yields to decline, potentially raising prices and resulting in a decreased demand. Changes to the climate thus place the entire industry at risk, as well as the livelihoods of the people of this region who are heavily dependent on the plant.



Sustainability of this industry in the longer term will be dependent on the ability to adapt to these changing weather patterns and to implement agricultural best practice. Farmers can increase their resilience to climate change through natural resource management, monitoring weather patterns, soil and water conservation as well as promoting agricultural biodiversity.

In 2010, the South African Rooibos Council launched the **Right Rooibos** initiative aimed at fostering sustainable practices in the production and sale of Rooibos. Right Rooibos works with landowners to develop and ensure sustainable production practices.

A year later, two more Rooibos industry-supporting documents were published – the Right Rooibos Sustainability Standard and the Handbook for Implementing Rooibos Sustainability Standards. The measures contained in these documents informed the development of the GI process (which is explained later).



What does Right Rooibos mean by “sustainable” Rooibos?

Sustainability as detailed in the vision statement depends on:

- The legislative framework for natural resource utilisation in SA;
- Does not result in unjustifiable loss of biodiversity of natural veld conversion and degradation, and related increase in greenhouse gas emissions (adaptive strategies to mitigate impacts of climate change), also ensures habitat protection for endangered and endemic species (ecosystem processes and services);
- Reduces/limits negative effects of plantations such as soil erosion, degradation by effluents from processing and pesticide runoff, pollution of sensitive aquatic ecosystems;
- Contributes to poverty alleviation and rural development of local communities. A landscape that delivers viable economic returns in inter-generational terms, not only in terms of cash but quality of life too; and
- Maximises efficiency of natural resource utilisation – maximum allowable area for the production food and a minimum area to retain viable ecosystems, habitats, species, etc.

5 Institutional Issues

There is a representative industry association - the SA Rooibos Council - whose vision is to enable “a stable, cohesive and internationally competitive South African Rooibos industry that will ensure future sustainability to the benefit of all stakeholders”. It aims to achieve this by coordinating and investing in core activities, including the generic marketing of rooibos through a market development team, managing a research and development programme, implementing a sustainable natural resource management strategy and creating a supportive structure that improves communication within the industry and cooperation amongst its members.

Intellectual property challenges as well as the consequent process to register as a Geographic Indicator (GI) revealed a largely unsupportive institutional environment at national level and

eventually served as the impetus for several far-reaching policy changes. Today there is a clear recognition of the importance of this industry and acknowledgement of government's role in protecting it and the livelihoods of the people dependent thereon. In fact, the GI process created a space for industry stakeholders of all sizes to communicate and collaborate, and the relationship with government was enhanced.

While the process created this collaborative space as the stakeholders rallied together, it should be noted that they have an ongoing challenge of maintaining those relationships going forward. Potential sticking points include the dominance of Rooibos Limited and a historical mistrust of government to protect and assist the

Securing Rooibos Intellectual Property Protection

Up until relatively recently, local industries had no legal basis to prevent any company anywhere in the world from trademarking rooibos or related products despite it being a uniquely South African product. This has had far-reaching and serious consequences for sale of rooibos, quality control and in fact the sustainability of the entire rooibos industry in South Africa.

Over the past two decades the use of the name "Rooibos" and its protection has been the source of much attention, litigation and debate – resulting in significant changes in South African policy and the Rooibos industry.

In 1994, the word "Rooibos" was registered as a trademark at the United States Patent and Trademark Office by a skincare company called Forever Young – thereby establishing a monopoly on the name in the US. However, the product was practically unknown there at the time and while the registration was challenged, the controversy really began some years later in the early 2000's when the trademark was sold to Burke International. By this time, rooibos products were widely used and Burke began demanding payment for the use of the name in the US and even from some South Africa companies - including the large South African company Rooibos Limited, but also from poor cooperative farmers who relied on the sale of their rooibos products as a financial means of support.

Some companies responded by rebranding their products as "Red Tea" or "Red Bush", but others fought back for the cancellation of the trademark. Different entities in both the United States and South Africa became involved, ranging from producers to importers and governments. As the dispute raged on the media showed the detrimental effect on the cooperative farmers who were dependent on the sales of their harvests in the United States. Consequently, many major retailers there added their support.

In 2005, after 10 years and nearly US \$1million in legal fees, a settlement was entered into with Rooibos Limited, ending Burke's monopoly over the word "Rooibos" in the USA and elsewhere. The word "Rooibos" became a generic term and part of the public domain free for anyone to use. Despite the very costly and lengthy IP dispute, it did draw attention to the unique properties of the plant, its importance to South Africa and its link to the culture of the people in the Cederberg region.

In 2012, another attempt was made by a foreign company to trademark rooibos tea. A French firm attempted to register a number of trademarks including the terms "South African Rooibos" and "Rooibos". The Rooibos Council and government responded immediately, with the Department of Trade and Industry (DTI) lodging an objection with the French Embassy in South Africa and the European Commission Delegation in Pretoria.

It has been claimed that the second challenge from France, especially after the protracted dispute in the US, accelerated the South African government's response to the issue, resulting in significant policy changes, including:

- Intellectual Property Laws Amendment Act of 2013 - which developed a framework for the use of Geographical Indicators (GIs) in South Africa.
GIs are an intellectual property type that identify and protect the unique conditions of production so as to contribute to a product's value and increase economic return. Two significant characteristics that make Rooibos a viable product for intellectual property protection are that it is only grown in one area of the world and it is harvested according to the traditional techniques passed on by the San and Khoi indigenous peoples. This Act and the GI framework enable the protection of indigenous products such as rooibos, buchu, honeybush, Karoo lamb, etc.
- In mid-2013, South Africa staked its claim to the rooibos name when it gazetted a proposal under the Merchandise Marks Act to protect names such as Rooibosch, Rooibostee, Rooitee and Red Bush under domestic law. The use of these terms would be subject to certain rules, which were then finalised in September of the same year. These rules stipulate inter alia how rooibos products should be identified and labeled, guidelines for distinguishing between pure/blended/other rooibos products, etc. This move also allowed the dti to seek international protection for the brand from the World Intellectual Property Organisation.

In mid 2014, rooibos received Geographic Indicator status, a form of intellectual property right given to products that are produced in a certain way and that attribute their quality and reputation to their place of origin. Products such as port and champagne share this status. This distinct form of intellectual property (IP) right is recognised by the World Trade Organization.

Securing GI status for rooibos has been a major step in protecting rooibos (and other indigenous) products as well as promoting economic growth and competitiveness. However, it is noteworthy that the initial objectives of protecting the name and related economic value evolved over time as the process and events unfolded. As the industry became united around a common cause and began to grapple with their understanding of GI status, other related and valuable aspects were revealed – including biodiversity conservation and collective quality management (along the value chain).

6 Strategies for Enhancing the Value Chain

A number of strategies have been used to develop the Rooibos value chain. These include:

6.1 Strategies for growth

- Managing supply through single channel (Rooibos Limited) to mitigate price fluctuations and to maintain quality;
- Marketing campaigns to grow international profile of product and to grow global export markets (via public private partnership);
- Strengthening competitive advantages through protecting intellectual property rights to bio-diversity assets and trademarking (see box above).

6.2 Strategies for development

- Maintaining and improving quality through establishing standards and certification (see box below);
- Developing innovative new tea products (such as blended rooibos tea and green rooibos);
- Creating innovative new beverages (such as Bos iced tea and Red Espresso);
- Creating new products in areas such as toiletries and pharmaceuticals using rooibos extracts;
- Using rooibos as a tool for promoting regional tourism and for protecting the biodiversity of the area (such as rooibos heritage routes).

6.3 Strategies for inclusion

- Adoption of fair labour and supply chain practices and securing of Fairtrade and related certification;
- Providing marketing and technical support to community cooperatives such as Wupperthal and Heiveld (See work of Environmental Monitoring Group (EMG) in this regard);
- Worker share equity schemes and BEE deals for community farmer organisations and workers trust in processing companies;
- Funding assistance to emerging farmers to acquire additional land.

Rooibos Standards and Certification

Standards are important as they are guidelines for both consumers and producers and ensure that a product meets the expectations of the consumers who purchase it. Standards can address various criteria, ranging from creating more sustainable products with less negative environmental impacts, to improved management systems and the treatment of workers. By complying with the relevant standards, the players in the Rooibos industry are able to compete in various niche markets.

Local standards applicable to the Rooibos industry are:

- SA G.A.P – South African Good Agricultural Practices (applies to all agricultural products that leave the country)
- Right Rooibos.

International standards applicable to the Rooibos industry are:

- Organic certification
- UTZ CERTIFIED
- Rainforest Alliance / Sustainable Agriculture Network (SAN)
- Fairtrade International
- British Retail Consortium
- HACCP.

7 Lessons and Conclusions

There are a number of lessons for agricultural value chain development more generally that we can draw from the rooibos experience:

- There is considerable scope for innovation and development in many agricultural value chains that results in a more differentiated, more competitive and high value product offerings;
- A concerted and proactive joint approach between government and the agricultural role-players is required to protect South Africa's bio-diversity assets and to ensure that necessary global IP and trademark protections are secured;
- Large processors (such as Rooibos Limited) potentially have a critical role to play in advancing the interests of the value chain as a whole. However, strategies have to be developed to offset this dominance by encouraging the emergence of a range of other processors and distributors in order to ensure accountability and competitiveness. Competition regulators need to be responsive to pricing strategies by dominant processors that undermine the viability of smaller processors and serve to reduce competition;
- There is a need for institutional mechanisms in the value chain that can be used to develop a widely-shared national or regional strategy for positioning the product in the global market in order to optimize the benefit for local role-players.

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