# Diagnostic study for the promotion of beneficiated agro-industry products for export: Rooibos and Honeybush Tea

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## Executive Summary

The report provides an overview of the Rooibos and Honeybush tea sectors in South Africa with the aim of investigating the potential for local beneficiation. Particular emphasis is placed on supply chain analysis and the international market dimension. It is evident when comparing the domestic and export component of the respective industries that the lack of value addition in the foreign market create a substantial loss of value for local actors. The report indicates that as the most significant actors already own in-house packing facilities, the ability to package Rooibos locally does not appear to be a significantly prohibiting factor. Given the very low percentage of Rooibos sold in packaged form overseas, it is however, unlikely that the industry will move significantly towards local value adding in the near future, as it will have far reaching implications in terms of reorganisation in the supply chains. It is further evident from the analysis of the overseas market structure that the main actors in Europe have well established capabilities and investment in the different dimensions of value adding as well as a sound knowledge and embeddedness with respect to the international consumer market.

The report further indicates that the larger actors in South Africa have positioned themselves mainly as suppliers of raw materials and that this is unlikely to change significantly over the short term as it would result in them directly competing with their bulk sales. Given the almost monopsonistic overseas market South African actors are faced with, it is unlikely that they would risk upsetting established relationships with their major and long standing overseas customers. Interestingly, the smallest South African players are developing differentiation strategies based on branding and labelling. This indicates that it would probably be easier for these actors to fit into a value adding industry initiative. This could disturb the balance of powers inside the South African industry, as the value of the Rooibos sales of the small players could increase disproportionately in relation to the larger players. These considerations could affect the industry capacity for collective action. The analysis finds that the same might not hold true for the Honeybush industry as it is still very much in its infancy. That said, the significant international buyers appear to be operating in both the Rooibos and the Honeybush industry. In this sense, established relationships may still play a role in hindering local value adding activities.

The report concludes that local value addition activities are unlikely to benefit the respective industries over the short term.

# 1. Introduction

This report is prepared as part of the UNIDO *Diagnostic Study for the Promotion of beneficiated agro-industry products for export: The case of Rooibos and Honeybush.* It provides an overview of the Rooibos and Honeybush tea sectors in South Africa, with particular emphasis on supply chain analysis and the international market dimension. From an exporting perspective, section 5 and 6 provides the results of an investigation into customs duties payable and food safety regulations which apply to the goods as it enters its main export markets. In line with the objective of the report, conclusions are drawn after each of these sections on the implication of exporting in bulk versus the packaged form. The sections which follow provide a brief discussion on the involvement of institutions within the respective industries. Finally, reference is made to the possibility of establishing a geographical indication for Rooibos and Honeybush, by discussing how the GI initiative has been developing within the respective industries.

The information used for compilation of this report departs from previous work done by the authors in the course of their involvement with the two industries. In the sections dealing with customs duties and food safety regulations, owing to the difficulty of verifying the information, the advising authority's details are given in brackets where applicable.

The report concludes with factors and recommendations which may influence considerations of local beneficiation in the Rooibos and Honeybush industries.

# 2. Overview of the South African Rooibos and Honeybush sectors

## 2.1. Rooibos

### 2.1.1 Product and industry overview

Rooibos is the fermented and dried leaves of the plant *Asphalathus linearis* which is an endemic plant of the fynbos biome in South Africa. It grows exclusively in the Northern and Western Cape provinces of South Africa, in the Cedarberg Mountain region and around Clanwilliam and Citrusdal. The discovery of Aspalathus linearis by European botanists dates back to as early as 1772. Rooibos has been used and harvested from the wild at least since the eighteen century in the Cederberg region. However, it was only marketed for the first time outside the production area in 1904 when Benjamin Ginsberg, a Russian immigrant, bought some of it from local South African inhabitants and sold it in Europe under the brand Eleven' O Clock.

Rooibos cultivation was developed in the 1930's with the identification of the 'Nortier' cultivar. In 1948, in reaction to a crisis in the marketing of Rooibos, the Clanwilliam Tea Cooperative was established. In 1954 this Cooperative formed the basis of the Rooibos Control Board, appointed by the Minister of Agriculture. As a result, quality was standardised and improved. However, the corollary was that markets were regulated and prices fixed (Rooibos Ltd, 2007). With a volume-driven bulk sales approach, there was very little value addition or product development. Marketing efforts were predominantly focused on the local market and local

consumption accounted for about 75% of annual production. This should however, be seen against the background of the Control Board, through its legal statutes, not being allowed to engage in value-addition and thus restricted to bulk sales (TISA, 2004).

Although the South African Agricultural Marketing System was only deregulated in 1997 in terms of the Marketing of Agricultural Products Act 47 of 1996. However, the Rooibos Control Board already voluntarily disbanded in 1993. Its assets were distributed to Rooibos farmers in the form of shares in the newly formed public company, Rooibos Ltd. This deregulation also brought an influx of new players onto the market, with operations expanding to the broader Cedarberg area as well as Cape Town. Snyman (2007) indicates that many farmers broke away to form their own firms, with King's Products (Pty) Ltd being the first to establish a processing plant in 1996. Whilst the impact is clearly visible on second level processing (the industry moved from having one pasteurisation plant to eight), it is especially in the area of international sales and new product development that the benefits of deregulation are tangible. Since 1998, high-valued niche products such as green and organic Rooibos, ice teas, powdered extracts, new herbal blends and flavours, etc. have burst onto the market and international sales have increased with more than 300% from 1998 to 2003 (TISA, 2004). As pointed out by Snyman (2007), the growth in exports has been accompanied by an expansion in the production area, with the cultivation area growing from 14 000ha in the early nineties, to about 40 000 ha in 2007.

### 2.1.2 Main production features

According to TISA (2004) the Rooibos plant has a five-year cycle and can be harvested 3 - 4 times per cycle. During the first harvesting cycle (at 18 months), dry yield reaches between 150 - 300 kg/ha, for the next two seasons 300 - 600 kg/ha and in the fifth year again 150 - 300 kg/ha. A rotational period of 3 – 4 years then follows, with the land being used for small grains such as oats, rye and triticale. Both the plant's lifespan and production capacity have reportedly decreased over the years. This is allegedly due to seed selection practices and the use of the same gene material pool for half a century. The lack of advancement in this regard could have a serious impact on sustainable growth and needs to be addressed. Production growth for the medium term is thus mainly driven by increased geographical spread, rather than through improved cultivation techniques.

According to Hansen (2006) the approximate production cost over a 9-year cycle (6 years growing, 3 year rotation) is R13 000 per ha. At an average price of R12 per kilogram for dry Rooibos, the farmer needs a yield of 1,083 kg of Rooibos per cycle in order to break-even. This is possible but drought, production landscape, market demand and supply and the exchange rate all impact on the profitability of the industry.

TISA breaks this down into the following key production statistics for 2003:

| KEY PRODUCTION DATA: | 2003 |
|---|---|
| Establishment costs, excluding land (R/ha) | R1 000 – R1 600 |
| Production costs (R/kg) | R4,50 – R6,50 |
| Plants per hectare | 7 500 – 12 500 |
| Plant's current lifespan | 4 – 7 years |
| Average dry yield per hectare over plant's total | 1 500 kg – 2 000 kg |

| | |
|---|---|
| lifespan | |

After harvesting, the Rooibos branches proceed to the tea court for *primary processing* that transforms the wet unfermented tea into red brown tea. The fresh Rooibos is processed into small pieces, fermented and dried. Not every farm owns the required facilities. Those who do not possess their own equipment share tea courts with one or two other farms or have their production processed by other farmers. The drying loss is 3:1 and the average dry yield per hectare is about 300 kg (TISA, 2004). The second level processing, which includes pasteurisation, sieving and dust extraction, is done at the processing plant by the processors. These actors, also referred to as the assemblers, also accept wet (non-fermented) tea which they process on their own tea courts. Finally, the product is either bagged into sacks to be sold as bulk, or packaged in tea bags, ready for use by the consumer.

When exporting the product, a further step is added namely *quality control*. By law, each consignment of Rooibos exceeding 15 kg must be controlled and approved by the *Perishable Products Export Control Board* (PPECB). However, it is important to note that the statutory powers of the PPECB are limited to exports and that domestically traded products are not necessarily inspected by this body.

### 2.1.3 Rooibos industry structure

The South African Rooibos tea supply chain is currently dominated by eight large processors responsible for secondary processing. These actors are involved, to a greater or lesser extent, at different levels of the supply chain.

#### *2.1.3.1 Farming systems and link with processing firms*

There are currently between 350 and 550 Rooibos farmers (Hansen, 2006; Snyman, 2007). Area under Rooibos cultivation range from a few hectares to over 5 000 hectares per farm, but very large-scale producers are few. There are between 15 and 20 Previously Disadvantaged Individuals (PDI) farming independently. Between 10 and 15 of these individuals own shares in Rooibos Ltd (Snyman, 2007). There are furthermore two Tea Co-operatives with between 100 and 150 PDI members in total who are actively involved in Rooibos farming. Each of these cooperatives owns a third share in a Rooibos packing facility in Cape Town (Snyman, 2007). These cooperatives have been specialising in marketing organic and fair trade Rooibos for the export market. Whilst 20% of the producers accounts for 80% of total annual production, the combined output of the PDI farmers, including the Heideveld and Wupperthal co-operatives, accounts for about 2.5% (225 - 250 tons) of the total South African crop, of which about 50 tons is produced by one of the PDI farmers (TISA, 2004).

Most of the commercial producers also farm with livestock, fruit, potatoes and lucerne (alfalfa). About 40 farmers have Rooibos seedling nurseries as a sideline business. An estimated 40% of all the farmers have experimented with organic production or have implemented organic production principles on some of their plantations. In general, one tends to find both organic and non-organic production on the same farm.

Over 200 farmers deliver on a contractual basis their crops to one processor, Rooibos Ltd,. The majority of these farmers are shareholders in Rooibos Ltd. The second

biggest producer grouping is the approximate 40 farmers who are shareholders in Cape Natural Tea Products (Pty) Ltd (Snyman, 2007). The other processors, the majority of which are also engaged in farming operations, work with a much smaller number of farmers in terms of annual contracts or long term relationships.

Some of the large scale farmers market a part of their Rooibos production directly under their own brand names. The Big Five Rooibos Company (Pty) Ltd is the largest independent producer[1]and markets its Rooibos under the brand African Dawn. Other farmers which follow a similar strategy include Biedouw Valley, Oudam farming and Ouhuis. In addition to its farming operations, The Big Five Rooibos Company (Pty) Ltd is also one of the eight processors within the industry. The other producers contract the services of second level processing. Some farmers, such as Skimmelberg, are currently developing alternative marketing strategies founded on environmentally friendly practices, by linking Rooibos production to conservation areas.

#### *2.1.3.2 The main South African industry role players and other downstream agents*

As mentioned, there are currently eight South African companies equipped with the facilities to undertake secondary processing activities, including pasteurisation and sifting. This process is highly capital intensive, with very costly machinery. The minimum set-up costs for a plant with an output capacity of 250 tons per year was around R750 000 in 2003 (TISA, 2004). Pasteurisation fees varied between R2.50 - R3/kg depending on contract volumes and agreements (TISA, 2004).

Together, the eight companies (Rooibos Limited, Khoisan Tea, Coetzee & Coetzee, Cape Natural Tea Products (CNTP), King's Products, Red T Company, Big Five Rooibos Company, and Maskam Redbush) are responsible for an estimated 90% of total annual supply and sales (Snyman, 2007). They collect and transform Rooibos, and either market it directly or sell it to intermediaries. Most of them have positioned themselves as marketers. Four of the processors have their own in-house packing facilities and offer contract packing services, namely Rooibos Ltd, Red T Company, Khoisan Tea, and King's Products. In particular, Red T Company contracts its packaging capacity to a number of independent producers that sell Rooibos under their own brands such as Biedouw Valley. Furthermore, some of these processors offer processing services to independent producers or agents.

Each of these key players has unique competencies through which they position themselves with different service and product offerings. In particular, the Big Five Rooibos Company only sells tea produced on its own farm and thus advertises it as "estate" Rooibos, a strategy which models estate production within the wine industry. Rooibos Ltd still remains the dominant player with approximately 75% market share and a very strong positioning on the domestic market. King's products focuses specifically on high quality organic Rooibos to meet the increasing demand for it in Europe. The company sells Rooibos produced on its own estate as well as procured from independent farmers. Maskam Redbush has also positioned itself in the high quality tea segment being located in a production area which is well known for its high quality Rooibos. More than 40% of its Rooibos is Ecocert organic certified. It is also using the estate concept as a promoting device and has introduced a vintage for its product. Its branding strategy is currently under development. Other players such

[1] Delivering approximately 350 to 500 tons of Rooibos per year, it is the third largest single producer of Rooibos in South Africa.

as CNTP, Khoisan Tea and Coetzee & Coetzee have diversified their marketing scope to offer products ranging from indigenous tea blends to vanilla, raisins and other dried fruits (TISA 2004).

Further role players include the packers who focus on packing for the end-consumer. The set-up costs of a packing plant with a 100-ton capacity amount to around R1.5 million. Contract packing fees range between R20 – R30/kg depending on the type of boxes and filter paper materials used (TISA, 2004). The packers consist of packer branders, the largest being National Brands Ltd, a wholly-owned subsidiary of Anglovaal Industries as well as contract packers. The latter services local brand owners and exporters who do not own packing facilities, as well as private label customers (e.g. supermarket brands). In addition, one new Black Economic Empowerment (BEE) Packing Plant, Fair Packers (Pty) Ltd, was recently established in Cape Town for packaging tea from the PDI Co-ops specifically for the Fair Trade market.

Around 25 South African enterprises are engaged in the distribution of Rooibos, both locally and internationally. Most of these enterprises also trade in other natural products, ranging from other Herbal teas, including Honeybush, to medicinal herbs, wine and cosmetics.

Apart from the herbal tea industry there are currently three manufacturing companies specialising in value-added products like extracts, instant powders, flavourings, etc. They do not only focus on Rooibos but various other natural products such as Honeybush, Sutherlandia, Buchu, Hoodia etc. In cosmetics, the market leader is Annique (Pty) Ltd, the same company which sold the "Rooibos" name to Burke International, resulting in the US trade mark dispute case. Generally, Rooibos cosmetics, toiletries, ice teas etc. are manufactured under contract and form only a small portion of the suppliers' operations.

### 2.1.4 Domestic market for Rooibos

Rooibos has been sold in the domestic market for many years. In 2005, the domestic market represented 45% of total Rooibos sales. The domestic market has seen an annual growth of less than 5% over the past decade and appears to be moving towards saturation (Snyman, 2007).

Branding is playing an increasingly important role from a consumer perspective. However, Snyman (2007) points out that the "market is also showing signs of 'commoditising' with low-end products perceived as becoming a threat to established brands that carry substantial marketing investments over many years". This should be seen in context of the fact that Rooibos is domestically often considered an inexpensive alternative to other (mostly imported) hot beverages and that the market in which Rooibos competes is very price sensitive.

Rooibos Ltd controls more than 90% of the domestic market. It supplies mainly bulk tea to two brand owners which dominates the domestic markets, Unilever Foods (Pty) Ltd and National Brands Ltd. These two companies own the leading South African Rooibos brands (mainly Freshpak, Eleven O'Clock, Lipton, Joko, Glen[2]) with a

[2] Freshpak Rooibos is the most popular brand (26.3%), followed by Joko (23.2%), Eleven O'clock (18.7%), Five Roses (17.7%) and 14.1% shared by Glen, Laager, Vital, Southhalls,

combined market share of between 75% and 85%. Rooibos Ltd further supplies Joekels Tea Packers who, after having bought Rooibos Laager, a well positioned local Rooibos brand from Unilever Foods in December 2003, has become the third biggest tea packaging company out of the 23 companies operating in South Africa. Joekels also supplies and packs the Rooibos house brand of Shoprite-Checkers, the second biggest supermarket chain in South Africa. Rooibos Ltd is also working with CTC/Pioneer Foods (Pty) Ltd and Vital Health Foods (Pty) Ltd (Snyman, 2007). According to TISA (2004), the other player with significant influence in the local Rooibos market is Cape Natural Tea Products with a 5% market share, selling in bulk locally and procuring specifically for the SPAR supermarket chain.

## 2.2. Honeybush

### 2.2.1 Product and industry overview

Honeybush tea is an indigenous herbal beverage similar to Rooibos tea, produced from the *Cyclopia* species found in the unique South African fynbos biome. It grows mainly in the coastal and mountainous areas of the Western Cape and in the wetter Eastern Cape mountain areas (from the Baviaanskloof through to the Bredasdorp area). The Honeybush plant was first noted in botanical literature in 1705 (Kies, 1951), at which time it was believed that the Khoisan tribes of South Africa gathered the plant from the wild for its sweet flavour and soothing properties. The first documented medicinal use traces back to 1830. Honeybush tea forms part of the local culture of both the coloured community and the Afrikaner community.

Up to the 1960's, the tea was processed by local communities, notably the Haarlem community, in the mountains where it was harvested. In addition to being directly consumed, the processed tea was sold to different buyers and middle men, in Haarlem or in Langkloof, who were then procuring for prisons as well as school hostels and hospitals. Honeybush tea was cheaper than black tea, and was used as a substitute.. Some large land owners were also processing tea mostly for own consumption. The first packaging of tea was done in the 1960's under the name "Caspa Cyclopia Tea". From the 1970's, the raw plants harvested by the communities were brought back to the village where the tea was processed.

Up to the 1980's, some people were still processing the tea in small amounts for own consumption, and were cutting it manually with axes. Demand and production significantly decreased until the late 1990's. Local consumption was driven down due to a negative perception among consumers that it was a cheap tea consumed by those who could not afford the more expensive alternatives. It was only during the late 1990's that the Honeybush industry started growing, mainly as a result of the advent of improved technology and increasing interest from international tea brokers.

Today it is mainly sold as an herbal tea – pure or in blends-, with extracts also being produced for the food and beverage industry to add to various products such as ready-to-drink beverages, fruit juice mixtures and sweets as well as for the cosmetic

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Twinings, and Phendula Tips respectively (South African Advertising Research Foundation Study, quoted in Snyman, 2007).

industry. A flavour extract is also marketed. As with Rooibos, it is increasingly known, at least locally, for its health properties.

### 2.2.2 Honeybush production features

Honeybush is predominantly harvested in the wild. It is estimated that there are approximately 30 000 ha of mountainous land, including the Tsitsikamma, Kouga, Baviaans, Langeberg and Swartberg mountain ranges, where wild Honeybush grows sporadically within the greater fynbos biome. *Cyclopia Intermedia*, the species most in demand for export purposes, is harvested almost exclusively from the wild as it is more difficult to cultivate commercially, given that it can only be harvested every 2$^{nd}$ or 3$^{rd}$ year contrary to the other cultivated species. Sustainability of wild harvesting of this species has become a concern in recent years.

Honeybush cultivation only started a decade ago and has only recently become a commercial crop, with production of between 350 and 500 tons of processed tea per year. SAHTA (2007) reports that the main species used for cultivating Honeybush is *Cyclopia Subternata* and *Cyclopia Genestoïdes*, with cultivation currently being limited to the Overberg and the Langkloof regions. An area of approximately 200 hectares is under cultivation in this area. It is calculated that the cost of establishing a hectare of Honeybush ranges between R10 000 and R20 000 with yields varying between 3 and 15 tons per hectare. This is significantly higher than the yields of generally less than 2 tons per hectare that the Rooibos Industry attains.

Honeybush can be cultivated from either seeds or cuttings. In the case of species such as *Cyclopia Genestoïdes* and *Cyclopia Intermedia*, harvesting can start about two to three years after planting. In the case of *Cyclopia Subternata*, it can start within one to two years. With the exception of *Cyclopia Intermedia*, Honeybush can be harvested annually. According to the CSP (2004), investment in cultivation has been sporadic and directly linked to export sales performance. Availability of relatively inexpensive wild Honeybush species is seen as a factor that has disadvantaged investment in commercial plantations. Furthermore, given the recent development of cultivation, practices are not yet stabilized, information on cultivation practices are not widely available, and guidelines for cultivation adapted to the different agrarian contexts still have to be compiled. Research is still on-going and farmers are also developing their own innovative practices.

Processing entails the shredding of the fresh shoots, fermentation or oxidation as no micro-organisms are involved, drying, sieving and bulk packaging. Fermentation is the process required for oxidative and other chemical changes to take place in the plant material, resulting in the development of the dark, brown leaf colour, red-brown infusion and characteristic sweet flavour. Traditionally, the tea was cut manually by axe. Nowadays, Honeybush tea processors cut the tea either with a fodder cutter or with a guillotine type tobacco machine.

### 2.2.3 South African Honeybush industry structure

The Honeybush supply chain consists of wild harvesters and commercial cultivators, first level processing (i.e. drying, cutting, fermentation); second level processing/ refining (steam sterilization, blending, etc); value-adding and manufacturing

(including product development) as well as marketing and sales. Some role players specialise in one level of the supply chain while others integrate different segments of the supply chain. The Melmont Company, which has been operating in the industry for decades, is managing activities from the wild harvesting process undertaken on the farm to the packaging and marketing of the product both in local and export markets.

There are currently 10 commercial growers of Honeybush tea that contribute 30% to annual production. These commercial farms commonly range between 1500 and 3000 ha with only a small proportion being exploited for Honeybush production. These farmers are not predominantly Honeybush producers, but actually fruit or wild flower farmers. According to the ARC (2006), the largest producer of *Cyclopia Subternata* is Matie Taljaard in the Barrydale/Riversdale, area, while Fritz Joubert in the Overberg and Reins Farms near Albertinia are the largest farmers of *Cyclopia Genistoides*.

In addition to Honeybush cultivation from these large-scale farmers, community-based farming operations are responsible for managing around 20% of the commercial plantations (ARC website, 2007). There are two major community based farming operations. The one is the Ericaville Farming Trust and the other, the Haarlem Honeybush Association (NAMC, 2006). The Ericaville Farming Trust consists of 85 families while the Haarlem Honeybush Association has 35 members. These small scale farmers are mainly part-time farmers that farm during week-ends. In 2004, these communities had respectively 10 and 5 hectares under cultivation and with financial support from the Department of Economic Affairs and Tourism of the Western Cape Province they expected to increase it to approximately 35 and 15 hectares under cultivation (DTI, 2004). Apart from the commercial growers, wild harvesters gather in small teams and negotiate harvesting rights with fruit farmers, or apply for harvesting tenders with SAFCOL and/or the Department of Forestry (CSP, 2004). Wild harvesting accounts for 80% of Honeybush production.

At processing level, there are seven role-players. Processing facilities are located at Riversdale, Mossel Bay and in the Langkloof area. According to the ARC (2006) the current processors are Pierre Vermaak (Riversdale), Marius van Dyk of Cape Honeybush Tea Company, Mosselbay, Touwen and George Feirreira of the Heights, Joubertina, Erica Kritzinger, Misgund, Johan Kritzinger of Groendal, Louterwater, Helgaard Ackerman, Kareedouw and Scheltema and Quiton Nortje of Nooitgedacht, Kareedouw. Of these, Honeybush Natural Products and Cape Honeybush Teas represent 66% of the processed Honeybush market. Cape Honeybush Tea Company is the only processor which processes *Cyclopia Genistoides*, as well as green Honeybush. Producers situated within the Overberg area deliver their tea to the Mossel Bay factory.

### 2.2.4 Domestic market for Honeybush

Local demand accounts for 10 to 15% of annual production. Honeybush sales operate in the specialty tea segment of the retail market. Sales on the domestic market have been steadily growing from 5 tons in 2001 to between 15 and 40 tons in 2005. Distribution has evolved from farm stalls and health shops to national supermarkets. Leading brand owners include National Brands, Unilever Foods SA and Vital Health Foods. Woolworths and Spar, two of the four major retail groups in South Africa have started introducing Honeybush under private retail labels.

Honeybush has benefited from technological advances in the Rooibos industry, with products such as green Honeybush, extracts, liqueurs, jams, etc. expanding market opportunities. The DTI (2004) is confident that the Honeybush Industry can emulate the Rooibos industry's success within the next 20 years and grow to an industry with an annual domestic consumption of 4 500 tons and an export component of 6 500 tons. It cautions however that, in order to maintain the wild Honeybush resources, 90 percent of this production will need to be cultivated.

# 3. International Market Analysis for Rooibos and Honeybush

## 3.1. Characteristics of the export sectors for Rooibos and Honeybush

As is commonly known, most export sales for Rooibos and Honeybush are in bulk. It is estimated that approximately 90 to 95% of Rooibos is exported in bulk, in loose leaf format. Most of Honeybush tea is also exported in bulk and repackaged under various brand names.

### 3.1.1 Export sector for Rooibos

As depicted in the table below, in 2005 the export market represented more or less 55% of the production. Contrary to the domestic market, the export market has seen a huge growth over the past decade (almost 700% between 1993 and 2003).

**Table 1: Sales volume and exports of Rooibos**

| YEAR | TOTAL SALES | EXPORTS | DOMESTIC |
|---|---|---|---|
| | VOLUME (TON) | | |
| 1990 | 3 900 | 432 | 3 468 |
| 1993 | 4 200 | 760 | 3 440 |
| 1994 | 4 100 | 800 | 3 400 |
| 1995 | 4 200 | 1 350 | 2 850 |
| 1996 | 4 300 | 1 400 | 2 900 |
| 1997 | 5 100 | 1 400 | 3 600 |
| 1998 | 5 100 | 1 500 | 3 600 |
| 1999 | 5 400 | 1 800 | 3 600 |
| 2000 | 6 500 | 3 100 | 3 400 |
| 2001 | 7 530 | 3 880 | 3 650 |
| 2002 | 8 800 | 4 800 | 4 000 |
| 2003 | 10 400 | 6 000 | 4 000 |
| 2004 | N / A | 5 500 | N / A |
| 2005 | 9 700 | 5 350 | 4 350 |
| 2006 | N / A | 5 900 | N / A |
| 2007 | N / A | 7 200 | N / A |

*Source: TISA (2004), PPECB statistics, Snyman (2007)*

In 2005, total exports for Rooibos were 5 350 tons of which 3400 tons were exported to Germany (63,5%), 720 tons to the Netherlands (13,5%) and about 300 tons to United Kingdom (5,8%) and Japan (5,1%) as shown in the table below. Other significant export markets include the United States, Australia and the United Kingdom.

**Table 2: The main export markets for Rooibos Tea: percentage distribution in 2005.**

| Country | Conventional | Organic | Green Tea | Total |
|---|---|---|---|---|
| Germany | 67,4 | 34,1 | 67,0 | 63,5 |
| Netherlands | 14,5 | 6,9 | 4,9 | 13,5 |
| United Kingdom | 4,5 | 15,3 | 3,3 | 5,8 |
| Japan | 3,5 | 16,6 | 14,5 | 5,1 |
| United State of America | 2,5 | 15,6 | 5,2 | 4,1 |
| Poland | 1,4 | - | - | 1,2 |
| Australia | 0,2 | 5,3 | 0,0 | 0,8 |
| Singapore | 0,8 | 0,9 | - | 0,8 |
| Russia | 1 | - | - | 0,8 |
| Malaysia | 0,8 | - | - | 0,7 |
| South Korea | 0,3 | - | - | 0,3 |
| China | 0,2 | 0,8 | - | 0,3 |
| Canada | 0,2 | 1,0 | 0,7 | 0,3 |
| Norway | 0,4 | 0,3 | - | 0,3 |
| **Total** | **100** | **100** | **100** | **100** |

### 3.1.2 Export sector for Honeybush

Since the start of the industry growth in the late 1990's, Honeybush tea has been sold mainly on the export market as an herbal tea. Export sales represent between 85 and 90% of all production volumes (including wild harvested supply). Honeybush is exported as conventional, organic (14,5% of total exports for 2005; originating from both wild harvested and cultivated tea) and green tea (recent and small market segment: 4,6%) (See table 4 below). It is also exported under the fair trade label by the Ericaville community.

As shown in the table 3 below, since 1999 when export started for Honeybush, export sales have been growing significantly with a sharp increase in 2005 mostly driven by orders from Germany that may indicate that one or more leading firms in Europe's tea industry are planning to increase Honeybush sales (Neven et al., 2005). The international demand for Honeybush is irregular both within the year and across years. Apparently, there is a trend toward increasing demand at the end of the year during European winter. However, processors find it difficult to make proper demand forecasts.

**Table 3: Export of Honeybush Tea over the period 1999 to 2005**

| YEAR | Export (tons) |
|---|---|
| 1999 | 50 |
| 2000 | 100 |
| 2001 | 60 |
| 2002 | 156 |
| 2003 | 163 |
| 2004 | 100 |
| 2005 | 300 |

*Source: SAHTA (2007)*

The largest export buyers of Rooibos are also observed to be the existing and potential future buyers for Honeybush. This includes Germany, Japan, UK, and Switzerland where health drinks are particularly sought after (Matoti, 2003). Germany is by far the largest export market for conventional Honeybush, whereas organic Honeybush tea is mainly exported to the United States (See table below). Although the import volume into the US is still small, this market has huge growth potential (Neven et al., 2005).

**Table 4: The main export markets for Honeybush Tea: percentage distribution in 2005.**

| Country | Conventional | Organic | Green Tea | Total |
|---|---|---|---|---|
| Germany | 58,40 | 1,94 | 3,58 | 63,92 |
| United State of America | 13,08 | 7,44 | 1,04 | 21,56 |
| Netherlands | 4,47 | 0 | 0 | 4,47 |
| Australia | 0,01 | 2,82 | 0 | 2,83 |
| Canada | 0,65 | 1,37 | 0 | 2,02 |
| United Kingdom | 1,75 | 0 | 0 | 1,75 |
| South Korea | 0,72 | 0 | 0 | 0,72 |
| Norway | 0 | 0,66 | 0 | 0,66 |
| Japan | 0,34 | 0,31 | 0 | 0,65 |
| Singapore | 0,39 | 0 | 0 | 0,39 |
| Taiwan | 0,25 | 0 | 0 | 0,25 |
| Sri Lanka | 0,13 | 0 | 0 | 0,13 |
| China | 0,13 | 0 | 0 | 0,13 |
| France | 0,02 | 0 | 0 | 0,02 |
| Switzerland | 0,03 | 0 | 0 | 0,03 |
| Denmark | 0,01 | 0 | 0 | 0,01 |
| **Total** | **80,84** | **14,54** | **4.62** | **100,00** |

Currently the global demand for Honeybush is greater than the supply (ARC, 2008). Regarding future prospects, at least some actors in the industry are investigating and promoting the health properties of Honeybush, given its attractiveness both on the export and domestic markets. Other actors also point out the potential benefits flowing from increased international social consciousness towards ethical products (Fair Trade).

## 3.2 General features and trends of the international tea and herbal tea market

According to projections by the United Nations Food and Agriculture Organisation (FAO) in 2000, world tea production should reach an estimated 3,4 million tons in

2010, with herbal/fruit teas accounting for approximately 100 000 tons. Consumer demand for herbal, green and other health teas is likely to outstrip production and could see an upward trend in price levels. In Britain, the world's biggest tea drinker apart from Turkey, black tea sales fell from 127 million kilograms of tea bags in 1997 to 114 million kilograms in 2002, whilst sales of fruit and herbal teas rose by almost 50 percent. The hot drinks sector in the Netherlands declined by 0,5% in the 2001/2 sales period, yet the market value of tea increased by nearly 4% through the sales of herbal and fruit infusions. Even in Germany, the world's largest importer of herbal tea products which has a mature tea market with intense competition, the tea sector grew by 10% in terms of volumes in 2002, purely through fruit and herbal teas.

Rooibos is increasingly claiming its share of this growing market, with international demand surging since 2001[3]. And according to Gress (2004), Rooibos still has a huge market potential before reaching saturation in its main export markets. Indeed, Rooibos is generally regarded as a healthy beverage, due to its low tannin content and lack of caffeine (Morton, 1983). These health attributes are considered to be key assets for the continuous growth of today's competitive herbal industry (Standley *et al.*, 2001). This is evident on the German and United Kingdom markets which are among the most significant, with Germany representing almost 65% of total Rooibos tea exports. Furthermore, the leading European tea importers and largest tea brokers in the world are based in Germany. These two markets are depicted below. Furthermore, an increasing number of established international tea brands like Twinings, Celestial Seasonings, Lipton, Stash, etc. have introduced Honeybush or blends in their product basket.

## 3.3. The German market

According to CBI (2008), and as evident from the table below, German herbal tea consumers traditionally prefer plain unblended products such as peppermint or camomile. These represent 58% of the total herbal tea consumption in 2007. Among herbal tea mixtures, flavoured teas represent around 72 % in 2007. An important characteristic of the German market is the consumer preference for loose leaf teas over teabag teas, with 80% of sales consisting of loose leaf compared to 20% for teabags (Shoshana, 2001). Another characteristic of the German market is a strong demand for organic teas.

### 3.2.1 Rooibos market share and trends

Pure Rooibos tea currently has a market share of about 8 % of the German herbal tea market. As shown in the graph below, its sales have been growing recently with a peak in 2003. While sales were on a downward slope from 2003 to 2006, they have been growing again since 2007. Popularity of Rooibos among consumers at international level appears to be strongly linked to its health attributes. The consumer 'wellness-wave' that emerged since 2000 in the German market has been a strong driver for growth as noted by Arnold *et al*. (2007). Furthermore, it is worth pointing out that although Rooibos tea, as a single-herb tea, declined by 5.1% between 2005

[3] Honeybush has also been growing strongly since 2000 but as it still represents a very small share of the overseas herbal tea market. Furthermore, Honeybush is predominantly used in blends. As a result, there is generally a lack of information available.

and 2006, it has in the meantime become a component of many herbal tea mixtures (WKF, 2007).

**Table 5: The German market for herbal infusions, tons, 2007**

| | **Volume 2007** | **Market share** | **Evolution from 2006** |
|---|---|---|---|
| Total | 36,336 | | -2.6% |
| Single herbal infusions | 21,072 | 58% | -5.5% |
| *Peppermint* | *6,115* | | *0%* |
| *Camomile* | *4,308* | | *-3.5%* |
| *Fennel* | *3,803* | | *-3.4%* |
| *Rose-hip* | *3,122* | | *-4.6%* |
| ***Rooibos*** | ***2,805*** | ***8%*** | ***+4.8%*** |
| *Other* | *919* | | *-49.8%* |
| Mixes | 15,264 | 42% | +1.7% |
| *Flavoured* | *11,024* | | *-0.8%* |
| *Non-flavoured* | *4,240* | | *+8.9%* |

**Source: WKF (Wirtschaftsvereinigung Kräuter- und Früchtetee), 2008**

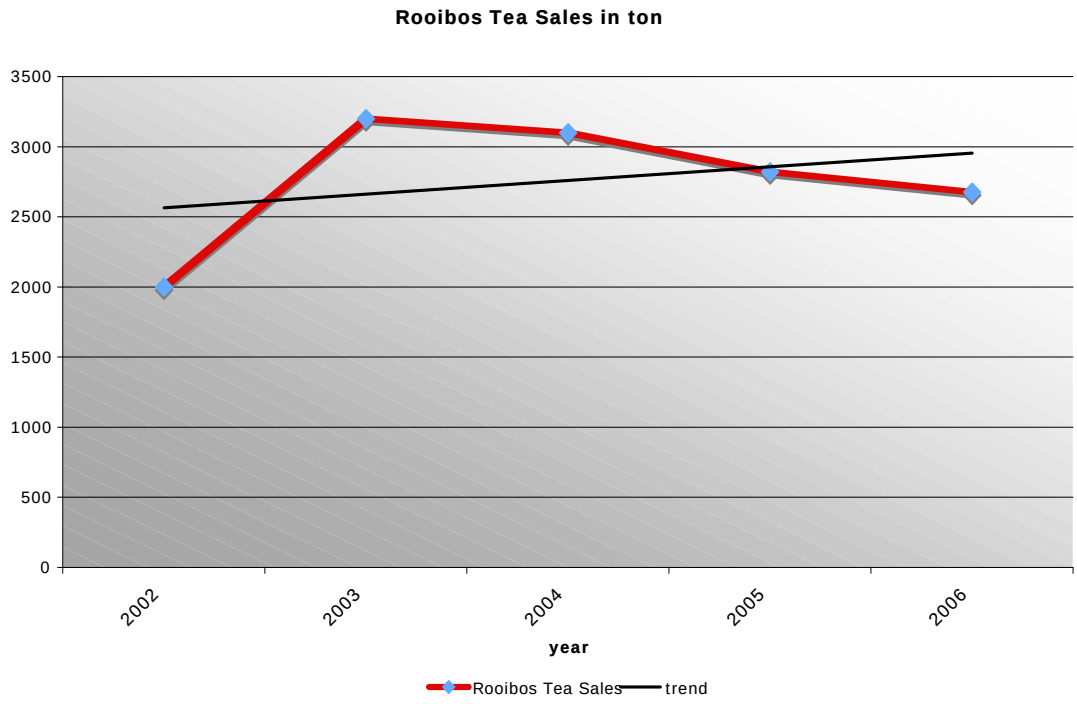



Figure 1: Rooibos Tea Sales in Germany in tons (2002-2006) (long term trend curve in black

Source: Adapted from Arnold *et al*. (2007), based on WKF reports (2003-2007)

### 3.2.2 Characteristics of the Wholesale sector

The German wholesale market for tea is dominated by 10 to 15 trading companies, the most prominent being Martin Bauer GmbH, Haelssen & Lyon, Gebrüder Wollenhaupt GmbH and Kräuter Mix GmbH. These tea traders or importers buy tea directly from the producers and resell it to other wholesalers inside and outside Germany (and even outside Europe) and to retail stores. German firms that supply only other companies of critical size usually resell the tea directly in bulk or repacked in smaller packages of a few kilos (Arnold *et al*., 2007). Sometimes these suppliers produce special blends of Rooibos tea, which are tailor-made blends for their customers. Others are adding value to the product through blending, flavouring and packing. The wholesale business seems to depend strongly on connection and trust in the firms' reputations, since further certifications for tea and tea production/processing beyond ISO, HACCP, IFS and other general protocols, are not developed.

### 3.2.3 German consumer market and retail sector characteristics

The German tea consumer market is relatively fragmented with many different companies offering a multitude of different teas (Arnold *et al*., 2007). The market leaders for branded teas in Germany are the specialized tea companies Teekanne GmbH and the Ostfriesische Teegesellschaft mbH (OTG) with their brands Messmer and Milford as shown in the table below. Among these Brand owners companies, some are selling products to wholesalers, central buying co-operatives and tea specialty shop chains, either under their own brands or unbranded, thus assuming different functions in the supply chain. They either purchase their tea from the above mentioned trading companies or include this function and deal directly with the producers. However, it is worth pointing out that only a small proportion of the retail companies procure from large importers. Some of the companies create their own blends and flavours; others buy the tea readily prepared to their instructions. Packaging can be in-house or outsourced to specialized packers. Between 25% and 30% of the market consists of trade marks or private labels produced for supermarket- or discounter-chains.

**Table 6: Tea Brands in the German market and their usage by people over 14 years**

| Brand | Usage % | Brand | Usage % | Brand | Usage % | Brand | Usage % |
|---|---|---|---|---|---|---|---|
| Aldi Tee | 26.7 | Gold Teefix | 7.8 | Pickwick | 6.6 | Teekanne Aromagarten | 4.4 |
| Bünting | 3.8 | Lipton | 10.0 | Sir Winston | 4.8 | Windsor Castle | 2.2 |
| Eduscho-Tee | 2.3 | Messmer | 20.4 | Tchibo-Tee | 3.5 | No answer | 8.5 |
| Fixbutte | 15.2 | Milford | 12.5 | Teefix | 12.2 | Don't drink any tea | 18.0 |
| Fixmille | 10.0 | Ostfriesen-Teefix | 4.6 | Teekanne-Tee | 18.4 | | |

*Source: Adapted from Arnold et al. (2007) based on VerbraucherAnalyse 2004, G+J-Märkte + Tendenzen Tee, Gruner + Jahr-Marktanalyse. media & marketing®*

It is estimted that 60% of tea sales in Germany are distributed in food stores. Interestingly, tea specialist shops represent approximately 13% of sales (Shoshana,

2001). Most of them are small independent, one-store operations with chain stores representing only about 10%. Among these chain stores are TeeGschwender, Bremer Tee-Handels-Kontor and Eilles, which have teashops all over Germany, as well as Austria and Switzerland. Franchise owned shops from these chains represent about 8-10%, the others being corporate stores. Around 10% of the retail tea shops also offer internet sales but these are not yet significant in the German tea market. Only a few retail tea shops sell tea packed in teabags. Non pre-packaged teas are associated with high quality teas and allow the consumer to smell the teas before purchase. Loose leaf teas and teabag teas are labelled with the shop-owner's name. Some shops display brochures with description of different types of teas.

At the other end of the spectrum, discounters such as Aldi or drug stores offer packed tea at very low prices.

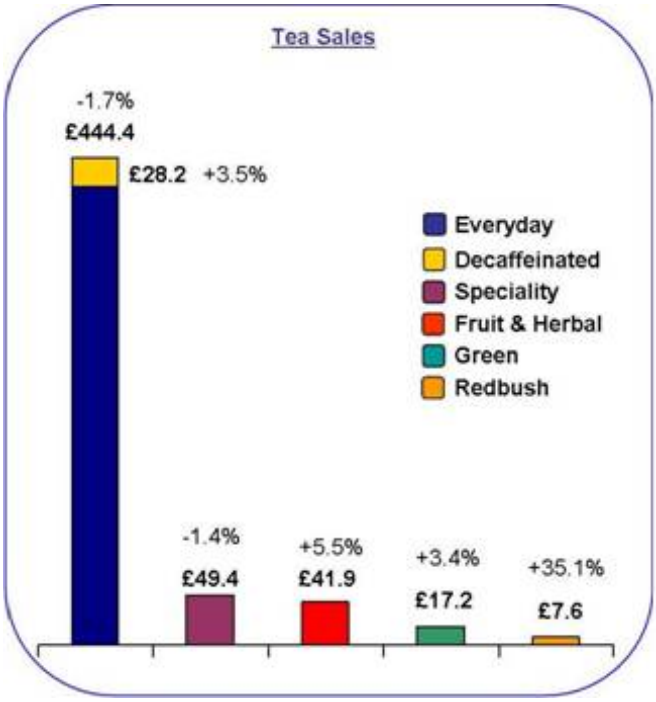
### 3.2.4 Other Products using Rooibos Tea on German market

Besides tea, there are many other products on the German market that use Rooibos as an ingredient. Of course, one can find cosmetics of all kinds. Beyond these more familiar usages of Rooibos tea there are also cold teas, waters flavoured with Rooibos, cocktails with Rooibos tea and wellbeing drinks. Coca-Cola launched a fitness drink called ‘ipsei’ on the German market in 2004 that also contains Rooibos tea.

## 3.3. The United Kingdom market

### 3.3.1 Rooibos market share and trends

Rooibos teas (called redbush teas) are showing the strongest growth representing 57% in volume and 35% in value for total coverage in the United Kingdom as shown in the graph below (Tetley, 2008). This growth is related to growing consumer concerns over health and to the naturally caffeine free and high in antioxidants attributes of Rooibos.




Source: Tetley UK website (http://www.teaexperts.co.uk/Tea-Market/The-Retail-Market)

Contrary to the German market, tea bags account for 95.8% of all tea sales (Tetley, 2008). Loose and instant teas are in decline and only make up 1.8% of the convenience tea market.

### 3.3.2 UK consumer market and retail sector characteristics

The market for tea in the United Kingdom is dominated by a small number of well-established brands relying on strong advertisement in mainstream media (Arnold et al., 2007). Among these, Tetley is the UK market leader in black tea. PG Tips is the other major player within the tea market. The Twinings brand mainly operates within the speciality, fruit and herbal and green sectors. Despite recent investment and growth in the herbal and fruit tea markets, Tetley still lags behind Twinings and Clipper in this segment (Arnold *et al.*, 2007). It is worth pointing out that it has recently launched Tetley Redbush for which it procures directly from Rooibos Ltd with the Rooibos Ltd logo being included on the packaging and being used as an indication of authenticity and direct sourcing from the growers[4]. Interestingly, the other leading supplier, PG Tips, does not, to the knowledge of the authors, offer Rooibos tea.

4

http://www.mad.co.uk/BreakingNews/BreakingNews/Articles/c55e37e26cce49b3a189ea18b8a38d4c/Tetley-launches-Redbush.html
http://www.tetley.co.uk/Our-Products/Ranges/New-Tetley-Redbush

**Table 7: Estimated brand shares of UK retail tea**

| | 2004 (£m) | % | 2006 (£m) | % |
|---|---|---|---|---|
| **Tetley** | 138.4 | 25 | 134.3 | 25 |
| **PG Tips** | 130.6 | 24 | 120.8 | 23 |
| **Twinings** | 49.8 | 9 | 53.7 | 10 |

*Source: Adapted from Arnold et al. (2007)*

Twinings offer Rooibos tea as part of its herbal classical range as well as a pineapple and Rooibos tea under its brand. No indication could be found as to the sourcing of the product in the case of Twinings. Another well positioned company in the herbal and fruit tea market as already mentioned is Clipper Teas which offers organic Rooibos tea certified by the Soil Association (the main certifier for organic foods in the UK)[5]. Otherwise, the UK herbal and speciality tea market is dominated by a large number of small suppliers. Dragonfly is offering organic Rooibos under the Tick Tock brand[6]. It also offers a range of Rooibos blends including, mint, breakfast, and Earl Grey. Initially specialised in health food shops, Dragonfly teas are now found in supermarkets. Whittards of Chelsea focuses on the speciality and green tea sectors, but also offers fruit and herbal teas with a range of approximately eight Rooibos teas listed on its website. This firm markets its products through a network of small-scale high street shops. The Redbush Tea Company is specialised in marketing a variety of Rooibos teas and soaps through UK supermarkets and health shops[7]. The firm is offering Rooibos teas with different flavour blends as well as an organic version. According to Arnold *et al*. (2007), the Redbush Tea Company indicates on its website that tea is specially blended for the company by estates in Clanwilliam.

Regarding the UK market, it is worth concluding by highlighting what Arnold *et al*. (2007) point out: "consumers of 'new' teas tend not to be product or brand loyal, unlike consumers of traditional black tea. As befits their experimental behaviour, they are more likely to buy on impulse or for a particular occasion, rather than on a habitual basis. Indeed, herbal and fruit teas are often drunk on an occasional, supplementary basis to standard black tea, rather than as a regular substitute for it. They also tend to be interested in particular flavours or blends rather than brands, which poses a challenge for suppliers of speciality teas, who may not have the marketing capability to make their brands stand out in consumers' minds."

## 3.4 The fair trade market

The 'fair trade' tea industry in general is growing rapidly, from 1,964 tonnes in 2004, to 5,413 tonnes in 2007, which represent a 175% increase. But market shares for Fair Trade tea are still very low, representing only 0.5%, 2% and 5% in the UK, Germany and Switzerland respectively in 2005 (CTA, 2008). The 'fair trade' label is monitored by the German-based Fair-trade Labelling Organisation International (FLO), which sets standards under which tea can be sold. It has recently set a specific standard for Rooibos tea.

[5] www.clipper-teas.com
[6] www.dragonflytea.com
[7] http://www.redbushtea.com/

## 3.5. The South African Rooibos export industry

Three South African processors account for more than 80% of annual Rooibos export volumes, with Rooibos Ltd being the biggest. These processors sell a large share of their Rooibos in bulk to the German market and have agreed not to market their tea under their own brand, or at least do not concentrate on branding their product.

The other significant role players include Cape Natural Tea Products (CNTP), which provides custom-blending and product development facilities to suit specific customer requirements[8]. CNTP sources, processes and exports a range of indigenous African herbal teas and botanicals in bulk and branded form, including Rooibos, Honey bush tea, Rose-hip, Devil's claw, Lemon grass etc. Most of its Rooibos is still exported or sold locally in bulk, but its pre-packaged tea is gaining importance. Despite its quality focus, King's Products sells Rooibos in bulk to overseas customers.

Of interest are also the independent farmers that are marketing Rooibos under their own brands. Among these, Big Five Rooibos Company is the biggest. It specializes in farming, processing and distributing only Rooibos from its own farm and is promoting its product as being 'estate' Rooibos. It uses the estate concept as a quality signal and focuses guaranteeing excellent quality control, sustainability and traceability of its product. Almost all (99%) of the company's business lies in exports, of which 90% is sold in bulk, but it also focuses on value adding marketing more of their own branded products.

It should be noted that it is mainly the smallest South African players that are developing differentiating strategies based on branding and labelling. Interestingly these brands and labels are not based on the name Rooibos but arise from other reputational indicators.

## 3.6. The South African Honeybush export industry

Most Honeybush processors are also involved in marketing activities. Some processors sell and pack the tea by themselves; others sell it only in bulk to national and international tea traders. The national tea brokers mostly sell in bulk to overseas buyers.

The two or three main processors are closely linked to the Rooibos industry and a lot of Honeybush is traded through the same marketing channels as Rooibos. Honeybush tea is blended with Rooibos. According to some of the South-African traders, Honeybush tea is not regarded as a lucrative venture and is mostly undertaken in order to satisfy the demand of overseas clients with whom they have been trading Rooibos for a long time and who have became interested in Honeybush less than a decade ago. The demand from overseas customers plays an important role in determining the marketing practices in the industry.

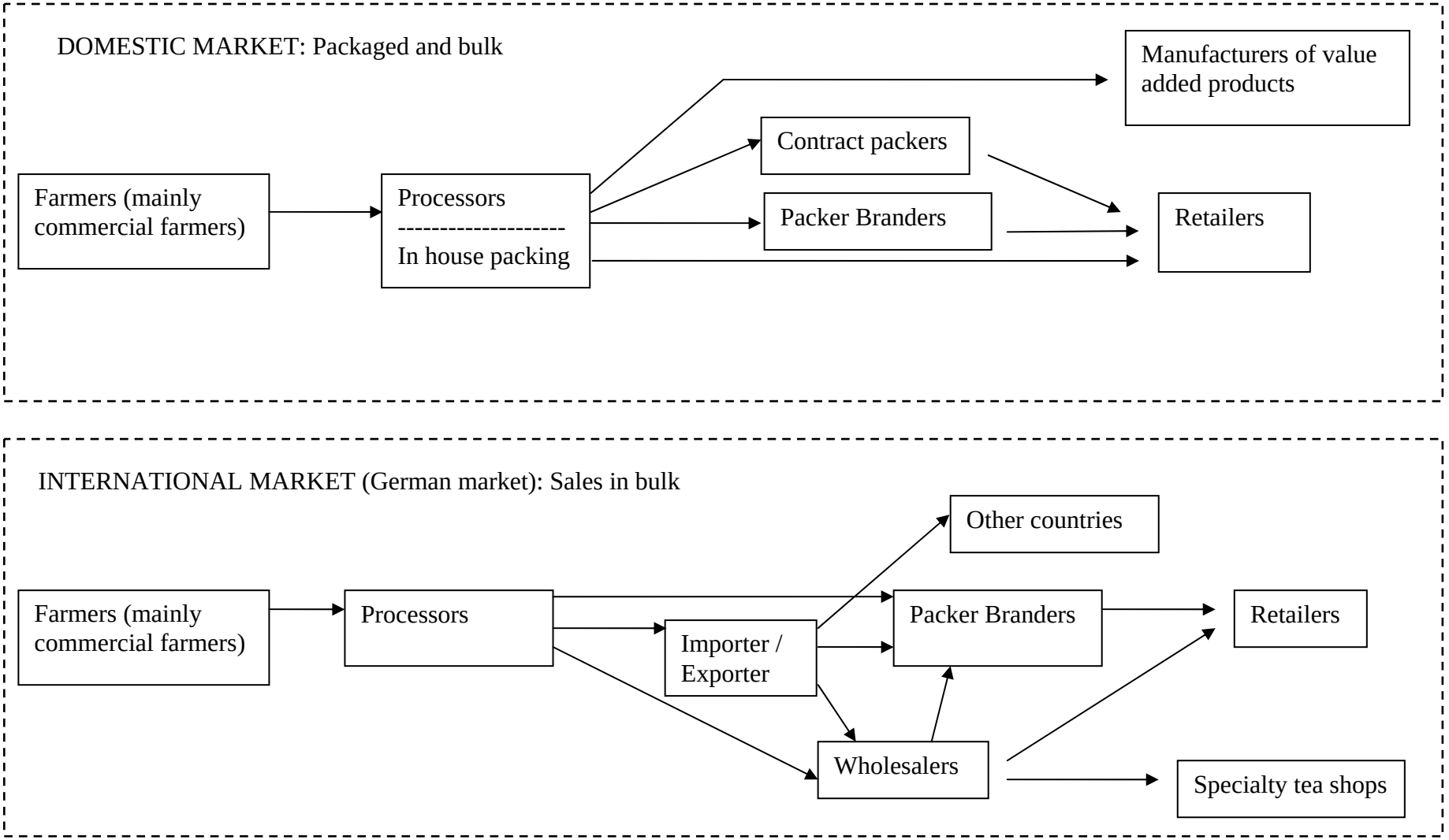
[8] http://www.rooibostea.co.za/

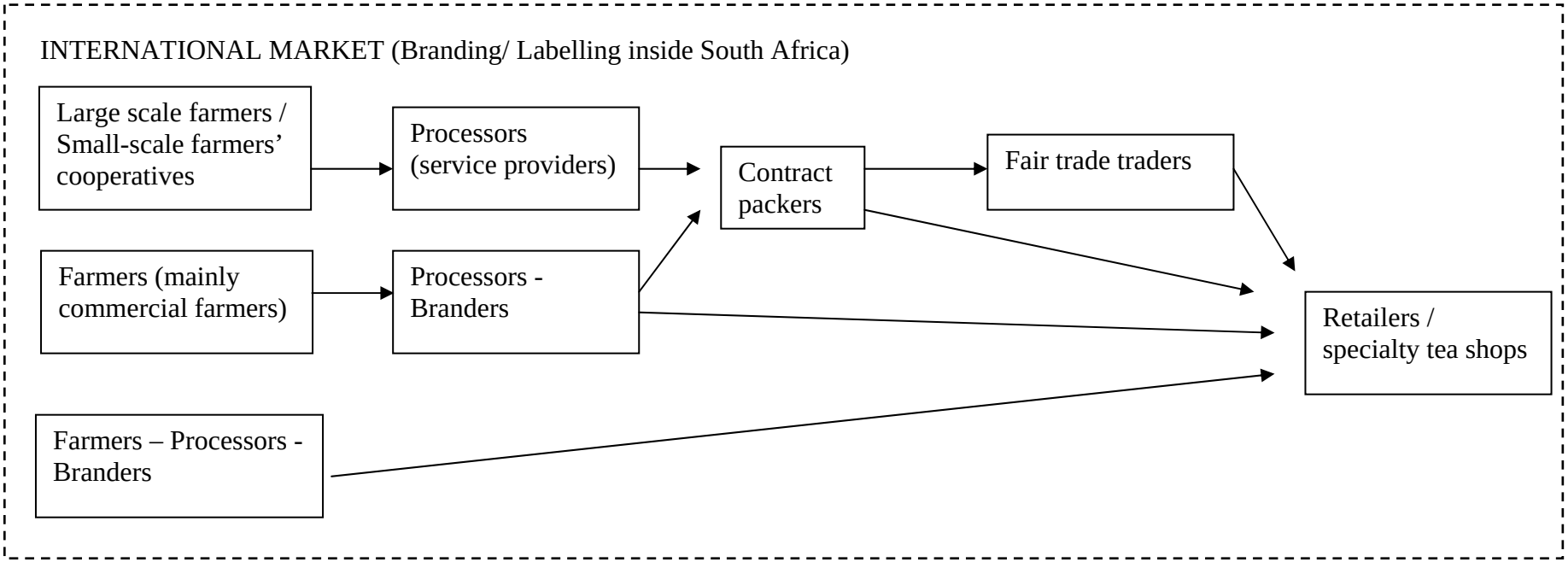
# 4. Rooibos and Honeybush value chains

## 4.1 Rooibos industry

### 4.1.1. Rooibos supply chain structure

Based on the different supply chain segments that were depicted above, three main types of supply chains can be distinguished with regard to their mode of operation. A primary distinction is made between the domestic and export sectors, with the export sector being further divided to reflect differences associated with bulk versus packaged sales.


DOMESTIC MARKET: Packaged and bulk
Manufacturers of value added products
Contract packers
Farmers (mainly commercial farmers)
Processors
---
In house packing
Packer Branders
Retailers
INTERNATIONAL MARKET (German market): Sales in bulk
Other countries
Farmers (mainly commercial farmers)
Processors
Importer / Exporter
Packer Branders
Retailers
Wholesalers
Specialty tea shops


INTERNATIONAL MARKET (Branding/ Labelling inside South Africa)
Large scale farmers / Small-scale farmers' cooperatives
Processors (service providers)
Contract packers
Fair trade traders
Farmers (mainly commercial farmers)
Processors - Branders
Retailers / specialty tea shops
Farmers – Processors - Branders

### 4.1.2. Prices Structure

The evolution of producer prices in nominal terms for conventional Rooibos is depicted in the table below. Prices can fluctuate significantly according to weather conditions. While they have steadily increased in the past years, record production in 2006/2007 and in 2007/2008 led to a sharp decline in market prices as shown in the table. The price reflects competition among processors to procure tea and incentives to plant Rooibos, with one major player still in a position to set the price. According to farmers' interviews in 2008, the cost of production at farm level is in a range of R4 to R5/kg of dry material. It can even be as high as R 6,5 according to TISA (2004) (See above section 2). Profit margins are thus currently very low.

**Table 8: Evolution of production prices**

| Year | Producer price (R/Kg of dry material) |
|---|---|
| 1990 | R1,40 |
| 1993 | R3,25 |
| 1994 | R4,80 |
| 1995 | R5,50 |
| 1996 | R6,50 |
| 1997 | R3,30 |
| 1998 | R3,80 |
| 1999 | R4,80 |
| 2000 | R5,50 |
| 2001 | R6,50 |
| 2002 | R11,00 |
| 2003 | R12,00 |
| 2004 | R16,00 |
| 2005 | R14,00 |
| 2006 | R12,00 |
| 2007 | R8,00 |
| 2008 | R5,00 |

Source: TISA (2004), producer interviews

FLO International has set a Fair Trade Minimum Prices for Rooibos tea, which has been operating since the beginning of 2008. The Fair Trade Minimum Price for small producer organisations of Rooibos is set at R30/kg, while the Fair trade Premium is R5 /kg. In the case of hired labour situations, the Fair Trade Minimum Price is set at R23/kg and the Premium R12/kg (FLO, 2008). As evident, these Fair Trade Prices are significantly higher than the conventional producer prices.

According to Lingohr-Wolf (2008), export prices for bulk Rooibos tea in 2008 are $2,05/kg for superior grade Rooibos, $2,35 /kg for organic superior grade Rooibos, 3,35 $/kg for green Rooibos and of 3,85 $/kg for organic green Rooibos (Source: Rooibos Ltd, 2008, as cited by Lingohr-Wolf (2008)). According to CBI (2008), the

price Ex-Warehouse for bulk Rooibos used for infusion in €2,33/kg is[9] (Source: ITC MNS Medicinal Plants and Extracts, June 2008, as cited by CBI (2008)). There appears to be a discrepancy between the quoted prices given by these two sources. This may be due to the fact that there is no significant market determining the price and a general lack of transparency in the transactions. A huge volume of Rooibos is sold in bulk on annually negotiated contracts within existing relationships. Actual prices are determined by bilateral negotiations with partner companies (CTA, 2008). It is also worth pointing out that given the almost monopsonistic situation faced by the South African role players in this market, competition is tough and the market is very price sensitive.

According to CBI (2008), retail prices of herbal infusions are comparable to prices of regular black or green teas and range between € 30 and € 50 per kg (packaged in individual teabags). The following tables provide the results of an internet search for Rooibos prices.

**Table 9: Rooibos German Markets prices** (websites, Oct 2008):

| **Company** | **Product** | **Quantity** (loose) | **Price in Euro** (including VAT, excluding transport) |
|---|---|---|---|
| Tee Kontor | Natural Red and Green Rooibos<br>Flavoured Red and Green Rooibos | 1 kg | 25 – 27 / 32<br><br>27.5 - 29.5 / 39 |
| Tee Schatzkammer | Natural Organic Red Rooibos<br>Natural Organic Green Rooibos<br>Flavoured Rooibos<br>Flavoured Organic Rooibos | 1 kg | 40<br><br>44<br>40 - 48<br>42 - 60 |
| Weltecke | Natural Rooibos<br>Flavoured Rooibos | 1 kg | 20.40<br>21.24 - 22.21 |
| Tee Berger | Flavoured Rooibos | 1 kg | 18 - 26 |
| Tee Gschwendner | Natural Rooibos<br>Flavoured Rooibos | 1 kg | 26.35<br>30.17 - 36.55 |
| Tee Express | Natural Rooibos | 1kg | 22 |

[9] Exchange currency calculated at $1 = €0.64712 for June 2008.

**Table 10: Rooibos UK Markets prices** (websites, Oct 2008):

| **Company** | **Product description** | **Quantity** (loose) | **Price in Pounds** (including VAT, excluding transport) |
|---|---|---|---|
| Twinings | Rooibos, Strawberry, Vanille blend | 20 tea bags | 1.5 |
| Hamleden Herbs | Organic Rooibos | 20 tea bags | 1.99 |
| The Tea House | Organic Rooibos | 125g | 3.95 |
| Tiger Spring Tea | Rooibos | 100g | 3.7 |
| Taylors of Harrogate | Organic Rooibos | 50 tea bags | 2.65 |

**Table 11: Rooibos United States markets prices** (websites, Oct 2008)**:**

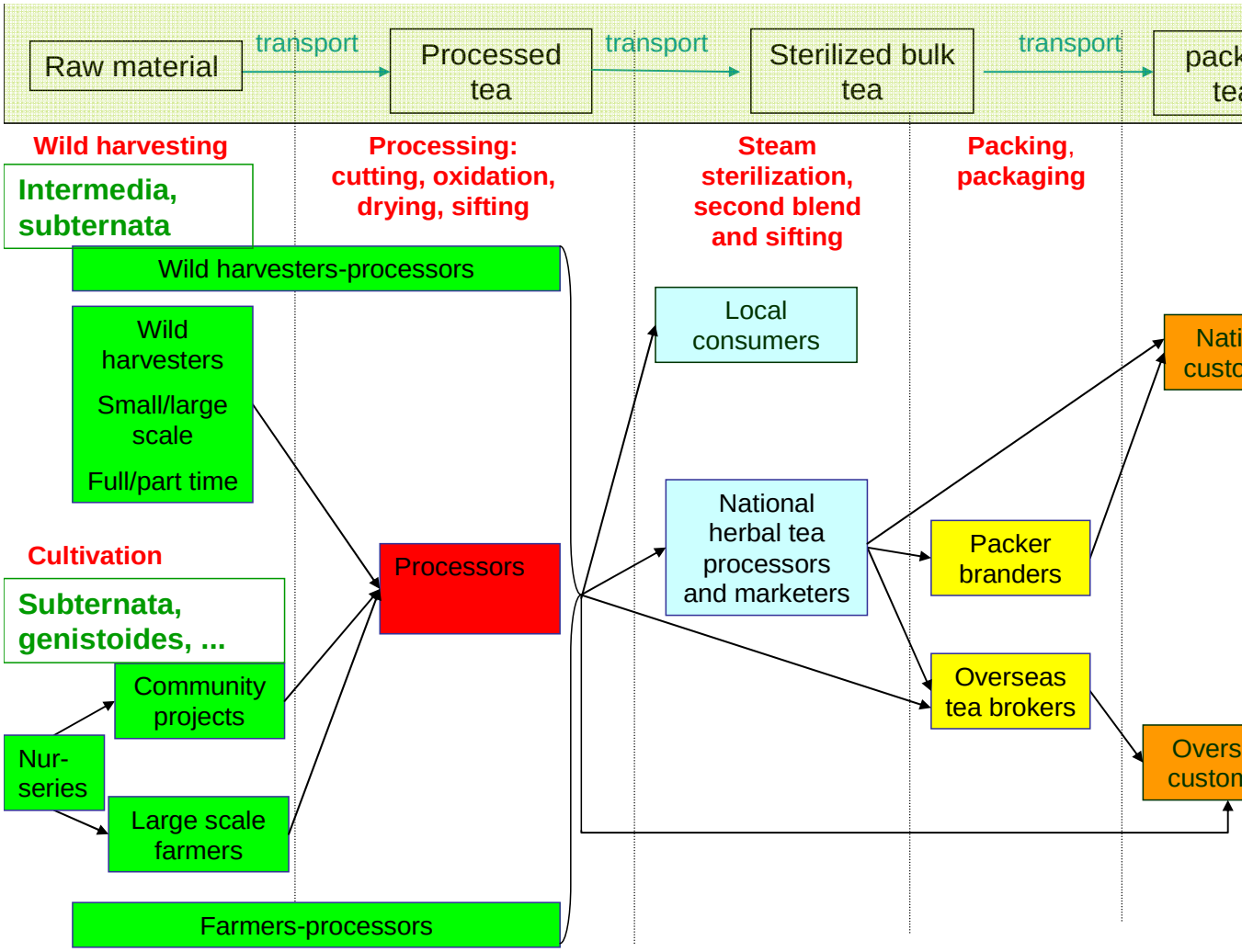
| **Company** | **Product description** | **Quantity** (loose) | **Price in $US** (including VAT, excluding transport) |
|---|---|---|---|
| Montego Rooibos Herbal Tea | Pure Rooibos | 100g | 6.25 |
| Red Tea Diaries | Pure Organic Rooibos | 4oz | 5.75 |
| Mother Nature | Pure Rooibos | 24 tea bags | 4.94 |
| IHerb | Pure Rooibos | 30 tea bags | 3.80 |
| Life's Vigour Health and Beauty | Pure Rooibos | 24 tea bags | 4.31 |

This price structure reflects the domination of European companies who carry out the high-value-added blending and packaging, at facilities in the EU and other Western countries and is shared among the whole tea industry (CTA, 2008), which is clearly buyer driven. This is in accordance with what has been depicted above for the herbal tea market and with the current organization of the global tea supply chain where the companies buy the tea directly from producers and carry out the high-value-added blending and packaging, at facilities in the EU and other Western countries (CTA, 2008). Importantly, according to CTA (2008), the latter activities account for 80% of the retail price in the supply chains for tea in general.

## 4.2 Honeybush industry

The following section provides a depiction of a typical Honeybush supply chain and its relevant actors. As mentioned previously, as much as 90% of all Honeybush production is exported, with local demand only accounting for around 10%.

### 4.2.1. Honeybush supply chain structure



### 4.2.2. Prices structure

Producer prices range between R 2 and 3 per kg (Biénabe & Blanchard, 2007).

**Table 12: Honeybush German Markets prices** (websites, Oct 2008):

| **Company** | **Product** | **Quantity** (loose) | **Price in Euro** (including VAT, excluding transport) |
|---|---|---|---|
| Tee Kontor | Honeybush<br>Honeybush Orange | 100 g | 3,95<br><br>4,10 |
| Tee Schatzkammer | Natural Organic Honeybush | 1 kg | 40 |
| Tee Gschwendner | Natural Honeybush | 1 kg | 26.35 |

**Table 13: Honeybush UK Markets prices** (websites, oct 2008)**:**

| Company | Product description | Quantity (loose) | Price in Pound (including VAT, excluding transport) |
|---|---|---|---|
| Twinings | Honeybush, Mandarin and Orange<br><br>Organic Honeybush and Lemon | 20 tea bags | 1.5<br><br>1.7 |
| Dragon Fly Teas | Organic Honeybush | 20 tea bags | 1.95 |

**Table 14: Honeybush United States market prices** (websites, Oct 2008)

| **Company** | **Product description** | **Quantity** (loose) | **Price in $US** (including VAT, excluding transport) |
|---|---|---|---|
| African Red Tea Imports | Organic Honeybush | 20 teabags | 4.39 |
| Life's Vigour Health and Beauty | Organic Honeybush | 20 teabags | 5.05 |
| Herbs Pro | Organic Honeybush | 20 tea bags | 5.49 |
| Vitamin Shoppe Industries Inc | Honeybush Caramel Blend | 16 tea bags | 5.99 |
| Kosher Gourmet Mart | Pure Honeybush | 24 tea bags | 7.99 |

# 5. Tariff classification and customs duties levied in main export markets for Rooibos and Honeybush

Departing from the Harmonised System Nomenclature (HS) developed by the World Customs Organisation, tariff headings were identified in order to determine customs duties payable on the export to and importation of Rooibos and Honeybush into its main export markets. Specific attention was given to possible changes in tariff headings for bulk (dried leaves) versus packaged (tea bags) in order to establish its impact on customs duties payable.

From an export perspective, the South African Revenue Services do not apply any export tariffs and products are exported duty free.

There is no unified classification for Rooibos or Honeybush in terms of the HS Code internationally. With respect to imports of tea into the EU, a 0% tariff is applicable in general. There is no specific HS code applicable to herbal teas/infusions and both Rooibos and Honeybush are classified under the heading '*other plants and part of plants*' (HS code 12119085) (UK Tariff Classification Advice helpline). Alternatively, Rooibos and Honeybush may also be classified under HS code 1212.99.90.6 "*other vegetable products of a kind used primarily for human consumption, not elsewhere specified or included*" (UK Tariff Classification Advice helpline). A 0% tariff applies to both these tariff headings. Importantly, these classifications apply to the export of pure tea leaves, blending may influence the product's tariff classification. In addition, trade relations between the EU and South Africa are governed by the bilateral Trade, Development and Cooperation Agreement. The latter agreement establishes a free trade area between the EU and South Africa and grants reciprocal trade preferences to its signatories. Under these circumstances, no customs duties are payable on the export of Rooibos or Honeybush into its EU markets.

The Harmonised tariff schedule of the United States provides for categorisation of "*herbal teas and herbal infusions (single species, unmixed)"* under HS code 12119040 . A tariff of 4.8% is applicable on products within this category, originating from countries which enjoy preferential tariffs under the General System of Preferences. South Africa is also included as one of the countries benefiting under the African Growth, and Opportunity Act, thus qualifying for the preferential rate. An alternative classification may be made under HS code 12119080 "*plants and parts of plants, other*", or HS code 1212.99.90.6 "*other vegetable products of a kind used primarily for human consumption, not elsewhere specified or included*". A 0% tariff is applicable on either of these tariff headings under the General System of Preferences. Again, whether the product is exported in bulk or as packed tea does not lead to a different tariff classification.

With respect to Japan, a 3% tariff is applicable on imports of Rooibos (Japanese External Trade Organisation). Although not one of Honeybush's main export markets it's interesting to note that a 15% tariff applies to Honeybush imports into Japan (Japanese External Trade Organisation).

No customs duties are levied on importation of Honeybush into Australia under HS code 121190 "*other plants and parts of plants*".

The following tables provide a synopsis of the results based on the above tariff classifications.

**Table 15: Customs duties payable on importation of Rooibos into its main export markets**

| Importing country | Tariff applied on imported Rooibos |
|---|---|
| Germany | 0% |
| Netherlands | 0% |
| UK | 0% |
| Japan | 3% |
| USA | 4.8% or 0%[10] |

Source: Authors

**Table 16: Customs duties payable on importation into main Honeybush export markets**

| Importing country | Tariff applied on imported Honeybush |
|---|---|
| Germany | 0% |
| USA | 0% |
| Netherlands | 0% |
| Australia | 0% |

Source: Authors

**Conclusion**: The tariff headings applicable on the export of Rooibos and Honeybush to its major export markets are not influenced by whether the product is exported in bulk or whether it has been packaged. There is thus no evidence of 'tariff escalation' which is often a concern when developing countries export value-added products to developed countries. It should be kept in mind however, that the valuation for customs purposes (as derived from the World Trade Organisation's Valuation Agreement) is calculated on the value of the product at place of export. The cost of packing, packages and labour in packing in the country of export is included in the customs value of the goods. As a result, customs duties payable on packaged goods will be higher than those exported in bulk. As a 0% tariff applies on Rooibos and Honeybush exports to its EU markets, this should not be a consideration with respect to local beneficiation and should therefore not be a factor that hinders the consideration of a beneficiation process.

[10] Depending on HS tariff classification.

# 6. Standards, food safety and SPS requirements for the export of Rooibos and Honeybush

Export standards for Rooibos and Honeybush have been adopted under section 4(3)(a)ii of the South African Agricultural Products Standards Act 119 of 1990. In terms of these standards, approval for export is required for all consignments of Rooibos and Honeybush which exceeds 15kg, through the issuing of an export certificate which certifies that the product complies with the requirements set out in Box 1 and 2 respectively. Should the product be exported in packaged form, the packaging needs to comply with the requirements set out in Box 3 and 4 respectively. The inspecting authority is the Perisible Products Export Control Board (PPECB), which derives its powers from the Perishable Products Export Control Act No.9 of 1983. The PPECB is responsible for taking a sample and sending it off to the National Department of Agriculture (NDA) laboratory for compliance testing.

**Box 1: Export standards for Rooibos and Rooibos mixtures promulgated under the Agricultural Products Standards Act (STD NO. B-8 section 6)**

All Rooibos and Rooibos mixtures:

- may not contain more than 1% foreign matter
- must have a moisture content of not more than 10%
- shall be free from Salmonella organisms
- may have a total bacterial count of not more than
    - 150 000 colony forming units per gram in the case of rooibos packed in retail packaging and
    - 75 000 colony forming units per gram in the case of rooibos packed in bulk containers
- may have an Escherichia coli count of not more than 20 colony forming units per gram
- shall be free from insects
- shall not contain prohibited chemical residues and shall not exceed prescribed maximum residue limits provided that:
    - if the maximum residue limits of an importing country is lower than is permissible in terms of SA legislation, the prescribed maximum residue limit of the importing country shall be complied with, and
    - permission may be granted for rooibos with a higher maximum residue limit to be exported to countries where this higher residue limit is permissible. Provided further that the export document is endorsed with the name of the importing country

## Box 2: Export standards for Honeybush promulgated under the Agricultural Products Standards Act 119 of 1990 (STD NO. B-11 Table 1)

| | Quality factor | Honeybush |
|---|---|---|
| (a) | Insects | shall be free from insects; |
| (b) | Frayed tufts | shall be free from frayed tufts; |
| (c) | Foreign matter | may contain not more than 1% foreign matter; |
| (d) | Coarse material | may contain not more than 10% coarse material: Provided that honeybush, packed in retail packaging, does not contain more than 1 % coarse material; |
| (e) | Bruin fermented leaves | * |
| (f) | Green unfermented leaves | may contain not more than 2 green, unfermented leaves per 10 g dry leaves; |
| (g) | Dust | may contain not more than 3% dust, excluding the class DT1 |
| (h) | Moisture | shall have a moisture content of not more than 10%; |
| (i) | *Salmonella* organisms | shall be free from *Salmonella* organisms; |
| (j) | Total bacterial count | may have a total bacterial count of not more than 75 000 colony forming units/g; |
| (k) | Total coliform bacterial count | Shall be free from *Escherichia coli*; |
| (l) | Foreign flavours and odours | shall be free from any foreign flavours and odours which detrimentally effect the characteristics of the product; |
| (m) | Taste and aroma | shall have the clean, characteristic taste and aroma and clear, distinctive colour of honeybush; |
| (n) | Total residu count | shall contain no chemical residues which exceed the prescribed maximum residue limit: Provided that -- |
| | | (i) if the prescribed maximum residue limit of an importing country is lower than is permissible in terms of the Fertilizers, Farm Feeds, Agricultural Remedies and Stock Remedies Act, 1947 (Act No. 36 of 1947), the prescribed maximum residue limit of the importing country shall be complied with; and |
| | | (ii) the Executive Officer may grant permission for honeybush with a higher maximum residue limit, to be exported to countries where this higher residue limit is permissible: Provided further that the export documents are accordingly endorsed with the name of the importing country. |
| (o) | Total yeast count | may have a yeast count of not more than 200 colony forming units/g; |
| (p) | Total mould count | may have a mould count of not more than 200 colony forming units/g; |

* No specifications

**Box 3: Requirements for containers promulgated under the Agricultural Products Standards Act 119 of 1990 (STD NO. B-8 section 7)**

The containers in which Rooibos or Rooibos mixtures are exported shall:

- be manufactured from a material that—
  - will protect the contents thereof from contamination; and
  - will not impart any undesirable flavour to the contents thereof;
- be so strong that it will not tear or break during normal storage, handling and transport practices;
- be intact, excluding holes made by a sampling pin which shall be duly closed
- be new, clean and dry; and
- be closed properly in a manner permitted by the nature thereof.

**Box 4: Requirements for containers promulgated under the Agricultural Products Standards Act 119 of 1990 (STD NO. B-8 section 7)**

The containers in which Honeybush or Green Honeybush are exported shall –

- be manufactured from a material that will protect the contents thereof from contamination and that will not impart any undesirable flavour or odour which may be injurious to human health to the contents thereof;
- be new, dry and clean;
  - be suitable and strong enough not to tear or break during the packing, normal handling and transport practices of the honeybush or green honeybush;
  - be intact, excluding holes made by a sampling pin which shall be duly sealed and;
  - be closed properly in a manner permitted by the nature thereof.
- If a container of Honeybush or green honeybush is packed in outer containers, such containers shall be clean, neat and intact and shall not transmit any harmful substance that may be injurious to human health to the contents thereof.

There is no regulation or SPS agreement in place which imposes specific requirements for the importation of tea, and in particular Rooibos and Honeybush tea to the EU or the United States (PPECB and FDA). Importation of food products into the EU and US must, however, comply with general conditions designed to prevent risk to public health and protect consumers' interests.

EU Regulation 852/2004 deals with the hygiene of foodstuffs. It identifies hazards at every stage of the food chain which must be eliminated or reduced to acceptable levels through effective prevention measures. In terms of this regulation, each food business operator is responsible for food safety at the specific point in the chain. The regulation foresees that general implementation of procedures based on the HACCP principles, together with the application of good hygiene practice, should reinforce food business operators' responsibility. Currently, operators involved in primary production are not obliged to have in place procedures based on HACCP principles. However, this excludes operators dealing with any form of processing, whereas 'processing' is defined as "*any action that substantially alters the initial product, including [..] drying […]*" . As a result, bulk exports are not exonerated from the obligation to put in place, implement and maintain a permanent procedure or procedures based on the HACCP principles, as it is applies to further processors in the supply chain. The HACCP principles have been incorporated into South African

legislation under the Foodstuffs, Cosmetics and Disinfectants Act No. 54 of 1972 and are applicable in all the Rooibos and Honeybush export markets.

Dried tea leaves are subject to inspection on importation by the US Department of Agriculture's Animal and Plant Health Inspection Service to establish the presence of pests. Rooibos and Honeybush are classified for inspection purposes under "*Herbal teas, other leaves or mixtures of leaves*" which are inspected and released if found suitable. There is no difference in the inspection standards between products which have been packaged or those which are imported in bulk. Interestingly, for other categories of herbal teas/infusions a distinction is made between commercially packed consignments that are ready to be boiled and those not commercially packed and moving forward to be further processed. The latter category faces more onerous inspection procedures. This is however, not applicable to Rooibos or Honeybush under the current classification system.

All foods imported into Australia must comply with the provisions of the Imported Food Control Act of 1992 which is administered by the Australian Quarantine and Inspection Service (AQIS). All bulk tea consignments are required to be fully unpacked and inspected at a Quarantine Approved Premises in order to verify that the material is commercially packaged in clean packages, is labelled correctly, is dried and is free of other quarantine risk material, and does not contain prohibited material. Consignments of commercially packaged tea bags that are accompanied by sufficient documentation are subject to random inspection (AQIS).

**Conclusion**: There appears to be no significant difference in the requirements with respect to food safety and SPS measures in the main export markets for bulk versus packaged Rooibos and Honeybush exports. The only significant regulatory implication pertains to food labelling requirements which are more detailed for packaged goods, particularly in the European markets. As a result, concerns as to more onerous foods safety and SPS requirements should not be a consideration in any local beneficiation decisions.

# 7. Role of the institutions involved in the processing and marketing of Rooibos and Honeybush

## 7.1 Rooibos industry

The Rooibos industry enjoys a long history of Government support. In 1954, at the request of producers, the Minister of Agriculture instituted the Rooibos Tea Control Scheme, a statutory, one-channel marketing system and for nearly 40 years its Board acted as the sole buyer from producers and also as the sole seller to approved exporters and tea processors. Through the establishment of the Rooibos Tea Control Scheme, the Rooibos industry could be assured of direct government protection and support, including subsidies for affiliated producers, research, and the provision of extension services. In 1993 the Control Board was abolished however, and replaced by a public company (now called Rooibos Limited). Since deregulation the Rooibos tea industry has changed dramatically.

Processors formed a forum in the late nineties, mainly to coordinate and fund research initiatives. A R0.10/kg "levy" (pro rata contribution based on annual turnover) was levied on a voluntary basis. This was followed by an attempt by producers to form an association. The attempt failed as the majority of producers delivered to Rooibos Ltd and considered this a sufficient form of representation. In response to a need for an all inclusive, representative platform to address key issues within the industry, the South African Rooibos Council (SARC) was established in April 2005 as a Section 21 Company. Under South African Law, a Section 21 Company is a not-for-profit organisation. It was agreed that a key principle of SARC should be to: "Move away from fragmentation, an unstable supply base, and a lack of an integrated development strategy to a market and client focus that will lead to industry growth, greater profitability, and more marketing opportunities for all stakeholders". Although it is still in its infancy, it represents the whole industry (small and commercial producers, labour, processors, etc.) and is an ideal vehicle for collective action. The SARC has since its inception been active in driving research and development initiatives within the industry. Lately one of the key objectives of the SARC has been to ensure that the name Rooibos is protected from misappropriation. It has in this respect played an important role as forum for collective discussion and decision making regarding the industry's move towards obtaining geographical indication protection and the generic marketing of the name Rooibos.

Today, government support is given in the form of various export, investment, innovation, and tourism promotional support programmes and incentive schemes. These efforts have mostly been of an *ad hoc* nature and characterised by a lack of implementation. There is however, growing recognition of the need for and potential of protecting the name Rooibos, and steps have been taken towards providing enabling legislation. In this respect, the South African Intellectual Property Amendment Bill of 2007 defines geographical indications for the first time in South African law and specifically provides for registration of a geographical indication as either a collective or certification trade mark.

Various institutions are involved at research level including the Agricultural Research Centre (ARC), the South African new crop research association (SANCRA) and the Medical Research Council (MRC). The research is to a large extent focused on substantiating the health claims made with respect to Rooibos, as strong scientific evidence will greatly enhance marketing efforts.

Internationally funded NGOs, the Environmental Management Group (EMG) and Agribusiness in Sustainable, Natural, African Plant Products (ASNAPP), have enhanced small scale farmers' participation through capacity development initiatives, technology transfers and trade facilitation. More specifically the EMG has played a key role in establishing the Heiveld Cooperative and has been responsible for various capacity building activities in the community including facilitating international market access. In addition, Fair Trade organisations such as Fair Trade Original (Holland) have become involved with the Heiveld and Wupperthal co-operatives by improving market access, price premiums and social development within the communities.

Finally WESGRO, the official Investment and Trade Promotion Agency for the Western Cape, has been providing export training courses to the industry. It is further involved in improving market linkages via trade missions.

## 7.2 Honeybush industry

The Agricultural Research Council and in particular ARC Infruitec-Nietvoorbij has been closely involved with various research institutions to further the commercialisation of Honeybush. The research undertaken focuses to a large extent on the following objectives (ARC website):

- To determine appropriate and sustainable cultivation practices
- To improve honeybush (*Cyclopia* spp.) through breeding, selection and evaluation
- To identify and document health-promoting properties and to develop value-added products
- To establish guidelines for sustainable harvesting
- To train commercial and emerging farmers on production techniques

Important research partners of the ARC include:

- ARC-Plant Protection Research Institute (PPRI)
- Department of Agriculture: Western Cape
- University of Cape Town
- Medical Research Council (PROMEC Unit)
- Stellenbosch University Departments of Food Science, Chemistry and Biochemistry
- University of the Free State Department of Chemistry
- Adalbert-Raps-Zentrum für Arznei- & Gewürzpflanzenforschung (Raps Foundation), Germany
- School of Veterinary Medicine Hannover, Germany
- Institute of Plant Analysis, Germany
- National Botanical Institute (NBI) presently known as South African National Botanical Institute (SANBI)

Other organisations which have provided funding for research activities include:

- Landbank
- National Brands Ltd.
- THRIP
- National Research Foundation
- National Department of Agriculture
- CANSA
- Department of Economic Development and Tourism: Western Cape

With assistance from the Agricultural Research Council (ARC), the South African Honeybush Producers Association (SAHPA) was established in 1999. The name was changed in 2002 to the South African Honeybush Tea Association (SAHTA).

The latter is a non-profit organisation which represents all Honeybush producers, processors and marketers. The organisation's stated objectives deals with production, processing and marketing aspects of Honeybush. Matters which have been identified as of particular importance to the industry at the moment include:

- Developing guidelines for good practice (especially for wild harvested Honeybush).
- Reaching agreement on product description i.e. defining what is Honeybush. This is necessary as a result of variations in quality, not only between producers, but also between batches of the same producer.
- Understanding the dynamics between bulk and packed Honeybush in order to create a base for the long-term development of the industry.
- Understanding the role and impact of the tea merchants.
- Analysing the differences between the markets for the different species. Due to the fact that there are differences in taste between the various species, the trend has been to blend species. However, it may be to the industry's advantage to rather recognise these differences and to build on it.

Apart from the above organisations and research activities, non-governmental organisations (NGOs) are involved with community based development projects within the industry. ASNAPP, a USAID funded agricultural support organisation based at the University of Stellenbosch near Cape Town, has assisted members of the Haarlem and Ericaville communities to set up Honeybush plantations. ASNAPP has also provided technical support with respect to plant agronomy, improving production and quality, strengthening the organic aspects of production and financial management support (ASNAPP website, 2008). It has furthermore, engaged in various activities aimed at trade facilitation, particularly with respect to the Japanese market. A further USAID funded organisation, Strengthening African Food Processing Project (SAFPP) is also involved with supporting and promoting the industry.

## 8. Requirements for protection of Rooibos as a geographical indication

The ability of the Rooibos industry to benefit from the commercial utilisation of its indigenous resource has come under serious threat, as instances of misappropriation and usurpation abound. The 1994 trade mark registration of the name Rooibos in the United States and the resulting dispute over the assertion of legal rights to the name Rooibos is illustrative of the real threat to the intellectual property embodied in this indigenous resource. The industry's experience in clawing back its intellectual property in the United States highlighted the importance of a proactive strategy and served as the inception of its collective awareness and move towards the incorporation of collective strategies for protecting intellectual property rights against potential global threats.

The establishment of the SARC was a direct result of the Rooibos trade mark dispute in the United States. As mentioned, one of the key strategic objectives of the SARC is to protect the name Rooibos for the industry and to ensure that the name is not misappropriated in future. Previously, efforts for organizing and improving

coordination among Rooibos producers and processors concerned mainly research activities. However, this has been evolving with the increased awareness of the need to protect their product and markets and the perceived risks of quality degradation. Given its broad representation, the SARC is playing an important role as a forum for the industry's move towards protecting its collective reputation in the name Rooibos.

From a legislative perspective, geographical indications are not currently defined and protected in South African law *per se*. The WTO TRIPS agreement places an obligation on Member countries to provide the "legal means for interested parties to prevent (a) […] the use of any means […] which misleads the public as to the geographical origin of the good […] or (b) any use which constitutes an act of unfair competition […]." It does not define "legal means" and it is left to Member countries to decide on the instrument of protection. South Africa complies with its obligations under TRIPS through its trade mark registration system. In terms of the Trade Marks Act 194 of 1993, it is possible to register "geographical names" or "other indications of geographical origin" as collective trade marks (section 43.2). It is further possible to register a certification trade mark with respect to goods and which certifies as to geographical origin (section 43).

As part of the industry's move towards protecting the collective reputation of the name Rooibos, the industry is in the process of pursuing registration as a geographical indication in the EU under EU Regulation 510/2006. In view of the absence of *sui generis* geographical indication protection in South Africa and, in order to qualify for registration under EU Regulation 510/2006, the industry is taking steps towards registration of the name Rooibos as either a collective or certification trade mark. Importantly, the decision follows attempts to lobby Government to provide *sui generis* geographical indication protection. As mentioned previously, the Government has however, in terms of the draft IP Amendment Bill elected to protect geographical indications under the trade mark registration system.

The Rooibos industry's move towards protecting its geographical indication serves as a pilot case in South Africa. As a result, many legal and institutional uncertainties remain. The industry does not have the skills to deal with these complexities and the French funded IPR DURAS project[11] has been instrumental in driving the process. This has resulted in the appointment of a Task Team within the SARC which represents the different role players in the industry including processors, marketers, commercial farmers, emerging farmers as well as a representative from the NGO environment. It is supported by two researchers from the IPR DURAS project who facilitate the debate and provide, when asked to, information on GI related issues. A consultant from the provincial nature conservation agency, Cape Nature, is in charge of developing a Rooibos biodiversity strategy.

[11] The Duras Project (Promotion du Développement Durable dans les systèmes de Recherche Agricole du Sud) is a project funded by the French Ministry of Foreign Affairs. It aimed to contribute to strengthening the involvement and enhancing the scientific potential of southern stakeholders in agricultural research for sustainable development. One of the projects funded under this initiative was a project with the title "Linking farmers to markets through valorisation of local resources: the case for intellectual property rights of indigenous resources". This project became known as IPR DURAS project. The authors of this report were a part of the research team responsible for this project.

The process of developing and moving towards a GI has allowed the actors to appropriate the key dimensions of GI protection and labelling and has deepened their understanding of its merits with regard to the current challenges the industry is facing. It has highlighted in particular, the role that a GI could play in collective quality management and control. Indeed the industry is looking for international protection and control of quality against abuse and misuse. The increased demand and lack of quality standards for Rooibos gives rise to opportunistic behaviour both from South African processors and traders - who need to create their space in a market strongly dominated by Rooibos Ltd - and from European buyers, on export tea quality. A particularly important dimension is the quantity of stick in the Rooibos tea, which increases the volume but can degrade the quality and is which is currently used in defining different grades. These grades have however, not been widely accepted within the industry. The subsequent risk of degradation of quality, and thus risk of loss of reputation, is perceived as an important threat by some actors. With the expansion and opening of new markets, standardization has become critical. But with more than 90% of the production sold in bulk and the European market being dominated by a few international tea brokers from Germany, control on overseas markets is very difficult. For this reason the development of an envelope of quality standards as part of the product specification, is a priority of the current GI initiative.

The Task Team has demonstrated a very pragmatic approach in mobilising the industry to agree on the product specification. An interesting balance has been struck between not excluding farmers, being able to take advantage of new opportunities and ensuring a strong enough specification. The Task Team is in the process of finalising the product specification which will make provision for quality, traceability and inspection concerns. Whereas there exists well known cases in Europe where beneficiation has been included in the code of practices such as Parma Ham, this has until now not been suggested by the committee as an option for the industry. The industry's ability to impose its code of practices on overseas actors in the supply chain remains uncertain. Given the very low percentage of Rooibos sold in packaged form overseas, it is unlikely that the industry will elect this option in the near future as it will have far reaching implications in terms of reorganisation in the supply chains. In particular, the terms of long standing relationships would need to be renegotiated, a possibility which seems unlikely for now.

A future dimension of GI protection for the industry may be to consider the GI as an umbrella under which could be defined different specifications to account for the different qualities associated with different 'terroirs' and processes of production. This could reinforce small-scale farmers' communities, which have built a unique differentiation strategy and market access for their production based on fair trade but which could soon face competition in their niche due to Rooibos plantation fair trade certification. The uniqueness of their production, which does not only stem from their social attributes but also from their settlement in one of the best 'terroir' for Rooibos production could be reinforced through a GI sub-specification. Their position in the market could then be strengthened. However it is worth mentioning that this has not yet been widely discussed within the industry, which is for now concentrating on properly establishing a GI for Rooibos.

In summary, the industry has thus far indicated a fundamental willingness to collectively act towards protecting its reputation in the name Rooibos. Crucially, a

representative and collective body exists which can take ownership of the process. Lack of capacity remains a concern, as demonstrated by the need for external drivers. In addition, legal and institutional uncertainties remain due to a lack of precedents in South Africa.

Finally, the success of a GI strategy for Rooibos cannot be separated from developments in international trade negotiations. It is worth pointing out that the motivation for the Rooibos industry's interest in developing a GI strategy is fundamentally its export orientation, in particular the importance of its European market in which GIs are both widely recognised and enforced within a powerful framework. The potential impact of GI implementation is thus considered to be significant. However, given the development of new international markets outside Europe and uncertainty regarding the evolution of GI negotiations at international level, the actual impact of GI implementation appears to be uncertain.

## 8. Requirements for protection of Honeybush as a geographical indication

Although not nearly as advanced as the Rooibos initiative, the Honeybush industry has also been exploring the potential of establishing a GI. Preliminary studies indicate a strong potential for Honeybush to benefit from a GI. Initial concerns with respect to establishing a GI included the fact that:

a) It is a relative new industry and the processes are still evolving. It follows that a production specification that is too strict may be to the detriment of the natural development of the industry.
b) The link between the product and human activity, culture and history is tenuous compared to the European Experience.
c) The geographical dispersion of the role-players and their part-time involvement negates against establishment of a GI.

However, a number of factors are favourable for establishing a GI in the Honeybush industry. These factors include:

a) A strong concern from within the idustry regarding the potential loss of intellectual property in the name Honeybush.
b) The geographical dispersion of production together with the use of different species and the resultant variance in specificity may lead to an interesting mosaic of regional specialities.
c) There is a need for industry to address the variance in the quality between producers and production runs in order to create a sustainable industry.
d) There is a representative body that can take ownership of a GI on behalf of the industry.
e) This body is representative of all role-players in the industry.

It is clear that the Honeybush Industry could benefit from some form of intellectual property protection as well as the rigour that a product specification and a certification process would bring. For this reason the industry was invited in the course of the

DURAS project to nominate a small group of individuals that could work with the project team to develop a product specification. The nominated team consist of representatives from the commercial producers, PDI producers, wild harvesters, processors and marketers.

Although the development of a product description for the Honeybush Industry is still in its infancy, progress has been made towards reaching consensus on important issues such as product specification. As a result of the industry still very much being in a developmental phase; it is crucial that any specifications or code of practices agreed upon be flexible enough to allow for new practices to develop while still preserving the cultural, production and biodiversity. This is highlighted by the industry's move towards cultivation which has brought with it its own dynamics such as the development of new techniques and production practices. Any agreed code of practices will have to accommodate these developments in order not to stifle innovation within the industry. An important aspect, which needs to be addressed however, is consensus on the quality standards in order to ensure consistency between various producers and even between batches of the same producer. Still, this mechanism would need to allow for the differences between species and localities.

The realities of the Rooibos case in the USA have made the Honeybush Industry aware of the threat to its intellectual property while, at the same time, highlighting the challenges which a small industry faces. As a result, there has been growing realisation within the industry that much is to gain from a GI initiative. In conclusion, it should be mentioned that the industry is in the fortunate position that it has a representative body that can lead the process and act as the custodian industry's intellectual property. As in the Rooibos case, lack of capacity however, remains a concern, as reflected in the need for external drivers of the process. A further concern is issues of sustainability around wild harvesting, which should be addressed in any potential code of practices.

## 9. Recommendations

As pointed out in the sector reports of the Rooibos and Honeybush industries, it is evident when comparing the domestic and export component of the respective industries that the lack of value addition in the foreign market create a substantial loss of value for local actors. According to DTI (2004), the result of this is that the value of the 52 tons of Honeybush consumed domestically is approximately R7,6 million, while the value of the 169 tons exported in 2003 was only R4,4 million. Snyman (2007) indicates that in 2005, foreign earnings constituted only a third of the R470m total turnover from 9 700t of tea sales.

As the most significant actors already own in-house packing facilities, the ability to package Rooibos locally does not appear to be a significantly prohibiting factor.

However, given the very low percentage of Rooibos sold in packaged form overseas, it is unlikely that the industry will move significantly towards local value adding in the near future, as it will have far reaching implications in terms of reorganisation in the supply chains, as pointed out previously. In particular, the terms of long standing relationships would need to be renegotiated, a possibility which seems unlikely for

now. It is evident from the analysis of the overseas market structure that the main actors in Europe have well established capabilities and investment in the different dimensions of value adding as well as a sound knowledge and embeddedness with respect to the international consumer market.

Larger actors in South Africa have positioned themselves mainly as suppliers of raw materials. This is unlikely to change significantly over the short term. A change over to offering packaged Rooibos would result in directly competing with their bulk sales. Given the almost monopsonistic overseas market South African actors are faced with, it is unlikely that they would risk upsetting establish relationships with their major and long standing overseas customers. It should be mentioned that the smallest South African players are developing differentiation strategies based on branding and labelling. This indicates that it would probably be easier for these actors to fit into a value adding industry initiative. This could disturb the balance of powers inside the South African industry, as the value of the Rooibos sales of the small players could increase disproportionately in relation to the larger players. These considerations obviously affect the industry capacity for collective action.

The same might not hold true for the Honeybush industry as it is still very much in its infancy. That said, the significant international buyers appear to be operating in both the Rooibos and the Honeybush industry. These actors have been key drivers in the recent growth seen in the Honeybush industry. In this sense, established relationships may still play a role in hindering local value adding activities.

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