REPORT

Comparative international research on the tea sector in Vietnam

Prepare for:

SOMO

By:

Center for Community Empowerment

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ABBREVIATION

APEC	the Asia-Pacific Economic Conference
ASEAN	Association of Southwest Asia Nations
CECI	Centre d'étude et de coopération internationale
CSR	Corporate Social Responsibility
MoNRE	Ministry of Natural Resources and Environment
NA	National Assembly
NSEP	National Strategy for Environmental Protection
PNTR	the Permanent Normal Trade Relation
ADB	Asian Development Bank
BDS	Business Development Service
BTA	Bilateral Trade Agreement
CECEM	Centre for Community Empowerment
CIDSE	Coopération Internationale pour le Développement et la Solidarité
CTC	Crush, Tear, and Curl is a method of processing tea
DTI	Dutch Tea Initiative
EU	European Union
FDI	Foreign Direct Investment
FFS	Farmer Field Schools
FIEs	Foreign invested enterprises
FLO	Fair-trade Labeling Organizations
GSO	Vietnam General Statistic Office
HDI	Human Development Index
INGO's	International Non-government organisation
IPM	Integrated Pest Management
ISO	The International Organization for Standardization
LADOTEA	Lam Dong Tea Corporation
ODA	Commerce official development assistance
OTD	Orthodox tea
OXFAM,	is a development, relief, and campaigning
SNV	Netherlands development organization
SOE	State – owned enterprise
TOT	Training of Trainer
UNESCO	United Nations Decade of Education for Sustainable Development
VCCI	Vietnam Chamber of Commerce and Industry
VINANET	Vietnam Trade Information Center - Ministry of Trade
VINATEA	The Vietnam National Tea Corporation
VITAS	The Vietnamese Tea Association
WTO	The World Trade Organization

A. PART 1: INTRODUCTION

I. RESEARCH INTRODUCTION

1. RESEARCH RATIONAL

Current world market prices for tea are historically low. There is evidence that this in turn has negatively affected working conditions and livelihoods of plantation workers and small-scale farmers in tea producing countries. Organizations of small-scale farmers and tea plantation workers are calling on governments, industry and consumers for drastic improvements in working conditions in the sector. The crisis has sparked the formation of the Dutch Tea Initiative (DTI), a coalition of Dutch NGO's that wants to improve the social, ecological and economical conditions in the tea sector. In order to do this effectively detailed information on the impact of the crisis in supply chains in different countries is needed. This to be able to present multinational tea packers, policy makers and the general public clear evidence of the effects of the crisis in the form, of among others, field studies at (their supplying) tea plantations and processing factories worldwide. Presenting such evidence could bring about change for the better in the tea supply chains.

Results of research commissioned by the DTI and conducted by SOMO and Profound that was published in May 2006 year indicate that detailed information on the social, ecological and economical conditions in the supply chains in the most important tea producing countries is scant and/or lacking.

Moreover from dialogue with tea packers in the Netherlands, where the research report was presented, it became clear that companies are not well informed about the (potential) critical issues in their supply chains. Moreover packers such as Sara-Lee expressed their interest in additional research. Therefore the DTI decided that an international study on conditions in tea supply chains in various countries is urgently needed.

As a DTI member and as an organization with much experience with similar research, SOMO has taken the initiative to coordinate, facilitate and conduct a global tea research programme in a number of major tea producing countries including Vietnam. In order to coordinate the research programme SOMO has set up a Steering group for the research consisting of SOMO (Sanne van der Wal and Joris Oldenziel), Fakt (Franziska Krisch) and Partners in Change (Shatadru Chattopadhayay). In Vietnam, Centre for Community Empowerment (CECEM) was chosen as local partner to join the research.

2. RESEARCH OBJECTIVES

This research aims at providing a general overview of the characteristics of the tea production in Vietnam, including an analysis of the most important trends and developments in the last ten years. In specific, the research will look at critical issues in the tea sector in the relation to sustainable development and poverty eradication. The research will also explore social, economical and ecological conditions under which the Vietnamese tea production and trade takes place. In addition, the research will analyze the role and responsibility of different actors in the tea value chain in Vietnam including identification of key influence points for responsible practices and to analyze opportunities and bottlenecks for tea industry in Vietnam. Based on this analysis, the research will make recommendations to various stakeholders on how to improve conditions in the global tea supply chain.

This research will also looking at the role of civil society organizations in Vietnam that are interested in tea and initiate a dialogue to develop a common understanding among tea producer and consumers.

3. EXPECTED RESULTS

A research report which summarizes the critical analysis on Vietnam profile, sector profile, company profile and critical issues of the tea sector in Vietnam.

4. RESEARCH METHODOLOGY

Two broad theories were used: theory of "buyer driven" and theory of "value chain analysis".

5. DATA COLLECTION

The methodology for this research is designed to utilize a set of various data sources. Through analysis of these sources, comprehensive and reliable information was collected in order to address each of the evaluation issues outlined within the framework. The research used the following methods to collect information:

- Desk study
- In-depth interviews and focus group discussion
- Validation process

5.1. Desk study

The secondary data was collected and reviewed in order to provide the researcher with a foundation for a greater understanding of tea production situation in Vietnam.

5.2. In-depth interview and focus group discussion

After reviewing secondary data, semi-structure questionnaires were developed. These questionnaires were used for individual interviews and focus group discussions in Thai Nguyen province and in Hanoi.

5.3. Validation process

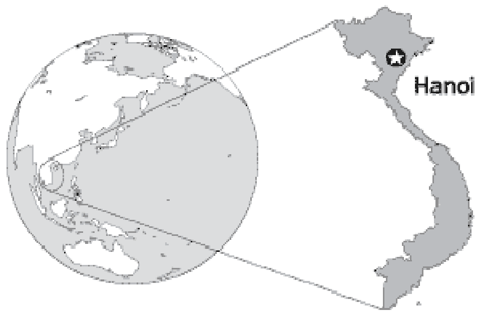
The first draft report was sent to different stakeholders to get their feedback. Objectives of the validation activity were:

- to validate results from the survey presented in the draft report prepared by the researcher,
- to identify gaps in the information available to collect comments and additional information.

B. PART 2: Findings

I. COUNTRY PROFILE

1. General:



Vietnam is located in South-eastern Asia, bordering the Gulf of Thailand, Gulf of Tonkin, and South China Sea, alongside China, Laos, and Cambodia.

Vietnam’s area is 329,560 sq km in total including 325,360 sq km of land and 4,200 sq km of water surface. Vietnam’s terrain is a low, flat delta in the South and North. The central part is dominated by highlands, and it is hilly, mountainous in the far North and Northwest.

Vietnam’s more than 4,700 km of land border and 3,444 km of coastline generate a strategic advantage for trade development. The closest sea port in Vietnam is only 60 km away from the international marine route.

2. Social Characteristics

- Population

Total population recorded by Vietnam GSO in 2005 was 83.1 million. The population is young with 65% of people between 15-64 years of age. According to the Human Development Index (HDI) report of UNDP, Vietnam’s literacy[1] rate is 94 percent, life expectancy is 71. Among 177 countries listed in 2005, Vietnam ranks 108, moving from 120 in 1995.

- Religions

The most popular religion in Vietnam is Buddhism with more than 30 million followers, then Cao Dai, Hoa Hao (Buddhist sects), Christian (predominantly Roman Catholic, some protestant), Muslim, and other indigenous beliefs. All religions are practiced in harmony with each other.

- Culture

The dominant characteristic of Vietnamese culture is "collectivism", born out of the "wet rice culture" that dates back to thousands' years of history. Individual behaviours are under strong influences of collective norms and values which have facilitated

[1] UNDP Human Development Index 2005

people to unify. This cultural trait, however, is changing under the impact of global integration where personal values are being promoted.

3. Characteristics of the economy

- Economic growth

In March 2007, ADB Vietnam reports that GDP growth reached 8.2 percent in 2006 and is projected to continue the speed with 8.3 percent in 2007 and 8.5 in 2008. For the past ten years, 1996-2006, GDP has been, on average, increasing at 7.3 percent. This impressive economic boost is represented in a sharp poverty reduction rate from 58.1% in 1993 down to 18.1% in 2006.

Major economic achievements result from the government's significant efforts to shift the economy towards "market orientation" with the blossom of private sectors. In 2005, there were more than 200,000 small and medium enterprises[2], contributing 26% of GDP, 31 % of total industrial products, generating 49% of non-agricultural jobs in rural areas, and providing 26% of employment in the country. In 2006 alone, some 41,000 new private firms[3] were established reflecting the better framework conditions in the economy given to the private sector as well as the more pro-business regulations under the new laws for Common Investment and Enterprises. In total, implemented investment capital by private firms in 2006 went up to USD 8.34 billion. The continual development of this sector helps to create jobs for 1.65 million more people, unemployment rate in urban areas dropped to 4.37 %, being 0.93 % lower than 2005. Additional workers have been sent aboard for hard currency, e.g. 79,000 workers in 2006, which add up to the total of 479,000 migrant workers overseas, whose remittances were around 1.6 billion USD.

- Investment climate and achievements

Vietnam’s economy took its wings from 1986 with the "open door" policy and reformation intensively implemented. Since then the centralization has been alleviated to give place for a market-oriented economy. Strong renovation resulted in a Bilateral Trade Agreement with America in the year 2000 and in the long-pursued membership of the World Trade Organization. On November 7, 2006, Vietnam officially became the 150th member of WTO, ending 11 years of bilateral and multilateral negotiation.

In the "Doing Business 2006" report[4], Vietnam is among the top 10 reformers, which showed a leap-frog from the previous year's (in Doing Business in 2005: Vietnam was not listed in the top 25 reformers but only the top 50). This great progress has been made thanks to the country's legal reforms in starting a business, registering property, protecting investors, enforcing contracts and closing a business. In these areas, Vietnam was among the top reformers during 2004. Though focusing more on the promulgation of new laws such as the Bankruptcy Law in 2004, the Investment Law in 2005 (applied for both foreign and domestic entities) rather than the status of

[2] Ministry of Finance 2005
[3] EU Commercial Counselor Report on Vietnam 2007
[4] World Bank Report 2006

implementing those laws, such a report had encouraged international investors' decisions:

The overall 2006 ratio of investment to GDP was 41%, 1.4 percent higher than the target and 3 points higher than in 2005. The total investment of that year was USD 24.9 billion5, comprising of USD 12.48 billion by the state sector, USD 8.34 billion by the private sector, and USD 4.1 from implemented FDI.

- Foreign Direct Investment (FDI):

In December 2006, the Ministry of Planning and Investment (MPI) officially announced an impressive number of USD 10.201 billions, 49.1% higher than 2005. Up to USD 7.839 billions were approved for 833 new investment projects. The total disbursement reached USD 4.1 billions, up by 18.7% as compared to 2005. So far, there have been 6,813 foreign owned projects with a total capital of USD 60 billions. By the end of 2005, the FDI sector attracted 1,090,000 employees, accounting for 18% of the total employees in the Vietnamese business sector. MPI also reports USD 1.2 billions in the first two months of 2007, up by 45% compared with the same period last year. The continuous increase in FDI reflects a firm confidence of foreign investors. Furthermore, the recent Consulting Group Meeting[6]ended in Hanoi, December 2006, with a committed USD 4.44 billions of ODA for the year 2007, breaking the record of 2006 (USD 3.74 billions). ADB became the biggest donor with USD 1.14 billions, followed by Japan with USD 890.3 million, WB with USD 890 million and EU with USD 720 million.

- Foreign trade

The year 2006 witnessed a noteworthy growth in trade with a total import-export of USD 84 billion, 22.5% increase against 2005. Exports kept growing robustly at 22.1% per year reaching USD 39.6 billion, owing to the continual excellent performance of foreign invested enterprises (FIEs) and the improved efficiency in operation of SOEs. Trade deficit in 2006 was around USD 4.8 billion, slightly higher than the USD 4.7 billion in 2005, reflecting on the continual growth of exports and the need for related imports of raw materials and for infrastructure investments. Coffee and rubber joined the group of nine commodities earning more than USD 1 billion in export value. Traditionally the biggest hard currency earners are crude oil, textile and garments, footwear and seafood. Agro-products such as tea, pepper...are sprinting up to increase their share in export values.

- Business models

Twenty years after the economic renovation (1986), Vietnam becomes one among few countries that possess such diverse business models. Specifically, there are up to 9.3 million household businesses7, around 50,000 private enterprises, up to 5,000 state-owned enterprises, and more than 6,000 FDI projects.

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[5] Vietnam General Statistic Office, EU report 2007
[6] The donors meeting which is held by World bank
[7] Vietnam Development Report 2006

4. Characteristics of the Environment

- Environmental issues

The population boom, the traditional agricultural cultivation, and the new pressure for economic growth have confronted the country with serious environmental problems. Logging and slash-and-burn agricultural practices contribute to deforestation and soil degradation; land degradation is a major problem, particularly in upland areas. Its major causes are insecure land tenure, poor logging practices, drought, salinization, and acidification. Degraded slopes and deforested landscapes, especially in the Northwest region, are now very susceptible to soil erosion during rainy season. Despite recent increases in forest area, the forest quality remains a concern. Closed canopy forests still make up only 13 percent of the total forest area[8], while poor/regenerating forests account for 55%. Plantation forests, on the other hand, have tripled from 0.7 million ha in 1990 to 2.2 millions hectare in 2004. Water pollution and over fishing threaten marine life populations; groundwater contamination limits potable water supply.

- Environmental protection policies

On the other hand, Vietnam is home to five unique world "Man and Biosphere Reserves" recognized by UNESCO, its national bio-diverse sites keep expanding continuously. In its efforts to minimize the impact of environmental pollution for sustainable development, Vietnam has taken a series of measures including: Establishing the Ministry of Natural Resources and Environment (MoNRE), approving of the National Strategy for Environmental Protection (NSEP) in 2003. The Law on Water Resources, Environmental Impact Assessment, and Law on Environmental Protection are being further amended and developed in order to tighten requirements for project approval and urge the private sector to pay attention to pollution prevention and environmental management. Despite early signs of progress, substantial improvements are still required for program planning and implementation at all levels.

5. Legal framework

- Political climate

Vietnam has a one-party ruling system with unicameral National Assembly (NA). Its official name was chosen by the NA in 1975 as the Socialist Republic of Vietnam. The country became a member of the United Nations in 1977, member of the Association of Southwest Asia Nations (ASEAN) in 1995, the Asia-Pacific Economic Conference (APEC) in 1997, and WTO in November 2006.

In July 1995, diplomatic relations with USA were re-established, followed by the BTA in 2000 and the Permanent Normal Trade Relation (PNTR) in 2007. Together with the WTO membership, the BTA with USA, many other bilateral agreements and international conventions help to strengthen the political and economic status of Vietnam, and in return, are calling for continual improvements in the legal framework

[8] World Bank Country environment

to ensure full implementation of the country's commitments. By now, Vietnam has diplomatic relations with 167 countries and territories, and trade relations with more than 150 countries.

- National labour Legislation and international conventions

Every year, between 1.4 and 1.5 million young people are entering the job market[9]. A recent survey on employability of young people (14-25 of age) done by UNICEF and the Ministry of Health of Vietnam shows that half of this group are doing simple jobs without occupational training.

Vietnam shows its commitment to international conventions. In June 1994, the National Assembly passed the National Labour Law which provides rights and responsibilities of workers and employers, and has become the national standard and regulation for employment. Vietnam became a member of ILO and has ratified Convention 182 on "The Prohibition and Immediate Action for the Elimination of the Worst Forms of Child Labour" in 2000. In July 2003, Vietnam Joined the Convention 138 concerning "Minimum Age for Admission to Employment". As such, most of international labour standards have also been introduced and integrated in practice nationwide. In a bilateral apparel agreement signed on April 25, 2003 between Vietnam and the United States, Vietnam has "reaffirmed its ILO commitments". Under the terms of the agreement, the labour ministries of the two countries agreed to "meet to review progress toward the goal of improving working conditions in the textile sector in Vietnam".

Corporate Social Responsibility (CSR)10 is yet to be institutionalized. Since 1997, the Vietnam Chamber of Commerce and Industry (VCCI) have been implementing a cross-sector project called "Vietnam Business Link Initiative". The thirty stakeholders participating in this project include ministries, INGO's, Multinational corporations, and domestic enterprises. The project is piloting on the application of CSR in the garment and footwear industries. It is envisaged that by the end of 2008, CSR will be replicated in other sectors[11].

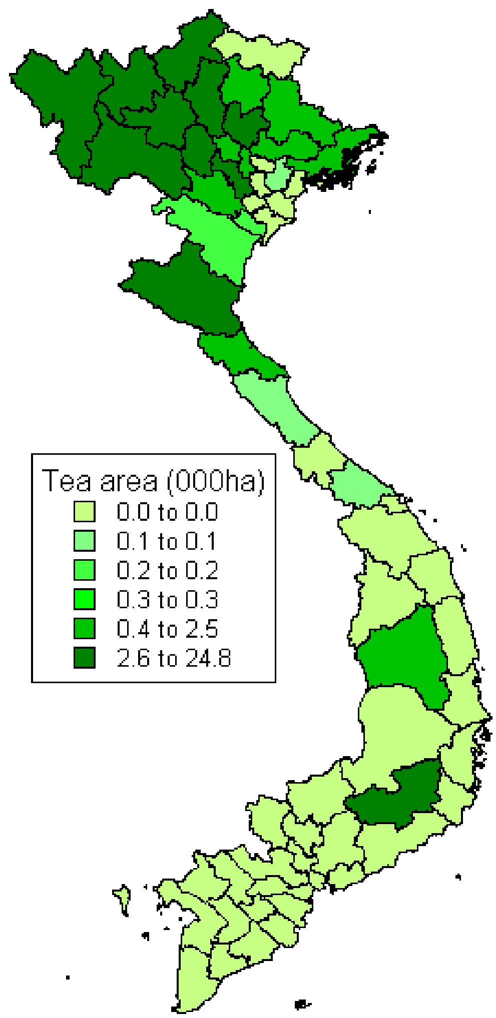
[9] Vietnam Development Report 2006
[10] VCCI May 29, 07
[11] Not yet confirmed which sectors

II. SECTOR PROFILE

1. Vietnamese Tea Sector overview

Vietnam is known as the home of tea. The Northern and North-Central mountainous regions are the main areas for tea plantations in Vietnam. Tea is a high volume commodity. In Vietnam, tea is planted in 34 out of 64 provinces all over the country.

Tea area in Vietnam



Source: ADB

Vietnam is amongst just a few countries in the world which have the natural and climatic potential for tea production. The tea plantation areas are young and about 50% of Vietnam's tea bushes are between 20-25 years of age.

Tea plantation in Vietnam can be divided into 6 areas with special characteristics.

- North-eastern area (Son La and Lai Chau provinces): the average temperature is 13 – 23oC with rainfall is around 1500 – 2000 mm/year, humidity is 75 – 85% and slope of the land is less than 25o. This area is very suitable to grow "San" tea, (other name is San tuyet tea, which only growth in very High Mountain.

- Northern area including Ha Giang, Tuyen Quang, Lao Cai and west of Yen Bai: This is a very important tea area of Vietnam because its natural condition is very suitable for tea growing. The average temperature is 15.3 – 23.2 ^{o}C with rainfall around 1468 – 2843 mm/year, and humidity is 83 – 88%. The area is suitable to grow many types of tea: San/San tuyet or PH112 tea

- Midland area includes South of Yen Bai, Phu Tho, Bac Kan, Thai Nguyen, Hoa Binh, Ha Tay, Bac Giang, North of Hanoi. The typical climate is tropical, warm and high humidity. The attitude is about 600 m above sea level. The alluvial soil in this area is suitable to plan midland tea (75%) and new generation tea (25%).

- Central area includes Thanh Hoa, Nghe An and Ha Tinh. This area has a long history of tea growing (since 1874) with lots of state-run farms. Tea growing here mainly is midland tea and new generation.

- Central littoral area includes Quang Binh, Quang Tri, Thua Thien Hue, Da Nang, Quang Nam, Quang Ngai and Binh Dinh. Tea is growing scattered in this area. The soil is dry and infertile, therefore people grow and process mainly green tea for the local market.

- Western highland includes Lam Dong, Dak Lak, Gia Lai and Kon Tum. This area is very humid, and the soil has been fertilized that suitable for tea growing.

The industry has experienced ups and downs but in general it grows continuously. The earliest available data on tea in Vietnam was recorded in the year 1955. At that time, there were approximately 5,400 hectares for tea plantation. Tea plantation area increased to approximately 40,000 hectares in 1975. In 1996, VINATEA ran a massive promotional campaign for tea in both domestic market and international market (among main importers). This brought about exceptional results and the industry was put in a better situation. The promotion helped increase domestic consumption and tea exports in the year of 1997. This boost helped increase the price of green leaf and that, in consequence, encouraged small tea growers. In addition, ADB' project (US$40.2 million – 1999 – 2006) was approved and implemented to assist Vietnam in raising the income of the farmers through development of tea and fruit. This was done through provision of a credit line for field development, nursery operations and small and medium-scale processing of these crops. With these favourable conditions, the wheel of success had started to spin and momentum has been gradually building up. In 2004, Vietnam's tea plantation expanded to 130,000 hectares to produce 94,000 tones of tea, to earn $90 million as total turnover. This made Vietnam the ninth largest tea producer in the world.13

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[12] ***Tea** PH1 was approved as national seed (1986), which provide high productivity (15-20 tone of tea leaves/hectar), used to produce black tea.*

[13] Source: VITAS

Table 1: Major Tea Exports from Vietnam 1998 – 2005

Product	1998	1999	2000	2001	2002	2003	2004	2005
Tea (thousand tons)	33	36	56	68	75	60	94	88

(Source: http://www.vietnam-ustrade.org)

Some of the main tea products processed and exported from Vietnam are:

- Black tea: 65% (OTD, CTC).
- Green tea: 35% (OTD, Gun powder, Pouching, Super Pekoe, Japanese, Sencha, Oolong).

Presently, Vietnamese tea can be found in 90 countries. Iraq, Pakistan, Taiwan, Russia, India, Poland, Japan, Germany, the U.S and Belgium are main importers of Vietnamese tea. They account for nearly 91% of quantity and 90% of turnover.

Table 2: Main tea importing countries

Calendar Years	METRIC TONS					THOUSAND US DOLLARS				
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005
United Kingdom	827	1,282	***500***	***1,000***	***600***	806	1,183			
Germany	2,055	2,933	***3,400***	***2,800***	***3,400***	2,209	2,901			
Netherlands	487	563	***900***	***1,100***	***1,000***	568	447			
Poland	2,551	2,670	***3,700***	***3,100***	***3,800***	2,159	2,248			
Russia	4,777	3,622	***5,000***	***6,000***	***12,000***	4,401	3,640			
Ukraine	198	*	***100***	*	*	238	*			
Other Europe	555	*	***2,400***	***1,600***	***2,300***	456	*			
Canada	784	397	*	*	***200***	498	254			
USA	1,033	2,247	***1,800***	***2,600***	***1,700***	790	1,736			
China	500	423	*	*	***2,000***	838	595			
Hong Kong	406	360	***200***	***100***	***100***	704	222			
India	*	*	***1,200***	***17,000***	***3,600***	*	*			
Indonesia	1,327	1,191	*	*	***700***	911	942			
Iran	*	*	*	*	***300***	*	*			
Iraq	22,561	14,368	***11,800***	***10,000***	***17,000***	29,198	23,058			
Japan	1,223	2,967	***200***	***450***	***500***	1,655	2,988			
Malaysia			***1,200***	***1,300***	***1,800***					
Pakistan			***5,000***	***3,400***	***1,800***					
Singapore	1,340	945	*	*	*	1,476	1,140			
Taiwan	13,709	13,422	***16,000***	***16,000***	***16,500***	17,183	15,831			
Other Countries	1,250	1,200	***1,500***	***1,650***	***3,700***	954	875			
Unspecified	12,634	26,222	***5,000***	***1,900***	***15,000***	13,362	24,463			
Total All Tea	68,217	74,812	***59,900***	***70,000***	***88,000***	78,406	82,523			

Source: Ministry of Trade (up to 2002, Figures in Bold Italics are estimates, based on recorded exports thereto)

Currently, Vietnam has about 610 enterprises that are engaged in tea production. Among these, about 250 enterprises are exporting companies with more than 2.000 brand names. The private companies involve rapidly in this industry. Their production had almost doubled in the year 2002 in comparison with the output of 1999.

Tea production in the years of 1999-2002 (in tons)

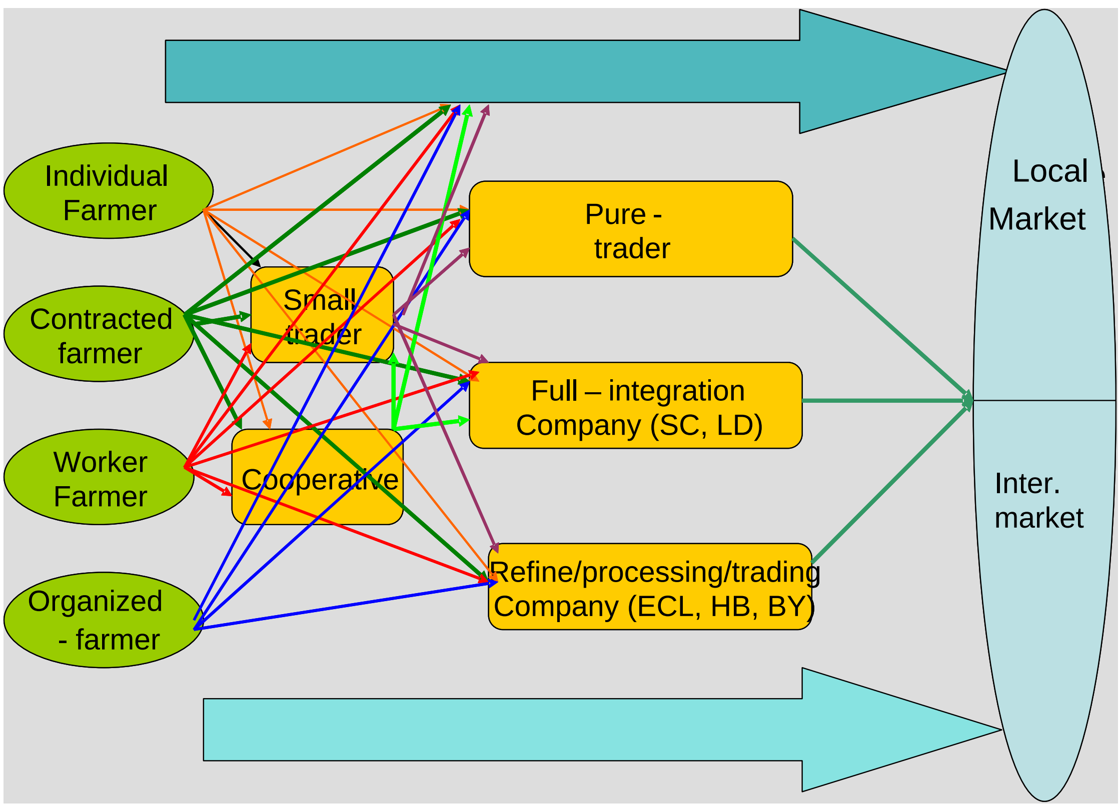
Table 3: Tea production in the last years (in tons)

Production	1999	2000	2001	2002
Total	63.697	70.129	82.136	85.000
State-owned firms	32.248	25.755	26.874	27.000
Private firms	25.881	35.21	45.172	46.000
Foreign-investment firms	5.568	9.164	10.09	12.000

(Source: Statistical yearbook)

The industry is making progress on the above mentioned lines and is therefore well positioned to quickly create a significant impact on the world tea market. A number of tea factories have already been modernized and most of these are for production of orthodox black tea. This has resulted in an improvement of both quality and quantity of made tea. In the not-too-far future, it is expected that several other factories will be rehabilitated, for example, Nghe An Province has already awarded contracts to T&I Global Ltd. India to carry out turn-key jobs on two CTC tea factories. It is anticipated that this project will be completed by the end of this year.

2. Actors in Vietnamese Tea Value chain



- As the diagram illustrates, the Vietnamese tea value chain can be described based on three components: growing, processing and trading. In the growing tea component, there are different types of farmer involve in. In the others component, different type of processors involve in. All these actors sell their product to two channels: domestic market and international market.

- There are four types of farmer engaged in tea growing:

  i. Individual farmers who have their own plantation area, they take care of their own cultivation. They sell their product as fresh leaves, semi-processed or ready made green tea.

  ii. Contracted farmers have their own land or have long term leased land from a company. In principle, they have to sell fresh leaves to the contracted company, but in reality, they sell their product as fresh leaves, semi-processed or ready made green tea. They may get some support from the company in kind such as fertilizer, seedlings, and pesticides.

  iii. Worker farmers who bought land from a company under the 01 Decree and signed a contract with the company (but are not covered by social insurance) used to be workers of the company and now leasing the plantation land from the company to continue planting. In principle they have to sell their product to the company. They may get some support from the company in kind such as fertilizer, seedlings, and pesticides. They have a right to sell their entire product to the company when the price goes down. They contractually use pesticides and chemicals which are distributed by the company. They do have access to large plantation-based factories which produce tea mainly for export markets.

  The differences between worker farmers and other farmers are found in land issues. Worker farmers do not hold titles for the land on which they cultivate tea. The local government only bestows land certification on the company for the whole of its area. This implies that although worker farmers can rent their tea land, they cannot use it as collateral to formally access credit. Second, the company requires that worker farmers grow nothing but tea on the land released by the company. Consequently, worker farmers do not have the same rights as other farmers to determine what to cultivate.

  iv. Organised farmers have formed small groups by common interest such as IPM club, eco-group, fair-trade group and high quality tea group. Normally they receive certain support from outsiders such as a company or an INGO/LNGO. They tend to apply environmentally friendly practices such as using organic fertilizer (animal drop/ensilage).

- Small traders buy fresh leaves and send them directly to the company or process it and send the semi-processed product. They are different from individual farmers in the way that they do not have their own plantation area but buy fresh leaves from several individual farmers for trading.

- Cooperatives were formed by the government or developed from an IPM club or by individual initiative. They have a company legal status/entity and are entitled to export directly. The marketing channel for cooperatives can be described as follows. First, the cooperative will sign contracts with buyers and proceed to mobilize semi-processed tea from its members. The buyers will then arrange sales to retail outlets, or more commonly, to exporters who sell to developed markets. At present, the contracts between cooperatives and buyers cover only small volumes, with most individual members finding their own buyers on the free market.

- Pure traders buy ready made tea to sell in the local market or to export.

- Full integration company does have its own plantation area, processing and mainly exports its product. They can buy tea leaves and semi-processed tea from other groups downstream the value chain for processing and exporting.

- Refine/processing/trading companies buy green leaves and/or semi processed tea for processing and/or refining and do their own trading.

- Markets:

  Both local and international markets have two clearly distinguished quality sections: high-end and low-end. High quality tea is often domestically sold. High-end is often ordered by individual customers in small volume14. However, the customers who order high quality tea even in small volume still have a strong influence on the performance of tea processors in Vietnam.[15]

  In the domestic market, four main retail channels characterize urban areas: small teahouses, tea bars, traditional tea retailers, and supermarkets. Increasingly, traditional tea sales outlets (teahouses and traditional tea retailers) are facing increased competition from modern tea bars and supermarkets. Traditionally, small tea houses have catered to a working class clientele, and are located in crowded areas near schools, companies, and markets. Traditional tea retailers sell dry tea, and their suppliers come from famous tea areas, such as Thai Nguyen. In larger cities in the North, such as Hanoi, tea retailers were prevalent. With the increasing number of tea bars and the emergence of many kinds of instant tea, however, their number has decreased. At the same time, the small number remaining in the business has benefited from this development, since they face less competition.

3. Characteristics of the economy

In the last ten years, Vietnamese tea industry made great advances in terms of production. At present, Vietnam is one of the largest tea producers in the world. Tea production was doubled with 109,000 tons in 2005 in comparison with 47,000 tons in 1996.

In spite of great advances and being ranked as the seventh largest tea producer, Vietnam's tea production is only one ninth of the outputs of the two largest tea producers in the world, China and India. Tea production of each of these two countries accounts for over 27% of the world's overall tea output while Vietnamese tea production accounts for only around 3%.

[14] Tan Huong coop. sells about 300 kg every four months to one customer in Holland. Transaction is done through a middleman in the South of Vietnam..

[15] See detail in the case study of Hoang Binh and Song Cau

PERCENTAGE SHARE OF WORLD PRODUCTION from major Producing Countries

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
India	29.1	29.4	28.9	28.1	28.8	27.9	27.2	27.5	27.0	27.1
Bangladesh	2.0	1.8	1.9	1.6	1.8	1.9	1.7	1.8	1.7	1.7
Sri Lanka	9.7	10.1	9.3	9.7	10.4	9.7	10.1	9.5	9.3	9.3
Indonesia	6.2	5.6	5.5	5.5	5.5	5.5	5.3	5.3	5.0	4.9
China	22.2	22.2	22.2	23.0	23.6	22.9	24.2	24.0	25.2	27.3
Iran	2.4	2.5	2.2	2.4	1.5	1.9	1.6	1.8	1.2	0.7
Japan (Mainly Green)	3.3	3.3	2.7	3.0	3.0	3.0	2.7	2.9	3.0	2.9
Myanmar	0.6	0.5	0.5	0.6	0.6	0.6	0.6	0.6	0.5	0.5
Taiwan	0.9	0.9	0.7	0.8	0.7	0.6	0.7	0.6	0.6	0.5
Turkey	4.3	5.1	5.9	5.9	4.4	4.7	4.6	4.8	5.1	3.9
Vietnam	1.7	1.9	1.9	2.2	2.4	2.6	2.9	2.9	2.8	3.2
Other Asia	0.2	0.4	0.3	0.3	0.3	0.4	0.4	0.4	0.4	0.5
Asia	82.6	83.7	82.0	83.1	83.0	81.7	82.0	82.1	81.8	82.5
Kenya	9.6	8.0	9.7	8.4	8.0	9.7	9.3	9.2	9.8	9.6
Malawi	1.4	1.6	1.3	1.3	1.5	1.2	1.3	1.3	1.5	1.1
Tanzania	0.7	0.8	0.8	0.8	0.8	0.8	0.9	0.9	0.9	0.9
Uganda	0.7	0.8	0.9	0.9	1.0	1.1	1.1	1.1	1.1	1.1
Zimbabwe	0.6	0.6	0.6	0.7	0.8	0.7	0.7	0.7	0.6	0.4
Other Africa	1.3	1.4	1.6	1.5	1.6	1.8	1.6	1.6	1.4	1.4
Africa	14.3	13.2	14.9	13.6	13.7	15.3	14.9	14.8	15.3	14.5
Georgia	0.3	0.3	0.4	0.4	0.4	0.4	0.3	0.3	0.3	0.3
CIS / USSR	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Argentina	1.9	2.0	2.1	2.3	2.2	1.9	2.2	2.1	2.0	2.1
Other S. America	0.4	0.4	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Others	0.4	0.3	0.2	0.2	0.3	0.3	0.2	0.3	0.2	0.2
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

- Contribution of the tea industry to GDP[16] and farmers' incomes

	GDP (trillion dong)[17]	Growth against 2005	Contribution by sector to GDP
Total	425.09	8.17	
Agriculture, forestry and fisheries (I)	79.49	3.40	18.6%
Tea in (I)	1.75	10	0.41%

The Vietnamese tea industry has created jobs for a large number of farmers. At present, in the country there are 400,000 households engaged in tea cultivation with an area of around 125,000 hectares. The tea industry creates over 1.5 million jobs.

The average salary of workers in the field of agriculture has tripled in the last ten years. However, agriculture still remains among the five sectors with the lowest incomes in Vietnam. The average monthly salary of workers in agriculture in 2005 is only 1,039,000 VND (equivalent to 61 USD/month) compared to the average salary of 366,000 VND (equivalent to 33 USD/month) in 1995. However, while in 1995 the average salary in agriculture was still higher than in five other sectors of the list of 18 industries in Vietnam, in 2006 the average salary in agriculture was only higher than one other

16 EU Report on Vietnam 2007 (p20)
17 One trillion VND = USD 63 million

industry. This reflects the fact that although Vietnamese tea industry has been growing, it has not been able to catch up with the wage increases in other industries.

Monthly average income per employee in state sector at current prices by kind of economic activity											
											Thous. dongs
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	Prel. 2005
TOTAL	**478.2**	**543.2**	**642.1**	**697.1**	**728.7**	**849.6**	**954.3**	**1068.8**	**1246.7**	**1421.4**	**1650.7**
Agriculture and forestry	366.3	421.6	479.7	514.0	563.9	680.0	589.8	740.2	987.6	1250.4	1039.6
Fishing	383.5	408.6	491.8	502.5	600.1	669.3	661.2	756.1	817.3	929.1	1012.5
Mining and quarrying	809.2	1017.2	1066.1	1245.5	1221.1	1397.0	1745.5	1931.4	2209.2	3108.7	3588.1
Manufacturing	577.4	639.2	762.4	806.4	855.1	955.0	1050.3	1172.7	1314.9	1544.7	1845.3
Electricity, gas and water supply	853.8	891.2	1269.2	1333.7	1416.8	1613.6	1847.5	2005.7	2251.8	2439.9	2419.7
Construction	499.3	572.5	738.4	806.7	794.5	860.8	961.2	1104.0	1261.1	1361.4	1959.6
Wholesale and retail trade; repair of motor vehicles, motor cycles and personal and household goods	490.2	581.6	687.7	742.1	768.2	884.0	961.8	1127.4	1322.9	1467.9	1652.6
Hotels and restaurants	580.2	642.3	614.7	645.7	766.9	856.1	965.3	1110.4	1303.3	1518.1	1731.1
Transport, storage and communications	879.1	1018.4	1131.6	1304.4	1258.1	1525.3	1667.1	1910.1	2277.6	2433.1	2345.3
Financial intermediation	807.1	939.6	1094.2	1019.7	1141.5	1454.4	1804.3	1935.0	2321.4	2790.6	2745.7
Scientific activities and technology	361.2	504.9	554.5	673.2	585.5	692.7	778.2	895.4	1050.7	1164.9	1596.8
Real estate, renting and business activities	656.9	700.2	1030.9	1028.9	1168.3	1329.3	1532.4	1838.7	2255.0	2508.6	2675.0
Public administration and defence; compulsory social security	356.7	379.6	435.1	449.0	468.5	584.3	681.3	713.9	799.4	898.2	1092.7
Education and training	309.6	328.7	405.2	451.5	501.3	615.1	725.2	783.4	1015.5	1114.7	1293.4
Health and social work	326.9	362.7	439.5	480.7	509.3	622.5	725.4	796.5	950.3	1023.9	1228.3
Recreational, cultural and sporting activities	347.3	400.1	453.2	540.2	520.0	607.2	718.3	814.7	994.3	1081.5	1321.2
Activities of Party and of membership organizations	373.3	373.4	425.9	447.7	460.5	580.3	658.5	691.3	797.3	860.4	1095.6
Community, social and personal service activities	407.6	434.7	553.1	656.8	703.5	884.3	947.0	1036.0	1224.8	1341.0	1638.8

The income of farmers from tea is much better than from paddy. Meanwhile one sao (360 m2) bring to farmers only 650.000 VND yearly (equal to 40.6 USD/year), tea can generate 1,850,000 VND/year (equal to 115.6 USD/year).

Calculation for expenditure and profit from one *sao* paddy and tea
(Interviewing one farmer in Thai Nguyen)

#	Detail	Paddy		Tea	
			Total		Total
1.	***Expenditure***		***710 000 vnd***		***1 150 000 vnd***
	Seed	3kg x 2season x 5 000 vnd	30 000 vnd	Already planted	
	Fertilizer - Dung - Nitrogenous fertilizer - phosphate - Kaly Clorua	400kg x 2season x 200vnd 5kg x 2season x 5 000vnd 15kg x 2season x 2 000vnd 4kg x 2season x 5 000vnd	160 000vnd 50 000vnd 60 000vnd 40 000vnd	 50kg x 5 000vnd 85kg x 2000vnd 10 kg x 5000vnd	 250 000vnd 170 000vnd 50 000vnd
	Chemical	2season paddy/year	70 000vnd	7 harvestmen/year	180 000vnd
	Wood for tea drying				50 000vnd
	Labor cost		300 000vnd		450 000vnd
2.	***Revenue***	170kg x 2season x 4 000vnd	**1 360 000 vnd**	7harvestime x 15kg_dried_ tea/ harvestmen x 30 000vnd/kg	**3 000 000 vnd**
3.	***Profit***	Revenue - expenditure	**650 000 vnd**		**1 850 000 vnd**

The contribution of the tea industry to the country's general export value remains modest. When the general export value of Vietnam in 2006 was 39,605 millions USD, the value of the tea industry was only 111 millions USD, accounting for 0.28%. Among 8 agricultural products for export, tea was ranked seventh in terms of export value and accounted for only 2.3% of the total export value of 8 agricultural products.

Exports, whole year 2006

'000 tons, US million

	Accrued Whole year 2006		2006 vs. 2005 (%)	
	Volume	Value	Volume	Value
TOTAL VALUE		**39605**		**122.1**
Domestic economic sector		**16740**		**120.5**
FDI sector		**22865**		**123.2**
Crude oil		8323		112.9
Others		14542		130.1
Agricultural items				
Rice	4749	1306	90.5	92.8
Coffee	897	1101	100.5	149.9
Vegetables & fruits		263		112.0
Rubber	697	1273	118.7	158.3
Pepper	116	190	106.6	126.4
Cashew nuts	127	505	116.5	100.6
Tea	105	111	119.2	114.0
Peanut	15.0	10.5	27.3	31.9

In 2007, Vietnamese tea showed the tendency to decline in terms of value. In the first six months of 2007, even though tea production for export increased to 107% compared to the same period in 2006, its export value decreased to 99.8% of the value of the same period in 2006.

Exports six months of 2007 compared to the same period in 2006

'000 tons, US million

	Accrued 6 months of 2007		6 months of 2007 vs. same period of 2006 (%)	
	Volume	Value	Volume	Value
TOTAL VALUE		**22455**		**119,4**
Domestic economic sector		**9824**		**124,7**
FDI sector		**12631**		**115,6**
Crude oil		3759		89,9
Others		8872		131,4
Agricultural items				
Rice	2318	731	81,1	94,4
Coffee	832	1216	163,8	208,9
Vegetables & fruits		157		120,6
Rubber	281	527	96,5	101,6
Pepper	49	142	64,8	129,8
Cashew nuts	62	255	114,0	116,3
Tea	47	44	107,0	99,8

Source: GSO

Economic relevance of tea

Compared to other agricultural products, tea does not bring about high profits. Among seven agricultural export products listed in the first six months of 2007, tea showed the lowest profits. Tea export value in this period was only 44 millions USD, accounting for only one third (1/3) of the export value of the products ranked as the fifth and sixth (pepper and cashew nuts), and one thirtieth (1/30) of the coffee export value during the same period.

Tea does not bring about high profits due to two reasons. The first reason is that the quantity of export tea was the lowest among seven export products (1.2% of the total quantity of agricultural export products). In addition, tea is a product with a low value. With nearly the same export quantity (47 tons of tea and 49 tons of coffee), the coffee value tripled compared to tea.

Given its low value, tea does not receive adequate attention in terms of investment and care. At present, tea was taken off the list of five strategic agricultural products of Vietnam. This year, as coffee gains a good price, many households in Lam Dong (the Region with the largest area of tea cultivation) concentrated on taking care of coffee and left tea behind with the thought of "reaping whatever exists" as quoted by Mr. Tuyen, head of business section of LADOTEA.

Tea is considered as a cheap product, or a low class product in international markets. Vietnamese black tea fetches a price in the range between 0.95 and 1.06 USD/kg while the black tea in international markets has an average price of 1.6USD/kg and over 2USD/kg.

Price formulation

Competition in the Vietnamese tea industry is quite fierce. This is reflected in the price of fresh tea leaves. If the price of tea leaves in previous years was in a range of 2,200 VND and 2,500 VND per kilogram of first category (equivalent to 15 cents/kg), the tea bud's price has gone up to 4,500 VND (equivalent to 28 cents/kg) this year. In a meeting with tea processing plants in Thai Nguyen province, the board of directors shared in the first six months of 2007, they have not been able to buy any fresh tea buds for their production. While the team of researchers was collecting data in the province, this tea processing plant announced they would be happy to buy fresh tea leaves with a price of 4,500 VND/kg of fresh tea leaves but "we are not sure how many kilograms we could buy", said Mr. Hong, the plant's director.

There are two reasons that explain the fierce competition for fresh tea leaves. The first reason is that demand exceeds supply. At present, the tea cultivating areas in Vietnam are only able to meet the demands of about 80% the capacity of tea processing plants. Therefore, these plants compete with each other to buy raw materials. The second reason which leads to fierce competitions in the tea sector is the low barrier for entering the industry. So, in tea production it is easy for new producers to start their business (for example investment in setting up a household sized tea drying business costs only 130-150 USD). This again results in the fact that demand exceeds supply in the context of rapid proliferation of tea processing factories compared the expansion of tea cultivation.

Large tea companies play an important role in deciding the price of fresh tea leaves. In Thai Nguyen, Song Cau tea processing plant determines the prices of fresh tea in Dong Hy district. When interviewed, some farmer households shared that they apply prices for fresh tea leaves introduced by branches of the Song Cau processing plant to set their selling price everyday. Any day when Song Cau plant does not buy fresh tea leaves, other plants will determine the buying price which is usually 500VND/kg lower than the normal price that determined by Song Cau.

4. <u>Characteristics of the production</u>

History

Vietnam has a long experience in cultivating and processing tea. Tea was firstly officially planted in an industrialised way after the French entered Vietnam. In 1890, Duke Paul Cheffanjon managed a large tea farm (with an area of around 60 hectares) in Tinh Cuong, Phu Tho province. From 1911-1917, Vietnamese tea was exported to France, Hong Kong, Singapore, for example in 1915 tea export peaked with 869 tons. However, during the same period, Vietnam also started to import tea from overseas (Hong Kong, China, and India), specifically in 1913, tea import peaked with 240 tons. From 1955, tea experienced specialised cultivation. In 1957, with the support from former Soviet Union, the first large tea processing plant was established in Vietnam – Phu Tho Tea Processing plant. After 1975, throughout the country, industrial tea cultivating zones were formulated: Midland, Northern Region, Coastal Central Region and Central Highland.

Tea processing technology

At present, Vietnam is able to process 15 different types of tea. However, black tea is dominant in tea exports (accounting for 60%) compared to green tea and some other types of tea. Some teas which are in favour in international markets are black tea, black dragon brown tea, and jasmine tea.

Tea production and processing in Vietnam is rather complex due to the diversity of tea cultivators and producers (see diagram of value chain). According to statistics of Vietnam Tea Association, currently throughout the whole country, there are about 250 industrialized tea processing plants with the capacity from 1 to 4 tons of fresh tea leaves per day, and the total capacity of 70,000 tons per year. In addition, there are several ten thousands private tea processing plants. The number of private tea processing plants triples and their capacity doubles in comparison with the year 2000.

Tea production in Vietnam faces some difficulties. Lack of raw materials is an alarming problem of the Vietnamese tea industry. At present, there are only 33 provinces cultivating tea with a total area of 125,000 hectares. According to statistics of the Ministry for Agriculture and Rural Development, in 20[18] provinces, the total capacity of tea production reaches 3,100 tons of fresh tea leaves per day (600,000 tons of fresh tea leaves per year). However, last year fresh tea leaves only met 88% of the demand from tea processing plants. Moreover, reforms in tea cultivation take place slowly. Specifically, 74% of tea cultivating areas use local varieties compared to 26% of the areas cultivating new tea varieties (of which high quality varieties only account for 7%), let alone the fact that the tea processing technology is far behind other countries over the world…

Producers invested more in equipment to modernize their processing chains for OTD tea, green tea, Oolong tea. Over 70% of the enterprises' capital was spent on machines and equipment. For example, Song Cau processing plant which previously processed tea manually now has a branch separating machines. Some households have started using engines to process green tea to reduce labour costs.

Currently, Chinese equipment for tea processing is quite common because it is cheap. Only state owned companies still use tea processing machinery from the former Soviet Union, other enterprises buy Chinese equipment. Chinese equipment is cheaper than the one produced by Vietnamese (?) Thanh Ba – Phu Tho tea mechanic enterprise.

The machinery in company processing plants is frequently assembled from different sources. The capacity of the equipment for different stages of production sometimes does not match. Therefore, the technological process is (not?) easy to be monitored over different stages, especially when raw materials (do not?) meet the demand of the assembled capacity of the enterprise. In that case, product quality is neither high nor stable.

Given the competition for raw material in some regions, enterprises are reluctant to invest in new equipment because the operation of new equipment requires at least 80% utilisation of its capacity. However, if raw materials only meet 30-40% or 50-60% of the requirement,

[18] The figure of 33 provinces which was mentioned previously may include non-focus provinces

enterprises will make a loss, and will not be able to get a return on investment. In such a situation, nobody dares to invest in new technology.

Linkages within the supply chain

Tea farmers and producers have paid attention to the development of linkages. Large processing plants (such as Song Cau and Tan Cuong-Hoang Binh tea processing plants) have signed contracts with farmers in order to buy fresh raw materials. According to this contract, producers will provide farmers with fertilizers and pesticides, and when the winter comes, farmers will sell fresh tea leaves to the processing plants based on the agreed prices.

The development of good relationships between tea farmers and producers is a good signal for quality control. Through contracts, producers are responsible for providing fertilizers and pesticides and through this provision they have the opportunity to control tea origins as well as the quality of agricultural raw materials.

The linkage between tea farmers and producers helps to coordinate tea plucking and their delivery to the processing plant. Buying agents are the information bridge between farmers and processing plants regarding the requirements of tea leaves. For example, "if a processing plant informs they will stop buying tea leaves in the next couple of days, farmers will not pick tea leaves".

However, the linkage between tea farmers and producers is still loose. Even if farmers and produces have signed a contract on the provision of fertilizers and the buying of fresh tea leaves, still if one of the two parties does not follow any article of the contract, no sanction can be applied to deal with this contract's violation.

The quality of this linkage with producers is different from one group of farmers to another group. Some workers groups are tied to a processing plant not only by a contract on buying fresh tea leaves but also by other benefits such as social insurance, profit sharing (for example the case of the farmer groups in Song Cau and Song Cau Processing Plant). This linkage proves more stable compared to others. Some organised farmer groups are tied to a processing plant because of characteristics of their region. For example, Tan Cuong groups of farmers provided high quality tea leaves to Hoang Binh processing plant with a selling price which is 10 times higher than the price for normal tea leaves. This high quality tea buds is used to process special tea. Another example indicates some farmers cultivate organic tea to sell to Ecolink. Due to the nature of this business, both tea farmers and producers need each other. However, this linkage is at risk of being broken when a similar processing plant appears. The linkage between the contracted farmers and producers is the loosest.

The loose linkage between tea farmers and producers has different reasons. The first reason is fierce competition among producers in buying fresh tea leaves. This leads to violation of contracts, negative impacts on trust building and consolidation. The legal status of this type of contract remains low due to the lack of sanctions in case of violation and a specific legal entity to watch over such cases. Another reason is that linkages are only built on a profit basis rather than on common interests between farmers and producers.

Initiatives to improve linkages and networking

Current interventions of producers and development organizations focus on dealing with the first reason. For example one SNV supported project in Thai Nguyen organized a number of workshops and dialogues between tea farmers and producers so that both parties could listen to each other and make recommendations to local authorities to deal with unhealthy competition. These interventions mainly tried to fix the problem: reducing unhealthy competition or improving the legal status of contracts between farmers and processing plants to minimize the risk of breaking the linkage.

Building reliable linkages is one strategic solution. When a linkage is focused on profit, each party will concentrate on making most profits from that relation. Therefore when a new relation appears with higher profits, the old linkage will be broken. When a relation is built on both profit and on a reciprocal basis: co-existence and co-development, each party will pay attention not only to their benefits but also on the maintenance and development of such a relation. A female farmer who provided fresh tea leaves to Song Cau processing plant shared: “We sell raw materials to the processing plant so that it can function and when the plant functions, we have a job”.

Tea farmers started to organize themselves in groups for mutual technical support and improvement of tea quality. Organic and clean tea farmers started to be organised in Thai Nguyen, Lao Cai and yen Bai. These groups were formulated on a voluntary basis.

IPM programs have proven really effective in changing the farming styles of tea farmers. Prior to the introduction of IPM programs (10 years ago), tea farmers used pesticides freely, after tea plucking they sprayed pesticides, “you could smell pesticides even when sitting inside the house”. At present, farmers pay more attention, they use animal dung so that tea trees become stronger and stay away from diseases” – said Ms. Sinh in Tan Cuong commune.

Vietnamese Tea Association and Corporation are interested in promoting a trademark for the tea industry. The conditions for using the logo of Vietnamese tea are: meeting criteria for food safety, pesticide and herbicide remainders in tea products may not exceed the permitted level, and the moisture content in tea products should not exceed 5% at the time of packing.

5. <u>Characteristics of trading</u>

At present, Vietnamese tea is exported to over 90 countries over the world, of which green tea accounts for about 20%, black tea for 60%, together with other types of tea such as Jasmine and Oolong (20%). In the first 5 months of 2007, Vietnamese tea exports reached the level of 37,073 tons with a total value of 34.5 million USD, increased by 11.57% in quantity and 7.76% in quality compared to the same period of the year 2006.[19]

According to statistics, Vietnamese tea exports in 2006 achieved 105.63 tons with 110.43 million USD, increased by 20.15% in quantity and 13.92% in value compared to the previous year.

Black and green teas are two top types of tea for exports with a high growth speed compared to the same period of 2005. Specifically, black tea exports achieved over 65,000 tons with a value of 62.75 millions USD. This kind of tea is mainly exported to Pakistan, Russia, and

[19] VINANET

India. Green tea exports witness a volume of 27,000 tons with a value of 32.83 million USD, increased by 19.2% in quantity and 18.1% in value compared to the same period of 2005.

Reference list of different types of exported tea in 2006

Types	2006	
	Quantity (tons)	**Values (USD)**
Black tea	65.274	61.748.108
Green tea	27.003	32.837.517
Jasmine tea	3.776	3.866.452
Jessamine tea	970	1.388.949
Fermented tea	287	314.006
Oolong tea	228	845.286
Yellow tea	190	189.348
Lotus tea	21	37.716

In 2006, international markets for Vietnamese tea such as Pakistan, Taiwan, Indonesia, China, United States, and Malaysia maintained a high growth speed compared to 2005. Pakistan is the largest international market for Vietnamese tea exports.

International markets for Vietnamese tea in 2006

Markets	2006	
	Quantity (tons)	**Value (USD)**
Pakistan	23.94	27.906.361
Taiwan	18.459	19.454.27
Russia	10.364	10.142.726
Indonesia	2.467	1.697.287
China	7.622	7.615.725
Germany	3.445	3.996.993
United States	2.087	1.584.995
Poland	2.664	2.356.080
Malaysia	2.419	1.181.938
India	11.074	8.203.748
England	2.155	2.016.088
Holland	2.231	2.499.876
UAE	1.106	1.429.490
Afghanistan	2.396	3.099.977
Ukraine	673	603.230
Portugal	1.260	1.690.906
Sri Lanka	592	689.165
Philippines	508	1.426.814
Hong Kong	300	313.813
Singapore	931	1.232.392
Japan	435	1.04.457
Kenya	261	145.854
Azerbaijan	156	204.297
Chile	165	244.007
Libyan	310	321.220
Kazakhstan	202	237.102
Iran	411	543.212
Iraq	3.312	4.525.779

(*Vinanet*)

Domestic markets are becoming increasingly attractive. Green tea and domestically flavoured teas increase in both quantity and prices. The consumption of green tea is generally increasing in Vietnam. At present, some teas which are flavoured with some flowers are sold at a price of more than 1 millions VND/kg (equivalent to 100 USD).

The yellow tea crisis

In 2006, a strong Chinese demand for yellow tea[20] had impacted on the Vietnamese tea industry. Chinese business men came to the Northern provinces of Vietnam to buy yellow tea at prices that were 10-20 times higher than normal prices. In addition, Chinese businessmen did not require high plucking standards, they even bought fresh tea branches with the length of more than ten centimetres. With low requirements and high prices, Chinese businessmen did not face any difficulties in buying fresh tea. Still in May 2007, official sales of increased by 130% compared to the previous month. At the same time, the tea growers only met 80% of the demands of Vietnamese tea processing plants. The presence of Chinese businessmen makes competition even fiercer. Some Vietnamese tea processing plants could not buy any kilogram of fresh tea over the last 6 months.

Some types of tea with high export turnover in May 2007

Types	**Markets**	**Values (USD)**	**Compared to April 2007 (%)**
Black tea	Taiwan, Germany, Egypt, England, Poland, Canada, Chile, India, Holland, Hong Kong, Indonesia, Iran, Israel, Latvia, Malaysia, United States, New Zealand, Russia, Pakistan, Finland, Thailand, Portugal, China, Ukraine, Sri Lanka	4.751.913	25,12
Green tea	Taiwan, Germany, Afghanistan, Poland, South Africa, Japan, Pakistan, Finland, Singapore, Thailand, China, Sri Lanka	2.165.722	- 2,15
Jasmine tea	Taiwan, Japan	373.783	- 0,50
Yellow tea	China	226.630	131,80
Oolong tea	Taiwan	35.867	- 68,95
Fermented tea	Taiwan	14.666	- 16,08

The impacts of Chinese demand for yellow tea reflect an easy vulnerability of the Vietnamese tea industry. Even though Chinese businessmen came to buy yellow tea only for a month, the whole tea industry in the Northern provinces of Vietnam is affected. Some Southern provinces start to be affected by Northern enterprises which went to the South to explore because they could not buy raw materials in the North. This has increased the price for tea leaves in the South as well.

[20] Internationally also known as Pu Errh tea

Position of tea farmers

In the value chain of the Vietnamese tea industry, the bargaining position of tea farmers is quite good. At present, with demand exceeding supply, tea farmers are in a position to decide whom they sell their fresh tea and at what prices. Tea farmer households in the South (Lam Dong province) also cultivate coffee. Therefore, when coffee fetches high prices, they focus on cultivating coffee.

However, this favourable position of tea farmers is just temporary. Over the last five years, the Vietnamese tea industry has developed and increased its exports. Therefore, the number of tea processing enterprises has increased considerably. This has changed the bargaining positions. In 2003, when the tea price went down, and enterprises did not buy fresh tea, tea farmers faced a lot of difficulties.

Small scale households and cooperatives produce and sell their product within the country. Each household has two manually spinning stoves to dry green tea. The average output is 300 kg of dried tea per day, and the business lasts for 6 months. The price for a kilogram of dried tea ranges between 25,000 and 160,000 VND/kg.

Farmer households sell fresh tea, and they are also engaged in processing tea. This makes the shortage of fresh tea leaves more serious. When interviewed, some groups of farmers who sell fresh tea to Song Cau processing plant said that when they are busy with rice farming, they sell fresh tea leaves to the company, but that they are engaging in home tea processing whenever they have more time.

Current trends

Some large scale farmers and export companies have a tendency to explore domestic markets with high quality green tea (like the Hoang Binh model). They have formed a linkage to a group of farmers to buy clean[21] tea with a price of 90,000 – 160,000 VND/kg of dried tea (equivalent to 6-10 USD kg of dried tea). With more modern technology and equipment, they add scent and use beautiful package and sell at the price of 150,000 – 3 million VND/kg of dried tea. This tea is sold in domestic markets or to overseas Vietnamese (in the United States, Canada…).

Tea export companies focus on exploring markets for special tea (clean tea, Fair-trade tea or organic tea). This is a new tendency in the value chain of the Vietnamese tea industry. These companies organise farmers in groups and invest in training for farmers (such as growing technique, internal quality controls…) they even use their own profits to get certificates for Fair-trade tea or organic tea. When their tea is certified, they hope to sell at higher prices.

Producing organic or fair trade tea has some challenges. These products require a closer controlled production process than conventional tea. However, these products don't have domestic markets and are mainly directed towards export. Therefore, when they cannot be exported, this tea is difficult to sell in domestic markets. Some households even have to sell at a very low price (20,000 VND/kg), and it is still very difficult to sell because this type of tea does not meet the taste of most Vietnamese.

[21] Clean tea: farmers still using chemical in cultivating but they strictly obey technical process to control the remain rate of chemical in tea product. Concept "clean tea" was defined by decision number 43/2007/QĐ-BNN from Ministry of Agricultural and Rural development.

Deputy Prime Minister Pham Gia Khiem has approved a draft feasibility study (FS) on a tea auction centre submitted by the Viet Nam Tea Association (VITAS). The French Development Agency (AFD) will provide a 385,700 Euros grant in non-refundable aid for the project. According to VITAS, the trading floor will be a place for enterprises to introduce tea products to both local and international partners, while helping to increase the competitive edge of Vietnamese tea. It is also expected to draw participation of foreign giant tea enterprises, thus making Viet Nam one of the world's centres for trading tea products, said VITAS Chairman Nguyen Kim Phong.

6. Legal framework

By regulating the rights and obligations of employees and employers, labour standards, and management principles, the labour laws contribute to increased production, and thereby play an important role in society and in the legal system of the nation.

Inheriting and developing the labour laws of Vietnam since the August Revolution of 1945, the Labour Code institutionalizes the "renovation policy" of the Communist Party of Vietnam and provides for detailed implementation of the provisions of the 1992 Constitution of the Socialist Republic of Vietnam on labour, and its utilization and management.

All the interviewed companies stated that they have strictly obeyed the labour laws. All the workers have work contracts. However, because of the nature of tea industry (seasonal production), workers in the private companies may have only short term contracts of 3 – 6 month duration. With this type of contract, it is very difficult for them to have the social insurance.

Compared to workers in private companies, workers in the stated own companies have more benefits. They are contracted and covered by social insurance. After 25 years of continuous contribution to the social insurance fund, they will receive a retirement pension.

7. Overview of CSOs in the Tea Industry

- **International NGOs:**

i. Coopération Internationale pour le Développement et la Solidarité (CIDSE) with IPM programme

The Integrated Pesticide Management (IPM) programme in Vietnam was started since 1992 through projects with Plant Protection Departments with FAO's support. Initially, activities were limited to rice, but later also included tea, peanuts, and vegetables.

In Thai Nguyen, Tea IPM activities started in 1994 with support from CIDSE (a Belgian NGO). During the first two years the focus was on developing the technical basis for IPM in tea. A total of 15 farmer groups were formed, using agro-ecosystem analysis to each study one particular topic. A total of seven topics were selected. In 1996 three pilot Farmer Field Schools (FFS) were organized. Training activities expanded in 1997 after organizing a five-month tea IPM TOT in Thai Nguyen for 23 trainers. In 1997-98, 15

FFS were organized for a total of 423 farmers. Results of these FFS showed a pesticide reduction of 30 - 40 %, while maintaining yields.

In early 1999, a three-year project for tea IPM in Thai Nguyen and Phu Tho provinces was approved by CIDSE. This new programme has trained around 3,600 poor farmers in tea IPM through FFS and provided one TOT for technicians in Phu Tho. The project further envisaged that after a FFS, the group of FFS alumni have made a plan to further develop tea production in their area. One of the main activities in these "follow up" activities were the training of other farmers in the area, either through formal training in a FFS or through more informal contacts such as village meetings, joint field visits, etc. The purpose of this training was to increase the number of IPM farmers in a contiguous area (1 - 3 villages) so that IPM farmers would have good conditions to apply their IPM knowledge and skills as well as to make it easier to establish "clean" tea areas.

Other activities of the farmer groups included studies to test new techniques or verify/adapt technical improvements that have been successfully tried elsewhere, regular group meetings, setting up nurseries for new tea plants and shade trees, marketing, etc. The groups have been also managed small revolving funds in order to assist the poorest members of their group to increase their investment in tea production. The project also tested the possibilities for organic tea production and marketing.

ii. Centre d’étude et de coopération internationale (CECI)

The Canadian NGO CECI started its support to the tea industry in Vietnam in early 1997. CECI has helped farmer to form 6 cooperatives and provided them with capacity building activities. At the first 4 years, CECI has provided the cooperatives with training on product development and marketing, and has assisted them to design tea packages and to find different channels to sell their product. In 2002, CECI withdrew its activities in Thai Nguyen with just 3 months notice. This withdrawal created big difficulties to the cooperative board of management since they were not yet capable to manage the cooperative themselves. After CECI’s program finished, 5 out of six cooperatives that were formed with support from CECI have disintegrated.

iii. SNV Netherlands Development Organisation

From July 2004 to the end of 2007, SNV Vietnam is implementing a program to support tea sector in Thai Nguyen province, one of its main interventions being to develop the tea sector by:

- Providing support to BDS
- Raising awareness about quality and quality management system
- Enhancing business relationship between tea grower and tea processor.
- Supporting marketing activities of companies.

SNV has chosen the Plant Protection Department of Agricultural and Rural Development Department as project partner. SNV’s strategy is to build capacity among their own project partners. Later on, the project partners will work directly with tea growers and tea processors.

Main achievements:

- The awareness of farmers about quality has changed which can be observed in their cultivating method

- Some farmers increased their profits through better product marketing

Constraints:

- Small tea growers in Thai Nguyen can already sell their product without any difficulties. Thus, they do not perceive the need to cooperate with enterprises.
- SNV's program in Thai Nguyen will be finished by the end of 2007 and up to now, SNV have not yet confirmed any further activities in this province.

- **Trade Union**

THE VIETNAM GENERAL CONFEDERATION OF LABOR is a member of the Vietnam Fatherland Front under the leadership of the Communist Party of Vietnam, has cooperative relations with the State and coordinates with other socio-political and social organizations; and operates within the framework of the Constitution and laws of the Socialist Republic of Vietnam. The Vietnamese workers operating in business and production establishments of all economic sectors, in enterprises functioning with foreign capital investment in non-productive units, state organs, social organizations (generally called organs, units, organizations) are entitled to step up and participate in the trade union in accordance with the Rules of the Vietnamese Trade Unions.

There are 20 National Industrial Unions who work in the tea industry; they belong to Vietnam National Union of Agricultural & Rural Development Workers.

In principle, the trade unions represent and defend the workers' legitimate and legal rights and interests; they are bound to join forces with the State in developing production, solving the question of employment and improving the material and spiritual life of the workers. The research team has found out that the Trade Unions in tea industry mainly organise some social activities (staff retreat, paying a visit when one worker got sick etc.)

Trade Union representatives sit in all companies. In common practice, the chair man of the Trade Union in one company is also the vice-director.

- **Vietnam Tea Association (VITAS)**

Vietnam Tea Association was established in 1988. Currently, it has 105 members with 11 stock companies at national and provincial level, 46 state owned companies, 46 private companies, one joint-venture and one company that is a 100% foreign-investment company.

VITAS has taken part in an international standard system related to quality management (ISO 9001:2000) and has committed to implement sustainable development objectives.

Role and responsibilities:

- Service: VITAS aims to provide services to its member on seed, technology transfer, trade promotion, marketing, price formulation and training.
- Consulting: Policy advice to the government related to tea growing, and tea plantation area planning
- Promoting Vietnamese tea culture: organising festivals or exhibitions related to tea
- Building model for sustainable development
- Information: setting up a whole tea industry information network

Achievements, constraints:

- Among five roles mentioned above, consulting role and promoting role are the most successful jobs of the VITAS. The approve of the government on developing an auction centre and the tea festival annually was the remarkable achievement of VITAS
- The rest three roles require more effort from the management board of VITAS in order to well functioning.

▪ **FLO**

FLO has introduced Fair-trade to Vietnam in 200?. The producer fee for Fair-trade certification is about 1000 USD excluding travel cost of examination (in total it costs about 7000 USD). This certificate is valid for one year only. Certification has to be renewed annually.

One farmer group in Tan Cuong commune (the group that sell their product to Ecolink) had got a Fair-trade certificate from May 2005 to May 2006. They got this certificate owing to financial help from Ecolink. This year, the group has not yet been able to mobilise the financial resources to renew their certificate.

III. COMPANY PROFILES

1. Case study 1: Tan Huong Tea Cooperative

History

Tan Huong Tea Cooperative is a successful model of small community business groups in Thai Nguyen. It all started from a survey in 1997 on SWOT analysis of Thai Nguyen Tea area by the Canadian Centre for International Study and Cooperation (CECI) based in Hanoi. In 1998, a preliminary "inter-family" group was formed; its members were trained in skills of establishing community economic groups (from 1998 to 2000). In the following year, Tan Huong was formed with 38 members, 10,000,000 VND by CECI, and a management board. Within a year, all management board members received management training. In 2002, members contributed to the cooperative fund and business started with selling processed tea and agricultural production tools.

At the end of 2002, while the cooperative fully operated as legal entity with its own tax code and membership increased to 72, CECI withdrew. After withdrawing of CECI, Tan Huong was the unique surviving cooperative out of 6 which had been created with support from CECI.

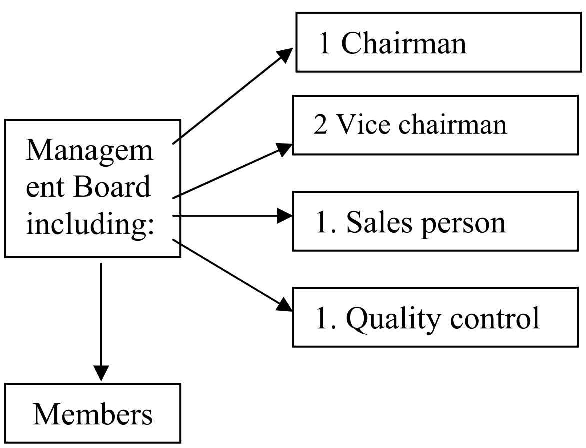
From 2003 onwards, the cooperative specialized in marketing processed tea of medium quality for domestic buyers. Management roles are clearly specified. Tan Huong registered its trademark with the Vietnam Department of Intellectual Property and Copyright Protection.

Membership decreased to 54 in 2004 and 44 in 2005. The reason reported for dropout was that the members' tea quality did not meet the requirements of the cooperative.

By 2006, Tan Huong has been granted two gold medals at the National Green Tea Fair and one gold cup in Thai Nguyen Tea Festival.

Management and Ownership

Management structure of the cooperative is quite simple with one management board of five members who involve in all activities.



The management board is responsible for managing the funds contributed by members every year plus the net income from transactions. Each member of the board is at the same time involved in buying semi-processed products from its members, then packing those products and sells it at the cooperative sales agent (who deals with direct customers).

Members are households that grow tea. They apply for membership, by agreeing on the cooperative regulations, and by paying membership fee. Being members of the cooperative, they will sell their semi-processed products to the cooperative at negotiated prices (normally higher than those offered in the local market) with a specified quality.

They will receive interest from the membership fee (which is contributed every year), guidance on producing high quality processed tea and other social benefit such as taking part in vacations or exposure trip.

The net profit is balanced at the end of a year and will be divided into three portions

- Contingency fund
- Working capital
- 50% for members (in proportion with their total contribution)

Group members meet two times a year to discuss planning and budgeting.

Products and sales

Tan Huong products are processed green tea (currently selling at 70,000 VND/kg) which is considered as medium quality product as compared with other tea in local markets.

The cooperative has its own trademark under its name. Most tea is packed in plastic bags of 0.5 kg each, there are also four other types of cotton/paper bags with specific designs.

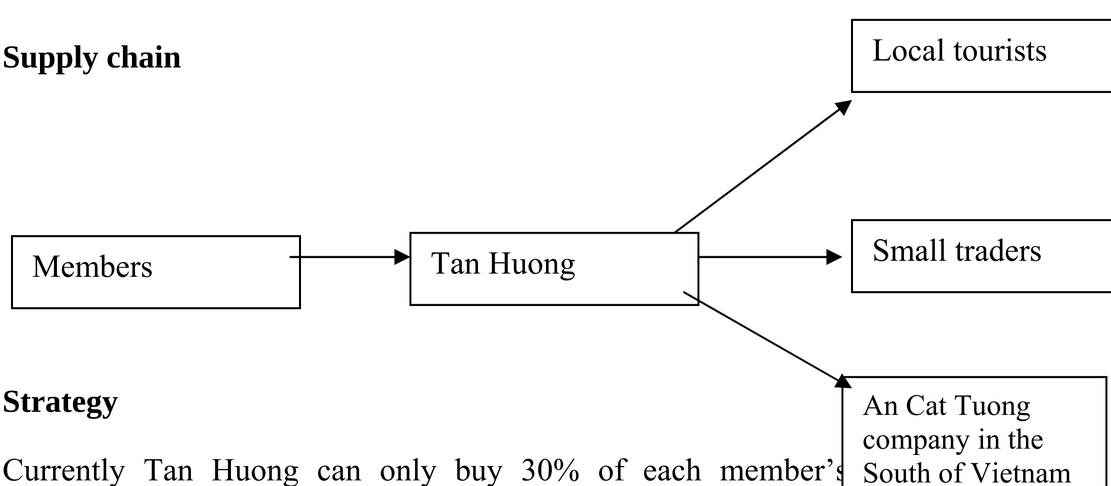
All members are clustered into six groups for cross quality checking. A holistic approach of quality control is applied from irrigating, fertilizing, and processing with the norm of "Tan Huong clean tea" which is self created. Heads of the groups are responsible for inventorying all processes of other members.

Currently the cooperative is buying around 30% of each member's total semi/processed products, which are then blended, packed, and sold.

Tan Huong customers are local tourists to Thai Nguyen, small traders from the capital of Hanoi and other provinces. The only company-client is An Cat Tuong Trading limited (in Ho Chi Minh City) that places three orders a year each order requiring 300 kg. They have heard that this company resells Tan Huong tea to Vietnamese expatriates in Holland.

Revenue has kept increasing steadily from 2002 with 118 million VND to 232 million VND in 2003, 320 million VND in 2004, 420 million VND in 2005 and 460 VND million in 2006.

Supply chain



Strategy

Currently Tan Huong can only buy 30% of each member's the remuneration for each management board member increased from 27,000 VND (less than

USD 2) in 2002 to 400,000 in 2006. The cooperative still seeks to further its business by setting new goals for 2010:

- Buying up to 70% of member products
- Expanding processing workshop
- Each member contributes 3 million VND a year
- Training resource persons
- Direct export to foreign countries

So far, Tan Huong management members have delivered a number of trainings in the region on "clean tea production" and to promote its model in the province.

2. <u>Case study 2: Hoang Binh</u>

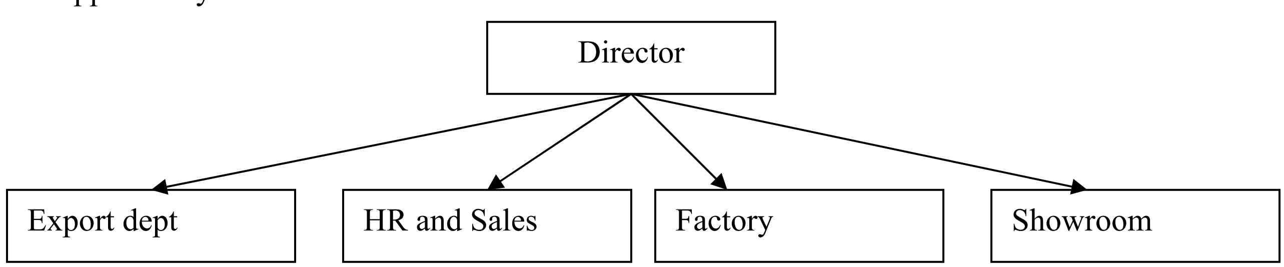
History

A private tea processing and trading company (Tan Cuong Tea Export Factory) formed in June 2001 as a member of the Tan Cuong-Hoang Binh group in Thai Nguyen whose business is real estate, furniture, and tourism services. In June 2007, the company equities and sold 35% of its shares to a strategic distributor network and communication network in Vietnam.

The company has a processing factory, one office building, and a showroom located within the Tan Cuong tea growing region. Tan Cuong tea company is well-known in the province for specializing in high quality tea and for good linkages with farmers.

Management and ownership

Tan Cuong is run by one director who is at the same time vice director of Tan Cuong-Hoang Binh group. The director is involved directly in all transactions of the company and is supported by:



In total, the company has 60 workers/staff on long-term contracts (from 3 years), another 60 factory workers and office/ showroom staff on less-than-one-year contracts. Additionally, seasonal workers are contracted for less than 6 months, the total number varying on seasonal needs (normally between 200 and 300).

During peak season, workers work overtime, they do not receive overtime pay but are rewarded based on profit.

Production and sales

The company does not have tea plantations of its own. The supply is secured through establishing mini-workshops/processing units which are in fact owned by the farmers. These farmers provide semi-processed products with specifications given by the company. All negotiations and transactions are made orally. The bargaining power is currently in favor of the farmers due to severe competition for input in the region.

Semi-processed products from those mini-workshops are bought at the factory for re-processing and packing.

At the same time, the company buys raw material and semi-processed products from other small traders for processing and/or re-processing.

The production line was imported from Taiwan to process high quality tea for domestic buyers with around 25 different brands under its own trademark (Tan Cuong tea).

Lower quality products (mostly semi-processed and packed in large bags) are exported to China, Sri Lanka, Korea, and Holland… Most of the foreign importers are individual buyers who directly place orders with the company.

i. Inputs

- From March to October the company directly buys green leaves from farmers or from small traders with detailed specification to process in the factory.
- Mini-workshops provide semi-processed products for refinement at the factory
- Outputs are end products with company's own brands or other semi-processed products.

ii. Sales

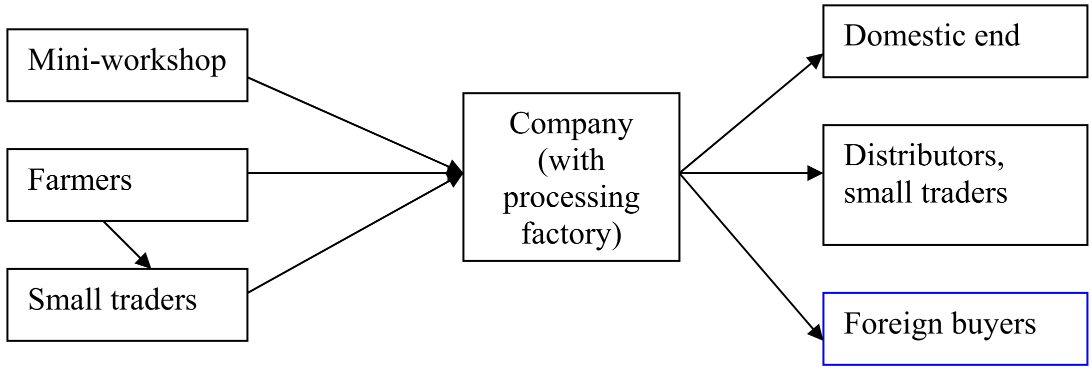
- Semi-processed tea is directly exported at the price, quality, and quantity specified by foreign importers.
- End products are sold (both wholesale and retail) to domestic distributors, small traders, and individual consumers in the domestic market.
- Among 25 end products, "Tinh Tam Tra" sells at 2.8 to 3.2[22] million VND/kg.

iii. Trademark

- The company uses three different trademarks: Thai Nguyen, Thai Nguyen-Tan Cuong, and VITAS for different markets. For example, in domestic markets "Thai Nguyen-Tan Cuong" is used.

[22] Exchange rate: 1USD=16,000 VND

Supply chain



i. Farmers: Individual farmers are those growing tea in the surrounding region of Tan Cuong. They can sell green leaves directly to the company or to small traders. In either case, the transaction must follow the technical specifications given by the company. The tea bushes of the farmers are now 20-30 years old with a low yield.

ii. Mini-workshops: The workshop is run by a farmer having its own tea plantation. Depending on the order from the company, they can buy tea leaves from other farmers to process. The resulting products are transported to the factory for weighing and quality checking. Disqualified products are returned.

Mini-workshop farmers receive technical support, and even funds (if required), and they join company's social activities. Currently there are 4 mini-workshops supplying the company without any formal/written contracts.

iii. Small traders: The individual trader buys green leaves and/or (rarely) semi-processed products from farmers and resells to the company. In early 2007, transaction with small traders died down due to the "yellow tea phenomenon".

iv. The company specializes in processing, reprocessing, blending, branding, and packing.

v. High quality end products are sold to either end users or distributors (in domestic markets). Other semi-processed or processed tea is sold directly to foreign buyers. The export price is fixed based on negotiation with buyers.

Corporate Social Responsibility

The director never heard of a Corporate Social Responsibility policy. However, long term contracted workers receive health insurance, social insurance, and other benefits such as end-of-year bonuses.

Seasonal workers are preferably recruited among local people and encouraged to work continuously for the company. All technical workers, sales people, and managers have received on-the-job trainings.

The company has its own Trade Union to do social (mostly charity) work in Thai Nguyen, and to take care of other social activities for its workers.

Business strategies

Thai Nguyen-Tan Cuong company is known in the province as an outstanding model of private business that focuses on quality and farmer connection. The company has attracted attentions from Thai Nguyen Provincial People's Committee, and is crafting strategies to:

- Continue producing high quality product and competing by high price for inputs.
- Further connection with farmers by establishing more mini-workshops
- Stabilize supply source by adopting 100 ha plantation given by the province
- Diversify business by combining producing tea with eco-tourism services.
- Enhance its own "Tan Cuong" trademark in domestic and foreign markets

3. Case study 3: farmer group of Hoang Binh

Origin

Mr. Tran Van Thai is head of a household that has been producing tea for generations. His tea plantation is within the famous high quality area of Tan Cuong which is known throughout Vietnam. In 2002, he collaborated with Tan Cuong-Hoang Binh tea company to produce high quality tea as a mini-workshop of the company.

In the early stage of start-up, the company established many workshops in this area but later many small tea farmers withdrew because they can easily sell products in local markets or at home to small traders with much more flexible price and less requirements. Until now, this household is one of the four surviving mini-workshops of the company.

He was selected to become a mini-workshop based on his production volume, quality, and infrastructure (residential land to build workshop). After partnering with the company, Mr. Thai received technical guidance, and price subsidy (varying upon seasons). Technical consultancy is delivered by the company's technicians directly on the field sometimes.

Production, labor, and processing

Production:

Thai's family has around 1 ha of hill garden surrounding his house, and the entire area is reserved for planting tea. Dotted in between the tea rows are some litchi trees of 6-7 years age. These trees were planted when the tea price dropped, and many families in the region reacted by replacing tea with litchi. However, when tea regained its stands in the market, litchi was cut down. There are now some litchis and some newly planted tea rows in one garden.

Tea trees are from 20 to 30 years old, plus a small area newly planted from branches. Both of these types are generating yields.

For the past five years, animal dung has been used as fertilizer. Animal dung is composted for 3-4 months and paved along the tea rows. Organic fertilizer has the advantage of retaining soil humidity and restraining the growth of pests.

According to the technical specifications of the company, Mr. Thai uses bio-chemicals with limited dosage. There is, however, no contract between the factory and him that binds the quantity of pesticide used. According to remarks by members of the "Fair-trade/Organic groups" in the same region, Mr. Thai's tea quality is higher than their products.

Labor:

The family has two main workers (Mr. Thai and his wife), and at harvest season, 10 seasonal workers are hired and paid daily wages (from 20-30 thousand VND/day). Since they are paid by day and not per kg of green leaves, these workers take time to pluck high quality leaves instead focusing on quantity.

Tea leaves are plucked and put in the bamboo basket which is always placed in the shade. Tea leaves plucked in the morning are dried within the morning to ensure quality. Drying is powered by electric motors and heated by firewood, afterwards dried tea is rolled by a semi-automatic machine and dried again before being packed in 50 kg bags and transported to the company.

On average, the workshop produces 30-40 kg tea a day at the rate of 5-6 kg of fresh leaves for one kilogram of dried tea. When there is a large order from the company, Mr. Thai can increase the capacity of the workshop up to 200-300 kg of dried tea a day.

Mr. Thai collaborates with five other neighboring households that produce tea. He, in person, guides and monitors the use of pesticide, irrigation, fertilization and leaves plucking, and then buys leaves from these households to process at his workshop. Currently green leaves are bought at 100,000 to 140,000VND/10 kg (while Song Cau company buys at 2,700 VND/kg). Even if a high price is offered, these households may still opt to sell their products to others if small traders adjusted their price suddenly.

Sales

The outputs of the workshop are two main semi/processed products: traditional mid-land tea and snow tea (both of high quality)

The products are transported to the factory for quality checking, weighing, and bought at a pre-negotiated price (currently from 180,000 VND/kg – compared to local market prices between 20,000 and 70,000 VND/kg). From November to February, the tea price can go up to 300,000 VND/kg.

The products returned by the company are sold to small traders and end users at a lower price.

Pros and cons of the workshop

The linkage with the company creates some competitive advantages:

- stable outputs with stable and pre-negotiated price.

- high quality production makes entry harder for other household producers in the region (less competition).

- availability of technical support and credit at any time.

The linkage with five other neighbors (oral agreement only) puts the production at risk. If the market price suddenly goes up, these households will immediately sell their products to other traders. At the same time, it is impossible for him to ensure 100% quality leaves from these households.

4. Case study 4: Song Cau Company

History

Song Cau is a state-owned Tea Producing Company located in Thai Nguyen, the second largest tea producing province in Vietnam. The company was founded in 1962 originally as a plantation, and became a company in 1995, as a member of Vietnam Tea Corporation (VINATEA) through which most of its products are exported. In the early stage and up to the 1970's, they had 1,600 workers. Currently the company is managing 462 ha of tea plantation out of the 2,091 ha authorized land. This tea area has been retransferred to around 800 households to plant tea and sell green leaves to the company.

Song Cau has two processing factories and two separate production lines producing two main products. One factory specializes in producing black tea with a low quality management system while the other production line specializes in producing green tea solely exported to Japan. The latter applies a strict quality control system imposed by the Japanese customers.

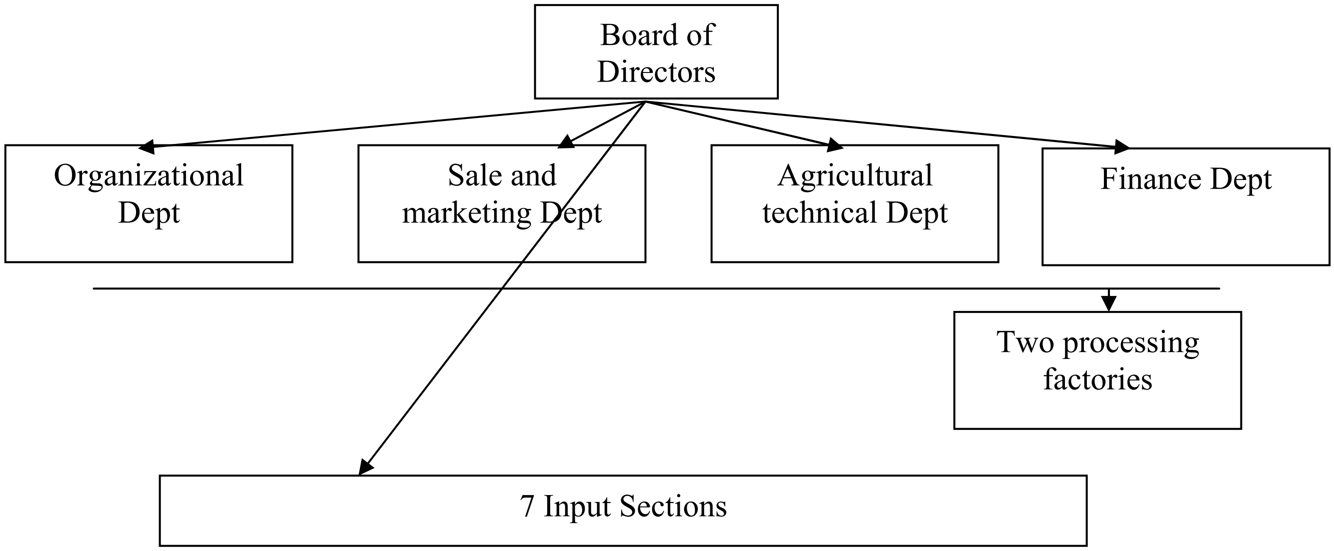
In 2005, at the request of the Ministry of Agricultural and Rural Development, VINATEA and its entire member embarked on privatization. To start the process, in 2006, Song Cau became a one-member limited company and its privatization process is planned to be completed in 2008.

As one of the earliest tea companies established in Thai Nguyen, Song Cau underwent all wax and wane of the tea sector. In the early 1990ies, when the sector was going through a hard time, Song Cau even attempted to switch to producing sugar cane and pig farming. This attempt failed.

At current capacity, its own green leaves can only provide around 55% of the production, the remaining 45% have to be bought from outside farmers in the surrounding areas. This situation is becoming more and more challenging with severe competition from other companies. Most notably from 2000 to 2003 alone, there were 23 new tea processing factories registered, and now there are a total of 29 companies, not to mention that every single farmer can involve in all of the production, processing, and sale steps. During the research period, there was no production going on at the company due to lack of green leaves.

Ownership

As a typical state-owned company, Song Cau is run by 325 government contracted employees operating in the following structure:



The Board of Directors is composes of one director and two vice directors. The director is at the same time vice director of VINATEA which gives him dual roles in internal meetings of the company.

The head of the Finance Department is also head of the Trade Union. In total there are 800 worker farmers who are contracted to use land for 50 years, however, land ownership is still certified to the company name, i.e. the government.

Production

Song Cau has 462 ha tea plantation which are mainly old traditional tea planted by low yield varieties. This area is cultivated by worker farmers who use fertilizer without control. Their tea leaves are plucked long and unsorted, then sold in large volumes. The green leaves will be bought by the company regardless of quality for processing low quality black tea. At the same time, Song Cau is producing high quality green tea for direct export to Japan. This second type is strictly controlled and inventoried upon request of the Japanese buyer. Green leaves are plucked from tea planted by seedlings nursed at the company, and the overall process is monitored by the head of the input section. For green tea, use of fertilizer and pesticides, irrigation and plucking are specified in detail. The leaves are then carefully sorted and only high quality is bought for processing. Even packing is specified by the buyer in smaller packages as compared with black tea (packed in 50 kg bags).

Market and sales

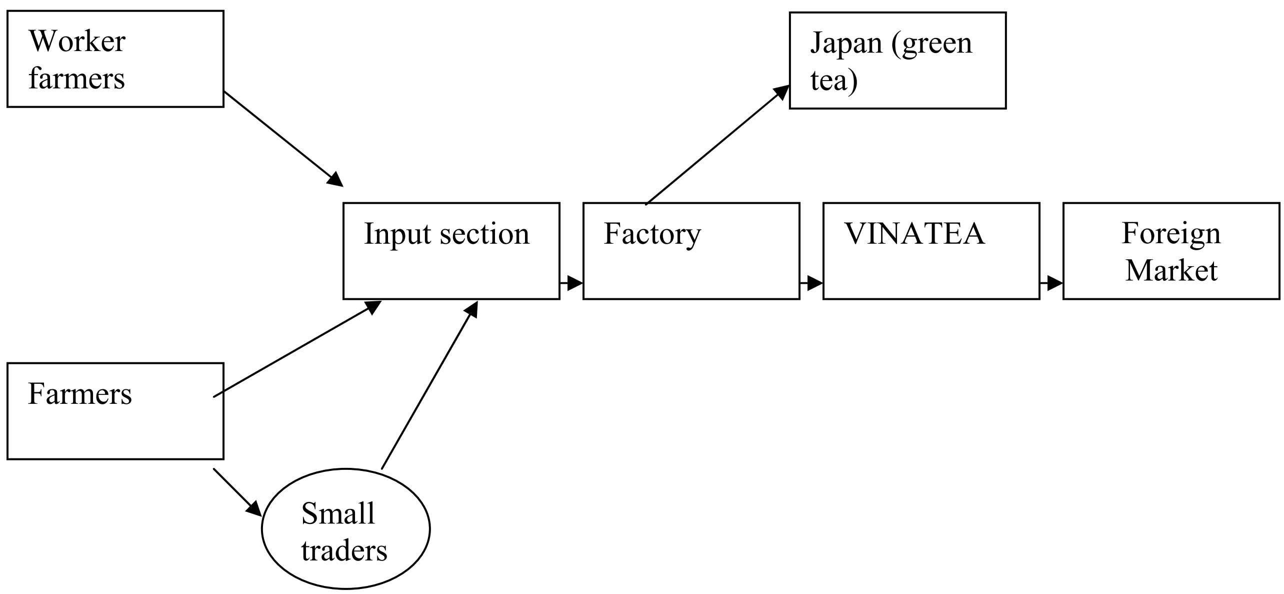
The low quality tea leaves are processed into semi-processed black tea which is then sold through VINATEA to India, Pakistan, Iraq, Russia, Germany, Poland and Taiwan at around USD 0.95/kg.

Before 1995, the company produced between 400 and 600 tons of dried tea for revenue of around 10 billion[23] VND. From 1996 onwards, the output increased from 800 to 1,200 tons for revenue of 18 to 24 billion VND. In 2000, the highest revenue was 24 billion VND thanks to high productivity and a tea contract with Japan.

Afterwards, the revenues have slightly declined due to the rising cost of green leaves (around 2.700 VND/kg), fertilizer (from 2,500 up to 5,000 VND/kg), coal (from 400,000 up to 720,000 VND/tons), with export price remaining at USD 0.93 for a long time.

In early 2007, Song Cau was also negatively affected by the "yellow tea" phenomenon caused by Chinese small traders that buy roughly dried tea leaves and at a price between 20,000 and 50,000 VND/kg. The phenomenon negatively affected almost all tea companies in the North of Vietnam.

Supply chain



- Worker farmers use land of the company to produce tea, they are provided with fertilizer and pesticides. Those input costs are discounted on the price of green leaves sold to the company. Those workers output account for around 55% of input of the company.

- The rest 45% is bought from farmers in the surrounding areas either directly or though small traders. Most of these inputs are of low quality, not well sorted (normally from grade B-C-D)

- The head of the input section is responsible for buying green leaves on the basis of the company order given in advance. The staff is permanent employees.

- The two factories are owned by the company with one semi-automatic production line for black tea which was imported from Russia in the 1960's. The other line produces green tea which is currently exported directly to Japan. The factory is

[23] Current exchange rate: USD1=16,000 VND

run on three shifts each by maximum 16 workers (seasonally 3 months contracted).

- VINATEA is acting as a mother company that buys all semi-processed products from Song Cau and resells them to other countries.

Business strategy

In the past, Song Cau already attempted to diversify its production into sugar cane in the early 1990's, as well as into coffee and litchi in 1997. All of these attempts failed due to sharp decrease of the prices for these commodities. From 1999 until now, the company strategically embarked on strengthening its tea business with plans for:

- Replacing their traditional lowland tea (not widely preferred by foreign customers and low yielding) with new varieties.

- Replacing the old production line

- Searching for direct export contacts like the existing one with Japan

- Gradually focusing on quality control to improve the quality of processed products for direct export

However, the loosening ties with VINATEA due to privatization, the increase of input prices, the lack of capital (Song Cau has no accumulated capital) are posing big challenges against its strategies.

Loans can be accessed from local Vietnam Bank for Agricultural and Rural Development for terms of 6-12 months. However, it takes at least three years for newly planted tea to start bearing green leaves. Song Cau pays a membership fee to Vietnam Tea Association but feels not to get anything in return.

CSR

Corporate Social Responsibility has never been heard of, nor talked about, nor practiced in Song Cau. However, as a state-owned company, its 325 workers (long-term factory workers, office staff, management board) are covered with health insurance, social insurance (for pension), and a fixed monthly salary as provided by the labor law.

Besides input supports, worker farmers receive technical trainings from the company and can buy social insurance through the company.

Song Cau has its Trade Union representative in the Finance Department head. The Trade Union belongs to Vietnam Labor Federation. It is responsible for organizing social activities such as supporting sick workers, organizing child days…Those activities are popular in any state-owned companies.

5. **<u>Case study 5: Farmer group of Song Cau</u>**

In order to compare the similarities and differences in terms of business relationship between Song Cau Company and two groups of farmers (worker farmers and individual farmers - who sell their green leaves to Song Cau Company), the research team has explored the tea production process in group interviews.

Worker farmers	**Tea growing process**	**Farmers**
Designed by technical officers of the company to ensure that the van can bring fertilizer/pesticide till cultivation area	**1.** Preparing tea fields	Farmer preparing field casually
	2. Digging furrow-drain	
The company signs a contract to provide fertilizer to farmer	3. Fertilizing	Farmers buy fertilizer themselves
The company provides new seed for tea bushes (if applicable)	4. Sowing	
The company provides pesticides	5. Cultivation and pesticide management	Farmers buy pesticide themselves
	6. Creating leaf canopy	
Selling to the agent of the company. When the price of green leaves had fallen (for example in 2003), the company bought all green leaves from the worker farmers	7. Tea plucking and sale of green leaves	Selling to the one who pays the highest price. When the price of green leaves had fallen (2003) they could not sell all their leaves, but only the best quality
Often doing so in February to sell at high price during the new Lunar year festival	8. Producing green tea to sell in the local market	Often doing so in February to sell at high price during the new Lunar year festival
	Advantages/disadvantages	
After the company exported and made profit, they have paid extra money (250 VND/kg) to	Finance	Only the contracted individual farmers could get extra

their worker farmers (in addition to the normal price for green leaves at buying time)		payment at 150 VND/kg when the company made profits
In addition to social insurance, the company also provides other support such as donations for building a cultural centre, road or kindergarten	Social welfare	Upon request, they can get some financial support from the company to build an internal road
Have to pay land using tax as industrial land, which is higher than agricultural land. Their land was ranked at level 2 or 4 (out of 6 levels). If their land is at level 2, they have to pay 800.000 VND / hectare, and if it is at level 4, they have to pay 400.000 VND/hectare	Tax	Their land is considered as agricultural land at level 6 and they do not have to pay land using tax.
They are involved in social activities of the company including: staff retreat, receiving gift for New Year fest, taking part in excursion etc.	Other benefits	None

6. Case study 6: Ecolink

History

Ecolink Co. Ltd. has been set up in August 2003 within Hiep Thanh Group. ECOLINK's mission is to offer unique, tasty Vietnamese agro-products, with a commitment in organic agriculture, fair trade and community development.

Ownership

Ecolink is a limited company. Its general objectives are:

1. To serve as marketing channel for small-scale producers of organic and "clean" agricultural products, following fair trade principles in its marketing activities;

2. To provide services to local producers and to (potential) buyers in Western countries for the export of organic, "clean" and/or fair trade goods;

3. To develop a local market for high-quality, organic and "clean" agricultural products, particularly tea;

4. To provide technical assistance and services to other organizations on issues related to organic and "clean" farming, quality management and fair trade issues in agriculture;

5. To engage in sustainable development activities, especially in connection with organic food production and processing, alternative marketing systems and fair trade, conservation and promotion of local crops and varieties, and community enterprise/co-operative development;

6. To engage in tourism and other activities related to the promotion of organic and "clean" agricultural production in Vietnam;

7. To support the sustainable/organic agricultural movement within Vietnam, the ASEAN region and worldwide.

Production

In the last two years (2004/2005) Ecolink have:

- Defined sustainable models to work with farmers in lowlands, through working with organic farmer groups in Thai Nguyen: Tan Cuong, Phuc Xuan, Minh Lap. The farmers have been organized in groups of about 20 people. Ecolink provides them with training on technical as well as on management issues (internal control system).

- Set up working relationships with some active NGOs in the field of farmer organization (CIDSE, OXFAM, and SUPPORT). By setting up relationship with INGOs, Ecolink can expand their scope to support farmers in raising their voice or accessing markets.

- Set up export channels to Scotland, Belgium, Germany, France, America and Holland. Started a brand in the domestic market under the name “Tra Tra Tra” for Tan Cuong green tea, Lotus tea and Jasmine tea.

Business strategy

Ecolink’s strategy for next steps is:

- To improve and stabilize the quality of Tan Cuong tea, lotus tea and jasmine tea, by improving cultivation- harvesting – processing- packaging- storing techniques.

- To develop sources of highland tea (in Lao Cai, Yen Bai, Lai Chau and Son La), for diversification of tea products (tippy green tea, tippy black tea etc) and increase their supply base (in term of quantity and cheaper cost).

- To strengthen the organizational structures of farmer groups (for organic tea processing) in association with active NGOs, in Lao Cai/Yen Bai / Thai Nguyen etc.

- To build up marketing capacity within the company, both for organic domestic and export markets.

- To set up distribution networks to various outlets such as gourmet tea shops/ internet sales, etc

- To build capacity in consultancy services to the organic sector

- To promote the Tra Tra Tra brand and to engage in national-wide marketing program for organic products.

Difficulties/challenge

Although Ecolink's strategy is focused on special products and invests in building strong business partnerships, they are currently facing a situation of loosing business partners, since another company has approached the Tan Cuong Organic group and is offering attractive incentives for cooperation.

IV. CONCLUSION

Vietnam is the seventh biggest tea producer in the world. Its share of world tea production has almost doubled over the last ten years. In Vietnam, the tea sector grows in terms of plantation area, number of companies (both producing and trading) and production volume. Although the production is dominated by green tea, black tea accounts for two thirds of tea exports from Vietnam.

The linkages between different stakeholders, especially farmers and processing units/ companies are very weak. An effective tool to promote and strengthen this linkage has not yet been developed. Below, the findings of the research are summarized as per each stakeholder group in the Vietnamese tea supply chain.

Farmers

Growing tea can generate attractive incomes for farmers, especially in the North of Vietnam – where other commodities such as coffee, cashew etc. are not grown. The revenues per acre are much higher compared to paddy.

Farmers are in a good bargaining position within the supply chain relating to the present competition for green leaf among processing factories and Chinese traders. In addition, since the local market is growing and most farmers have the necessary equipment for home processing of green tea, the farmers are more independent than if they had to solely rely on sales to processing factories.

Although farmers are members of the farmer union, there is no professional organisation related to tea growing among farmers which could help them to cope with eventual market changes (e.g. falling prices for green leaf).

Different types of farmers have their respective advantages and disadvantages relating to tea growing. The biggest advantage of being a worker farmer or contracted farmer is the support from the tea company and the opportunity to get profit sharing. The challenge they have to cope with is tax. For the organised farmer, the linkage with the company creates some competitive advantages including

- stable outputs with stable and pre-negotiated prices;
- high quality production making entry harder for other household producers in the region (less competition),
- Availability of technical support and credit at any time.

The organized farmer is coping with a risk of production related to price fluctuation of tea leaves and quality control. For the individual farmers, the plus factor is that they pay only a low tax rate for their land. The disadvantage is that they are in a very weak position when the price of tea leaves is falling.

Marketing agents

The cooperative model seems not a very good choice for promoting high quality tea production in Vietnam. The main strength of the cooperative is having its trade mark and being able to organise its members. However, poor management capacity as well as marketing strategy and the lack of a clear incentive policy for the cooperative management board leads to poor functioning of this model in the tea value chain. Cooperatives have the opportunity to obtain support from development organisations and local authorities. The challenge they have to face relates to ensuring the transparency in sharing cost and profits among their members.

Tea processing units

The rapid growth in numbers of tea processing units over the last five years (partly due to government incentives for SME) has led to severe competition for green leaf. On one hand, the new companies are very interested in upgrading their technology, expanding their production, and finding new clients. On the other hand, they are facing difficulties in quality control, low utilisation of new technology and uneconomic machine running times. If the expansion of the processing sector does not get checked, it will result in a low profile for this actor in the tea supply chain.

As a presently weak actor, the tea processing units suffer specifically from the fact that there are no binding contracts with farmers which allow them to plan their supply of green leaf. Even negotiated arrangements can be broken by either party with hardly any chance of legal enforcement. To some extent, this problem also affects the following two actors, integrated companies and trading companies.

Integrated companies

Integrated companies are mostly medium or big companies which own land where tea is grown by worker farmers, at least one processing factory, and a marketing department. In addition to producing black and green tea for export, they have started to develop different product lines catering to the local market. There are both privately owned as well as state-owned integrated companies. Several state-owned companies are in a process of privatisation.

Trading companies

The growth of private sector involvement is changing the role of VINATEA. In the past, VINATEA played a leading role in finding clients, coordinating quotations/contracts, and providing information about the international market to tea producers.

Trading companies are the first actors in the Vietnamese tea value chain who have made experiences with the development of niche export markets (e.g. organic, Fair Trade). In developing this niche, they tend to become integrated companies. It means that they now organise farmers and train them to produce special products to address the requirements of these particular markets.

There is no formal sharing of market information between trading companies and other actors in the supply chain.

Associations

The state owned Vietnam Tea Association (VITAS) can be considered the biggest body representing tea processing/trading companies in Vietnam.

The most important achievement that VITAS has brought to the tea value chain in Vietnam was government approval for a draft feasibility study (FS) on the building of a tea auction centre with 385,700 Euros grant from The French Development Agency (AFD). VITA also plays the role of promoting Vietnamese tea culture in Vietnam through organising an annual tea festival.

VITAS aim at providing technical services, building models for sustainable development and setting up a whole tea industry information network. However, performance of these roles was not considered successful by the members of the association. Some had stopped to provide sales figures to VITAS since they fear its functionaries might misuse them for their own trading advantage.

Trade unions

Trade unions were established in all tea companies. In common practice, the chairman of the Trade union in a company is also the vice-director. This union functions well in terms of organising social activities (staff retreat, paying a visit when works get sick etc.). There is concern, however, if and how the trade union may act as real representative for the rights of the workers.

Government

The IPM programmes have proven effective in changing the cultivating techniques and spraying habits of the farmers. This contributes considerably to promoting clean tea production in Vietnam. In addition, IPM clubs provide a good basis to organise farmers for the production of speciality teas.

NGOs

INGOs development programmes have focused on capacity building for marginalized groups such as farmers and SMEs. Their approach of working closely with this group and providing training has confirmed the advantages of this method. Groups that have had an opportunity to participate in the projects of INGOs displayed confidence in management and production.

The challenge that INGOs have to cope with relates to the limitations of their projects in terms of duration, regional coverage, and budget. Because of this constraint, INGOs project can only develop few models with the hope that they might be replicated later by the government. In order to get the attention of government, INGOs need to advocate strategically. In a short term (one to three years) and without an advocacy strategy, the interventions of INGOs projects will be hard to sustain.

Economic standards

Up to now, there is little transparency of price formulation in the tea sector. The price is decided mainly by big companies. The difficulty to enter into binding agreements and to legally enforce the violation of contracts does not encourage investments.

Competition for green leaf does not reward quality production, neither in tea growing/ plucking nor in processing. This may worsen the reputation of Vietnamese tea in the international market. Low prices for Vietnamese black tea on international market again do not encourage introduction of CSR.

Environmental standards

Through IPM programmes as well as the rising awareness of trading companies regarding international market niches for special products such as organic tea, there is a trend in the Vietnamese tea sector to produce organic tea. However, the cost for obtaining an organic certificate is very high and poses a big barrier for organised farmer groups to convert their production.

Social standards

Fair Trade is very new in Vietnam and not yet attractive to actors in the value chain. The cost for getting certified is very expensive. In relation to the high cost, the validity of this certificate is very short, only one year. Furthermore, it is not easy for Vietnamese companies to find Fair Trade buyers.

But for Fair Trade, no other social certification schemes such as Tea Sourcing Partnership or Rainforest Alliance are active in the Vietnamese tea sector.

V. RECOMMENDATIONS

To Vietnamese local authorities: Ensure high quality tea

- Control the number of enterprises working in tea sector in order to manage severe competition for buying fresh tea leaves. Review and adjust the criteria of providing incentive to new SMEs in the tea sector. Screen current processing units working in tea sector regarding to plantation area, machines, technology, and decide if they should continue to process tea. This will ensure that only units which have enough supply of fresh tea leaves are allowed to process tea.

- Set up a tea auction centre to improve the transparency in terms of price formulation and to create a healthy competition.

- Develop a marketing strategy for Vietnamese tea in the international market. Consider it as a national strategy.

- Develop sanctions to validate and ensure the effectiveness of legal contracts. This will contribute to improve the linkages among actors in the tea value chain and help to build the habit of “being a law-abiding citizens”.

To supporting organizations (VITAS, INGOs): Promote Trademark of Vietnamese tea

- Play the role of marketer to promote Vietnamese tea in the international market. When the trade mark of Vietnamese tea is stronger, there will be more opportunity to export Vietnamese tea at a higher price.

- Provide local and international market information to all actors in the Vietnamese value chain. This will help these actors, especially processing and trading units to adjust their production/quality etc. accordingly to meet the demands of the respective markets.

- Strengthen the relationship between farmers and processing units. Develop a strategic intervention in order to help each actor see their rights and responsibilities within the value chain.

To International buyer

- Give feedback to Vietnamese trading partners about Vietnamese tea quality. This will help to develop the capacity of Vietnamese tea processors in seeing their product through other eyes and make appropriate adjustments.

- Share/provide information related to tea processing technology. This could foster improvements in building the technological capability of Vietnamese tea processors.

To actors in the Vietnamese tea value chain

- Identify and define their respective market segment based on their capabilities/ core competencies, and focus on that market.

- Organise within the respective segments of the value chain to build the capacity for developing a joint strategy to respond to market challenges. E.g. farmers should organise before their favourable bargaining position might change to the worse.

VI. APPENDIX

1. List of researchers

- Nguyen Thi Bich Tam – CECEM
- Vu Quoc Huy - CECEM

2. List of interviewees

	Name	Title	Organisation/company
1.	Nguyen Quang Vinh	Officer	VCCI
2.	Vu Quynh Anh	Project Coordinator	SNV Vietnam
3.	Nguyen Tan Phong	General secretary	VITAS
4.	Nguyen van Dung	Officer	VITAS
5.	Trinh Minh Hang	Standing member	Thai Nguyen Trade Union
6.	Ngo Thi Phu	Head of economic department	Thai Nguyen Trade Union
7.	Duong thi Thu Hang	Office manager	Thai Nguyen Trade Union
8.	Ma Thi Bich	Head of Controlling Department	Plant protection department in Thai Nguyen
9.	Phung thi Kim Cuc	Head of department	Dong Hy plant protection department
10.	Do Thi Ly	Director	Hoang Binh company
11.	Nguyen Thi Hang	Human Resource Manager	Hoang Binh company
12.	Nguyen Van Bon	Vice- Director	Song Cau company
13.	Mrs. Dao	Chair women	Trade Union of Song Cau company
14.	Than Dy Ngu	Director	Ecolink
15.	Mrs Hanh	Vice – director	Ecolink
16.	Mr Kim	Head of the group	Organic tea group in Tan Cuong
17.	Mr Toan	Member	Organic tea group in Tan Cuong
18.	Le Thi Hiep	President	Tan Huong cooperative
19.	Nguyen Thi Van	Accountant	Tan Huong cooperative
20.	Nguyen Van Thang	Vice president	Tan Huong cooperative
21.	Nguyen Van Thai	Head group	Tan Cuong farmer group
22.	Nguyen Van Thanh	Head group	Tan Cuong farmer group
23.	Nguyen Thi Kim Yen	Worker Farmer	Song Cau farmer group 13
24.	Nong Thi Hoi	Worker Farmer	Song Cau farmer group
25.	Le Thi Nguyen	Worker Farmer	Song Cau farmer group
26.	Vo Thi Yen	Individual farmer	Na Long hamlet, Hoa Trung commune, Dong Hy district, Thai Nguyen
27.	Pho Thi Phuong	Individual farmer	Na Long hamlet, Hoa Trung commune, Dong Hy district, Thai Nguyen
28.	Nguyen Thi Nhung	Individual farmer	Na Long hamlet, Hoa Trung commune, Dong Hy district, Thai

			Nguyen
29.	Trinh Thi Que	Individual farmer	Na Long hamlet, Hoa Trung commune, Dong Hy district, Thai Nguyen
30.	Pham Thi Ly	Individual farmer	Na Long hamlet, Hoa Trung commune, Dong Hy district, Thai Nguyen
31.	Tran Thi Hoan	Individual farmer	Na Long hamlet, Hoa Trung commune, Dong Hy district, Thai Nguyen

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