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# Cost of the Connoisseur's Cup: Power Dynamics in a Tea Factory's Conversion to Organic Production

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**Cost of the connoisseur's cup:  
Power dynamics in a tea factory's conversion to organic production**

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Submitted in partial fulfillment of the requirements for Nepal: Development and  
Social Change, SIT Study Abroad  
Spring 2011

## **Abstract**

This paper analyzes the identity of the tea factory as relating to small-holder tea farmers in eastern Nepal as well as the effects of a tea factory's conversion to organic production on the bargaining power of tea farmers. This research uses both primary and secondary sources, including but not limited to interviews with tea farmers in the Sundarpani area of the Ilam district of eastern Nepal as well as interviews with staff members of Gorkha Tea Estate in the same area. The research findings indicate that though tea factories in the eastern hill region of Nepal act as efficient, expert middlemen which sustain the existence of small-holder, export tea farmers, the conversion to organic production and necessary sublicensing of member farmers gives the factory monopsonistic power, decreasing farmers' bargaining power. 511, 502, 501

## **Dedication**

This paper is dedicated to my friends in Sundarpani, for their kindness, patience, and hospitality.

## **Acknowledgements**

I would like to thank all of the farmers in Sundarpani who graciously gave me their time and patience, Udaya Chapagain, S.K. Pradhan, John Taylor, Sunil Rai, Sapan Rai, Usha Subba and her family, Urmila Yolmo, Mina Rana, Chandra Rana, Sanjib Pokhrel, Dan Putnam, Avaa and Keshav.

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## **Introduction**

This study evaluates the bargaining power of different players in the production of Nepali orthodox tea as conducted by small-holder farmers selling to tea factories. Further, it considers a factory's conversion to organic and the conversion's effects on the bargaining power of farmers who agree to a organic sublicense relationship. More specifically, it considers the effects of such a conversion by Gorkha Tea Estate on its relationship with its member farmers in Sundarpani, Nepal.

### ***Nepal's Tea Sector***

Orthodox tea is the primary product of the hill regions of eastern Nepal (Ilam, Panchthar, Terahthum and Dhankutt). This tea is produced in the older, traditional style, keeping the tea leaves whole, as opposed to the less expensive, Terai-grown Crush Tear Curl (CTC) tea. While CTC tea is grown mostly by large tea estates, the vast majority of orthodox tea is grown by small holder farmers. (Sharma 2006) Eastern Nepal has a very good climate for tea production, uses Chinese and clone seed varieties, and has young bushes. This area is therefore in a good position to produce high quality tea, but lacks an established market.

Over 90% of Nepal's tea produced in the Eastern hill region is produced by small-holder farmers, rather than plantations as is the case in neighboring Darjeeling. (Rai, Sunil 2011) Harwood presents a theory of development that emphasizes the small farm as a keystone to sustainable and stable societies. (1979) Literature on larger tea estates in Nepal's Terai region illuminate

growing issues of child labor, exploitation, and feudal economic systems, as opposed to small-holder farms which tend to have higher costs and less access to markets, but higher cultural sustainability and fewer social concerns. (Sainju 1991, Sharma 2006)

In order to address the lack of market access by these small-holder farmers, several supports and institutions are involved with Nepal's tea sector attempting to standardize and assist with marketing of tea in Nepal. The Himalayan Tea Producers Cooperative Limited (HIMCOOP) was established by local farmers and executives in Nepal's eastern hill-region tea sector in 2003. HIMCOOP's website presents the cooperative's intent to market tea which is "helping to make thousands of small farmers economically and socially viable". Similarly, Tea Sector Service Center, Nepal (TEASEC) was established to address growing problems addressed by small-holder tea farmers in the eastern hills of Nepal. A service center providing assistance with technical needs of farmers in relation to cultivation, production, manufacturing, and marketing, TEASEC's website explains its overall mission as providing "service to the small growers and enterprises to produce high quality tea and to generate sustainable incomes." TEASEC and HIMCOOP are working to promote professionalism, quality, and organization within small-holder tea farms in Eastern Nepal to compete more vigorously in the tea export market.

### ***Gorkha Tea Estate***

There are 92 tea factories in Nepal, but very few of these factories have their own tea garden, so most green leaf (unprocessed tea leaves) is bought from



farmers in the area either directly or through cooperatives or groups.

(Chapagain 2011) Gorkha Tea Estate is a tea factory located in Sundarpani near the town of Fikkal in the Ilam district of Eastern Nepal. The tea factory works with four cooperatives (Eco Tea Producers, Sundarpani Tea Cooperative, Shree Antu Organic Tea Group, and Shree Boudadhan Tea Cooperative) together contributing a total of 222 member farmers. The current price offered to farmers is 55 Nepali rupees per kilo of green leaf. In 1997 the factory began converting to organic production and is hoping to be certified by the Institute for Marketecology (IMO) this June. (Chapagain 2011) Certification has involved the conversion to organic farming and sublicense of Gorkha Tea Estates member farmers. A sublicense is the practice in which a farmer is licensed as an organic producer under Gorkha Tea Estate and sells all green leaf to the estate, which then processes organic certified tea. The decision to convert to organic occurred in negotiations between the factory and its cooperatives as well as the cooperative and its farmers. The factory offers technical support to the farmers who have chosen to convert to organic. The Gorkha Tea Estate has only one buyer, Tee Schwender from Germany, who sells in stores all over Europe as well as in the US. The factory, Tee Schwender, and GIZ (a Dutch NGO) have formed Public Private Partnership (PPP) with the vision of producing and marketing high quality tea and bringing the profits of such business back to the farmers.

(Chapagain, 2011)

### ***Bargaining Power***

Classical economic theory explains that natural market mechanisms, though not creating worldwide equality, should create no disadvantage to any trading party. According to Ricardo's Law of Comparative Advantage, if each country, region, or person specializes in what is comparatively produced most efficiently, then output is optimized with existing resources and each participant will be equally well off if not better off than they would be without specialization and trade. (Brown 1993) However, as is clear by the continual existence of political and social movements against current international trade policies, a great number of people do not see Ricardo's Law as effectual in reality.

One example of market realities that do not conform to classic economic models is the differences between the bargaining positions of manufactures and the position of primary producers. (Brown 1993) Food products, as often perishable items, usually cannot be withheld from the market to control price stability as manufactured goods can. Also, producers in developing countries often do not have facilities for processing, packaging, and storing, forcing them to use middlemen which, depending on circumstances, can act as efficient market players or can hold excessive market power. Further, since millions of households are engaged in primary production rather than the much smaller number of manufacturing companies, commodity agreements for market control is much more difficult among primary producers. (Brown 1993)

### ***Middlemen***

Another important aspect of tea in Nepal is the predominant production process involving the sale of green leaf by small-holder farmers to tea factories.

These tea factories process the tea and act as a middleman between the small-holder farmers and the export market. Academically, the middleman as an economic player is often criticized as holding excessive market power and contributing to inefficiency. However, Garella explains that in markets experiencing Akerlofian “lemons impasse” in which goods of various quality have similar prices, where average quality depends upon market price, and where buyers cannot identify quality, that a middleman functions as an efficient trade organizer. (Garella 1989) In a continuation of this theory, Biglaiser presents a hypothesis showing the middleman to be welfare improving in all equilibria or market end-points when adverse selection (buyers and sellers having asymmetric information) is present. This is often the case in export goods or wholesale goods where the initial production far removed from the eventual product. In this proposal he shows the middleman acting as an expert. (Biglaiser 1993) The middleman is able to act as an expert because he buys a large quantity of goods, unlike the ordinary buyer. He therefore has the incentive to invest in skills which increase his ability to detect a good’s quality. The middleman will also be in the market for longer and therefore highly values his reputation for selling good-quality goods. Thus the middleman becomes both better able to detect quality and has the incentive to reliably sell quality goods, so if transaction costs are low and goods are of varying quality, the middleman’s existence in the market will contribute to welfare gains. With such a middleman acting as an expert, goods will be both of higher average quality and have a higher price. (Biglaiser 1993) However, with the use of cartels (cooperation among independent organization to limit competition) or other factor limiting competition, a middleman can also be an inefficient market player controlling price or supply for his own profit.

### *Alternative Trade*

The advent of alternative trade movements focused on the ideals of responsible consumerism provided new possibilities in combating inequalities in trade. The philosophy behind movements such as 'green', 'fair trade' or 'organic' rests on the possibility of heightening production transparency through demand for products inspected and certified as fitting into certain standards of production. Even strong proponents of alternative trade movements such as organic or fair trade agree that an individual's choice will make very little difference in the grand scheme of international trade. (Brown 1993) However, seen as a movement, such ideas show more promise. In the abstract and extreme outcome of a large majority of consumers in the developed world choosing to buy products like coffee, tea, and honey, only from organic certified producers, the entire market for such goods would change. It is important to consider this theoretical extreme as the theory behind alternative trade movements rides on the possibility of eventually and slowly changing market incentives and transparency through consumer demand. Though these movements cannot claim to be able to singularly extinguish the "seemingly downward spiral of problems associated with the current neo-liberal globalization regime, which has led to increasing impoverishment, disenfranchisement, and alienation on a worldwide scale," these are the very occurrences which the movements stand against and hopes to combat through conscious consumer choice. (Murray et al. 2006)

While recognizing alternative methods of trade's potential to affect development through improved transparency in international trade systems, there

are also many critiques of these movements. Sarah Besky (2008), in researching fair trade certification on tea plantations in Darjeeling tackled the question of whether a tea plantation, as an inherently hierarchical institution, could, in fact, be considered social responsible or 'fair'. In her research she found that not only did certified plantations differ little from other plantations, but that they bent words and rules in order to achieve certification seemingly purely for the market access and higher price rather than for social equality or conditions. In many Darjeeling plantations, fair trade certification led to the dissolution of unions as unions were seen as barriers to free trade. In the upholding of neoliberal economic theory, the fair trade certifications thus absolved the Indian government of responsibility for the protection of workers, arguably working against the very goals fair trade aims to support.

### *Organic Tea*

Within the tea market, alternative trade in the form of organic tea has risen steadily in popularity over the last decade. (Hazra 2006) The impetus for this movement arose from growing fears that greater use of synthetic agrochemical and other "green revolution" technologies have created environmental and health problems. Organic agriculture is thus seen as an alternative and as having the possibility to increase efficiency and sustainability of production as well as increasing the value of the agricultural product. Though there is no single definition of organic agriculture, the organic movement as a whole is seen as based on "holistic management systems which promote and enhance agro-ecosystem health, including biodiversity, biological cycles, and

soil biological activity.” (Hazra 2006) The International Federation of Organic Agriculture’s (IFOAM) definition of the objectives of organic farming can be found in Appendix A. In tea specifically, conversion to organic production is seen as carrying a high level of risk and uncertainty in relation to financial viability. There is also currently a lack of detailed information or instructions available to farmers. The first couple of years of the conversion process is seen to be the most risky and to carry to highest likelihood of actors turning back. During the conversion from conventional to organic farming, yields can drop, sometimes drastically, and oftentimes restoration health and biological activity to the soil takes many years. Conversion not only requires desistence from the use of agrochemicals, but also the neutralization of chemical residues left in the soil.

While conventional tea market prices remain relatively stable due to both a balanced supply and demand and to tea corporations such as Lipton, Lyons, Tetley and Premier Brands holding monopolistic price control (90% of Western trade is in the hands of seven transnational companies), the market for organic tea is characterized by large fluctuations. (Hazra 2006) This is expected to be both because of the large number of conversions to organic production each year, making the increase of supply well above the increase in demand, and inconsistency of different trends within the niche market of organic tea.

However, in some European countries sales growth in organic food and beverages has been as high as 85% in the last decade. (Hazra 2006) The United States has the largest market for organic goods, followed by Germany, France,

the United Kingdom, and Japan. India and Sri Lanka lead in organic black tea production. (Hazra 2006)

Considering the development possibilities of such methods of alternate trade must also include monitoring the effects that occur within the population producing said goods. As seen in some of the negative effects of fair trade production occurring within different primary production sectors, alternative trade has the ability to work as a regime upholding a certain idea or expectation but creating confusion and difficulty with strict, not always appropriate cross-product rules. Radio Canada International's *The Link* broadcasted a brief account of Sarah Mohan's research on tea farming in Eastern Nepal in 2010. As an intern for Canada's International Development Research Centre (IDRC), Mohan studied challenges for small-holder tea farmers who were being encouraged to go organic in order to fit into a higher price niche in the western export market. She found that tea farmers who were receiving certifications as organic or other quality standards to compete in the international market were not receiving a higher profit than those who were not exporting their tea, and that the small-scale farmers were buckling under international rules and earning less profits.

### **Methodology**

This research was conducted through interviews and observations in the Ilam district and the Kathmandu Valley of Nepal. The core of the research took place in the Sundarpani region of the district of Ilam and included a collection of interviews with tea farmers in this area as well as interviews with factory staff and observations of interactions between factory staff and farmers. Further, brief

interviews with tea pickers in this area helped broaden the scope of the research and interviews with NGO managers in Kathmandu provided necessary background information and broader information of the Nepali tea sector.

I decided to focus my research on the farmers in sublicense relationships Gorkha Tea Estate in Sundarpani to obtain an in-depth understanding of the particular relationship between this estate and its member farmers rather than travel to several estates and compromise my limited time. I had originally planned to, after some observation and introduction to the community, conduct my interviews at the factory itself as farmers bring their green leaf to the factory. This would also have allowed me to interview on a relatively random basis and negated the need for assistance in finding farmers houses. However, immediately after I had finished my initial observations, the tea factory workers of the Ilam district called a bandh (strike), closing down all tea factories in the area for the rest of my stay. Therefore, I conducted my interviews by shadowing tea factory staff who go on field visits to check on and give technical support to farmers. I walked with the staff on these visits and at each house we visited I asked if I could conduct an interview. Altogether I interviewed twenty-four farmers and pickers. My interview questions were open-ended and I varied which questions I asked by the answers I received and by the direction which the interview took. A list of interview questions can be found in Appendix C. I received and recorded verbal consent from each informant. The verbal consent script can be found in Appendix B. The interviews were conducted in Nepali with occasional use of English or Yolmo words. They were recorded on a voice recorder and later transcribed. I received help from my homestay sister and Nepali language instructor in translating some of the more difficult interviews.



I was able to gain some trust and a community presence through semi-fluency in Nepali and staying with a local family. As the Sundarpani community was very small, this meant that I was relatively well-known in the community, making my visits to farmer's houses less confusing or surprising. In conducting field interviews I struggled with assuring that my informants felt comfortable with honestly answering my questions. As this area is very infrequently visited by foreigners, I was a relative oddity in the area and was treated with extreme respect and hospitality. I imagine that some informant's answers were affected by my position and their confusion at who I was and why I was there. I attempted to combat this confusion by clearly explaining my role as a student researcher who was not connected to any government or business institution. I also had some difficulty in separating myself from the factory. Due to the factory bandh, in order to find farmers who were sublicensees of Gorkha Tea Estate in the relative maze of tea fields, I walked with Gorkha Tea Estate staff in their daily work. Though this was very convenient, it meant that I was arriving at farmers houses with factory staff members and that staff members were present during my interviews. Though I assured farmers that my research was independent, this factor and its possible input of bias into my data must be considered when approaching my findings.

As I was in the field, the focus of this research shifted slightly from its original construction. I came into the field looking at the rules of organic tea production and how those rules affect small-holder farmers, but ended up finding the relationship between the farmer and the factory, as affected by the organic sublicense relationship, more interesting. As this study question presents more risk to informants within this community by possibly affecting the business

relationship between the factory and farmers, all farmer or picker names will be omitted from this research.

## **Research Findings**

### ***Sundarpani farmers***

The core field research in this study was conducted through twenty-two interviews with tea farmers and two interviews with tea pickers in the Sundarpani area of the Ilam district of Eastern Nepal. Each of these interviews took slightly different directions and my questions followed the path of each farmer's answers. Therefore the findings from these interviews is highly qualitative rather than quantitative. I was more interested in trends in answers and the focuses of each farmer than I was in gathering percentages or quantitative data. There were some striking trends in the farmers' and pickers' answers. Though almost every farmer answered in the affirmative to whether or not they like organic agriculture and the great majority said that the future for organic tea is good, answers were split relatively equally between organic tea being successful or mediocre. When asking about the difficulty of organic agriculture, almost every farmer explained that it is very difficult and expensive to farm organically. Explanations by farmers of what organic agriculture is and why it is used were relatively similar, focusing on health, environment, and the market; and a high level of confidence was common in explanations of organic agriculture. Several farmers discussed the current low price offered for green leaf, explaining that a higher price is needed for the farmers to gain a profit. One farmer went on to say that prices would be better if more than one factory was buying organic green leaf, and

another asked me personally to warn the manager of the factory that this low price is going to cause problems.

### ***Technical assistance observations***

In observing the work of Sapan Rai, a staff member of Gorkha Tea Estate who offers farmers technical assistance in organic agriculture and assists in the sublicense relationship, I witnessed several conversations about the price offered by Gorkha Tea Estate for green leaf. Though each conversation was different, many farmers seemed unsatisfied with the current price.

### ***Gorkha Tea Estate staff interviews***

While in Sundarpani, I conducted several interviews with Gorkha Tea Estate staff members, which supplied a thorough understanding of the factory's perceptions and vision of their conversion to organic tea production. Two relatively in-depth interviews covered the history and overarching aims of this institution.

An interview with Gorkha Tea Estate's organic program coordinator and consultant SK Pradhan further helped to illuminate the factory's perceptions of organic tea production. Pradhan explained that the factory is converting to organic production because pesticides lower the quality of tea and ruin the environment. He also explained that there is high foreign demand for organic tea, which puts the tea farmers who produce organically in a better financial position than conventional tea farmers. Changes that came with the organic conversion mainly include stopping the application of any chemical pesticides

and fertilizers. Organic fertilizer has no chemicals, but is animal dung and compost. He says that soil fertility is very important but that it has been very hard to motivate farmers to go organic, so the factory runs a pesticides awareness program which has very slowly raised awareness.(Pradhan 2011)

Pradhan described success has very much depended on the price, and since the factory began the conversion process only four years ago, soil conditions still very slowly improving. He stated that the farmers are split evenly on whether or not they like organic production and that farmers' opinions are dependant very much on price. For Gorkha Tea Estate, the factory is only in the next month (June 2011) finally getting their final organic certificate, so the success of organic tea is still very much to be seen. Pradhan said that makes organic tea production hard is that it is very labor intensive and it is very hard to achieve good quality because one cannot rely on chemicals. He described the easy part of organic production as not relying on outside products, but the biggest challenge as quality. (Pradhan 2011) With organic tea farming one must pluck early, the leaves are smaller and harder, and bushes are shorter, making quality tea much more difficult to produce. As productivity for each laborer is much lower and there is has been a lack of labor in this area, farmers in the area have been struggling to produce enough tea. (Pradhan 2011)

Pradhan hopes that in the future this whole area will be organic and the Ilam region, as completely organic and can compete with Darjeeling. If Nepal's tea sector can fill rising demand, which is large and he believes will grow with population growth, it will succeed and bring future success. Though Darjeeling

is world-famous, Pradhan describes Darjeeling and Ilam tea as almost exactly the same, the main difference being that Nepal's tea market is not well established. He believes Nepal Tea market will only succeed if quality is consistent and all tea produced is organic. (Pradhan 2011)

Udaya Chapagain is the directing manager of Gorkha Tea Estate. He is also the founder and past president of HIMCOOP and the current president of HOTPA (Himalayan Orthodox Tea Producers' Association). Interviewing Chapagain brought to light the public face of Gorkha Tea Estate, and its vision. Chapagain explained the conversion to organic as being, at its core, for the prosperity of the tea farmers. He emphasized that his work with, and the creation of the Public Private Partnership (PPP), which is a coordination of efforts by Gorkha Tea Estate, GIZ, and Tee Schwender, promotes farmers so that Gorkha Tea Estate can ask more money from consumer and that money can go directly back to the farmers. (Chapagain 2011) Chapagain described the decision to go organic as a process of agreements which occurred between Gorkha Tea Estate's and its cooperatives and between the cooperatives and their farmers. Since there are specific rules and regulations for organic certification, Gorkha Tea Estate gives training on how to maintain pruning cycle, recording keeping, and composting. (Chapagain 2011) Chapagain explained that though farmers cannot change cooperatives, converting to organic is a farmer's personal choice. For instance in Sundarpani only around 60 of over 100 farmers decided to convert to organic production. HIMCOOP is not involved in organic, only involved in marketing Nepal Tea, but HOTPA worked on Code of Conduct

(respect to nature, respect to people, respect to culture, and transparency) which has now stopped due to lack of funding. Before the funding problem, HOTPA was working to educate farmers on issues such as banned pesticides. HOTPA is lobbying the government for funding for organic and organizing workshops to try to convince government of the benefit of organic. However, results from the government sector are very difficult to procure because the Nepali government is changing so frequently and political situation is so fragile. (Chapagain 2011)

In Nepal there are 92 tea factories and only two are certified as organic. These factories have been certified as organic by NASAA from Australia but Gorkha Tea Estate is working on obtaining organic certification from Institute for Marketecology (IMO) as well as NASAA. (Chapagain 2011) The requirements for organic certification from IMO can be found in Appendix D. Gorkha Tea Estate has been working on conversion since 2007, and Chapagain hopes that the factory will be certified by the end of May or early June.

Chapagain explained that in Darjeeling there are more than 100 factories and that he believes almost all will convert to organic within the next couple years. The Indian government is heavily supporting the promotion of Darjeeling tea and organic conversion, while the Nepali government is not supporting organic and most factories in Nepal are not interested in converting to organic production. (Chapagain 2011) He expressed his belief that organic tea is good for health and environment and has a good market. He sees huge potential, but a lot of work and a lot of commitment is needed on many fronts.

Further interviews with Sapan Rai and Usha Subba back up assertions of the staff's vision of organic tea as better for health, the environment, and profit. The vision of the factory rests on the assumption that the market for organic tea will bring more profit to farmers in the long term than the market for conventional tea.

### ***Bandhs***

While staying in Sundarpani, I had the opportunity to observe a series of bandhs (strikes) related to the tea industry. About a week into my stay in Sundarpani, Ilam's tea factory workers called a strike on all tea factories in Ilam, asking for higher wages. From the conversations I had and protests I observed, the factory bandh most painfully affected tea farmers. If tea bushes get too tall and tea is not picked at the correct time, the tea will not be of good quality and the bushes will not produce a second flush (harvest). (Rai, Sapan 2011) This means that closing down the factory for a week right in the middle of spring flush picking hurts both the tea bushes and the farmers' profits. Therefore, in protest of the factory bandh, the farmers have called a district-wide bandh, closing the roads, business, schools, etc. If nothing else, this bandh emphasized the importance of the factories to the farmers.

### ***Sunil Rai***

Finally, an interview with Mr. Sunil Rai, chairman of the Non-Governmental Organization TeaSec (Tea Sector Service Centre) provided a source of overall information on the tea sector in Nepal and its current challenges and possibilities. TEASEC is an NGO whose vision is the prosperity

of tea farmers in Nepal. (Rai, Sunil 2011) The NGO's main objective is the reduction of poverty through technical training and organizational support (on every level from local community to national). Over 90% of Nepal's tea production is grown by small farmers. Some small holder farmers self-process, but most sell to factories. (Rai, Sunil 2011) Rai described the biggest problems in the Nepali tea sector as the difficulty in obtaining pesticides that are not banned, lack of cheap or easy organic input, lack of support from government, lack of available loans to farmers, and lack of infrastructure which keeps 20% of farmers from selling their product.

Rai expressed his belief in a bright future for tea in Nepal. In eastern Nepal, almost all agriculture is ginger, cardamom, and tea. Cardamom has been severely affected by a virus, and ginger is affected by both a virus and a heavily fluctuating market. While these two crops seem to be dying out, tea is a hardy plant (Ilam's bushes have survived for 148 years) and tea has a strong, consistent market. (Rai, Sunil 2011) Nepal tea is the same as Darjeeling, and consumers are starting to look for alternatives to Darjeeling, so Nepal has encouraging possibilities. Nepal's tea is slowly developing as a known brand and building a stronger demand.

When considering the institution of the factory in Nepal's tea production, Rai explained that the price which factories offer for green leaf is a major criteria in a farmer's choice of to which factory to sell their green leaf. More and more factories are beginning to have year-long contracts which fix the price for each flush. Many farmers prefer this system because without a fixed price farmers



sometimes get cheated in the later flushes of the year. With fixed prices farmers are safe from extreme fluctuations. (Rai, Sunil 2011) Rai explained that it is best for farmers to sell through cooperatives for several reasons. Cooperatives hold better bargaining power, cooperatives provide a form of connection and support, and the government sector, NGO, and factory supports always go through cooperatives. In bargaining with factories, cooperatives fix the price with the factory, which is then given to every member of the cooperative. Normally farmers do not change factories but bargain instead, especially for they are producing organically or are in some other sublicense arrangement. (Rai, Sunil 2011) Right now organic is a niche market so Rai explained that the future cannot be easily predicted, but high quality tea definitely will always have a good market. Some conventional but very high quality teas give higher prices for green leaf than organic factories. Rai stated that sublicensing can be good for farmers if factory is sincere, but if there is cartel or factories do not offer fair price, sublicense agreements can trap farmers. Though these agreements are not legally binding and technically farmer can leave at any time, a long of investment is involved on the part of the farmer, and it is expected that contracts will be upheld. (Rai, Sunil 2011)

### **Discussion/Analysis**

From my interviews and observations of Gorkha Tea Estate's conversion from conventional to organic tea production, I have found that under this particular form of sublicense relationship there is a clear alteration in the power

dynamics between the tea factory and the tea farmers. In light of my research findings, I would argue that tea factories, as they exist in eastern Nepal, act as efficient and equilibrium-increasing middlemen, sustaining the existence of small holder, export tea farmers by providing market access as well as acting as market experts, thus guaranteeing a quality product to consumers. However, I also argue that Gorkha Tea Estate's conversion to organic production and the necessary sublicensing of farmers as part of this conversion decreases competition in the purchase of green leaf, presenting Gorkha Tea Estate with monopsonistic market power and lessening farmers' bargaining power. When discussing monopsony I am referring to a market with several sellers and only one buyer.

The identity of the factory as an expert middleman increasing both market access for farmers and quality assurance for consumers is indicated by several factors of my research findings including interviews with farmers and pickers, interviews with factory staff and other tea sector experts, and observations of the farmers' bandh. The factory, as a constant and long term tea purchaser, has the incentive to become an expert on detecting quality of tea and, in order to sell high quality tea and sustain a positive reputation, provide assistance to its farmers in producing high quality tea. In interviews with farmers and pickers, the overwhelming majority of informants showed marked confidence in discussing technique and benefits of organic farming, sometimes even referencing Gorkha Tea Estate and the trainings they received from the factory on their farming. This indicated relative success in the increase of technical knowledge originating from the tea factory, which in turn increases the quality of the tea produced. I was also able to observe, in my shadowing of Sapan Rai, a great deal of quality monitoring by the factory. As Sapan visited the tea farms he not only gave instruction but

inspected the farming that was occurring and discussed with farmers any changes that needed to be made in their methods to increase production quality to the factory's expected level. Thus the factory decreases asymmetrical information between the consumer and producer through expert monitoring.

The factory's ability increase market access and sustain the existence of small-holder export tea farmers within this area is shown by the purported lack of tea farmers who self-process as well as the very system of small-holder farmer production in this region, as contrasted with the predominant plantation systems of Darjeeling or the Terai (southern flatlands of Nepal). Further, the competition shown in price offered for green leaf and systems of bargaining by cooperatives as described by Sunil Rai emphasize the functioning of the competitive market mechanisms in this system and the relatively strong bargaining power of farmers.

In addition, observations of the district-wide bandh called by tea farmers in response to the tea factory bandh showed that the factories clearly hold a strong position as the vehicle with which farmers access the export market. The protests held by farmers speaking against the factory bandh emphasized the factory's integral place in the farmers' production process and the factories' role as sustaining the small-holder tea farmers of this area.

Given identity of factories in this region as efficient, expert middlemen, the conclusion that the conversion to organic production is creating a monopsony due to a lack of competition among buyers of organic green leaf is indicated by interviews with farmers as well as observations of conversations between farmers and factory staff in Sundarpani. As explained by Sunil Rai, a sublicense in such a situation as a factory's conversion to organic production is necessary because for the factory's product to be certified as organic, the product must conform to

certain standards throughout every step of its production. (2011) The farmers who are in a sublicense relationship with Gorkha Tea Estate are a critical part of the IMO certification of the final organic tea that is sold. However, as shown by farmers' responses to interviews as well as descriptions of organic farming by factory staff, organic production involves a high level of investment and is much more difficult than conventional tea farming. Therefore, though farmers receive a higher price for their green leaf from Gorkha Tea Estate than they would from conventional factories, the organic farmers' input prices are higher so profits may not necessarily be higher under organic production. The farmer, as a sublicensee of the only organic factory in this specific area can only sell his green leaf to this specific factory. Though a similar situation exists in the year-long contracts that are becoming increasingly used between factories and farmers, the conversion of a specific farmer to organic farming is a longer-term and larger investment, somewhat tying the farmer to the factory as the farmer's higher input costs make the farmer unable to make a profit by selling to other, conventional, factories in the area. So though the sublicense is not a binding legal contract and the farmer can decide to switch back to conventional farming at any time, the farmer is unlikely to do this after putting such a high investment into the hope of higher future profits from organic production. The farmer is investing in organic production on the factory's promise that the farmer will profit in the future and without any other factory to sell to if Gorkha Tea Estate drops its price offer or does not increase its price offer at the rate it advertizes before the conversion. The farmer, is therefore trapped in a monopsonistic system of a micro-market with only one buyer and no competition between the buyers.

As the abuse of monopsonistic market power cannot be proven in this situation, and I am arguing that the conversion to organic is increasing a factory's bargaining power through monopsonistic market influence but not necessarily attempting to prove any effects of this increase in bargaining power. Though I do not argue that Gorkha Tea Estate is using this market influence to gain positive economic profits, the conceptual conclusion of the factories higher bargaining power was supported by farmers expressions of dissatisfaction with Gorkha Tea Estate's current price offer in interviews as well as in observations of conversations between factory staff and farmers.

**Conclusion:**

In explaining why he could not raise Gorkha Tea Estate's price offer for green leaf to the level for which a cooperative leader was bargaining, a factory administrator told me that Gorkha Tea Estate was his family and that he must take care of all of his children. This sentiment holds many layers of symbolism for the current power politics involved in Gorkha Tea Estate's conversion to organic production. The sublicensing of farmers under this factory has reverted an efficient system of bargaining to a patriarchal, monopsonistic system where the factory has much greater bargaining power than any farmer or cooperative. As the farmers have invested in converting to organic production, tying themselves to this factory for the near future, Gorkha Tea Estate has the ability to choose relatively freely both the price and quantity purchased of organic green leaf in this area.

However, the market is not a static entity and these power dynamics are therefore constantly in flux. If, as some predict, the market for organic tea

flourishes due to the continued popularity of this alternative trade movement, Gorkha Tea Estate will make positive economic profits, causing market entry and the conversion of other factories in the area to organic production. This conversion will create competition among organic factories, decreasing the monopsonistic power of Gorkha Tea Estate and returning bargaining power to the farmers. Not only would this revert bargaining between farmers and the Gorkha Tea Estate to an efficient system, but the systems of production in this area would change in accordance with the philosophy of the organic movement. If, as its proponents suggest, organic tea agriculture produces healthier, higher quality tea with fewer negative effects on the environment, and the market for organic tea continues to grow, the eventual production system in this area would, in fact, be an improvement from the current conventional system.

Therefore should Gorkha Tea Estate be criticized as a patriarch or praised as a impetus for positive change? I argue for neither of these sentiments, but instead present the current market reality as snapshot of a market in transition. In light of individual agency and market freedom the factory should not hold a lasting position as a patriarch with monopsonistic market power. However, the only current abilities to check this power can come from cooperatives and NGOs who must do all that is in their power to advocate for farmers and the farmers' bargaining position as free agents. Otherwise all that can be hoped for, for the sublicensees of Gorkha Tea Estate, is an eventual increase in competition resulting from the conversion of other factories in this area to organic production, and for the present, the sincerity of Gorkha Tea Estate in its expressions of solidarity with its farmers.



## **Glossary of Terms**

Adverse selection: buyers and sellers of a product have asymmetrical information

Agrochemicals: a synthetic compound used in the production of crops (ex. Pesticide, chemical fertilizer)

Bandh: Nepali word for a strike which shuts down a business, roads, or all commercial activities in a district

Cartel: a coordination between independent actors to limit market competition, therefore controlling price and/or quantity supplied or demanded

CTC: Crush-Tear-Curl style of tea production which produces tea in pellets

Equilibrium: stable market point where supply and demand have equalized

Flush: season of harvest

GIZ: The Inclusive Development of the Economy Programme (Dutch NGO)

Green leaf: picked tea leaves before processing

HIMCOOP: Himalayan Tea Producers Cooperative Limited

HOTPA: Himalayan Orthodox Tea Producers' Association

IFOAM: International Federation of Organic Agriculture Movements

IMO: Institute for Marketecology

Monopsony: a market with several sellers but only one buyer

NASAA: The National Association for Sustainable Agriculture, Australia

NGO: Non-Governmental Organization

Orthodox: old style of producing tea which leaves tea leaves whole

PPP: Public Private Partnership (coordination between Gorkha Tea Estate, GIZ, and Tee Schwender)

Small-holder: owner of a relatively small amount of agricultural land

Sublicense: a license giving rights of production to a person or company that is not the primary holder of such rights

TEASEC: Tea Sector Service Centre, Nepal

Terai: southern belt of flatlands in Nepal

Yolmo: ethnic group and local language occurring in Nepal's eastern hill region





## Appendices

### **Appendix A:**

The International Federation of Organic Agriculture Movements (IFOAM) defines the objectives of organic farming to be:

- Produce food and beverages of high nutritional quality in sufficient quantity
- Work with natural systems rather than seeking to dominate them
- Encourage and enhance biological cycles within the farming system; involving micro-organisms, soil flora and fauna, plants, and animals
- Maintain and increase the long-term fertility of soils
- Use as far as possible renewable on-farm resources in locally organized agriculture systems
- Work as much as possible within a closed system with regards to organic matter and nutrient elements
- Give all livestock conditions of life that allow them to perform all aspects of their innate behavior
- Avoid all forms of pollution that may result from agricultural techniques
- Maintain the genetic diversity of the agricultural system and its surroundings, including the protection of plant and wildlife habitats
- Allow agricultural producers an adequate return and satisfaction from their work including a safe working environment
- Consider the wider social and ecological impact of the farming system

### **Appendix B:**

Introduction and verbal consent script (translated into English):

My name is Kamala and I am an American student. I came to Nepal two months ago and I am studying Nepali language, culture, and development. Right now, I am doing research for school on organic tea agriculture in this region. Can I ask you some questions?

(if yes)

At anytime you may end this interview or not answer any question. Absolutely ok! For my research, may I use your name?

## **Appendix C:**

Interview questions for farmers and pickers (translated into English):

1. What is your work?
2. When did you begin to convert to organic production?
3. What is organic tea agriculture? How is it different from conventional tea agriculture?
4. For tea agriculture, why organic?
5. Do you like organic agriculture? Why or why not?
6. For you, has organic tea agriculture been successful? Why or why not?
7. What is the future of organic tea agriculture in this area? Is the future good?

## **Appendix D**

### Certification requirements for organic certification by IMO:

Smallholder farmers (farmers associations/cooperatives or processors with contracted smallholder farmers) may be certified as a group under the following conditions:

- common marketing of the produce as a group
- homogeneity of members in terms of location, production system, products
- the group has an Internal Control System

The EU additionally restricts smallholder groups certification (with reduced external control) to developing countries only.

The requirements for a formal Internal Control System that allows IMO to delegate the inspection of all members to the ICS can be summarized as follows:

- Has written procedures and forms (ICS Manual)
- Is aware of risks and critical control points
- Has an internal organic standard, i.e a summary /interpretation of the requirements for organic production that can be understood by farmers and ICS staff
- The ICS carries out internal inspections of all farmers in the group
- Has documented effective procedures for internal farm inspection, internal approval and dealing with non-compliances
- The ICS has qualified personnel and a clear structure
- The group ensures training of farmers as well as of ICS staff
- The group handles/supervises organic Product Flow



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