THE CAMBRIDGE NATURAL CAPITAL LEADERS PLATFORM

NATURAL CAPITAL BUSINESS CASE STUDY: THE KERICHO TEA PLANTATIONS

UNIVERSITY OF CAMBRIDGE
PROGRAMME FOR
SUSTAINABILITY LEADERSHIP

Summary

Tea has been grown in the highly productive Kericho district of Kenya for many decades. For much of that time plantation managers were focused primarily on agronomic improvements and crop productivity.

However, in the late 1990s increasingly unpredictable rainfall led to reduced resource security. Crop productivity fell and the hydroelectric power that ran the factory machinery became increasingly unreliable.

One of the primary causes was understood to be the impact of deforestation in the wider Mau forest ecosystem, of which the Kericho tea estates were part. Over time the tea growers began to realise that their dependence on natural capital extended much further than the boundaries of their individual plantations. Producers faced the choice of selling out and switching to an alternative production location or staying and helping to address the root drivers of natural capital degradation. Unilever and James Finlay chose to stay. Over the next ten years these companies worked with smallholders, government and a variety of other partners to initiate a variety of schemes from tree planting to local education to smallholder development to lobbying for policy change. Each recognised the need for the company to engage outside the traditional sphere of influence for their own resource security. Today the Kericho tea plantations play a crucial role in maintaining regional natural capital in the Mau ecosystem and thus the water and other ecosystem services they and others rely on to thrive. In doing so the plantations are maximising their chances of securing a long term sustainable resource supply as well as increasing shared value amongst local smallholders and communities.

“We do it because we believe that the long-term sustainability of the environment and communities where we work is vital to our eventual business performance.”

Gail Smith, Sustainable Agriculture Research Manager, Unilever

The Natural Capital Leaders Platform is one of CPSL's Leader's Groups and focuses on establishing natural capital management and maintenance into core business strategy.

Natural Capital is an analogy to financial capital. It refers to the stock of natural resources that exist in a system. Natural capital generates all of the goods and ecosystem services that business and society ultimately rely on, from food and water provision to decomposition and climate regulation.

Natural Capital Business Case studies profile companies that recognise the importance of impacts on natural capital and take steps to mitigate them, providing inspiration, guidance and learning for companies looking to follow suit.

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Introduction
Natural Capital and Sustainable Business

The entire spectrum of global activity relies directly or indirectly on the maintenance of an environmental infrastructure or 'natural capital' and the goods and services this provides.

Historically society and business in particular, have taken these benefits for granted, externalizing them from financial decision making. However, as consumption rises, natural capital declines and so does productivity. Today our global footprint is 50% higher than our global capacity to support life on earth. If everyone consumed at the same rate as the average European, we would need three planets to support us . As a result, companies are increasingly exposed to operational risk through their supply chains, market risk as competitors respond and reputational risk through the perception that their private gain is at the cost of public goods.

Responding to these challenges makes sound economic sense. The international study on The Economics of Ecosystems and Biodiversity (TEEB) calculated economic returns 10-100 times the value of the cost of natural capital protection. Such a response necessarily has to be a collective effort, driven by society as a whole. But businesses that take a leadership role, acting before they are obliged to, are able to gain competitive advantage and enhance their ability to grow through supply chain resilience, new market opportunities, customer loyalty and brand value.

The CPSL Natural Capital Business Case Studies investigates cases where companies have taken such a leadership role, recognising the broader implications of their impacts on natural capital and taking steps to address them both for the benefit of themselves and their wider stakeholders. By operating at the leading edge of business sustainability each faces challenges rarely encountered in a 'business as usual' context. The case studies seek to highlight these challenges and the lessons learned in the hope they inspire and inform the next generation of sustainable business leaders.

Background to Kenyan Tea

Every year 3.5 - 4 million tonnes of tea are produced globally across the tropics.

Tea was only introduced to Kenya in 1903, but since then Kenya has grown to become the world's largest exporter of tea, producing close to 400,000 tonnes a year and directly and indirectly supporting an estimated 10% of the population. About 40% of this production is controlled by larger plantation companies.

The Kericho district lies in the Kenyan Rift Valley highlands in the south west of the country and has been producing tea since the 1920s. It is now one of the primary tea production areas.

The Kericho highlands :
One of Kenya's primary tea growing areas

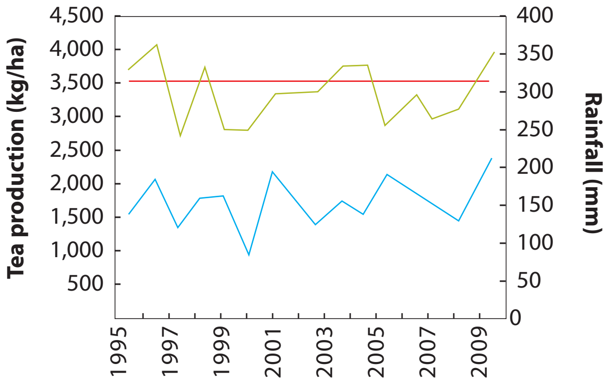
The Mau ecosystem

The Kericho tea industry lies within the Mau water catchment, Kenya's most important catchment, where 12 rivers drain into Lakes Victoria, Turkana, Natron, Nakuru and Baringo, serving over 5.5 million people.

The catchment is dominated by the 400,000 ha Mau Forest Complex, East Africa's largest single block of closed forest. This natural capital provides a variety of ecosystem goods and services (see below). The direct economic value of the industries that rely on these services is significant: the regional tea, hydropower and tourism industries alone are estimated at shillings 20 billion per year (Euro 200 m). But the total value of the Mau natural capital will be significantly higher, with at least five major urban centres and a multitude of local industries relying on its provisions.

Environmental degradation

In recent years over one quarter of the Mau Forest Complex has been destroyed by a mixture of encroachment, settlement, forest fires, timber collection by both communities and businesses, mismanagement of forest plantations and a government excision from the protected area network. This has been accompanied by a noticeable change in regional precipitation patterns with increased variability in rainfall distribution, and increased incidence of both drought and hail. This has had significant impacts on the tea industry, both through lower average yields, higher crop damage and increasing fixed costs. In one year alone, Unilever lost an estimated 3 million tea bushes due to drought.



Over the past fifteen years increased variability in Jan-April rainfall in Kericho (blue) has caused tea production (green) to repeatedly fall below expected levels (red). Drought damage (right) is a common problem

Examples of some of the goods and services provided by the natural capital of the Mau ecosystem

GOODS / SERVICES	EXPLANATION
Biodiversity	Biodiversity underpins all other services, but also represents a service in its own right for tourism, and other direct uses for certain species
Climate regulation	At a regional level forests regulate rainfall patterns and air moisture. At a global level forests play an important role in carbon sequestration
Hazard regulation	Natural vegetation plays an important role as a natural sponge for water retention which can prevent flooding
Pest/disease regulation	Local biodiversity controlling pests and disease is thought to be one of the reasons pests are a minor problem in the Kericho tea industry
Purification	The biodiversity and soils of the Mau play an important role in filtering water before being used for agriculture, aquaculture or consumption
Social/cultural values	A variety of intangible social values exist including heritage, aesthetic values and spiritual values.
Vegetation	Timber is a key resource for local communities and industry as a fuel. The forest also provides forage, medicines and other plant based goods for local communities
Water supply	The water that flows through the Mau catchment is used for consumption, hydropower, agriculture and tourism

The business response

Recognising the bigger picture

A critical step in the development of a business strategy for natural capital is the recognition of the risks and opportunities that lie beyond the company's immediate sphere of influence. Challenges of ecosystem degradation can rarely be viewed from an individual company perspective and frequently require cross-sectoral and multi-partnered solutions.

As companies operating within a defined ecosystem, Unilever Tea Kenya and James Finlay Kenya are examples of companies facing the highest risks from natural capital degradation. As leading global tea businesses they also represent the kinds of companies for whom sustainability leadership can result in significant global impacts . When the impacts of Kericho's changing climate began to hit business performance, Unilever and James Finlay faced a decision: sell out and identify alternative locations for their tea production, or stay in Kericho and attempt to bring sustainability throughout the tea value chain. They chose the latter and over the next ten years implemented a number of initiatives with key partners that addressed both the risks (operational, reputational and market) but also identified opportunities from improving sustainability practices.

Addressing deforestation

Recognised early on as a key driver in the precipitation problems, deforestation was one of the first issues the companies addressed. At Unilever the focus was on indigenous tree

planting. In 2000 they partnered with the Friends of the Mau Watershed (FOMAWA – see 'Catalysing policy action' for further details), launching the 'Trees 2000' project. This project identified the tree species most depleted by exploitation and developed propagation methods for each before setting up nurseries to raise 100-150,000 seedlings each year. Individual Unilever Tea Kenya employees are each encouraged to plant two trees per annum and ceremonial plantings are arranged to coincide with World Environment Day. To date, over a million trees have been planted, 60% of which are within the local community outside the Unilever estates.

At Finlays, the founders and major sponsors of FOMAWA, efforts have focussed on stopping on-going deforestation, working with Rhino Ark to install the longest wildlife conservation fence in the world, created partly from Finlay's own waste plastic products.

Sustainable energy

In response to increasing unreliability from its in-house hydropower stations, Finlays has also focussed on sustainable alternatives. Trials have begun for biogas energy production, solar panels have been commissioned and the company has also been researching gasifier technology. Unilever continues to invest in clean hydropower, and both companies are close to self- sufficiency in renewable fuel wood and electricity.

Engaging with smallholders

A vital step towards sustainability was the recognition by both companies that action also had to include small tea farmers, who produce about 60% of Kenya's tea but lack sufficient resources and access to knowledge to take action themselves. In 2006 Unilever partnered with the smallholder-owned Kenyan Tea Development Agency (KTDA) and UK Dept. for International Development (DfID) to start a Farmer Field Schools programme to promote sustainable agriculture amongst over 40,000 smallholders. The project brought in regional and international experts to facilitate learning on tea harvesting, yields, soil conservation, fertilizer application and the value of native trees. In every case the emphasis was on learning through doing and then teaching others to do the same.

Following initial success the programme expanded in 2010 with the support of the Sustainable Trade Initiative (IDH), extending the reach to over 550,000 smallholder farms.

Meanwhile, Finlays began its outgrower project in 2009 in partnership with the UK Co-operative Group and DfID which aimed to improve access to markets and achieve diversification to other cash crops through cooperatives, as well as achieving Fairtrade certification. This project has demonstrated particular results in the empowerment of women who were often the first to join.

Catalysing policy action

Whilst businesses can collaborate to build sustainable supply chains, complementary action from the policy side is invariably required to achieve significant impact. In Mau, various initiatives were launched to lobby for government support.

FOMAWA was one of the first initiatives. Set up in 2000 by the former Chairman of Finlays, its primary objective was to persuade the Government of Kenya to address deforestation in the Mau which it did through comparative studies with aerial photography and by convening meetings with local and central government officials to raise awareness.
The major tea growers of the region also partnered with the Kenya Forest Working Group and UNEP to set up the South Western Mau Forest Trust with similar goals.

Due in no small part to the pressure from these initiatives, a stakeholder consultative forum was convened in Nairobi in 2008 followed by the appointment of the Prime Minister's Task Force on the Conservation of the Mau Forests Complex to investigate the issues and recommend solutions. The Task Force reported in 2009 with a clear plan for action which has since moved to implementation.

“We saw the possibility of transforming the entire industry and guarding it against commoditization. We were formidably placed to win; both as a first mover and as the catalyst of an industry-wide transformation.”

Michiel Leijnse, Global Brand Manager, Lipton

Mainstreaming sustainability

Recognising both the potential reputational risk of neglecting sustainability but also the opportunity it presented, Unilever framed many of the sustainability challenges as part of a wider drive to become a leader in sustainable tea, with certification by the Rainforest Alliance (RA) certification. In 2007 Unilever's Kericho tea estate became the first in the world to become RA certified, with pre-existing sustainability initiatives contributing an important part to the award. Rather than developing a new, niche brand, Unilever then committed to sourcing all tea sold in Western Europe from certified sources by 2010 and its entire Lipton tea brand from certified sources by 2015.

Although it was estimated that the resulting producer premiums could cost €5M/yr by 2015, and it was recognised that Unilever's competitive advantage would be short-lived, Unilever took the decision on the basis that retail prices would gradually rise once sustainable tea was commonplace, and with the largest global market share they would capture a large proportion of the income growth. Unilever's lead on tea became an important driver in the development of a company-wide Sustainable Agricultural Code which in turn was a major factor in Unilever being named the food industry leader in the Dow Jones Sustainability World Index for 12 years from 1999.

As expected, Unilever's lead was quickly followed. In 2008 there were only 16 certified estates in Kenya. By 2011 there were 130,000 farms and estates certified in 12 countries. Competitors Twinings have since committed to source all of their Everyday range from RA certified sources by 2015 and Tata Global Beverages have committed to source all Tetley tea from RA certified sources by 2016. Between 2004-9 sustainable tea production grew by over 5000%, accounting for 7.7% of 2009 global tea exports.

Moving into the future

Whilst there is still a long way to go to conserve the natural capital of the Mau ecosystem, the initiatives which Unilever,

James Finlay and their partners implemented have played an important role in improving the security of Mau ecosystem services, both to the benefit of their own resource base as well to the benefit of the millions of people that depend on the same services. Following the Taskforce report many illegal settlers were evicted from the forest, albeit with mixed results , and responsibility for the region has been taken on by a permanent monitoring and coordinating body known as the Kenyan Water Tower Agency. Furthermore, in May 2011 the Water Tower Conservation Fund was set up for the rehabilitation of the Mau and other Kenyan catchment areas and in November 2011 a 2.3m euro EU and UNEP project to rehabilitate the northern Mau was launched.

By mainstreaming these efforts into their global businesses, Unilever's and Finlays' efforts also had an impact far beyond south western Kenya. Big brand sustainability is rapidly altering the power relations in global supply chains, as evidenced by the reaction to the lead taken by Unilever's Lipton brand . The evolution from a corporate social responsibility approach to the systematic embedding of sustainability in core corporate strategy will be essential if the threats to natural capital are to be challenged in a meaningful way. .

Reflections

Looking back over ten years of experience, four key learning points stand out.

The first, according to Richard Fairburn, Unilever's Senior Agricultural Advisor, was recognising the importance of activities beyond the plantation boundaries and engagement with smallholders. "You have to get everyone in the landscape to contribute" he argues, "it is not enough for one or two companies to operate in isolation. Even small activities, when carried out at scale, can have large impacts".

The second is the importance of awareness of the role of natural capital and ecosystem services in daily life. "If you were to ask how many small businesses in Kericho town are concerned about what happens up in the Mau I think the answer would be very low", says Simeon Hutchinson, Managing Director at Finlays. "I think awareness is probably the biggest challenge."

The third learning point, was how important government engagement was, but also how challenging it could be. "Why did we fail to influence government sooner", asks Richard Fairburn. "Why didn't government listen to industry ten years ago when we first started a dialogue? What can we learn from that?" Part of the answer was the issue of awareness, and part of it was the difficulty of engaging with an institution where natural capital concerns were one of many and continual staff rotations hindered momentum from gathering. But perseverance is essential. Engaging with government is not only important for achieving the policy changes business requires to support a drive towards sustainability, it is also an opportunity to demonstrate a company's value to the country beyond the taxes it pays and the workforce it employs.

The fourth learning point reflects on the complexity of the relationship between natural capital and business. In hindsight the tea companies' reactions to the perceived risks coming from natural capital degradation look like a shrewd, strategic response which is now yielding benefits. In reality, the time frames over which changes can occur and the complexities of cause and effect meant that many of the decisions required more than a little leap of faith. Several of the early decisions were made based on what was believed to be right rather than what the available data proved beyond all doubt to be the case. Had the companies waited for all of the environmental data to become available it would have been too late to respond. By adopting a responsible, precautionary approach to natural capital maintenance from the very earliest days, the tea companies benefitted from being first movers in sustainable tea and from tangible reputational gains. But as time passes and further data become available, the key benefit will probably be that they have secured a key resource under threat for the decades to come.

The evolution of sustainability in business, from a defensive reaction to a systemic, proactive recognition of opportunity [x]

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“It's about leadership...the Unilever Sustainable Living Plan is being driven from the very top of the organisation. Business has a key role to play to make sure that this world is sustainable. We must support governments, academia and NGOs and should never underestimate our influence with consumers.”

Richard Fairburn,
Senior Agricultural Adviser, Unilever

The University of Cambridge Programme for Sustainability Leadership (CPSL) works with business, government and civil society to build leaders' capacity to meet the needs of society and address critical global challenges. Our seminars and leadership groups and our partnerships with those who make or influence decisions are designed to transform public and private sector policies and practices and build greater understanding of our interdependence with one another and the natural world. Our Network of alumni brings together the most influential leaders in the world who share an interest in and a commitment to creating a sustainable future.

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