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AGRICULTURAL GLOBAL VALUE CHAINS: THE CASE OF TOBACCO IN MALAWI

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Thesis submitted for the degree of PhD in Economics

2013

Department of Economics

SOAS, University of London
For Pops
Declaration for PhD thesis

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Signed: __________Jason Moyer-Lee______________ Date: __12 December, 2013__
Abstract

Global Value Chains (GVC) analysis, which is increasingly used in development studies to connect production in developing countries with consumption in developed countries, is used in this work to analyse the Malawi tobacco industry. This work engages with three key concepts of GVC analysis - territoriality, governance, and upgrading - in order to map the geography of the chain and its actors, examine power relationships in the chain, and determine which actors benefit from participation and how. In order to complement the firm focus of GVC analysis and incorporate a role for the state and producers, we draw on selected concepts from other theoretical traditions.

Empirical evidence used in our analysis of the global tobacco industry was collected through a combination of a desktop-survey of the scant academic literature available, semi-structured interviews with industry experts and stakeholders outside of Malawi, a synthesis of various primary sources, as well as a field visit to tobacco sites in the United States. The Malawi case study draws on evidence collected over the course of three fieldwork trips to Malawi and through observation, informal conversations, a firm-level survey, and over 50 semi-structured interviews with industry stakeholders and officials in farmer organizations and government there.

We find that whilst firms have played a dominant role in transforming and determining participation in the Malawi tobacco industry, government and farmer associations have also been decisive. In particular, government policy has contributed to the territoriality of, as well as governance of and upgrading in the chain. Likewise, smallholder producers have used their associational power in order to upgrade in the chain. This work therefore contributes to the empirical literature on the global and Malawian tobacco industries, as well as to debates on the theoretical underpinnings of the GVC literature.
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Acronyms and Abbreviations

AABTC  -  Action-Alert-Brand-Targeting-Campaign
ACA    -  Agricultural Commodity A
AD     -  Agronomy Director
ADMARC -  Agriculture Development and Marketing Corporation
AfDB   -  African Development Bank
Afubra -  Associação dos Fumicultores do Brasil (Brazilian Tobacco Growers’ Association)
AHL    -  Auction Holdings Limited
AOI    -  Alliance One International
APMB   -  Agricultural Production and Marketing Board
ARET   -  Agricultural Research and Extension Trust
ASAC   -  Agricultural Sector Adjustment Credit
ATC    -  Associated Tobacco Company
B&E    -  Blantyre and East Africa Company
B&W    -  Brown and Williamson
B2B    -  Business-to-business
BAT    -  British American Tobacco
BATSA  -  British American Tobacco South Africa (pty) Ltd. (subsidiary)
BC     -  Blue Chip
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>BDCC</td>
<td>Buyer-Driven Commodity Chain</td>
</tr>
<tr>
<td>BWI</td>
<td>Bretton Woods Institutions</td>
</tr>
<tr>
<td>C&amp;T</td>
<td>Compliance and Traceability</td>
</tr>
<tr>
<td>CDC</td>
<td>Center for Disease Control (U.S.)</td>
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<tr>
<td>CEO</td>
<td>Chief Executive Officer</td>
</tr>
<tr>
<td>CoC</td>
<td>Codes of Conduct</td>
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<tr>
<td>CNTC</td>
<td>China National Tobacco Corporation</td>
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<tr>
<td>CR</td>
<td>Corporate responsibility</td>
</tr>
<tr>
<td>CSF</td>
<td>Critical Success Factor</td>
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<tr>
<td>CSR</td>
<td>Corporate social responsibility</td>
</tr>
<tr>
<td>CT</td>
<td>Convention theory</td>
</tr>
<tr>
<td>DC</td>
<td>Developed country</td>
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<tr>
<td>DFID</td>
<td>Department for International Development (U.K.)</td>
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<tr>
<td>DPP</td>
<td>Democratic Progressive Party</td>
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<tr>
<td>ECF</td>
<td>Extended Credit Facility</td>
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<tr>
<td>ECLT</td>
<td>Eliminating Child Labour in Tobacco Foundation</td>
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<tr>
<td>EOI</td>
<td>Export-oriented industrialization</td>
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<tr>
<td>ETI</td>
<td>Ethical Trading Initiative</td>
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<tr>
<td>EU</td>
<td>European Union</td>
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<tr>
<td>FAO</td>
<td>Food and Agriculture Organisation</td>
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<tr>
<td>FCTC</td>
<td>Framework Convention on Tobacco Control</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>FCV</td>
<td>Flue-cured Virginia</td>
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<tr>
<td>FDA</td>
<td>Food and Drug Administration (USA)</td>
</tr>
<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
</tr>
<tr>
<td>FFV</td>
<td>Fresh fruits and vegetables</td>
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<td>FISP</td>
<td>Farm Input Subsidy Programme</td>
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<td>FMB</td>
<td>Farmers Marketing Board</td>
</tr>
<tr>
<td>FUM</td>
<td>Farmers’ Union of Malawi</td>
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<tr>
<td>FY</td>
<td>Financial year</td>
</tr>
<tr>
<td>GAP</td>
<td>Good Agricultural Practices</td>
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<tr>
<td>GCC</td>
<td>Global Commodity Chain</td>
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<td>GDB</td>
<td>Global Drive Brands</td>
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<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GFB</td>
<td>Global Flagship Brands</td>
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<tr>
<td>GLT</td>
<td>Green leaf threshing plant</td>
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<td>GPN</td>
<td>Global Production Network</td>
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<td>GVC</td>
<td>Global Value Chain</td>
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<td>GVCT</td>
<td>Global Value Chain for Tobacco</td>
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<tr>
<td>HH</td>
<td>Households</td>
</tr>
<tr>
<td>IB</td>
<td>Independent Buyer</td>
</tr>
<tr>
<td>ICA</td>
<td>International Coffee Agreement</td>
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<tr>
<td>ICC</td>
<td>International Cigarette Company</td>
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<tr>
<td>Abbreviation</td>
<td>Full Name</td>
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<td>--------------</td>
<td>---------------------------------------------------------------------------</td>
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<tr>
<td>ICO</td>
<td>International Coffee Organisation</td>
</tr>
<tr>
<td>IFI</td>
<td>International Financial Institution</td>
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<tr>
<td>IGO</td>
<td>Inter-Governmental Organisation</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
</tr>
<tr>
<td>IMS</td>
<td>International marketing standards</td>
</tr>
<tr>
<td>IPS</td>
<td>Integrated production system</td>
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<tr>
<td>ITC</td>
<td>Imperial Tobacco Company</td>
</tr>
<tr>
<td>ITGA</td>
<td>International Tobacco Growers’ Association</td>
</tr>
<tr>
<td>IUF</td>
<td>International Union of Food, Agriculture, Hotel, Restaurant, Catering,</td>
</tr>
<tr>
<td></td>
<td>Tobacco and Allied Workers’ Association</td>
</tr>
<tr>
<td>JT</td>
<td>Japan Tobacco Inc.</td>
</tr>
<tr>
<td>JTI</td>
<td>Japan Tobacco International</td>
</tr>
<tr>
<td>LDC</td>
<td>Less developed country</td>
</tr>
<tr>
<td>LL</td>
<td>Limbe Leaf (Malawi subsidiary of Universal Corporation)</td>
</tr>
<tr>
<td>MCP</td>
<td>Malawi Congress Party</td>
</tr>
<tr>
<td>MD</td>
<td>Managing Director</td>
</tr>
<tr>
<td>MFA</td>
<td>Multi-Fibre Arrangement</td>
</tr>
<tr>
<td>ML</td>
<td>Malawi Leaf</td>
</tr>
<tr>
<td>MNC</td>
<td>Multi-national corporation</td>
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<td>MRFC</td>
<td>Malawi Rural Finance Company</td>
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<tr>
<td>Acronym</td>
<td>Definition</td>
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<tr>
<td>MSA</td>
<td>Master Settlement Agreement</td>
</tr>
<tr>
<td>MTRA</td>
<td>Malawi Tobacco Research Authority</td>
</tr>
<tr>
<td>NASFAM</td>
<td>National Smallholder Farmers’ Association of Malawi</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
</tr>
<tr>
<td>NGP</td>
<td>Next Generation Product</td>
</tr>
<tr>
<td>NIC</td>
<td>Newly Industrialized Country</td>
</tr>
<tr>
<td>NSO</td>
<td>National Statistics Office</td>
</tr>
<tr>
<td>NTB</td>
<td>Native Tobacco Board</td>
</tr>
<tr>
<td>NTRM</td>
<td>Non-Tobacco Related Materials</td>
</tr>
<tr>
<td>OBM</td>
<td>Own-brand manufacturing</td>
</tr>
<tr>
<td>OEM</td>
<td>Original equipment manufacturing</td>
</tr>
<tr>
<td>PDCC</td>
<td>Producer-Driven Commodity Chain</td>
</tr>
<tr>
<td>PMI</td>
<td>Phillip Morris International</td>
</tr>
<tr>
<td>PMUSA</td>
<td>Phillip Morris USA</td>
</tr>
<tr>
<td>PP</td>
<td>People’s Party</td>
</tr>
<tr>
<td>PPP</td>
<td>Public-Private Partnership</td>
</tr>
<tr>
<td>PR</td>
<td>Public relations</td>
</tr>
<tr>
<td>PT</td>
<td>Premium-TAMA</td>
</tr>
<tr>
<td>R&amp;D</td>
<td>Research and development</td>
</tr>
<tr>
<td>RAI</td>
<td>Reynolds American Inc.</td>
</tr>
<tr>
<td>Acronym</td>
<td>Description</td>
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<tr>
<td>RJR</td>
<td>R J Reynolds</td>
</tr>
<tr>
<td>RYO</td>
<td>Roll Your Own cigarettes</td>
</tr>
<tr>
<td>SADC</td>
<td>Southern African Development Community</td>
</tr>
<tr>
<td>SADP</td>
<td>Smallholder Agricultural Development Project</td>
</tr>
<tr>
<td>SAL</td>
<td>Structural Adjustment Loan</td>
</tr>
<tr>
<td>SMI</td>
<td>Supplier Managed Inventory</td>
</tr>
<tr>
<td>SSA</td>
<td>Sub-Saharan Africa</td>
</tr>
<tr>
<td>STR</td>
<td>Sindicato de Trabalhadores Rurais (Rural Workers Union, Brazil)</td>
</tr>
<tr>
<td>TAMA</td>
<td>Tobacco Association of Malawi</td>
</tr>
<tr>
<td>TAPS</td>
<td>Tobacco advertising, promotion and sponsorship</td>
</tr>
<tr>
<td>TCC</td>
<td>Tobacco Control Commission</td>
</tr>
<tr>
<td>TNC</td>
<td>Trans-national corporation</td>
</tr>
<tr>
<td>TRIM</td>
<td>Tobacco Research Institute of Malawi</td>
</tr>
<tr>
<td>UC</td>
<td>Universal Corporation</td>
</tr>
<tr>
<td>UDF</td>
<td>United Democratic Front</td>
</tr>
<tr>
<td>UDI</td>
<td>Unilateral Declaration of Independence (Rhodesia)</td>
</tr>
<tr>
<td>WB</td>
<td>World Bank</td>
</tr>
<tr>
<td>WHO</td>
<td>World Health Organisation</td>
</tr>
<tr>
<td>WST</td>
<td>World Systems Theory</td>
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PART 1: THEORY, STRUCTURE, AND METHODS
Chapter 1: Introduction and Overview

1.1 Introduction

Tobacco has long been Malawi’s primary source of foreign exchange, often accounting for up to 60% of earnings. Production of tobacco in Malawi is mainly smallholder-based and almost entirely orientated towards exports (Prowse and Moyer-Lee, forthcoming). The global tobacco industry - upon which the economic fate of Malawi rests - is unique in a number of ways. The main end-product of this industry – cigarettes - are best known for their lethality, and are subject to an ever-increasing barrage of demand-reducing regulations on an international scale. The selection of the Malawian tobacco industry as this work’s object of inquiry was based on the peculiarities of the industry as well as on Malawi’s dependence on it.

It has become quite fashionable in a number of disciplines to address development issues in a manner which connects producers in developing countries with consumers in developed countries. Various “systems”, “networks” and, in particular, “chain” approaches have attempted to achieve this aim in different ways. There is an extensive literature on as well as comparing these approaches, which in the interests of space, will not be engaged with here¹. For our purposes we are predominantly interested in the Global Value Chain (GVC) approach, and to a lesser extent its intellectual predecessor, the Global Commodity Chain (GCC) approach.

¹ For example, on a discussion of commodity chains, Global Commodity Chains (GCC), value chains, Global Value Chains (GVC), and Global Production Networks (VPN), see Campling (2012b). For a comparison of the French filière and GCC approaches, see Raikes et al. (2000). For a discussion and comparison of commodity chains, GCC, and GVC approaches, see Bair (2005). For a comparison of GCC/GVC with an (albeit very brief) discussion of commodity chains, “commodity systems analysis”, systems of provision, filiere, GPN, supply chain management, and value chain approaches, see Bair (2009). For “cross continental food chains” see Fold and Pritchard (2005b).
In Section 1.2 we will present some of the key literature on Global Value Chains, with particular emphasis on the concepts of *territoriality*, *governance*, and *upgrading*. In Section 1.3, we will present some critiques of the GVC literature, both from within and without of the literature, with an eye towards expanding our analytical framework. In an effort to more explicitly incorporate the role of the state in developing countries, we will draw on some of the developmental state literature. Likewise, in order to incorporate a role for smallholder farmers as key actors in global value chains, and following Selwyn (2007; 2012) we will draw on Wright’s (2000) *associational power*.

In Section 1.4 we will provide an overview of our case. We will first summarize our analytical approach. We will then expand on our reasons for choosing the global tobacco industry, Malawi, and a GVC approach for the purpose of interrogating the connection between the two. Next we will present a number of research questions arising as well as substantive areas of GVC analysis which will not be fully incorporated into this work and why. The section will conclude by presenting an outline of the rest of the thesis.

### 1.2 Global Value Chains: Key Concepts

#### 1.2.1 A GVC Understanding of the Formation of Power Imbalances in the Global Economy

In the period from the end of World War II to the oil embargos of the 1970’s, rich countries\(^2\) attained unprecedented levels of wealth. Gibbon and Ponte (2005) argue that this led to an eventual saturation of markets for many basic commodities, requiring the companies selling these commodities to come up with new and innovative ways of attracting buyers (e.g. product differentiation and branding). The stagflation in rich

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\(^2\) Rich countries (or developed countries) in this work will refer essentially to Western Europe, North America, Japan, Australia, and New Zealand.
countries resulting from the OPEC embargos was followed by the elections of Reagan and Thatcher and the birth of the neoliberal era. These regimes engaged in substantial deregulation which in part led to the financialisation of the Anglo-Saxon economies.

Financialisation gave rise to what Gibbon and Ponte (2005) refer to as the share
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holder value doctrine, which stipulates that publicly listed companies come under pressure first and foremost to maximize the values of their shares\(^3\). Share values tend to increase with an increase in perceived returns on physical capital (which is intended to proxy for company efficiency). The shareholder value doctrine therefore increased pressure on firms to disassociate (re: outsource) themselves from activities requiring substantial physical capital such as manufacturing (Gibbon and Ponte, 2005). Or as Palpacuer (2008, p 395), paraphrasing Lazonick and O’Sullivan (2000), describes:

Major US corporations shifted from a ‘retain and reinvest’ strategy, primarily using cash flows to sustain growth, to a strategy of ‘downsize and distribute’ coupling work externalization and lay-offs to greater cash flow distribution to shareholders in the form of dividends and share buy-backs.

In addition to increasing pressures to increase return on capital by outsourcing manufacturing, Palpacuer et al. (2005) suggest two other ways in which the shareholder value doctrine may influence firms’ relations with their suppliers. First, there may be a tendency towards focussing on and increasing control over key suppliers in order to improve efficiency. Second, there may be an increased focus on monitoring of suppliers in an efficient manner which facilitates communication of key indicators to shareholders\(^4\).

The post-war boom also had positive effects for developing countries as they produced many goods that rich-country consumers demanded. Furthermore, relatively

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\(^3\) Lazonick and O’Sullivan (2000) suggest a number of factors which contributed to the increasing corporate emphasis on shareholder value. These factors include but are not limited to: competitive pressures on giant U.S. corporations (especially from Japan), the academic influence of agency theory in financial economics, and support from institutional investors. Milberg (2008) further attributes the rise in importance of the financial sector to non-financial corporations to the increasing gap in the rate of return on financial and manufacturing investments in the 1970s. Milberg argues that tight monetary policy and financial sector deregulation increased returns on financial investments while increased competition from Japan decreased manufacturing investment returns.

\(^4\) Also, see Raikes et al. (2000) on the trend towards the prioritization of lead firms of maximizing share values, and its consequence for relations with suppliers.
symmetrical bargaining positions of rich country consumers and developing country producers existed for a variety of reasons, a full exposition of which is beyond the scope of this chapter. However, some potential explanatory factors include: the nature of cold war politics, the presence and strength of agricultural state marketing boards in developing countries and the consequential existence of the producer country as an economic agent/unit, and the existence of international commodity agreements (Gibbon and Ponte, 2005). The agricultural state marketing boards (many of which were introduced in the 1930’s) dramatically reduced entry barriers for smallholders as they often supplied credit and inputs as well as reduced risk through guaranteeing purchase of smallholder output (Daviron and Gibbon, 2002). The international commodity agreements raised and stabilized prices through export quotas or buffer stocks and were noteworthy in that they were agreed upon by both producer and consumer countries (Gibbon and Ponte, 2005; Ponte, 2002a). See Table 1.1 below for data on some of these agreements with relevance to Africa.

According to Gibbon and Ponte (2005), the 1980’s and the end of the cold war saw the demise of the international commodity agreements and state marketing boards. Rich countries, and the international financial institutions (IFIs) they ran, pressed for deregulation, privatisation, and free trade policies for less developed countries (LDCs). Neoliberalism saw free trade as a cure-all for LDC preoccupations such as growth and poverty, despite inconclusive empirical evidence (Deraniyagala, 2005). As the role of agricultural parastatals decreased and developing country supply of agricultural commodities became increasingly fragmented, many multi-nationals increased their direct sourcing through various forms of contract farming (Fold and Pritchard, 2005a, p 19). Occurring simultaneously with the increasing concentration of buyers and fragmentation of suppliers was a “capture of control over product differentiation by those in ‘buyer’ segments” (Daviron and Gibbon, 2002, pp. 152-3)\(^5\), and the increasing importance of intangible assets such as branding (Gereffi, 2013).

\(^5\) We will return to this theme in our discussion of upgrading below.
Table 1.2: International Commodity Agreements for Sugar and Cocoa

<table>
<thead>
<tr>
<th>Commodity</th>
<th>Title and start year</th>
<th>Price control mechanism</th>
<th>Years when economic provisions were operational</th>
<th>Number of years during which average price exceeded recommended level</th>
<th>Number of African producing country signatories</th>
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Source: modified from Gibbon and Ponte (2005, p 48)

The interaction of the trends described above led to an increase in buying power (defined below) in those companies or chain segments located in developed countries (Gibbon and Ponte, 2005), in particular in retail and finance (Gibbon et al., 2008). Amanor’s (2009, p 251) description of the impact of these changes on developing country coffee producers can be somewhat generalized to developing country producers of other goods:

Deregulation and the collapse of the old coffee agreements have served to undermine stability of production and have increased the bargaining power of roasters and suppliers and their ability to make profits through the manipulation of the marketing and branding of coffee. Thus the largest profits accrue from symbolic marketing rather than from improvements in production conditions, enabling roasters and suppliers to extract greater profits while making farmers absorb costs of production and most of the risk.

Milberg (2008) further suggests that many of the trends described thus far are self-reinforcing. More specifically, he argues that the oligopsonistic buying power of non-financial corporations which maintain production networks in developing countries helps sustain the process of financialisation in two ways. First, the combination of higher buying power and lower costs enables these firms to maintain cost mark-ups without investing in productivity improvements. Given the predominance of the shareholder value doctrine,
the profits generated by these mark-ups are then returned to shareholders. Second, the increased dollar revenues accruing to the developing countries participating in these production networks, in particular China, are then re-invested in American financial markets.

1.2.2 The Birth of the Literature

Paralleling the trend in economic policy outlined above was a trend in academic economics toward neoclassical extremism. Given this hegemonic discourse it is understandable that literature on GVCs would lag behind the emergence of GVCs and be established by geographers, sociologists and “heterodox” economists (Bernstein and Campling, 2006a).

The GVC literature’s intellectual roots are found in World Systems Theory (WST) and its vision of the global economy being divided into core and periphery countries (Gibbon et al., 2008; Bair, 2005; Selwyn, 2011). Whilst the WST literature on commodity chains drew attention to how developing and developed countries were linked through commodities, and how the latter extracted surplus value from the former, the GCC (and later GVC) literature distinguished itself by focussing more on the role of lead firms, the potential for upgrading, and the impact on national development in developing countries (Bair, 2005; Selwyn, 2012). The post-WST (global) commodity chain literature has also distinguished itself from its intellectual predecessor by operationalising the theoretical concepts with contemporary empirical case studies (Henderson et al., 2002; Bair, 2005; Selwyn, 2011).

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6 Selwyn (2011, 2012) also traces the intellectual foundations to Schumpeter’s (1954) concepts of leading sectors and creative destruction.

7 Although the emphasis of this literature appears to be on the core-periphery divide, Selwyn (2011, 2012) distinguishes WST from Dependency Theory in that the former also allows for a semi-periphery.
Unequivocally, the most important early work on GCCs is a chapter by Gary Gereffi in a collection edited by Gereffi and Korzeniewicz in 1994. Gereffi (1994) set the terms according to which future work on commodity and value chains would be discussed and analysed. In this work Gereffi establishes the difference between producer- and buyer-driven chains. Producer-driven chains tend to occur in industries which are intensive in physical and human capital. These chains are dominated by large multinational corporation (MNC) manufacturers/producers, which in turn tend to locate near the main consumer markets, such as the automobile industry (Gereffi, 1994; 1999a).

Buyer-driven chains, on the other hand are

...those industries in which large retailers, brand-named merchandisers, and trading companies play the pivotal role in setting up decentralized production networks in a variety of exporting countries, typically located in the Third World (Gereffi, 1994, p 97)\(^8\).

As can be seen by the above definition, these chains are particularly relevant for developing countries. For this reason this chapter will focus on buyer-driven chains. Although much of the literature on GVCs ignores (or superficially deals with) development policy (more on which below), Gereffi (1994) associates buyer-driven chains with export-orientated industrialization (EOI) strategies as both phenomena emerged in the early 1970’s in the Newly Industrialized Countries (NICs). In this work, Gereffi (1994) also identified three key elements of GCCs: the input-output structure, territoriality, and governance. The first two elements are primarily descriptive: input-output structure refers to the different products and services that flow through chain, while territoriality refers to the geographical coverage as well as the actors in the chain. Indeed these two elements have received far less attention in the literature than the third element, governance\(^9\). However, we are particularly interested in the concept of territoriality to the extent that it can incorporate end-market segmentation. The question of what

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\(^8\) For conceptual similarities between Gereffi’s buyer-driven chain, and (the earlier) work of Stephen Hymer on multi-national corporations, see Bair (2009) and Campling (2012b).

\(^9\) Daviron and Ponte (2005, p 27) even amalgamate the two descriptive elements into one, stating that Gereffi (1994; 1995) originally identified three key elements of global commodity chains. The three elements include the later addition of “institutional framework”, more on which below.
constitutes a global value chain has been asked but not definitively answered, within the GCC and GVC literatures. For example, Raikes et al. (2000, p 400) ask:

Is a GCC just any channel, or set of channels, by which produce crosses the world, or should the notion itself include the specific power and governance structures seen by Gereffi to define GCCs?

Similarly, Gibbon (2003b, p 1812) notes:

With regard to the geographic and economic boundaries of chains, methodological questions have been raised concerning whether “GCC/GVCs” refer to the input-output and geographical structures for entire commodities, in which case difficulties of coherence may be entailed, or whether they refer also to the input-output and geographical structures concentrated on production and trade for/by certain groups of lead agents, or even certain individual lead firms. This relates to an underlying issue of the identity criteria for commodity chains, which is posed most acutely when the production and trade for the same commodity appears to take quite different forms in different contexts.

Indeed, Gibbon’s (2003b; 2008a; 2008b) work on African clothing exports (in particular from Mauritius) recognises end-market segmentation, as does Selwyn’s (2007; 2012) work on grape exports from North East Brazil. Approaching GVC segmentation from a downstream perspective, Palpacuer et al. (2005) discuss the differentiation of the E.U. market for clothing (specifically by comparing the U.K., France, Denmark, and Sweden). The authors differentiate the value chain segments ending in these different countries by, among others, the lead firms’ concentration of supply bases, relations with suppliers, types of suppliers preferred, and entry barriers and opportunities for upgrading for suppliers. Palpacuer et al. (2005) attribute some of these differences to the level of maturity of the lead firms, which is in turn associated with the increasing financialisation of the lead firm sector of a particular chain segment. Similarly, Riisgaard (2009) differentiates between two strands of the value chain for cut flowers ending in Europe—one led by major U.K. retailers, and the other by a multitude of buyers who purchase their flowers at the Dutch auctions.
As can be see in the above examples, end-market segmentation in GVC literature has often been explained as a function of one or more of the following characteristics: geographic location (e.g. E.U. versus U.S.)\(^{10}\), the degree and form of regulations in an end-market, high-end versus low-end, type of lead firm (e.g. manufacturer versus marketer, or degree of capture by the *shareholder value doctrine*), and type of marketing channel (Gibbon, 2003a; 2008a; 2008b; Selwyn, 2007; 2012; Palpacuer et al., 2005; Riisgaard, 2009).

With regard to the identification of different strands or threads of the value chain, throughout this work we will employ the nomenclature developed by Daviron and Ponte (2005, p xxiv) for their analysis of coffee using a global value chains framework. Thus, we will refer to the Global Value Chain for Tobacco (GVCT) when analysing “general features in relation to the movement of... from production to consumption,” and we will refer to the Malawi (smallholder burley) Tobacco Value Chain when discussing the strand of the GVCT which originates in Malawi.

Governance, on the other hand, is a concept used for analysing the role of key actors in the chain, which we will return to below. In a later work, Gereffi (1995) added “institutional framework” as a fourth element of GCCs. This refers to “how local, national, and international conditions and policies shape the globalization process at each stage of the chain” (p 113). However, the role of “institutional framework” has been emphasized by some GCC/GVC analysts primarily with regard to upgrading (more on which below) (Gibbon and Ponte, 2005; Daviron and Ponte, 2005).

It is necessary to clarify one important aspect of the edited collection by Gereffi and Korzeniewicz (1994). The works in this collection refer to global commodity chains (GCCs) rather than global value chains. The change in nomenclature resulted from a collaborative research effort in 2000 on global production networks. The GVC terminology was deemed to be the most inclusive\(^{11}\) (Bair, 2009). Bair (2005, p 154),

\(^{10}\) For example, Gibbon (2008a) stresses the historical and cultural reasons for the differentiation of the U.S. and E.U. end-markets for clothing, as well as the influence of various trade regulations.

\(^{11}\) The “commodity” concept has been criticised on numerous fronts, including those proposing alternative approaches such as Global Production Networks (GPN). In particular, Henderson et al. (2002, p 444) argue
however, posits a more important distinction between Global Commodity Chains and Global Value Chains:

What distinguishes the GVC approach from the GCC paradigm to which it is closely related is the greater influence of the international business literature on its analysis of global production networks, as opposed to the more sociological orientation of the earlier GCC framework, and a more pronounced interest in the policy implications of chain research.

However, Bair (2008) points out that some work (e.g. Gibbon and Ponte, 2005; Daviron and Ponte, 2005) has seen the shift as merely a change in nomenclature while other work, in particular Gereffi, Humphrey, and Sturgeon (2005), represents a change in approach.

Building on Bair (2008), we recognise two principal variants of GVC analysis in this work. The first variant, associated with Gibbon, Ponte, and Daviron, will be denominated as GVC-GPD. This variant’s theoretical underpinnings are more closely related to Gereffi’s original work (1994; 1995) and to the GCC tradition, while its empirical focus consists primarily of African agriculture. The second variant, associated with Gereffi, Humphrey and Sturgeon (in particular with their work on upgrading within the value chains framework and on the their jointly authored theory of value chain governance, more on which below), will be denominated as GVC-GHS. This variant more closely approximates Bair’s (2008) description of the GVC (as opposed to GCC) literature.

Given our explicit recognition of various strands of literature within the GVC tradition, it would be difficult to argue that GVC analysis represents a coherent and unified theoretical approach. Indeed, following Campling (2012b) and Gibbon et al. (2008), who argue that it perhaps is better understood as a methodological approach, we will treat the GVC literature as an approach which incorporates a number of main ideas or concepts (e.g. lead firm governance, upgrading, etc.) in both the GVC-GHS and GVC-GPD variants.

that the term “...clearly does not capture adequately the post-fordist forms of activity that characterise many of the industries that the GCCs framework, for instance, was designed to analyse.”

12 Our identification of each variant with these specific authors is not an attempt to state that these are the only, but rather the more prominent authors. Other GVC analysts can be loosely associated with one of the two variants. For example, Kaplinsky with GVC-GHS and Palpacuer with GVC-GPD. Both of these approaches and their differences will be discussed further below.
However, this is not to say that the GVC literature is devoid of theoretical insights. Indeed, one of the defining characteristics of the GVC-GHS variant (in particular Gereffi et al., 2005) is these authors’ attempt to develop a theory of value chain governance, in which a number of independent variables can predict dependent variables such as value chain governance type and level of power asymmetries (more on which below). Indeed, the GVC literature’s compatibility with and/or dependence on other theoretical traditions has been presented as both weakness and strength. For example, Gereffi et al.’s (2005) theory of value chain governance has been widely critiqued for its dependence on transaction cost economics (more on which below). On the other hand, Selwyn’s (2007; 2012) coherent incorporation of Wright’s (2000) theory of class compromise into a GCC framework served as one of the main building blocks for the construction of our analytical framework (more on which below).

1.2.3 Governance

This work will engage with two of the main interpretations of GVC governance. In the first interpretation, predominant in the GVC-GPD variant, governance is drivenness, and the main object of inquiry is how lead firms exert their power throughout the chain. In the second interpretation, favoured by the GVC-GHS variant and associated with Gereffi et al. (2005), governance is coordination (explained below). In this sub-section we will discuss governance as drivenness, drawing on two widely cited case studies to illustrate the concept. We will then discuss two important contributions to our understanding of power relations between lead firms and first tier suppliers, followed by an exposition and assessment of Gereffi et al.’s (2005) theory of value chain governance (as coordination).

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13 Interestingly, given Gereffi’s leading role in the attempt to theorise key aspects of Global Value Chains, Gereffi and Fernandez-Stark (2011) also refer to Global Value Chains as a “methodology.”

14 Gibbon et al. (2008) propose a third (and new) type of value chain governance: normalization, understood as “a project of realigning a given practice so that it mirrors or materializes a standard or norm” (p 324). Drawing heavily on convention theory, governance as normalization appears to be in part a reaction to the
Gereffi (1994, p 97) defined governance as: “authority and power relationships that determine how financial, material, and human resources are allocated and flow within a chain.” In other words, who does what in the chain, and who decides who does what? In order to get a clearer picture of this one can imagine a chain with four links for Agricultural Commodity A (ACA). For the sake of simplicity let’s suppose that producers in a developing country produce ACA and sell it to local exporting companies. The local exporting companies then sell ACA to rich-country importing companies who in turn sell ACA to rich-country stores. In this simple schematic the rich-country stores would be the “lead firms” meaning they control who produces ACA and how ACA is produced, the importing companies would be the “first tier suppliers” and the exporting companies the “second tier suppliers”. To analyse the governance in this ACA chain we would be interested in how the lead firms exert their influence on the other chain segments further upstream (i.e. towards the producers), i.e. how the chain is driven.

The drivenness conceptualization of governance does not ignore issues of coordination, however. It indeed recognises that at one end of the spectrum there is “hands-off” coordination where lead firms exert influence upstream on (nominally) independent companies who are nonetheless beholden to their buyers. At the other end of the spectrum there is “vertical integration” where first and second tier suppliers are subsidiaries of the same company as the lead firms. It is important to keep in mind that other two governance concepts, and is associated with the GVC-GPD variant. Indeed, Gibbon and Ponte (2008, p 381), in which the authors “continue their effort of understanding GVC governance in terms of normalization through the lenses of governmentality” (Gibbon et al., 2008, p 327), critique both (the drivenness and coordination) governance approaches for claiming to be empirical, yet:

Both are nonetheless constructed without reference to the programmatic formulation of buying objectives and practices found in the purchasing trade. Thus, their findings tend mainly to reflect the theoretical biases of the variant of GVC analysis that they arise from. Although in this work we will engage with some aspects of GVC governance which could be more associated with the normalization approach (e.g. incorporation of the role of non-firm actors, investigating the objectives of buyers in their purchasing decisions), our empirical investigation, and hence our discussion in this chapter, more closely approximates the drivenness and coordination approaches to governance. Likewise, with its main emphasis on asymmetrical power relations throughout the chain and on how lead firms use these power asymmetries to control the entire chain, we argue that the drivenness approach to governance dominates in much of the GVC-GPD variant of the literature. Therefore, whilst not dismissive of other approaches to governance, and bearing in mind the confines of space, our emphasis in this work will be primarily on governance as drivenness, and to a lesser extent as coordination.

15 Being beholden to a buyer is usually explained in the literature in terms of asymmetrical bargaining power which is in turn usually explained through buyer market share and/or ability to impose standards and relegate functions upstream.
different points of the chain can be characterized by different levels of buying power and market relations. In accordance with the above narrative of the global economy, lead firms have become increasingly concentrated and powerful and exert their influence in a more “hands-off” way (Gibbon and Ponte, 2005; Gereffi and Lee, 2012). Indeed, with regard to the producer-driven versus buyer-driven governance dichotomy - a key element of the conceptualization of governance as drivenness - Bair (2005, p 159) notes that

...what is most significant about the dichotomy between these ideal types is the theorization of commercial capital (what are often called ‘big buyers’ in the GCC literature) as the power brokers that call the shots for the many firms involved in the buyer-driven commodity chains they control, although they may have no equity relation to the firms actually producing the goods made on their behalf.

Buyer power of lead firms is usually treated as synonymous with market share (of either rich-country or global markets)\(^\text{16}\). Gereffi (1994, pp 115-116) argues that this buyer power increased in the global garment industry as a result of greater retailer concentration on the one hand and oversupply due to the number of overseas factories on the other. The author also stresses contextual factors such as the influence of the multi-fibre arrangement (MFA) and the recent (at time of writing) recession which caused higher demand for low-priced goods. In terms of how lead firms exercise power, Gibbon and Ponte (2005, p 123) state that

...the most important element of power relations between lead firms and first-tier suppliers is control over the definition of the functions that first-tier suppliers should play, rather than the externalization of low-profit functions as argued in earlier literature.

Lead firms use their power of defining functional roles along the chain to increasingly relegate functions further upstream. A common example of this is Supplier Managed

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\(^{16}\) Gereffi and Lee (2012) also emphasize the importance of the power of lead firms in buyer-driven chains derived from “their ability to shape mass consumption via strong brand names” (p 25). Likewise, Gibbon and Ponte (2008, p 366) identify “access to capital and proprietary technologies or marketing devices such as brands” as the key attribute of lead firms in the conceptualization of governance as driving. Also, see Raikes et al. (2000) on the implications of branding and retailing for power relations between lead firms and suppliers.
Inventory (SMI). This means that first tier suppliers must bear the costs of stocking a commodity until it is required by the lead firms. These costs include but are not limited to insurance, costs of physical storage, and finance.

Although originally developed for manufactures, many of the key concepts of the global value chains literature are increasingly applied to agricultural chains (Fold and Pritchard, 2005a). Dolan and Humphrey (2004) illustrate the concept of governance as drivenness with their case study of the Kenyan horticulture chain (ending in the U.K.). In this chain, from the 1960’s until the 1980’s Kenyan smallholders sold horticultural products to Kenyan exporting companies who in turn sold to U.K. importers and/or wholesalers. The importers/wholesalers would then go on to sell the goods to retail stores and/or consumers. From the 1980’s on, supermarkets started to focus more on selling fresh produce as a marketing strategy for a variety of reasons. Fresh fruit and vegetables were seen as a “destination category” (the availability of these products could determine where consumers shopped). They also had among the highest returns per shelf space of any items supermarkets sold. This strategic importance and high profitability led supermarkets to increase their purchases (imports) of fresh produce, thereby collectively constituting the majority of fresh produce purchases in the U.K. which in turn enhanced their buying power and gave them increasing influence over their suppliers (Dolan and Humphrey, 2004). Some of the rapid changes in purchasing patterns can be seen in Table 1.2 below.

From the 1980’s onwards also saw increased consumer concern (and consequently rich-country legislation) with food safety, epitomized by the 1990 (U.K.) Food Safety Act, which required retailers to ensure food safety and monitor production all the way upstream to the farm. The combination of stricter standards (higher entry barriers) and increased buyer power of supermarkets led to greater power asymmetries between supermarkets and their suppliers (Dolan and Humphrey, 2004). According to Dolan et al. (2000) this power asymmetry is reflected by the ease with which a supermarket may switch suppliers and the level of investment required for suppliers and growers to

\footnote{Dolan, Humphrey, and Harris-Pascal (2000, cited in Gibbon, 2001) argue that supermarkets’ increasingly exclusive knowledge of consumer trends like this one added to the buyer-drivenness of the supermarkets.}
participate in the chain. The supermarkets exerted this power over importers by raising their requirements such as for a year-round supply of fresh (safe) produce and by outsourcing increasingly complicated and risky tasks such as “category management.”

Dolan and Humphrey (2004, p 22) describe the “category management” idea as follows:

Products are grouped into a number of categories, and within each category the value chain is consolidated and a large part of its management transferred from the supermarkets to the “category captain” or “category manager”.

In this model the category manager, which is also a supplier, is expected to coordinate the other suppliers to ensure that demand is met and develop the category (through marketing) among other things.

Table 1.2: Distribution of Fresh Fruit and Vegetables in the UK by Market Outlet (% Share of Value)

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<tbody>
<tr>
<td>Supermarkets and major retail chains</td>
<td>63</td>
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</tr>
<tr>
<td>Greengrocers and market stalls</td>
<td>26</td>
<td>21</td>
<td>18</td>
<td>15</td>
</tr>
<tr>
<td>Independent grocers</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td>Farm shops/other</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>4</td>
</tr>
</tbody>
</table>

Source: Dolan, Humphrey and Harris-Pascal (2000, p 9)

This case study is a good example of what Gereffi and Lee (2012) argue to be one of the more prominent methods of lead firm governance: the use of quality standards. In particular,
Growing consumer awareness of social and environmental concerns also leads retailers to tightly coordinate with their suppliers. A relatively new phenomenon of private quality standards set by powerful individual retailers aims to dictate which products are to be supplied, and how, when and where they will be produced (p 28).

Standards are particularly prominent in food and agriculture, and are increasingly the domain of multi-national corporations (often in stricter form) in addition to public regulatory bodies in developed countries (Barling and Lang, 2005).

The conceptualization of governance as drivenness is also clearly displayed in Ponte’s (2002a; 2002b) work on coffee. Like many other commodities, the demand for coffee tends to increase in line with increasing consumer income. However, once consumer income reaches a certain level (i.e. that of rich countries) the demand flat-lines\(^\text{18}\). In the 1960’s the global coffee trade was dominated by the international coffee agreements between both producer and consumer countries which used a system of export quotas to raise and stabilize coffee producer-prices. The demise of these agreements in the 1980’s therefore led to lower and more volatile prices (Ponte, 2002a).

Roasters - the lead firms in the coffee chain - became increasingly concentrated, with merely five firms eventually obtaining more than two thirds of the world market share for (roasted and instant) coffees (Ponte, 2002a). As Ponte and Gibbon (2005, p 12) point out, roasters “have complete information on quality when they buy coffee, and they release next to no information to their clients.” According to these authors, the roasters use this asymmetric information to maintain their status as lead firms. The roasters use their lead firm power to implement a system of supplier-managed inventory (SMI). The original outsourcing of this task can be interpreted as a sign of lead-firm status among roasters as it occurred in the 1990’s when the futures market for coffee was “backwarding.” This means that future stocks of coffee were valued less than current stocks. In other words first tier suppliers were forced to bear the costs of stocking coffee if they wanted to be able to sell to roasters. In later years the futures market for coffee was “carrying” meaning that there was the potential for a profit to be made in stocking coffee. However

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\(^{18}\) Ponte (2002a) refers to the fact that growth of coffee consumption from 1989-1997 was at a stable low of around 1 % per year.
it is argued that SMI was maintained as roasters were captivated by the shareholder value doctrine and hence felt the need to reduce operations requiring high levels of physical capital (Ponte, 2002a). In an effort to differentiate their products and spread their risk roasters started blending coffees from a variety of countries. However, they required that producer countries and/or farms be capable of producing a minimum amount before they would purchase from them (Ponte, 2002a).

However the concept of drivenness and the buyer-driven versus producer-driven dichotomy did not escape criticism. One of the problems with the dichotomy (although not necessarily with the concept of drivenness per se), is that not all chains fit neatly into one or the other of the two categories. For example, Talbot (2009) describes the difficulty in classifying the coffee chain as buyer-driven or producer-driven in that it displays elements of both, as coffee roasters combine technology-intensive manufacturing with diversified global sourcing and a focus on branding. Furthermore, as the empirical scope of the GVC literature expanded, there arose a need to conceptually account for chains where relations between buyers and their (multi-national) suppliers displayed a certain amount of symmetrical power. Important contributions in this area include work by Sturgeon (2002) and Fold (2002, 2005). Sturgeon developed the terminology modular production networks, whereas Fold (2002) suggested a bi-polar governance structure. More specifically, Fold (2002) argues that the producer driven versus buyer driven dichotomy of GCC governance structures (discussed above) was inadequate in application to the global cocoa-chocolate industry because power in the chain lay with two different sectors of lead firms: cocoa grinders and chocolate manufacturers. Fold (2002) argues that a high level of concentration in both segments has increased mutual dependence, which grinders and manufacturers attempt to overcome by developing cocoa-based products for alternative outlets in the case of the former and by sourcing from international traders in the case of the latter. However,

19 Also see Daviron and Gibbon (2002) for a discussion on this topic with specific application to agriculture. Also, Palpacuer (2008), building on Gibbon (2002), argues that the increasing financialisation of (particularly Anglo-Saxon) GCCs has led the lead firms in these chains to place greater emphasis on economies of scale and monitoring of their suppliers, and hence in turn led to higher levels of concentration in first tier supplier segments of these chains.

20 Fold (2005) later employed Sturgeon’s (2002) terminology to describe the relations between grinders and branders/manufacturers.
The delicate balance in the global cocoa-chocolate chain is only maintained by the enormous cost of crossing the boundaries between existing segments on the basis of mergers and acquisitions; large-scale ‘green-field’ investments are out of the question (p 244).

Similarly, Sturgeon (2002, p 6) describes how the trend of increasing outsourcing by lead firms (in particular those in the American electronics industry) leads to the build-up of both scale and capabilities in the supply base:

As an industry’s supply-base comes to be comprised of large, highly capable turn-key suppliers the prospects for increased outsourcing are improved. In this way, turn-key suppliers and lead firms co-evolve in a recursive cycle of outsourcing and increasing supply-base capability and scale, which makes the prospects for additional outsourcing more attractive, not just to the lead firms that drove the upgrading of the supply base in the first instance, but for those lead firms just beginning to seriously consider large scale strategic outsourcing...

However, and similar to Fold’s concept of bi-polarity, Sturgeon (2002) stresses the level of independence of first tier suppliers from the lead firms. Sturgeon (2002) attributes this independence to the level of codifiability of transactions, which in turn mitigates against asset specificity and the build-up of transactional dependence of first tier suppliers on particular lead firms.

Building on Sturgeon’s (2002) work on modular value chains, Gereffi, Humphrey, and Sturgeon (2005) elaborated a more complex theory of GVC governance, whose objective was to identify the coordination used by lead firms. In other words, this work represents a conceptual shift from governance as drivenness to governance as coordination. Gereffi et al. (2005) designate five possible governance schemes: markets, modular, relational, captive, and hierarchical. There are three factors whose combination and interaction determine the type of governance: complexity of transactions, ability to codify information, and supplier capability. According to the theory these factors can have either “high” or “low” values. The complexity of interactions increases when lead

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21 For more on the difference in governance approaches, see Bair (2005, 2008, 2009).
firms “place new demands on the value chain, such as when they seek just-in-time supply and when they increase product differentiation” (p84). Codifying information - establishing the new demands in technical and/or process standards - is a mechanism used to decrease the complexity of transactions. Supplier capability, in turn, refers to the ability of the upstream chain participants to meet the demands and requirements of the buyers further downstream.

In GVCs governed by markets, information is easily codified and transactions are simple, thereby allowing buyers and sellers to switch easily amongst one another. In modular value chains transactions are complex but information is easily codified and suppliers have high levels of capabilities. Buyers pre-specify their orders and suppliers carry them out. In relational value chains there are “high levels of asset specificity,” about which information is not easily codified. This leads to mutual dependence between buyers and suppliers which mitigates bargaining asymmetries. In captive value chains suppliers have low capabilities and find it difficult to switch buyers, thereby leaving suppliers at the mercy of the buyers. Finally, hierarchical value chains are characterized by vertical integration: buyers exert complete control over the modes of production22. See Table 1.3 below.

Gereffi et al. (2005) use the examples of the global apparel industry (more on which below) and the horticulture chain (into the U.K., as above) to illustrate their ideas. According to the authors, the global apparel industry was characterized by captive governance from the 1950’s to the 1980’s. During this time period production (i.e. assembly) was located in Japan and subsequently in some of the NICs and depended on the provision of inputs and detailed instructions by the purchasers. The global apparel

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22 For a discussion of the similarities between Gereffi et al.’s (2005) theory of GVC governance and transaction cost economics, see Bair (2008). For example, describing the contribution to transaction cost economics by Oliver Williamson, Bair (2008, pp. 342-43) writes:

Although Williamson’s theory initially focused on elaborating the circumstances under which hierarchy (i.e. firms) may represent an efficient alternative to markets, he later acknowledged that intermediate forms of organization that mix elements of market and hierarchy are also possible.

...Williamson identified a ‘hybrid’ organizational form between market and hierarchy, which describes various kinds of long-term contracting arrangements or other situations in which there are repeated exchanges between autonomous parties that share some degree of mutual dependence...
industry of the 1990’s was characterized by *relational* governance as the NIC apparel companies switched to “full-package supply”. This meant that they were responsible for an increasing number of tasks including sourcing their own inputs.

### Table 1.3: Key Determinants of GVC Governance

<table>
<thead>
<tr>
<th>Governance type</th>
<th>Complexity of transactions</th>
<th>Ability to codify transactions</th>
<th>Capabilities in the supply-base</th>
<th>Degree of explicit coordination and power asymmetry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Modular</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Relational</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td></td>
</tr>
<tr>
<td>Hierarchy</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
</tr>
</tbody>
</table>

Source: Modified from Gereffi et al. (2005, p 87)

Gereffi et al. (2005) give the example of the sub-Saharan Africa (SSA) to U.K. horticulture value chain before the mid 1980’s as an example of market governance. As can be seen by the above description, this chain originally started with African smallholders and ended with U.K. wholesalers, most of the transactions along the way being characterized by arms-length market relations. The authors suggest that the governance of the chain became *modular* from the 1980’s onwards as U.K. supermarkets reduced the number of suppliers/importers they used and increased the responsibilities required of them. The increased requirements of U.K. supermarkets in turn led to vertical integration of many African exporters backwards (upstream) to have greater control over quality and standards. In other words many African exporters started producing their own food in addition to sourcing from other farms. Therefore, this node of the chain is characterized by *hierarchical* governance (Gereffi et al., 2005).
Gereffi et al.’s (2005) theory of value chain governance has been widely cited and critiqued. It has notably been accused of ignoring the bigger picture with regard to chain governance (i.e. how lead firms govern the entire chain), the influence of external actors on chains (Gibbon et al., 2008; Gibbon, 2008a; Bair, 2008), as well dehistoricizing value chain governance (Gibbon and Ponte, 2005, p 83). However, whilst deemed inadequate for the purposes of evaluating the overall governance of a chain, Gibbon (2008a) suggests that the theory’s potential usefulness lies in examining interactions between chain agents at one specific node:

Depending on the complexity of a given commodity, there will be any number of ‘make or buy’-type decisions needing to be made by a wide variety of agents at different links along a chain. The model suggested by Gereffi et al. is ideal for examining each of these individually. But it provides us with little indication of how to move from this level of analysis to a characterization of the overall pattern of decisions along a chain (p 38).

Likewise, Gereffi (2013) emphasizes the usefulness of theory for comparing governance structures at different nodes of a single chain (also see Talbot, 2009). Therefore, this theory has been understood to represent both a narrowing of the scope of GVC governance (from an entire chain to one node of a chain) and a shift in focus from drivenness to coordination (Bair, 2008). Indeed, even one of the theory’s authors, in an evaluation of the theory four years after publication (Sturgeon, 2009), appears to acknowledge the limited scope:

As a theory of linkages, the GVC governance framework is not intended to provide a complete theory of economic development, but a transaction-, firm- and industry-centric theory of governance among the firm- and establishment-level actors in the chain. As such it cannot provide a full accounting of the characteristics and consequences of GVCs (p 133).
1.2.4 Upgrading

The concept of upgrading has received an increasing amount of attention in the GVC literature and both its conceptual and empirical coverage has expanded over the course of the last decade. Gereffi (1999b) uses the example of the apparel chain to illustrate possibilities for what became known as functional upgrading, i.e. moving up the chain. Faced with many of the same pressures and incentives as other chains described above, rich-country clothing companies (retailers, branded-manufacturers) looked to increase their organizational flexibility and lower their costs. They did this by outsourcing production to the NICs in the 1960’s. In the 1970’s and 1980’s, in response to new rich-country importing quotas established by the Multi-fibre Arrangement (MFA) and a series of domestic supply constraints (e.g. rising wages, labour shortages, currency appreciation) the NICs started to relocate their factories to foreign sites which did not face the same constraints. However, due to the established (trust-based) relationships between rich-country buyers and NIC producers, the buyers continued to place their orders with NIC producers. The NIC producers would then have their outsourced manufacturers complete the job and the goods would be shipped from the (less quota-constrained) third country directly to the consumer country. Gereffi refers to this system as “triangle manufacturing”.

“Triangle manufacturing” is relevant for our discussion of upgrading in that in order for it to occur the NIC producers had to move up the chain beyond simple assembly (of manufacturer-provided inputs) to “full-package supply” or “original equipment manufacturing” (OEM) production. The latter is a model of production whereby the concerned firms produce garments according to the buyers’ designs but are responsible for sourcing their own inputs and managing the upstream segments of the chain. OEM often involves research and innovation in a continuous quest to better meet buyers’ demands. OEM results from learning from lead firms and leads to greater flexibility and increased value added.

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23 The following discussion is based on this article unless stated otherwise.
Some of the companies in the NICs moved beyond this model into marketing their own brands (i.e. own-brand manufacturing or OBM). However, whilst the above illustrates an isolated example of successful functional upgrading there appears to be much agreement in the literature that lead firms tend to block functional upgrading further upstream (Humphrey and Schmitz, 2000; Gibbon and Ponte, 2005; Kaplinsky et al., 2003).

In one of the first applications of the upgrading concept to agricultural chains, Gibbon (2001) outlines three important possibilities for upgrading primary commodities, suggests that they may be logically sequenced in the order in which he presents them, and emphasizes the potential role of the state in each. The first, “capturing higher margins for unprocessed commodities” (p 352), can be achieved

...by moving up the quality grade ladder, increasing volumes and reliability of supply, securing more remunerative contracts through forward sales and becoming active in hedging risk via utilizing futures and options instruments (p 352).

The author suggests that in smallholder-dominated sectors of developing countries that this type of upgrading implies a need for public action. The second form of upgrading entails “producing new forms of existing commodities (p 353),” and the example of gene-manipulated food crops is given. The final form of upgrading presented, “localizing commodity processing” (p 354), displays similarities to Gereffi’s functional upgrading. Gibbon outlines a number of state interventions which can be used to promote this form of upgrading, which include:

...bans, restrictions or disincentives (e.g., taxes/tariffs) on exports of given commodities in raw material form, and various types of public investment (and/or support to private investment) in processing itself- as well as in communications infrastructure, in increasing the availability/reliability of local raw material supply, export finance, workforce training and international marketing efforts (p 354).

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24 More specifically, the article was dedicated to international trader-driven chains. However, we argue that the concepts can be applied to agricultural value chains more broadly.

25 We argue that there is potential for this type of upgrading to occur for individual smallholders or smallholder cooperatives via certain forms of contract farming (more on which below).
The GCC/GVC literature (in particular the GVC-GHS variant) later went on to identify and focus on four main categories of upgrading within a GVC framework: process, product, functional, and intersectoral\textsuperscript{26} upgrading (Humphrey and Schmitz, 2002, cited in Gibbon and Ponte, 2005, pp 89-90; Kaplinsky et al., 2003; Barrientos et al., 2010). Process upgrading refers to producing a given product more efficiently, e.g. through acquisition of more advanced technology. Product upgrading entails producing an improved product, usually meaning a product characterized by higher value added. Intersectoral upgrading is the process of transferring the competencies used to produce one product to production of another product in a different chain, whereas functional upgrading refers to “moving up the chain” (as seen above).

Taking as starting point the fact that agricultural commodities (products) can be differentiated through process attributes (Humphrey, 2006), that given the amount of existing agricultural socially-related process standards that these differentiated products could be classified as “credence goods” (Reardon et al., 2001), and that if of higher value these goods could be considered upgraded, Moyer-Lee and Prowse (2012, p 10) argue that in agricultural value chains

\ldots it is apparent there is considerable scope for simultaneous process and product upgrading\textsuperscript{27}. This occurs, for example, when smallholders undertake processes to differentiate and upgrade products (e.g. to produce credence goods) in order to meet buyer requirements, which also result in improved efficiency, yields, quality, or reduced risk.

Functional upgrading, however, remains the main focus in the GVC-GHS literature. Gereffi (1999b, p 39) stresses the importance of participating in a commodity (value) chain for functional upgrading as participation places “firms and economies on potentially dynamic learning curves.” Policies regarding (functional) upgrading have been the centre of much debate in development policy circles. Cramer (1999) warns of the inherent difficulties arising from the generally highly aggregated nature of this debate and the

\textsuperscript{26} Also referred to as “chain upgrading”.
\textsuperscript{27} By emphasizing the occasional simultaneous nature of product and process upgrading in agricultural value chains, it is hoped that we can overcome the inherent difficulty in distinguishing between the two, identified by Gibbon and Ponte (2005).
pervasive disregard for country and commodity specifics by the proponents of both sides of the debate. Within this highly aggregated framework Cramer (1999) outlines some of the more common reasons for pessimism about developing country upgrading: rich-country protectionism and product/process standards and difficult competition against well-established vertically integrated firms. He also points to potential domestic constraints to upgrading such as capacity, infrastructure, and power shortages.

Gibbon and Ponte (2005) critique the GVC-GHS literature’s over-emphasis on the supposed importance of functional upgrading when it may not be the most beneficial form for developing country farms or firms\(^\text{28}\). Alternatively, the authors note:

> Another way forward in unpacking the relations between governance and upgrading in GVCs may be through detailed empirical analyses (on a chain-by-chain basis) that identify concrete roles that offer suppliers higher and more stable returns, as well as the routes that they typically use for arriving at them (p 91).

With regard to upgrading in value chains originating in Africa, the authors emphasise an upgrading strategy centred on improving economies of scale in particular, yet also mention cases of upgrading based on improving security of contract, product quality, and cutting out intermediaries to sell directly to retailers, among others. However, in what could be interpreted as a broad summing-up of the approach, Gibbon (2008a, p 29) argues that “it is more enlightening to think of supplier upgrading in terms of conditions for profitable survival than in terms of normatively-defined development paths.”

Daviron and Ponte (2005, p 30) further expand the concept of upgrading to focus in particular on the creation and control of value associated with certain quality attributes. The authors then go on to identify three types of quality attributes (for their case study of coffee: material, symbolic, and in-person service. Material quality attributes are associated with the intrinsic properties of the commodity such as taste, aroma, etc.

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\(^{28}\) This emphasis on functional upgrading can be seen in the work of one of the concept’s main proponents: The challenge of economic upgrading in GVCs, therefore, is precisely to identify the conditions under which developing as well as developed countries and firms can ‘climb the value chain’ from basic assembly activities using low-cost and unskilled labor to more advanced forms of ‘full package’ supply and integrated manufacturing (Gereffi, 2013, p 10).
Within the category of *symbolic* attributes, the authors highlight three sub-categories which derive from: trademarks and branding, sustainability attributes, and geographical origin. Finally, *in-person service*, which occurs at the point of consumption, “is the relation between the employees and the consumer, including a component of affective labour” (p 46). The authors give the example of the consumption of a coffee at Starbucks to emphasize the extent to which value (associated with the three above-listed quality attributes) is created at this node of the chain

As lead firms (and in turn first tier suppliers) relegate an increasing number of functional activities further upstream, it often becomes more difficult for upstream suppliers/producers to participate in the chain leading to “exclusion” or “marginalization” (Gibbon and Ponte, 2005). As Gibbon (2003a, p 616) notes:

Those actors who can move into roles embracing some of the functions that lead firms seek to offload, and/or otherwise provide these firms with greater flexibility, can attain significant levels of upgrading. In practice, though, relatively few producers in the South (and particularly in sub-Saharan Africa) have these capacities. Therefore, the more demanding the functional attributes that lead firms seek from suppliers, the more these suppliers will experience economic differentiation.

For example, exclusion is seen in the Kenya-U.K. horticultural chain where (difficult-to-implement) standards led to Kenyan-exporter backward integration to and/or sourcing from large estate producers thereby excluding Kenyan smallholders (Dolan and Humphrey, 2004). McMichael (2009) points to a similar trend of smallholder exclusion and differentiation in general in SSA. These are due to imports of rich country subsidized foods and increased entry barriers to participating in agro-food value chains, respectively. These trends would lead us to believe that there is a decline in the livelihoods of peasants. Working conditions on larger farms are occasionally treated but overall impact on the quality of *smallholder livelihoods* rather than on smallholders (as units of production) was not (originally) adequately addressed in GVC literature.

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29 For a discussion on how the value associated with the quality derived from a particular origin-identity (specifically in the case of Coffee from Toraja, Indonesia) is controlled by “non-local, and therefore geographically ‘disembedded’, actors” (p 194), see Neilson (2005).
Within the GVC framework, later work has attempted to address this, as well as the disjuncture in the literature between a ‘firm focus’ that treats labour as a factor of production, and a ‘rights focus’ that examines conditions and entitlements of workers (Barrientos et al., 2010, p 5).

For example, the Capturing the Gains project\(^3\), as seen in Barrientos et al. (2010), presents the concept of social upgrading (as opposed to economic upgrading) as “…the process of improvement in the rights and entitlements of workers as social actors, and enhances the quality of their employment” (p 7). Barrientos et al. (2010) subdivide social upgrading into two categories: measurable standards and enabling rights. While measurable standards, as the name implies, refer to concrete and quantifiable aspects such as terms and conditions or wages, enabling rights refer to “…less easily quantified aspects, such as freedom of association and the right to collective bargaining, non-discrimination, voice and empowerment” (p 7). Barrientos et al. (2010) stress that economic upgrading does not necessarily imply social upgrading, and that indeed the two sorts of upgrading may occur simultaneously yet in opposite directions. Taking the example of the transition from smallholder to estate production above, Barrientos et al. (2010) point out that if the smallholder who now works for an estate is a formerly uncompensated female (family) worker, that this could represent a form of social upgrading.

1.3 Expanding the GVC Framework

The GVC literature, in particular the GVC-GHS variant, has been widely critiqued, from both within and without the GVC tradition. By understanding the criticisms, we will be able to conduct a more thorough GVC analysis. Therefore we will engage with some of

\(^3\) The project was launched in 2009 by GVC academics with funding from the U.K. Department for International Development (DFID) and the Swiss Agency for Development and Cooperation (Gereffi and Fernandez-Stark, 2011).
the more prominent critiques here, with an eye towards highlighting how others have attempted to expand the GVC framework, and attempting to expand it ourselves.

### 1.3.1 Environmental Conditions of Production

Commodity chains frameworks have been critiqued for ignoring the ecological and/or environmental conditions of production (Campling, 2012b; Talbot, 2009). Indeed this point seems particularly important when a chain framework is applied to extractive industries (such as oil or Campling’s case study of tuna\(^{31}\)). However, the relevance of ecological/environmental conditions of production, or of “nature” more broadly, will depend to a large extent on the production processes associated with the commodity in question as well as the technological ability to manipulate these processes\(^{32}\). Or as Bernstein and Campling (2006b, pp. 420-1) write:

> The physical or material attributes of agricultural commodities usually imply limits on substitutability, although the engineering of cultivars (now including their genetic modification, GM) production technologies, labour processes and/or processing technologies continue to relax those limits.

For example, in his work on the poultry supply chain (although not an agricultural commodity), Burch (2005, p 174) minimizes “nature”’s importance:

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\(^{31}\) Although not written strictly within a commodity chains approach, Campling et al.’s (2012) introduction to a special issue of the *Journal of Agrarian Change* on capture fisheries, mentions some of the ways in which environmental conditions impact production. For example, Kerala’s dual monsoon season has a (temporary) exclusionary impact on smaller boats. Also, see Campling (2012a) on the same.

\(^{32}\) For relations between capitalism and nature more broadly, see Moore (2010), who writes that “All great waves of capital accumulation have unfolded through a greatly expanded ecological surplus, manifested in cheap food, cheap energy and cheap inputs” (p 392). Putting this idea in a historical context, Moore (2010, p 401) states that

> The sixteenth century Dutch grew rich thanks to cheap grain from Poland’s Vistula; the nineteenth century English had Ireland, the Caribbean and the American Midwest. When the USA came to world power, it had the Midwest, plus the American South and California, and Latin America. Decisive food surpluses were won in all cases from untapped frontier zones, coupled (increasingly) with the productivity-maximizing genius of capitalism.
This commodity is produced within a closed system, and relies upon a wide range of standardized inputs which can be modified and controlled in order to maximize efficiencies and reduce uncertainty in the production of a predictable and standardized product.

...While nature can never be entirely eliminated from such a system, nevertheless the specificity and unpredictability of ‘nature’ can be so significantly reduced that, to all intents and purposes, what we see in the modern system of poultry production is an industrial process, which is as flexible and mobile as that in any manufacturing industry.

However, Talbot (2009) argues that chain analyses of tropical commodities are particularly well-placed to engage with discussions of the environmental conditions of production and the impact of these on chain structuring. For example, Talbot (2009, p 95) suggests that

For the tropical commodities, the nature of the initial processing that is needed immediately after harvesting affects the scale of these processing operations and who controls them.

### 1.3.2 Consumption

Much GVC work did not originally fully incorporate analyses of consumption; the emphasis of analysis centred on how lead firms govern chains rather than on how consumption patterns shape lead firm strategies. Convention Theory (CT) indirectly addresses some of these consumption concerns. Various authors of the GVC-GPD variant, including Gibbon and Ponte (2005) have drawn on CT to complement their analyses. CT focuses (in part) on consumers’ different conceptions of “quality” (Gibbon and Ponte, 2005; Gibbon et al., 2008). For example, Eymard-Duvernay (1989, cited in Gibbon and Ponte 2005, p 170) identify four conventions: market, industrial, domestic, and civic. Market conventions approximate what one would associate with a microeconomics

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33 This is changing rapidly as increasing attention is paid to “ethical” consumption, more on which below.
34 In fact they dedicate an entire chapter (out of a total of 7) to it. The filière concept also draws heavily on CT (Henderson et al., 2002).
textbook where price indicates quality. Industrial conventions concern goods where quality is established (e.g. audited) by a third-party. Domestic conventions are related to goods where consumers and producers have thickened relations through repeated experience and/or trust. An example of this is wine, cheese, or rice associated with specific countries or regions. Civic conventions concern goods consumed by people who evaluate quality based on social or environmental processes of production.

1.3.3 Labour, Codes, and Gender

GVC literature has also been criticized for largely ignoring or downplaying issues regarding labour (Bernstein and Campling, 2006b; Bair, 2005; Barrientos et al., 2010; Selwyn, 2012; Riisgaard, 2009). For example, Barrientos et al. (2010, pp 4-5) state that

Analysis of labour in value chains has largely been restricted to the aggregate number of workers at different nodes of the chain, with an occasional breakdown of employment by job category, skill or gender. The exceptions have mainly been case studies examining conditions of employment, protection and the rights of workers in GPNs.

Much of the work that has attempted to incorporate labour into GVC analysis has placed analytical emphasis on lead firms’ role, either through codes of conduct or through sourcing strategies more broadly (more on which below). Neglect of labour is particularly evident in that Chang and Wong (2005) describe the same evolution of the global apparel industry as Gereffi yet in terms of squeezing labour\textsuperscript{35}. The model presented by these authors portrays the shift of global garment production from the United States to Japan in the 1950’s, from Japan to the NICs in the 1970’s and from the NICs to Asian LDCs in the 1990’s all as a function of employment and employment-related costs\textsuperscript{36}. The authors

\textsuperscript{35} Gereffi (1995) does discuss labour costs as one of the motivating factors in relocation of garment production in Asia, but it was not the main focus of his work.
\textsuperscript{36} The former refers primarily to wages whereas the latter includes such costs as taxes, health care, etc.
argue that the threat of relocation is a key tactic used by employers to keep their workers passive.

Firms have attempted to capitalise on increasing consumer concerns over “ethical” production by simplifying, weakening, and marketing “ethical” standards through codes of conduct (CoC, more on which below). Daviron and Vagneron (2011) argue TNCs use CoC to re-commoditize goods that were initially differentiated by ethical practices. The authors argue that the premium placed on auditability and pressure on substitutability waters down the original objectives of the codes. CoC, many of which are implemented in the business-to-business (B2B) model of second-party auditing (i.e. companies enforcing their codes on themselves or on upstream suppliers) are plagued by the problem of “capitalists ‘monitoring’ capitalists” (Chang and Wong, 2005, p 142). Codes of conduct (more on which below) will be treated in this work primarily in regard to the increasing entry barriers they often create for suppliers.

A number of authors have attempted to incorporate labour into GVC analysis through a gendered lens (e.g. Barrientos, 2001), justifying the approach on the need to understand how gender influences employment, upgrading potential and power asymmetries in the workplace, among others. Barrientos (2001) focuses on the concentration of female employment in temporary/seasonal and lower-paid work in the production node of GVCs. She explains this position in terms of perceptions that female workers’ primary responsibilities are reproductive (i.e. domestic chores, child-rearing, etc.) and that their productive activities (employment) are therefore complementary. Furthermore, she argues that the perception that females are more dexterous and submissive makes them attractive employees in certain sectors.

Barrientos (2001) applies this concept to the deciduous fruit sectors in Chile and South Africa where a small number of exporters buy from a large number of growers. Due to their concentration and connections with developed country firms and markets, the exporters dominate relations with the growers. The exporters use this asymmetrical power to shift the risks (i.e. volatile prices) and costs (i.e. investment in quality improvement) associated with the deciduous fruit industry onto the growers. Presumably
the growers have no choice but to accept the extra burden as they do not have an alternative profitable outlet for their products. However, in an effort to lessen the impact of these new burdens, the growers use their asymmetrical power over unemployed female workers to employ them at low wages and with few or no benefits. Barrientos et al. (2001) extend and expand upon this original analysis to incorporate codes of conduct (and their gender-sensitivity) in the deciduous fruit sector in South Africa, and the horticulture sectors in Kenya (flowers) and Zambia (flowers and vegetables). In all three case studies the majority of workers are female and temporary, for the reasons outlined above. Pointing out that there is an increasing tendency for lead firms to assume responsibility for ethical issues further upstream, the authors identify three categories of codes: independent international social codes, company codes, and sectoral codes. Barrientos et al. (2001) evaluate the gender-sensitivity of both the content and enforcement processes of the codes.

Mayer and Pickles (2010) further highlight a number of ways in which working conditions have come to be regulated from the top down, noting that efforts outside of state agencies to regulate firm behaviour and compliance in their value chain have ranged from largely voluntary efforts to expand CSR across the supply chain, to activist and consumer pressure for ethical sourcing and clean clothes, to investor movements to create markets for social responsibility (p 5).

Following on from this, Lund-Thomsen and Nadvi (2010) compare CSR compliance issues - in particular with regard to child labour - in the football manufacturing clusters of Sialkot, Pakistan and Jalandhar, India. Whilst also engaging with literature on cluster governance, what is of interest for our purposes is the authors’ findings that there was major restructuring and reforms in the Sialkot cluster, due in part to the fact that the buyers of products from this cluster are more prominent branded firms.

37 Barrientos’s (2001) treatment of governance here corresponds to the conceptualization of governance as drivenness.
38 Which they deem largely gender-insensitive.
39 For example, in the worst cases auditing is done by male technicians with little or no training regarding labour and gender issues.
Barrientos et al. (2010) also draw attention to the state of and potential for improving conditions of labour in a GVC context. Like Barrientos’s earlier work (e.g. Barrientos et al., 2001, seen above) and contrary to Selwyn’s work (more on which below), Barrientos et al. (2010) emphasize primarily (though not exclusively) the role of lead firms in promoting social upgrading. The notion that conditions of labour are determined by lead firm policies stands in stark contrast to Selwyn’s (2011, p 3) postulation that labour plays a “co-constitutive role in the capitalist development process.” This is brought out in the following passages on economic and social upgrading from Barrientos et al. (2010, p 14):

Higher status lead firms in both buyer-driven and producer-driven chains tend to have a greater stake in decent work conditions, and hence social upgrading (especially those in buyer-driven chains, where retailers and marketers are concerned with price point, quality, and brand visibility of the products they sell). However for more traditional partners, poor working conditions or violations of worker rights in their supply chain can negatively affect their reputation, both in terms of brand image and product quality.

Our hypothesis is that there are competing pressures for both outcomes within GPNs as suppliers balance higher quality with lower cost. For example, since functional upgrading implies the need for a stable, skilled and formalized labour force, we can assume that economic and social upgrading (especially in its measurable standards) can be positively correlated, especially when it increases workers’ productivity. At the same time, pressures to reduce cost and increase flexibility might lead employers to combine economic upgrading with social downgrading (for example by outsourcing employment to a labour contractor), although this raises questions about commercial sustainability if quality is to be assured.

1.3.4 Power Relations in Global Value Chains

Ironically, the GVC literature’s treatment of power - even though this is a core focus of the literature - is somewhat simplistic. For example, although using different language

Selwyn (2011) also welcomes the focus on labour offered by the Capturing the Gains project and draws certain parallels between the concepts of the project and his own work. However he critiques Barrientos et al. (2010) for under-theorizing their observations.
than that found in the GVC literature, Chang and Wong (2005) challenge the notion that lead firms (commercial capital) always have as much power over upstream chain participants (manufacturing capital) as they are assumed to have. The passage below shows the authors’ scepticism regarding lead firm power in the context of what they term as the Action-Alert-Brand-Targeting-Campaign (AABTC), that is the idea of consumers using their buying power to enforce minimum social requirements on producers.

The “absolute domination” argument that identifies commercial capital as having the motivation and the power to control the surplus value extraction of the manufacturing capital works only on a one-on-one basis. Indeed, in some cases commercial capitalists like Nike can exercise huge power over individual suppliers but it is not always so. The assumed effectiveness of AABTC is based on the illusion of some successful cases in which the buyers are open to dialogue with the campaign organizations and pressure their suppliers, rather than scientific evidence of better performance and, therefore, better leverage of commercial capital over manufacturing capital. Further examples have shown either the reluctance of individual brand/retail companies to cooperate, or suppliers dropping the buyers rather than giving in to their demands, especially in cases regarding freedom of association and factory relocation (p 144).

In addition to a lack of thorough treatment of power relations at chain nodes near the retail and consumption end, worker and producer power is often omitted from GVC analysis entirely. In particular, Selwyn (2012, p 27) accuses the GCC literature of "firm centrisim" where

Workers in the global South are regularly portrayed as subject to firm’s strategies of cost-price rationalisation, which are in turn a function of the suppliers' subordination to northern lead firms.

Riisgaard (2009) attempts to address this gap by analysing the role of labour (albeit in response to mainly retailer-instigated private social codes) “as an input with agency” (p 326) in cut flower production in East Africa. Indeed, the generally antagonistic response of (national-level) unions in Kenya to both private social codes and to the engagement of

41 Riisgaard (2009) also criticizes the literature on CSR for marginalizing labor’s potential agency.
labour NGOs with these codes, highlights the importance of incorporating the agency of labour as well as the differentiated response to social codes where they “touch down”, in an analysis of social codes. However, of particular interest is Riisgaard’s (2009, p 335) finding that “highly driven retailer chains offer more room for labour to exert its agency than the traditional auction strand of the value chain.” This is somewhat counter-intuitive given the predominant narrative of *drivenness* corresponding to increased power at the retail node of a value chain and the consequently increasing submission of suppliers to the demands of the lead firms located at that node.

To broaden our understanding of labour’s agency, we can draw on Wright (2000), who writes on worker power in the context of what he terms *positive class compromise* where labour and capital come to mutually beneficial agreements. In particular, the author argues that

...the possibilities for stable, positive class compromise generally hinge on the relationship between the *associational power* of the working class and the *material interests* of capitalists (p 958).

Although Wright’s (2000) model is essentially a gross simplification of rich country industrial relations where labour is pitted against capital in class struggle, some of the author’s concepts can be usefully applied to a smallholder-first tier supplier relationship. Wright focuses on worker power as a key determinant of labour’s achievements in class struggle. Structural power of workers is derived from their point of insertion in the economy and production process, for example through tight labour markets or engaging in production tasks which greatly affect capitalists’ profits. Associational power, on the other hand, refers to the ability for collective action which includes

...unions and parties but may also include a variety of other forms, such as works councils or forms of institutional representation of workers on boards of directors in schemes of worker codetermination, or even, in certain circumstances, community organizations (p962).
As we are concerned with agricultural global value chains it seems that farmer organisations, associations, and cooperatives would fit well with the above description.

Wright’s (2000) main contribution is to challenge the necessarily antagonistic nature of labour-capital relations and to postulate that whilst at first increased worker power will diminish the gains accruing to capitalists, that after attaining a certain level of associational power that further increases in this associational power will actually benefit capital in that it will “help capitalists solve certain kinds of collective action and coordination problems” (p 978).

Wright (2000) argues that the positive class compromise described above may occur in three different institutional spheres: exchange, production, and politics. However, the first two spheres are of particular interest for our study. In this author’s simplified model of rich country industrial relations, the sphere of exchange concerns what capitalists buy (labour) and sell (finished goods). The interests of capitalists therefore revolve around the ability to hire reliable, adequately skilled, cheap labour in a loose and unregulated labour market whilst at the same time having a market for all of their output. Wright points out that wages will be influenced by the tightness of the labour market and the reservation wage in the economy. Given the relationship between overall wage levels in an economy and aggregate demand, the author suggests that Keynesian demand-boosting policies in social democracies, with the consent of both centralized labour unions and capitalists, is a typical example of positive class compromise.

Applying these concepts to an agricultural global value chain where first tier suppliers buy from smallholders in an African country, one could presume that the first tier suppliers’ (capitalists’) interests would be much easier to realize. First of all, the profits that smallholders can obtain from producing goods outside of a global value chain (in our case the parallel to Wright’s reservation wage) are likely to be very low and the number of smallholders willing to participate in the value chain (similar to looseness of labour market) very high. Furthermore, the key market for the finished goods of agricultural global value chains are very unlikely to be located in poor African countries, thereby greatly reducing the possibility of aggregate-level positive class compromise in the form of Keynesian
demand-boosting. However, other forms of positive class compromise in this sphere should not be entirely ruled out (as will be seen in our case study).

In Wright’s (2000) sphere of production,

...on the one hand, capitalists have interests in being able to unilaterally control the labor process (choosing and changing technology, assigning labor to different tasks, changing the pace of work, etc.), and on the other hand, they have interests in being able to reliably elicit cooperation, initiative, and responsibility from employees (p 981).

From this quote it is clear that there is broad scope for positive class compromise in order for capitalists to achieve their objectives and the author suggests that this can be seen in cases where workers who have achieved greater job security are less adverse to the introduction of new technologies and changes in production processes. Wright’s sphere of production is of particular interest to us for, as we have seen above, a common trend in agricultural global value chains is to shift towards thicker relations between first or second tier suppliers and (farmer) producers, often in the form of contract farming. Key components of contract farming usually include the introduction of yield-enhancing, labour-saving technologies or processes as well as other changes in process to address lead firms’ concerns such as pesticide and chemical use. However, also inherent in the nature of contract farming is the increased assurance of an outlet for the farmer’s produce (similar to Wright’s increased job security).

Selwyn (2007) applies Wright’s concepts within a commodity chains framework in the case of the grape sector in North East Brazil. Selwyn argues that workers can use their structural and associational power to gain improvements in wage and welfare issues. Structural power is particularly relevant in non-traditional agricultural exports (as in the grape sector in North East Brazil) in that a small interruption in the timing or process of production can have serious consequences for export profits. The unionized workers in this sector achieved in 2002 (through a strike in 2001), among other things, a wage ten per cent above the legal minimum, higher wages and more protection for workers dealing
with pesticides, day-care facilities for employees, and three months paid maternity leave (Selwyn, 2007).

As can be seen from our discussion thus far, the incorporation of labour into GVC analysis is intricately related to issues of power relations and governance. Improvements in labour conditions are variably interpreted as a reflection of lead firm power (e.g. Barrientos et al., 2010), worker power (e.g. Selwyn, 2007), or worker, lead firm, and non-firm actor power (e.g. Riisgaard, 2009). However, Selwyn (2011) also argues that a focus on the role of labour is particularly relevant to the concept of upgrading. Following on from our application of Wright’s associational power to farmer associations and cooperatives, there are abundant empirical examples of how product and process upgrading was achieved through the realisation of associational power. Many agricultural co-operatives emerged in rich countries towards the end of the 1800s and in many instances improved quality and access to credit, among other things (Chang, 2009b). A wide variety of approaches recognize the potential usefulness of co-operatives to increase productivity and profits, improve competitiveness, and “...reduce transaction costs in markets, achieve some market power, and increase representation in national and international policy forums” (World Bank, 2007, p 14). Therefore, and to the extent that we conceptualize upgrading in the Gibbon-Ponte sense of improving the position of developing country firms and farms, we would hypothesize that there is considerable scope for farmer cooperatives achieving upgrading as they can reduce costs through joint investments and facilitated access to credits and improve yields and quality through facilitated access to improved technologies.

Whilst Wright’s focus on, and Selwyn’s application of, associational power has the potential to enrich GVC analysis, when considering the associational power of farmers, a particularly pertinent issue to consider is rural differentiation. Indeed, much work treats “smallholders” or “peasants” as a social class and therefore overlooks significant

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42 For example, see Warming (1923) on the case of cooperatives in Denmark.
differentiation in rural settings (Oya, 2004; Bernstein, 2010)\textsuperscript{43}. An additional reason for this occultation of rural differentiation is survey design. As Oya (2004, p 309) notes:

Arguably, conventional surveys do not ask the right questions to a large number of small-middle peasants on labour arrangements, so the image of farming done on the basis of family or unpaid labour is pervasive\textsuperscript{44}.

When attempting to understand rural differentiation, our starting point should be that particular attention should be paid to the issues of context and history, as rightfully stressed by Oya (2004). This is especially important because attempting to classify all of the developing world’s farmers into broad categories (e.g. small, middle, and large) is nearly as simplistic and reductionist as assuming that rural differentiation does not exist in the first place. As further evidence of this, Hazell et al. (2007, p 1, cited in Bernstein, 2010, p 4) note:

A 10-hectare farm in many parts of Latin America would be smaller than the national average, operated largely by family labour, and producing primarily for subsistence... The same-sized holding in the irrigated lands of West Bengal, on the other hand, would be well above the average size for the region, would probably hire in much of the labour used, and would produce a significant surplus for sale.

Engels classified rural populations into small, middle, and big peasants. His concept of small peasants is similar to neo-populist notions of “smallholders” and “peasants” whereas his middle and big peasant categories were based on the farmers’ amount of land and recourse to hired labour (Mueller, 2011). Kautsky and Lenin later classified the rural classes into poor, middle, and rich peasants with the definitions corresponding to the degree of ownership of means of production and the use (hiring/selling) of wage labour.

\textsuperscript{43} For an example of this in the “mainstream literature” on Mozambique, see Cramer and Pontara (1998). For the example of fair trade Costa Rican coffee, see Luetchford (2008).

\textsuperscript{44} To the extent that academic and policy circles do distinguish between different groups of farmers it is often according to the size of landholding. However, Oya (2004, p 298) points out that overlooking differentiation entirely or restricting its application to land holding sizes will “conceal significant dynamics, which should be examined in more depth.”
Wheras the poor peasants had to sell their labour in order to survive, the middle peasants corresponded more closely to Engels’s “small peasants”\textsuperscript{45} (Mueller, 2011).

Historical materialists show broad support for two criteria to be used in class identification: “nature of labour appropriation” and “degree of reliance on their own means of production” (Oya, 2004, p 304). In a similar vein, Deere and de Janvry (1979, p 602) argue that “...the integration of the peasantry into the labor market... most closely characterizes the process of class formation among direct producers...”

Bernstein (2010, p 22) proposes four questions: i) “who owns what?” ii) “who does what?” iii) “who gets what?” iv) “what do they do with it?” Ownership applies in particular to land, and the author suggests that owning land is a defining characteristic of capitalism (p 23). The second question can be answered by categorisations such as class, gender, and what’s produced (p 23). The third question is intended to apply to more than monetary income (e.g. own-production, among other things) (p 23). The fourth question refers mainly to Bernstein’s (2010, p 23) categories of “consumption, reproduction and accumulation.”

Oya (2004, pp. 307-08), in a study of mid and large scale farmers in Senegal, expands the criteria for class classification beyond those of land and labour to include: “nature of labour relations”, “patterns of land use/ownership”, “degree of capitalisation”, “education”, and “surplus use patterns”. He then places the farmers in one of three categories according to the above criteria: non-capitalist, semi-capitalist, and capitalist.

In a survey of farmers in the West Usambara Mountains in Tanzania, Mueller (2011) finds that farmers fall into different class or production categories depending on definitions of these categories. He concludes that:

If anything, this shows that the borders between peasant differentiation and an undifferentiated peasantry depend on the particular interpretation of particular classification criteria of the relevant groups, and the hopelessly positivist nature of

\textsuperscript{45} Bernstein (2010), using similar classifications as Kautsky and Lenin, notes that the poor peasants may not be in this category merely as a result of no or little land but quite possibly as a result of owning low quality land and/or lacking access to inputs and/or labour.
such an attempt in the first place. It also shows how arbitrarily set definitions can greatly alter the outcome of the analysis, and that whichever set is chosen a multitude of important factors are doomed to be omitted, like migration, remittance flows, off-farm business, use of advanced inputs and technologies to name only a few (p 36).

We strongly agree with the conceptual understanding of differentiation in terms of being on a continuum rather than in terms of simply pertaining to a small number of strictly defined categories as done in some works (Oya, 2004; Deere and de Janvry, 1979; Shivji, 1975). However, and in sum, our objectives in this greatly abbreviated discussion do not lie in evaluating the literature on rural differentiation or in elaborating a methodology to be used in assessing the extent of rural differentiation in Malawi. Rather, we have attempted to highlight some of the issues one needs to be aware of when engaging in a discussion of “smallholders” or better yet of “smallholder associational power”. The relevance of rural differentiation to our work will be discussed further below.

1.3.5 The Role of the State

The literature on GVCs would have us believe that in general, increased standards and market concentration have led retailers to have overwhelming control over their value chains46. With few exceptions, the GVC-GHS variant of the literature discusses the role of rich country government primarily with regard to public regulations (e.g. legislation regarding food safety such as the 1990 U.K. Food Safety Act) and trade policy47. The role

46 Gibbon (2003a) breaks this trend by discussing how government intervention in the form of regulations and trade preferences decreases buyer power in certain contexts, and mitigates against the exclusion of smallholders in FFV value chains.

47 This is not to discount the importance of these themes. Indeed, Dolan and Humphrey (2004) and Gereffi (1995) put forward a convincing case of the major impacts that food safety regulations and the multi-fibre arrangement have had on value chains originating in Kenya and East Asia, respectively.
of developing country government in the GVC-GHS variant of the literature is minimal at best\textsuperscript{48}. Bair (2005, p 174) succinctly sums up this idea by stating:

While the global value chain literature does not necessarily express scepticism or hostility towards the state, the role of governments as potential facilitators (or inhibitors) of development receives scant attention as compared with the emphasis placed on lead firms as agents of upgrading in most of the GCC and GVC literature.

Whilst the GVC-GHS approach provides a welcome focus on the activities of (especially lead) firms, enriching our analyses beyond sector- or country-specific approaches, it is important not to focus so much on firms as to negate the role of other actors. This point has been made both from within and externally to the GVC tradition. For example, with regards to chain governance, we shall take the following statement from Gibbon (2008a, p 28) as our starting point:

...it is evident that the definition of ‘governance structure’ employed by all these authors was rather narrow, focussing almost exclusively on the actions of firms along the chain. Agents, formal institutions and normative systems external to these firms and their actions, but bearing on them, could and should have been considered as components of chain governance systems.

Indeed, some of the GVC-GPD literature has placed more analytical emphasis on the role of the state. For example, Thomsen (2007) attempts to incorporate the role of government into the governance of the clothing chain in Vietnam, with a particular focus on how government shapes chain participation, coming to the conclusion that

\textsuperscript{48} Gereffi (1995) does develop a very limited discussion of export-oriented industrialisation (EOI) policies in East Asia and their contribution to development, however the discussion is somewhat superficial and does not engage significantly with any body of theoretical literature on the subject. It is also interesting to note that, writing in the context of the emergence of the GCC framework out of World Systems Theory, Sturgeon (2009, p 114) states:

Gereffi (1994) revived the GCC concept by refocusing it on the strategies and actions of firms, in part because of the restricted ability of states to set tariffs and local content rules in the context of trade liberalization.
...the *entry* of Vietnamese suppliers into GVCs is less buyer- and more state-driven than it is normally recognised in the literature on GVCs, increasing the significance of the political economic context within the supplying countries (p 759).

One of the principal reasons for this is the tradition of a very strong state in Vietnam. For example, the author points out how a number of private clothing company owners/managers have benefited through contacts in the government or how many of them were former government employees.

Also, Ponte’s (2002b) work on coffee\(^{49}\) emphasizes the positive relationship between government intervention (i.e. lack of liberalisation and de-regulation) and the ability of developing country producers to protect their positions. The author writes:

> New openings provided by increased differentiation of consumption in industrialized economies and the emergence of ‘niche’ markets for high-quality products can be best exploited through product differentiation, systems of appellation and the improvement of quality standards and reputation in producing countries. This is unlikely to be achieved in liberalized markets and where regulatory and institutional settings do not facilitate voluntary coordination in the realm of quality control (pp. 270-1).

Other work in the GVC-GPD tradition has emphasized the link between the retraction of the state and the decrease in quality of agricultural commodities (e.g. Fold, 2002). Furthermore, and as mentioned above, Gibbon (2001) provides for a theoretical role for the state in promoting upgrading in primary commodities, and in his case study of the Tanzanian table fish commodity chain, shows how state intervention did promote (an albeit short-lived) episode of upgrading into processing. Gibbon and Ponte (2005) further expand the concept of market intermediation for the purposes of protecting the position of producers by discussing the “publicly regulated break” in certain African value chains, and the extent to which this market intermediation protects quality (p 145). However, developing country governments in agricultural value chains have more often than not been discussed in terms of the extent to which they have withdrawn, with Daviron and Gibbon (2002, p 156) noting that “Degrees of state intervention in agriculture today are directly proportional to the wealth of the country concerned.”

\(^{49}\) Ponte (2002b) discusses the Uganda, Kenya, and Tanzania coffee chains in depth.
Our purpose in this section is not to replace or dismiss the Gibbon-Ponte approach to incorporating the role of the state in upgrading, but rather to build on it. Whilst the Gibbon-Ponte approach focuses primarily on market intermediation as a function of the degree to which a producer country has liberalized and de-regulated, we will attempt to incorporate other forms of government intervention which are not necessarily best understood in relation to the liberalization process. We will also attempt to develop an understanding of the factors driving certain government interventions and how the latter fit into the overall “development” objectives of developing country governments.

We will therefore need to draw on a wider literature on the role of government. Given that our focus in this study is on the nodes of global value chains found in developing countries we will draw on the developmental state literature to complement our GVC literature to enable a more comprehensive understanding of how GVCs operate in developing countries. The developmental state literature is selected not just for the fact that it provides an extensive amount of theoretical and empirical accounts of developing country government policy, but also because this literature has a number of similar concerns as the GVC literature, the most salient of which is upgrading. As Wade (2010, pp. 152-53) notes:

Many middle-income countries are today caught in what could be called a ‘middle-technology trap’, their firms stuck in the relatively low value-added segments of global production chains, unable to break into innovation-intensive activities or into the market for branded products, where the high profits are to be made.

Indeed even some of the developmental statists and GVC-GHS authors have used the same case studies as empirical evidence for their respective approaches. This is notable in the case of Gereffi’s apparel chain in the newly industrialised economies, which has been explained in the developmental state literature as (primarily) a result of government intervention rather than dynamic learning curves accessed through participation in commodity chains (Wade, 2010)\textsuperscript{50}. Furthermore, Chang (1993, p 144) notes that:

\textsuperscript{50} Indeed, the skepticism of the GVC-GHS variant to the developmental statist interpretation of East Asian development can be seen in the following quote from Hamilton and Gereffi (2009, p 160):
For the textiles and dyeing industries, which were identified as industries with satisfactory technological capabilities but aging capital stocks, the priority was capacity upgrading, and therefore subsidies were given to producers for scrapping old machines and installing new ones.

The role of the state in development and economic growth has been at the heart of major controversy in policy and academic circles. Much of this debate has centred on interpretations of the growth miracles of East and South East Asia, as well as on the potential for replicability. For whilst some more liberal economists may (grudgingly) accept that the state played a role in economic development in East Asia, they argue that the East Asian states had a number of unreplicable characteristics such as a particular culture, ethnic homogeneity, and a “capable” bureaucracy (Chang, 2009a, p 4). The replicability debate is particularly contentious with regard to Africa.

Chang (2002; 2007a; 2007b; 2009a; 2009b) has also used the historical records of today’s rich countries to advocate for a developmental role for the state. For example, Chang (2009a) points out that many of today’s rich countries heavily regulated foreign direct investment (FDI). Chang (2009b) also demonstrates how, in the interests of developing their agricultural sectors, today’s rich countries provided credits and extension services. Much of the literature on the developmental state overstates the rationality and expertise of these government officials and exaggerates the accuracy and impact of their policies. Although state policies and programs may enhance an economy’s ability to grow and change, the effects of state actions are often much more limited than is represented in the literature on the developmental state. In terms of Asian industrialization, it is clear that decisions made in reference to the economy were, in fact, often solutions to noneconomic problems (such as nationalism in times of martial law) that were made after it was made apparent that the intended goals of the policies would be reached without the actual policies being implemented. The five-year plans developed in both South Korea and Taiwan are cases in point.

For a discussion of this debate, see Wade (1996). Fine (2012), however, has critiqued the developmental state literature in that it is necessarily applied to successful developmental states, without offering much in the way of explanation of why other interventionist states did not succeed in developing and hence are not considered developmental states, ex post. Similarly, Fine (2012) suggests that the developmental statists’ preoccupation with industrialisation and the “catch-up” phase of development necessarily excludes the approach from analysing other phases of development which occur either before or after this phase.

For contributions to this debate, see Stein (2000), Chang (2009a), and Mkandawire (2001).
services to farmers, as well as investments in agricultural research and infrastructure\textsuperscript{54}. In terms of assessing these policies in the context of agricultural global value chains, one could see how they have potential for impacting on the governance of and upgrading potential in different chains.

Whilst even within the World Bank, the experience of Japan, for example, has helped spur the drive towards the Post Washington Consensus, which allows for a greater role for the state in development, there remain significant differences between the role of the state as prescribed by the Post-Washington Consensus and the developmental state literatures (Fine, 1999). The former focuses on good governance and correcting market failures, or what Khan (2007) refers to as market-enhancing governance, whilst the latter attempts to promote major economic structural transformation and development, or what Khan (2007) refers to as growth-enhancing governance\textsuperscript{55}.

The current nature of the differences between the neo-liberals and the developmental statist is incarnated in a debate in Development Policy Review between Justin Lin (chief economist and senior vice president of the World Bank) and Ha-Joon Chang (Lin and Chang, 2009). One interesting point to note, and of particular relevance to our study, is that both authors assign a role to the state in terms of promoting upgrading, as Lin notes:

\begin{quote}
What is it that makes it possible in one or two generations for a country to go from exporting wigs and plywood to competing in the most technologically advanced sectors? The answer is not simply ‘a dynamic private sector’, though that is the ultimate driver. Historical examples make it clear that the answer must include
\end{quote}

\textsuperscript{54} It is interesting to note the parallels between the objectives of Chang’s policies and the supposed benefits of contract farming. Contract farming is an increasingly common characteristic of agricultural global value chains as lead firms wish to exert greater control over production processes all the way upstream to the farmer level. However, in terms of benefits to the farmer, it is often argued that through contract farming farmers can obtain easier access to credits, improved agricultural inputs and technologies, and a reduction in risk as the purchase of their produce is arranged in advance. However, if one follows Chang’s (2009b) policy prescriptions, farmers can obtain credit and access improved agricultural technologies through governments. Chang also advocates for policies which reduce risk for the farmers such as price stabilization schemes. Indeed, it is the very retraction of these policies that Daviron and Gibbon (2002) and Ponte (2002b) refer to as contributing to increased buyer power.

\textsuperscript{55} Market-enhancing governance is usually concerned with such things as property rights, low expropriation risk, a good legal system, low corruption, the provision of public goods, accountability and transparency. Growth-enhancing governance, on the other hand, focuses on transferring assets to productive sectors and on promoting acquisition of new technologies (Khan, 2007).
effective government policies to catalyse private-sector growth (Lin and Chang, 2009, p 484).

One can note the parallel between Lin’s “dynamic private sector” and Gereffi’s “dynamic learning curve”, which occurs among private sector actors. Furthermore Chang writes:

Both of us recognise that ‘climbing up the ladder’ is a hard slog that involves more than ‘getting the prices right’. It requires, *inter alia*, intelligent industrial policy, organisation building, and efforts to accumulate technological capabilities through R&D, training and production experiences (Lin and Chang, 2009, p 500).

Although the analogy of climbing the ladder of development is favoured, in part because it was used by Friedrich List56, one could replace the expression with “moving up the chain” when applying the same concepts to individual industries. Whilst Gereffi and other GVC approach proponents would undoubtedly recognize that government is important, the fact that (developing country) government is often marginalized in their analyses is striking, especially given that even some neo-classical economists from the World Bank emphasize the importance of government in upgrading57.

56 List is a 19th century economist who was a famous promoter of industrial policy as a tool for Germany to catch up with the United Kingdom, more on which below.
57 However, in a critique from a different perspective, Selwyn (2009) categorises the developmental statist as neo-Listians for their similar policy prescriptions as Friedrich List (for more on which, see Chang, 2002). Selwyn’s (2009, p 158) main critique of the developmental statist can be seen in the following quote:

...despite extracting important lessons from history, such approaches are based on a partial understanding of class relations under capitalism and consequently obfuscate many of the negative consequences of capitalist development.

Selwyn takes the argument further by underlining what he sees as a key similarity between the neo-Listians and the neo-liberals who the former are so preoccupied with criticising: a model of development based on the repression of wage labour. However, regarding both the accusations of the corrupt African state and of the state representing the interest of capital, Mkandawire (2001a, p 300-01) writes:

If there was anything that the state in Africa failed to do, it was to allow the local business class effective presence in policy-making. Or, conversely, if there is anything that the African business classes failed to do it was to ‘capture’ state policies. ...Conceptually, state policies were never a “class project” in Africa. Import substitution was neither the result of successful lobbying by rent seeking groups nor a consciously devised strategy to support the emergence of a national bourgeoisie; and even the small capitalists that emerged almost inadvertently, and at times despite state harassment, were to be abruptly left out in the cold as governments danced to the tunes of the BWIs.
Lin’s key argument is that government’s role is to promote a country’s comparative advantage rather than defy it. Addressing market failures, externalities, and coordination failures are among those roles prescribed to Lin’s state. Chang argues that Lin’s analysis and promotion of more liberal trade regimes is based on flawed theory. In particular, the use of the Heckscher-Ohlin-Samuelson theory of comparative advantage assumes perfect factor mobility and ignores technological capabilities. In short, Chang argues that government intervention in some cases needs to be comparative advantage-defying rather than conforming.

Mkandawire (2001) identifies two key aspects of a developmental state: ideology and structure. The former refers to a government which derives its legitimacy from and claims its essential goal to be economic development, the existence of which is seen in economic growth, accumulation, and industrialisation. Structure on the other hand refers to the ability of the state to implement developmental policies and is usually associated with such adjectives as capacity or autonomy.58

Ideology and structure can indeed be mutually reinforcing in that a state that is more legitimate in the eyes of the people may acquire more authority, power, and autonomy over its institutions. As Woo-Cumings (1999, p 20) notes: “…the power of the developmental state grows both out of the barrel of the gun and its ability to convince the population of its political, economic, and moral mandate.”59

Regarding ideology, pointing out the sometimes overwhelming influence of exogenous forces on developmental outcomes, Mkandawire (2001, p 291) redefines the developmental state.

58 Structure, and in particular state autonomy, are often seen in the Weberian sense of rationality (Mkandawire, 2001; Selwyn, 2009a). The state is considered “rationalised” when it enables the efficient allocation of resources in the economy (Selwyn, 2009, p 163), and the more successful developmental states are those with more autonomous and less politicised bureaucracies (Woo-Cumings, 1999; Vartianen, 1999). For more on the “Weberian” Japanese developmental state, see Johnson (1982). For the importance of state autonomy and the relevance of the state-business power balance, see Wade (2010). For the relationship between the autonomous and the authoritarian developmental state, see Wade (2010) and Johnson (1999).

59 Similarly, Khan and Gray (2006, p 49) note: “The capacity of a state to impose discipline also depends on its legitimacy, which in turn depends on its ability to deliver growth in living standards to wide constituencies.”
...as one whose ideological underpinnings are developmental and one that seriously attempts to deploy its administrative and political resources to the task of economic development.\(^{60}\)

There are a number of different economic policies associated with developmental states, as the successful developmental states incarnate a mix of interventionist policies which were successful in different contexts (Fine, 2012)\(^{61}\). Wade (1990) distinguishes between macroeconomic and industrial policies, where the former targets such things as aggregate demand and the latter targets specific industries. He further identifies two categories of industrial policies: functional industrial policies and industry-specific industrial policies. The former targets an aspect or input that can affect numerous industries whereas the latter, as the name implies, aims to aid a particular industry. Within the category of industry-specific industrial policies he makes a final distinction between following the market and leading the market (see Figure 1.1 below). Followership is where

... the government does not do anything by itself, and does not force anything on the private economy. It does, however, establish a consultation process in which government, management, and labor can enter into strategic agreements about consumption, investment, incomes, and work practices to which the government brings its own ideas about the long run evolution of the economy and in which government help is given only in return for stipulated performance by the other parties (pp. 261-62).

As an important component of following the market industrial policy, Wade (2010) argues that in addition to shaping the incentive structure for private firms that government needs to have a method of rewarding and punishing firms based on performance.

\(^{60}\) The focus on goals rather than achievements is also noted in Wade’s (2010, p 150) emphasis on the importance of a “public service mindset among state officials.” This notion of developmental state being defined by goals rather than results has been applied elsewhere in the literature (Woo-Cumings, 1999).

\(^{61}\) However, it has been argued that the state’s ability to control and direct finance for purposes of development is among the most important characteristics of a developmental state (Woo-Cumings, 1999; Chang, 1993).
Leadership policies, on the other hand, are often associated with creating comparative advantage and in the case of Taiwan (or for developing countries more generally) this would imply a focus on capital- and technology-intensive industries (Wade, 1990). Leadership policies were undoubtedly at the heart of the major structural transformation of the East Asian NICs and are in line with what Chang characterises as comparative advantage-defying policies (Lin and Chang, 2009). Wade (1990) gives the example of the three phases of South Korean governmental support for the semi-conductor industry to illustrate followership and leadership interventions. The first phase focused on encouraging FDI in the industry (followership), the second phase on developing infrastructure and technology (leadership), and the third on supporting private firms (followership).

Despite the attention that leadership policies receive in both popular and academic literature, Wade (2010) stresses that followership policies were more prevalent in the East Asian developmental states and were used to promote upgrading and domestic sourcing of inputs among other things. For example, using FDI from multinationals in Latin America for the purpose of illustration, Wade (2010) argues that without government intervention multinationals present in developing countries will often source their inputs from abroad rather than domestically. At best this is a missed opportunity to develop new
domestic sectors and at worst it destroys existing domestic sectors which are unable to compete with the imports.

Wade (2007) provides an example of how the situation described above can be remedied through followership policies in Taiwan’s creation of the Industrial Development Bureau (IDB), whose rationale was to provide industrial extension services. One responsibility of the IDB was to identify domestic producers willing and able to engage in import substitution. Wade (2007) provides the example of IDB identifying two domestic glass producers who were near meeting the requirements to provide Phillips with glass for its production of TVs in Taiwan in the 1980s. The company had previously been sourcing the input from Japan but after the IDB identified the domestic producers the government took steps to make the Japanese imports less accessible and Phillips ended up in a long-term supply agreement with one of the domestic producers. In response to the offered contract the supplier invested in increasing its technological capacity to provide a better product.

In terms of how government implements its policies, Wade (1990) makes the important distinction between government control and ownership. Whilst one would normally associate government ownership with more interventionism, Wade stresses that this is not a necessary association. For example, a state-owned enterprise (SOE) may not make any structural change in an industry and government may induce structural change without an SOE.

To further enhance our understanding of how (developing country) states may act, we draw on Khan and Gray’s (2006) treatment of the complexities of rent-seeking and corruption. Of particular interest is their discussion of political corruption and primitive accumulation, which concern efforts by government to placate certain groups or interests. The first often refers to off-budget transfers while the second concerns non-market asset transfers. With both of these, the authors point out the similarities to legal policies which

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62 Without wanting to stretch the conceptual parallels between the GVC and developmental state (DS) literatures too far, it is interesting to point out the similarity in Wade’s point to Gibbon and Ponte’s (2005) characterization of lead firms increasing their drivenness yet through hands-off forms of coordination.

63 For more on the role of SOEs and the economic arguments for their existence, see Chang (2007b). For a discussion of the various types of SOE management, see Lioukas et al. (1993).
occur in rich countries. For example, the enormous tax and transfer aspect of rich country
governments is similar to political corruption in developing countries whereas the
difference between non-market asset transfers in rich and developing countries is often
that in rich countries the assets are transferred to productive uses whereas in developing
countries they become unproductive (Khan and Gray, 2006).

Indeed farmer income and price stabilisation schemes in poor African countries
could be understood in the context of political stabilisation measures which could be
compared to tax and transfer schemes in rich countries but which may also induce a
certain amount of rent-seeking.  Chang (2009b, p 504) notes that

The most frequently adopted measure to stabilise farm income is a price
stabilisation scheme through government price-setting and stockpile management.
Governments have provided price floors by guaranteeing to purchase (unlimited
quantities of) certain agricultural products at pre-announced prices.  Chang (2009b) gives the example of Holland in the 1930’s which established minimum
prices for wheat at roughly twice the international price of the commodity.

Despite the negative attention given to price distortions as a result of government
intervention, Chang (2009b) offers two compelling reasons for tolerating price distortions.
First of all they may be necessary as a short term measure to promote long term efficiency
gains. Second of all, and somewhat more unusually even within the developmental state
literature, Chang argues that such measures as price stabilisation schemes may be the
closest thing some developing country governments can offer to a social safety net and
are hence justified. It is argued that this latter function is of particular importance to poor
farmers in developing countries in that their livelihoods are particularly volatile due to the
(among other things) impact of the weather, a lack of pest and disease control
mechanisms, lack of storage, and a lack of ability to diversify agricultural income sources

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64 By pointing out once again the similarities in Chang’s discussion of the role of the state with Daviron and Gibbon’s (2002) discussion of the state’s retraction, we would re-iterate that we are not attempting to replace - but rather, enhance - the latter with the former.

65 However, Chang (2009b) warns about the potential downside of inflated minimum prices in that they can serve as a disincentive for diversification, as in the case of maize in Zambia.
(Chang, 2009b). Presented in this manner, the lines between political stabilisation, tax and transfer regimes, social safety nets, market-mediation, and upgrading, become quite blurred.

1.4 Summing Up and Case Overview

In our discussion in this chapter we have highlighted some of the key concerns of GVC literature such as territoriality, input-output structure, governance, institutional framework, and upgrading. Within governance we have pointed to two important conceptualizations: governance as drivenness (associated with the GVC-GPD variant) and governance as coordination (associated with the GVC-GHS variant). With regards to upgrading we have discussed the commonly used categories (product, process, functional) as well as the more expansive understandings advanced by the GVC-GPD literature. In an effort to enrich our analysis of the incorporation of non-firm actors into the governance and upgrading of global value chains, we have drawn on other theoretical traditions to complement the GVC literature. In particular, and inspired by Selwyn (2007; 2012), we have drawn on Wright’s (2000) associational power in order to interrogate the role of farmer associations in upgrading. We have also discussed various types of (developing country) policies presented in the DS literature in order to enhance our understanding of how and why developing country governments might intervene in value chains.

Of course, ours is hardly the first attempt to expand the GVC framework beyond its firm-centrism. Of particular relevance is the Global Production Networks framework (e.g. that advocated by Henderson et al., 2002) which challenges GVC conceptions of power and emphasizes the influence of entities such as government institutions and trade unions. Whilst drawing attention to other actors is of course a welcome contribution, the framework has been critiqued for over-extending its reach by attempting to be all-encompassing (Selwyn, 2011). However, there does exist a similarity in aims between
some of the GPN work and the theoretical framework we have developed in this chapter. Indeed, we would see Bair’s (2008, p 257) following description of the ‘Manchester school’ of GPN work as equally applicable to our framework:

…they have also been more attentive to the role of non-firm actors, whose importance for global production networks might be underplayed by a more linear, firm-centred commodity chain heuristic. The GPN framework, in directing attention to the importance of other kinds of economic and political actors such as governments and labour unions, supplements the GCC approach, and in this sense might be more usefully viewed as a complementary rather than a contending paradigm.

1.4.1 Reasons for Selecting Tobacco, Malawi, and the GVC Concept to Connect Them

There are a number of reasons for using Global Value Chains to analyse the international tobacco industry as well as Malawi’s role in it. Having engaged in a discussion of the key concepts of the GVC literature as well as drawing on other literatures above, below we will explain why the theoretical literature used here was chosen to examine our case study, as well as why our case study was chosen in the first place.

First, the tobacco industry is truly global in nature, with the most lucrative end markets determined as much by population or particular consumption patterns as by overall levels of wealth per se. In 2007, the five biggest national markets for manufactured tobacco products were China, Russia, Japan, Indonesia and the US (Shafey et al., 2009, pp 32-33). Of these, all but Indonesia are among the biggest exporters of manufactured tobacco products, in addition to some rich countries such as Germany, France, and the U.K. (Shafey et al., 2009, pp 52-53). Some 5.7 trillion cigarettes are consumed in the world annually (JT, 2012, p 51). However, and despite the extensive dispersion of both production and consumption (more on which in Chapter 3), nearly all of the (small number) of lead firms and their multi-national first tier suppliers are headquartered in rich
countries, making this industry particularly ideal for a GVC analysis, and potentially illuminating for broader concerns of development studies.\footnote{For example, Talbot (2009, pp 93-94) writes that Analysis of the structures of tropical commodity chains thus provides insights into the nature of relationships between the core and periphery, and into the structure of international inequality and how it has been maintained over long historical periods.}

Second, tobacco is unique in a number of ways. Tobacco killed approximately 100 million people in the twentieth century and is estimated to have killed 6 million in 2010 alone (Shafey et al., 2009, p 38). The deadly nature of cigarettes and the politics of their regulation have repercussions in every node of the chain. Unlike many other commodities, an enormous amount of resources are mobilized for the purpose of discouraging consumption.\footnote{For example, in 2012 the (U.S.) Center for Disease Control (CDC) and the U.S. Department of Health and Human Services announced a US$ 54 million anti-smoking campaign, designed to persuade 50,000 smokers (in the U.S.) to quit (Tobacco Journal, 2012a, http://www.tobaccojournal.com/Graphic_anti-smoking_media_campaign_launched.51125.0.html).} The extent of regulation of cigarettes would be politically unacceptable in most contexts with any other legal commodity. The tobacco industry also struggles to gather support from international/intergovernmental organizations. For example, as World Bank economist Steven Jaffee (2003, p 5) points out:

> Since 1991, the World Bank has had a formal policy that it will not lend directly for, invest in, or guarantee investments or loans for tobacco production, processing, or marketing. Bank loans also cannot be used to finance imports of tobacco or tobacco products, tobacco processing machinery or other related equipment or services. Bank activities in the health sector discourage the use of tobacco products. The Bank has been an active participant in international efforts to reduce demand for tobacco products, especially in client countries and to induce countries to adopt policies which curb tobacco products use and internalize the externalities associated with their use.\footnote{The Bank makes an exception for extremely tobacco-dependent economies. At the time of Jaffee’s (2003, p 5) writing, only Zimbabwe and Malawi fit the Bank’s criteria for extreme tobacco-dependency.}

Despite the extensive regulation, efforts at demand reduction, and its pariah status among donors and governments, tobacco is the most cultivated non-food crop in the world and is grown in over 120 countries (ITGA: “Tobacco Types”, \footnote{For example, in 2012 the (U.S.) Center for Disease Control (CDC) and the U.S. Department of Health and Human Services announced a US$ 54 million anti-smoking campaign, designed to persuade 50,000 smokers (in the U.S.) to quit (Tobacco Journal, 2012a, http://www.tobaccojournal.com/Graphic_anti-smoking_media_campaign_launched.51125.0.html).}
Tobacco is an attractive crop due to its high returns relative to other crops (more on which below) and low climatic/environmental requirements, such as soil fertility and water (ITGA: “Alternative Crops”, http://www.tobaccoleaf.org/conteudos/default.asp?ID=50&IDP=20&P=5). We argue that a GVC approach is particularly well-placed to incorporate the effects of some of these peculiarities into an analysis of tobacco production in a developing country.

Third, despite the economic importance of tobacco leaf production in a number of developing countries, and the amount of attention (academic, political, and press) given to certain aspects of tobacco (in particular health, consumption, and regulation), there has been scant application of GCC/GVC concepts to the global tobacco industry. This therefore presents an opportunity to contribute to the GVC (empirical) literature by covering a new chain.

Fourth, tobacco is an extremely important industry in Malawi, often accounting for roughly 60% of export earnings, 25% of government revenue, and 13% of GDP (Prowse and Moyer-Lee, forthcoming). Therefore, to the extent that GVC analysis can be used to gain insight into broader issues of economic development of developing countries, analysing Malawi’s tobacco industry is a useful starting point for understanding economic development in the country.

Fifth, Malawi’s tobacco industry is almost entirely export-oriented (Prowse and Moyer-Lee, forthcoming). Therefore, to the extent that GVC analysis can be used to understand how a developing country is “inserted” into the global economy, and how this insertion affects the prospects for upgrading, analysing Malawi’s tobacco industry would appear to be a particularly fruitful exercise.

69 For example, in a search of the 705 publications listed on the Global Value Chains website (www.globalvaluechains.org), the word “tobacco” produces zero results. Vargas (2001) applies GCC analysis to the tobacco cluster of the Rio Pardo Cluster in Southern Brazil. Likewise Prowse and Moyer-Lee (forthcoming) and Moyer-Lee and Prowse (2012) use a GVC approach to analyze the Malawian tobacco industry and Moyer-Lee (2013) to discuss the global tobacco industry. However, Moyer-Lee and Prowse (2012) and Moyer-Lee (2013) draw extensively from the present work and are yet to be published.
Sixth, as will be seen in Chapter 4, the historical formation of the Malawian smallholder burley sector stands in distinction from a number of other GCC/GVC case studies in Africa (e.g. those covered in Daviron and Gibbon, 2002), both in terms of timing (it did not technically exit before the 1990s) and in terms of the role of the state. Whilst the general trend in the case studies covered in Daviron and Gibbon (2002) and Gibbon and Ponte (2005) has been for the state to withdraw from active intervention (noting exceptions such as cocoa in Ghana and coffee in Kenya), it could be argued that the state in Malawi, particularly under President Mutharika, has increased its intervention in the industry (more on which in Chapter 7). Therefore, tobacco in Malawi serves as a particularly useful (if perhaps somewhat unique) case study for an analytical framework which attempts to incorporate the state as one of the key actors in a GVC analysis of governance and upgrading.

Seventh, Malawi’s long history of tobacco production engendered the creation of a number of organisations and institutions, such as the Tobacco Association of Malawi and the tobacco auction (more on which in Chapter 4). These institutions predate the cigarette multinationals’ current concern with sourcing traceable and compliant tobacco leaf (more on which in Chapters 3-8). Therefore, analysing the demands of the cigarette multi-nationals on this industry (Chapters 5 and 6), and the responses of both government and the more prominent farmer associations (Chapter 7), provides insight into the dynamics of global value chain governance and upgrading. In other words, the historical peculiarities of the Malawi case allow us to examine how well-established local and national institutions and organisations respond to and interact with the international cigarette companies (lead firms) and their attempts to drive the chain.
1.4.2 Research Questions

Given our discussion of both the literature and our reasons for investigating the Malawian tobacco industry, a number of topics merit inquiry. Some of these topics have been formulated into explicit research questions while others have necessarily been excluded due to the confines of space. Below we will present our eight research questions and the reasons for choosing them. This will be followed by a discussion of what we have excluded and why.

1. Territoriality
   a. What is the territoriality of the Global Value Chain for Tobacco? What is the territoriality of the Malawi (smallholder burley) Tobacco Value Chain? How are these connected?
   b. How has the territoriality of the Malawi (smallholder burley) Tobacco Value Chain come to be shaped over time?

2. Governance as drivenness
   a. Is the Global Value Chain for Tobacco driven? If so by who? What enables the drivers to maintain their power? How do lead firms drive the Malawi (smallholder burley) Tobacco Value Chain?
   b. Does the Malawian government play a role in driving the Malawi (smallholder burley) Tobacco Value Chain?

3. Governance as coordination
   a. How is the lead firm-first tier supplier node of the Malawi Tobacco Value Chain coordinated? Does the coordination observed correspond to the predictions of Gereffi et al. (2005)?

4. Upgrading
   a. Have lead firms promoted upgrading in Malawi? If so, in what form and for whom?
b. Has the Malawian government promoted upgrading in Malawi? If so, in what form and for whom?

c. Has farmer *associational power* contributed to upgrading in Malawi? If so, in what form and for whom?

Our research questions on territoriality have been posed, first and foremost, because mapping the chain is an essential first step when undertaking any type of chain analysis. However, and following Daviron and Ponte (2005), by mapping both the Global Value Chain for Tobacco and the Malawi Tobacco Value Chain and then connecting them, enables us to better understand how Malawi fits into the big picture. Furthermore, by posing Research Question 1.b on how the territoriality has been shaped over time, we seek to move beyond the firm-centrism of the GVC-GHS variant by engaging with the historical formation of the Malawi Tobacco Value Chain. Therefore, with our first set of research questions we attempt to move beyond the merely descriptive element of territoriality by questioning *why the chain is shaped the way it is*.

We pose a number of questions on the role of lead firms. With regard to *driving*, we have asked Research Question 2.a for two reasons. First, and bearing in mind our discussion of why the GVC literature was chosen to analyse the Malawian tobacco industry, understanding how the dynamics of a major industry in a poor African country may or may not be subject to the corporate strategies of rich country firms has the potential to prove partially illuminating on economic relations between developing and developed countries more broadly. Second, the concept of *drivenness*, with its focus on chain-long dynamics, is ideal for examining the ramifications of the uniqueness of tobacco as a consumer product (discussed above) on tobacco producers and producing countries. Similarly, we have posed Research Question 3.a, on governance as *coordination*, in order to better understand the mechanics of how lead firms govern their first tier suppliers in Malawi. By testing Gereffi et al.’s (2005) theory, we also seek to contribute to the discussion in the GVC literature on governance in general and to the debate on the usefulness of the theory in particular. Finally, we have asked Research Question 4.a, on lead firm promotion of upgrading, in order to enhance our understanding of whether
value chains benefit developing country suppliers. By engaging with both the GVC-GHS and GVC-GPD variants of the literature, we want to know if participation in a GVC entails a *dynamic learning curve* with the potential to *improve the rewards structures* for developing country suppliers.

We pose Research Questions 2.b, 4.b, and 4.c in order to interrogate the roles of non-firm actors in the value chain. The answers to Research Questions 2.b and 4.b, on the role of the state, have the potential to prove illuminating in our understanding of the likelihood and effectiveness of state intervention in export industries in developing countries. In other words, in today’s neo-liberal world, can developing countries still shape the nature of their participation in international trade in a beneficial way? Likewise, Research Question 4.c is asked in order to obtain a better understanding of the role of smallholder producers in chains characterized by the powerful concentration of commercial capital and the dispersion and fragmentation of production. In other words, is there potential for collective action as a method of changing the power balance in value chains and improving the position of smallholder producers?

Before turning to what we will *not address* in this work, it is worth briefly commenting on our approach to governance, lest it appear contradictory to GCC/GVC practitioners. Indeed, and as can be seen both in our literature review and in our research questions, we are engaging with governance both as *drivenness* and as *coordination*. Bair (2005; 2009) discusses the interpretation of governance as one of the key features distinguishing *Global Value Chains* from *Global Commodity Chains*, its intellectual predecessor. Likewise, we treat the interpretation of governance as one of the distinguishing features between the two variants of GVC literature engaged with in this work (GVC-GHS and GVC-GPD). Furthermore, and as seen in our discussion of Gereffi et al.’s (2005) theory of value chain governance (as *coordination*), the theory has been widely critiqued, mainly for its narrow focus.

However, we argue that incorporating both approaches to governance in our analysis is both conceptually coherent and useful. Firstly, and whilst Gereffi et al.’s (2005) theory does represent an intellectual break from the GCC tradition, much of the GVC-GPD
work on governance focuses on drivenness. Secondly, we argue that drivenness and coordination are indeed more complementary than mutually exclusive. Whilst our main approach to governance in this work is one of drivenness, our application of governance as coordination is limited to the narrow confines for which it was intended: the lead firm-first tier supplier node of the chain. By not losing sight of the “big picture” or the historical aspect of governance (as these are treated elsewhere in the thesis), testing Gereffi et al.’s (2005) theory at one node of the chain has the potential to prove illuminating for our broader discussion of how lead firms govern the chain in Malawi.

With regard to those topics discussed yet not formulated into explicit research questions, institutional framework is perhaps the most glaring omission. However, whilst not embodied in one particular question, various aspects of this concept will be addressed throughout this work. To the extent that institutional framework has been understood mainly in relation to upgrading (e.g. in the GVC-GPD variant), this issue will be discussed briefly in our treatment of the Global Value Chain for Tobacco, and in much more detail in our case study of the Malawi Tobacco Value Chain. To the extent that institutional framework refers to regulatory structures, in our discussion of entry barriers to the lead firm sector we will discuss at length various regulations (public and private) faced by lead firms and first tier suppliers. To the extent that institutional framework is understood as “rules of the game”, this will also be addressed via our discussion of state intervention in the Malawian tobacco industry. What we will not address in this work are trade regulations and their impact on governance and upgrading in our case study. Whilst a treatment of trade regulations would no doubt enrich our analysis, it has been excluded for three reasons. First, and bearing in mind the tension between the limitations of space and the ambitious nature of our investigation, we have had to excise a number of aspects of GCC/GVC analysis which feature more prominently in other works. Second, our

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70 For example, Bair (2009, p 25) notes: Within the GCC framework, the BDCC-PDCC distinction aims to describe the composite power structure of a chain but offers no predictions about the way in which particular activities or the relationship between specific links are coordinated; the opposite would seem to be true of the GVC governance theory.

71 For example, the extensive discussion of the new international trade regime in Gibbon and Ponte (2005), the discussion of AGOA in Gibbon (2003b), and the discussion of the MFA and “triangle manufacturing” in Gereffi (1994).
reading of primary sources (mainly annual reports, shareholder reports, webcasts) of the international tobacco companies, as well as of the tobacco industry press (e.g. *Tobacco Journal International, Tobacco Reporter*), suggests that international trade regulations do not feature as a major concern of tobacco multinationals or as major factor in sourcing decisions. Third, trade laws did not appear to be a major determinant of the territoriality (and much less of the governance and upgrading) in the Malawi Tobacco Value Chain. Although various trade regulations were occasionally mentioned in passing by (primarily industry) respondents, they were not often presented as an important determinant of which firms bought Malawian tobacco and/or where these firms were located.

A discussion of input-output structure of the value chain under study will be woven into our treatment of the chain’s territoriality, governance, and upgrading. Indeed we argue that it would be near impossible to engage in serious discussion of territoriality, governance, and upgrading, without at least a broad overview of the chain’s input-output structure. As such, this topic will not constitute an object of inquiry in and of itself.

A political economy approach to agrarian change, especially one which analyses a global value chain whose starting point is a smallholder farmer, should be cognizant of rural differentiation. However, due to the confines of space and time - the former with regard to the length of this thesis, the latter with regard to our research priorities during fieldwork in Malawi - we are unable to thoroughly investigate the extent of rural differentiation of the smallholder burley sector in Malawi and its impact on governance and upgrading. Therefore, our discussion of rural differentiation in this chapter should be understood as issues to be aware of rather than objects of investigation, and will serve to inform and qualify both our discussion of tobacco farmers in the Global Value Chain for Tobacco as well as our analysis of farmer associational power and the role of the latter in upgrading in Malawi.

The environmental conditions of production, whilst undoubtedly an important feature of any value chain, are perhaps less important in our case of tobacco than in extractive industries (e.g. tuna or oil). Indeed, one of the characterizing features of tobacco agriculture is the crop’s wide adaptability to various agro-ecological conditions,
which has made it a particularly attractive cash crop across both time and space. The environmental conditions of production will not be ignored. Indeed they will work their way into our discussions on upgrading, on the types of tobacco grown in different places, on quality, and elsewhere. However, and once again with space limitations in mind, the environmental conditions of production will not feature as a main section in this work.

Our discussion of consumption will also be anecdotal. Tobacco consumption has been studied extensively from the perspective of other disciplines\(^\text{72}\), and a review of this enormous literature for our purposes could be superficial at best. An extension of this work could potentially attempt to filter and incorporate some of this research into a GVC analysis in a highly selective manner. Indeed some of the very recent trends in consumption and regulation may even necessitate a more serious engagement with consumption and how changes in the latter may cause ripples or ruptures throughout the chain. We will briefly discuss some of these trends and suggest an outline for future research on this topic in our conclusion.

Although we will discuss codes of conduct and engage with Wright’s associational power, both of which have featured prominently in GVC analyses - by Barrientos et al. (2001) and Selwyn (2007, 2012), respectively - for the purposes of incorporating labour\(^\text{73}\), an incorporation of labour will not be attempted in this work. In the study of a value chain which originates with a smallholder sector, a serious incorporation of labour would necessitate a form of household survey to assess the prevalence of hired labour use by smallholders (which anecdotal evidence suggests - and our discussion of rural differentiation would predict - is highly varied). However, we opted for a fieldwork approach based primarily on semi-structured interviews, with our main points of inquiry consisting of chain nodes downstream from smallholders. The justification for focusing on semi-structured interviews and a firm-level survey will be discussed later in this work (Chapter 2). In addition to restricting the focus of this work in the interests of space, time constraints - in particular one year for fieldwork in a three year programme in which

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\(^{72}\) Fletcher Krebel noted, in a December 1961 edition of *Reader’s Digest* (cited in Goodman, 1993, p 1) that “It is now proved beyond doubt that smoking is one of the leading causes of statistics.”

\(^{73}\) See Johnston and Moyer-Lee (2013) for a critique of this incorporation.
fieldwork is not the only method of investigation - also played a role in limiting the scope of inquiry. Therefore, labour has been excluded from this work.

We will engage only partially with the historical formation of the value chain in study. More specifically, we will discuss at length the historical formation of the smallholder burley sector. However, we will engage with only a selection of key features of the historical formation of the Global Value Chain for Tobacco. Due to tobacco’s historically expansive coverage (across both time and space), and once again cognizant of our space restrictions, a detailed exposition of the historical formation of the Global Value Chain for Tobacco simply is not possible.

1.4.3 Thesis Structure

This work is divided into three parts. In the remainder of Part One (Theory, Structure, and Methods) we will discuss our methodology (Chapter 2). In particular we will discuss our various approaches to researching the global tobacco industry, the historical formation of the Malawi smallholder burley sector, as well as key issues in our three fieldwork trips to Malawi.

Part 2 (The Global Value Chain for Tobacco) consists of Chapter 3, in which we discuss the territoriality of the Global Value Chain for Tobacco. In particular, we discuss at length the lead firm and first tier supplier sectors and their relative levels of concentration and important entry barriers. We also engage with governance as drivenness and discuss main features of governance of the chain. Tobacco agriculture and upgrading in the chain are discussed to a lesser extent, and mainly for the purpose of contextualizing our Malawi case study, rather than attempting to provide a comprehensive analysis of the global tobacco industry, which could constitute a thesis in and of itself.

Part 3: The Malawi Smallholder Burley Tobacco Value Chain contains four chapters. In Chapter 4 we provide a brief history of the formation of the smallholder burley sector in
Malawi, which contributes to our understanding of the Malawi Tobacco Value Chain’s contemporary territoriality. Given that we have clearly delineated our chain case study as originating with the smallholder burley sector, and because this sector did not exist prior to the early 1990s, a discussion of its historical formation is of particular relevance.

In Chapter 5 we will assess the territoriality (at the time of fieldwork) of the chain. Whilst Chapter 3 viewed territoriality from the perspective of the lead firms looking upstream, Chapter 5 will view territoriality from the perspective of the Malawian smallholder burley sector looking downstream. In other words, where does the smallholder burley tobacco go? Of particular emphasis is the nature of end-market segmentation. Although we will not explore the origin of the segmentation in this chapter, we will extensively consider the features which distinguish different end-markets.

In Chapter 6 we will purposefully connect the two end points of our chain in order to analyse governance and upgrading in the international cigarette company-Malawi (smallholder burley) Tobacco Value Chain. In this chapter we are interested in particular in the role of lead firms in Malawi. We will assess the extent to which they govern the chain, both in terms of drivenness as well as coordination. We will also assess the extent to which upgrading in the chain is promoted and/or controlled by lead firms.

Chapter 7 will continue our discussion of upgrading and governance; however it will do so by isolating and analysing the roles of the state and farmer associational power. After briefly introducing some of the key state institutions and farmer associations we will discuss the extent to which aspects of the value chain can be said to be driven by the state. This will follow by an (intricately related) analysis of the extent of state-promoted upgrading in the chain, as well as upgrading which has occurred as a result of farmer associational power.

Chapter 8 will present our conclusions. Since in Chapters 6 and 7 we attempt to disentangle the roles of the state, lead firms and their suppliers, and farmer associational power in governance and upgrading, Chapter 8 will be dedicated (in part) to bringing these chapters together for the purposes of presenting a more coherent set of findings. We will also attempt to briefly address the territoriality which was subject of Chapter 5, by
drawing on our theoretical framework. This discussion will end by a concise overview of recent developments in (international) tobacco products regulations as well as domestic Malawian tobacco policy, and a consequential potential future research agenda.
Chapter 2: Methodology

2.1 Introduction

In my investigation of chain governance and upgrading in the Malawi Tobacco Value Chain, a number of areas in particular required tailored research approaches. In addition to investigating the internal dynamics of chain governance, and pertinent to our research questions regarding the influence of farmer organisations and governments on chain governance, it was necessary to investigate the extent of influence of non-lead firm actors on the chain. In particular, one needed to establish the role of farmer organisations and the extent to which these contributed to shaping the chain. Furthermore, it was necessary to investigate the role of government in shaping the chain either in conjunction with or in opposition to lead firms and/or farmer organisations. In this chapter we will briefly discuss some of the methodological issues confronted in this investigation. Section 2.2 will summarize the methods employed, Section 2.3 will discuss the fieldwork trips to Malawi, Section 2.4 will discuss positionality, and Section 2.5 will conclude.

2.2 Summary of Methods

A number of research methods were employed in this investigation, namely a desktop-survey of secondary literature, secondary data from government and private sector sources, semi-structured interviews, direct observation, and a firm-level survey. The research occurred in four phases:

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74 Empirical research for this thesis was required not merely for the country case study of Malawi (Chapters 4-7) but also for the Global Value Chain for Tobacco more broadly (Chapter 3).
a. Research on the global tobacco industry;
b. Research on the history of tobacco production in Malawi;
c. Preliminary fieldwork trips in Malawi;
d. Core fieldwork trip in Malawi.

Research on the global tobacco industry was originally done for the purposes of a background chapter on the Global Value Chain for Tobacco. The intention was for the research to be done in a desktop-survey manner, relying principally on secondary literature. However, the research for this chapter (Chapter 3) did not develop in this fashion, for a number of inter-related reasons.

The first and potentially most important complicating factor was the dearth of academic literature on the global tobacco industry. Academic articles on tobacco tend to either be case studies of tobacco agriculture in particular countries or regions of countries, or studies of a variety of industry sectors in a particular country or region, one of which is tobacco. There is also an abundant literature on tobacco concerning smoking and health, but which for our purposes is of a lesser importance. A full investigation into the reasons for this thin literature is beyond the scope of this chapter, however anecdotal evidence (from fieldwork and interviews) suggests that given the taboo nature of the tobacco industry, governments, donor agencies, and academics alike are loath to conduct research on the topic (more on which below). At the time of the research for Chapter 3 - primarily in my first year - I was also unable to find any application of the global value chains concept to the international tobacco industry.\(^{75}\)

This lack of academic material led me to rely on other sources such as news articles (in particular from tobacco industry press such as *Tobacco Journal International* and *Tobacco Reporter*), secondary data from tobacco leaf companies, and annual reports and webcasts of shareholder meetings of the international cigarette companies. I also conducted a number of semi-structured interviews with academics or industry insiders,

\(^{75}\) A potential exception to this is Vargas (2001), however this article is still much more focused on the local nodes of the chain in Southern Brazil, rather than on the global value chain as a whole.
and consulted agronomy sources, such as growers’ guides\textsuperscript{76}. Finally, I visited a tobacco farm and a tobacco research site in South Carolina, U.S.A. On this visit I was able to observe the agronomical research being conducted as well as interview a tobacco agronomy extension officer\textsuperscript{77} and a big tobacco farmer\textsuperscript{78}. This visit was useful not in that the farmer interviewed or agronomy practices observed were representative of global tobacco agronomy, but rather in that they were representative of tobacco agronomy best practice\textsuperscript{79}.

Research on the history of tobacco production in Malawi was also conducted essentially in my first year. However, this research was done almost entirely as a review of published academic articles. Whilst none of this literature was written in a global value chains framework, there was quite a lot written on the topic, probably due to a number of factors, e.g. the country being English-speaking, the predominance of tobacco in the country’s economy, and the long history of tobacco production in the country. This literature was complemented by some secondary data from Malawi government sources as well as a semi-structured interview with Martin Prowse, a specialist who has published on the topic.

2.3 Fieldwork Trips in Malawi

My preliminary fieldwork trips to Malawi consisted of two one month trips and the main methods employed were direct observation, 32 semi-structured interviews with 30 respondents\textsuperscript{80}, informal conversations, and reading the daily newspapers\textsuperscript{81}. I interviewed officials in leaf companies, farmer organisations, government ministries, parastatal

\textsuperscript{76} For example, North Carolina State University (2011) and Tobacco Farm Quarterly (2007).
\textsuperscript{77} See Gooden (2011).
\textsuperscript{78} See DuRant (2011).
\textsuperscript{79} More on this in Chapter 3.
\textsuperscript{80} For a list of anonymous respondents and dates of interviews see Appendix 2.A, Table 2.A.1.
\textsuperscript{81} In particular the two national dailies, The Nation and The Daily Times.
agricultural or tobacco companies, as well as officials in the donor community. The focus of this phase of the research was not as much on acquiring detailed and specific information, but rather on understanding the big picture by acquiring information from as many relevant sources as possible. This phase of my research was also inspired by what appeared to be common practice in other GVC work. For example, Ponte (2001) conducted a similar style of broad interview-based research in his work on the coffee chain in East Africa\(^8\). In Kenya and Uganda Ponte

interviewed officers of the coffee regulatory bodies, cooperative unions, farmer organizations, trade federations, and a small sample of traders/exporters and processors (p 5).

In Tanzania Ponte conducted interviews with a number of large estate owners/managers as well as

...with all types of actors in the domestic marketing chain downstream from producers. These included actors handling coffee (agents, traders, cooperatives, curing/hulling plants, exporters, local roasters, transporters) and providers of services to the industry (finance, inputs, extension, research, brokerage, quality control, auditing, information, logistics). Specifically, the author interviewed 22 out of 30 registered export companies (including all the top ten by market share), 18 out of 19 licensed coffee curing/hulling plants, and 21 out of 30 licensed domestic traders (including all the top ten) (p 5).

During my core fieldwork trip to Malawi my original plan was to do a household survey of tobacco farmers\(^3\). However, a number of factors led me to abandon the household survey and instead opt for a series of semi-structured interviews\(^4\) and a firm-level survey. First of all, during my two preparatory fieldwork trips to Malawi, I was surprised by the ease of access I had for interviews. By the end of my second trip I had interviewed or had

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\(^8\) Also, Selwyn (2012) is based on interviews and “author’s observations”; Thomsen (2007) is based on 68 semi-structured, open-ended interviews.

\(^3\) Household or farmer surveys are somewhat unusual but not unprecedented in GVC research. For example, see Ponte (2001), who conducted a survey of 250 smallholder coffee producers in Tanzania for his research on the coffee chain in East Africa.

\(^4\) 24 semi-structured interviews were conducted on this trip. For a list of anonymous respondents and dates of interviews, see Appendix 2.A, Table 2.A.2.
informal conversations with an official in almost every major bank, donor agency, relevant governmental body, major tobacco farmer organisations, and tobacco company. I did not expect to get this sort of access, and found that with the access I was uncovering new information of particular relevance to GVC analysis, e.g. on power dynamics within the chain, governance, upgrading, etc. This was despite the fact that the country was in a state of political crisis and the tobacco industry in particular had become extremely politicised\textsuperscript{85}.

In addition to the unexpected ease of access, my research during the two preliminary fieldwork trips revealed that the tobacco industry was at a turning point. Pressure was building for the main marketing system to shift from being auction-based to being contract farming-based, due to the insistence of the international cigarette companies. However President Bingu wa Mutharika was heavily resisting this transition. Seeing these dynamics play out led me to focus the research more on the governance of the value chain and the influence of (Malawi) government. Whilst a survey of tobacco farmers would no doubt be useful in terms of uncovering the impact of these dynamics on one sector/node of the chain, the method would not be the most useful in understanding how the international cigarette companies were enforcing their demands or how government was influencing the chain.

The final factor influencing the shift in focus from a household survey to semi-structured interviews and a firm-level survey, was the death of President Bingu wa Mutharika. The president died while I was in London between the second preparatory fieldwork and the main fieldwork trip. Arguably an autocratic president\textsuperscript{86}, who had also taken positions contrary to the interests of the donor community and the international cigarette and tobacco leaf companies, was about to be replaced by Vice-President Joyce Banda, a politician who was viewed favourably by international media and donor agencies.

\textsuperscript{85} The president at the time, Bingu wa Mutharika had become increasingly autocratic (according to civil society organisations, journalists, and donors, as revealed in articles in the national dailies) and journalists, activists, and others were being persecuted and killed. Furthermore, a number of high-level deportations had occurred, particularly in the tobacco industry.

\textsuperscript{86} These accusations were levied against the President in the opinion pages of the national newspapers, especially The Nation, as well as by civil society organizations and the donor community, as seen in newspaper articles in The Nation, The Daily Times, and in interviews conducted by the author.
She gave every indication of aligning the Malawian tobacco industry with the interests of the international tobacco leaf and cigarette companies, i.e. enabling the shift from auction to contract farming based marketing systems. The replacement of Mutharika with Banda had potential significance for my research in two areas. Firstly, if Banda’s policies actually turned out to be as accommodative towards the tobacco industry as they appeared they were going to be, the policy impact of the change would present evidence of the extent to which Mutharika’s policies were influencing the shape and nature of the tobacco value chain. Secondly, given that Banda appeared to be much less autocratic, there was great potential to gain even more access to privileged informants in government and the tobacco industry, who would have less fear of retribution or deportation.

I therefore decided to focus my core fieldwork trip on a series of semi-structured interviews with key informants, as well as to conduct a firm survey on the basis of that outlined in Kaplinsky and Morris (2000, pp. 55-69)\(^{87}\). The objective of this survey is to identify the relative importance of “critical success factors” (i.e. important factors for lead firms such as price or quality) in a value chain, and the ability of different actors in the chain to “hear” the lead firms by comparing the relative importance assigned to different factors by different actors in a chain. I established seven factors\(^{88}\), based on previous semi-structured interviews, observation, and informal conversations. Survey respondents were asked to rate each factor on a scale of 1 (not at all important) to 7 (extremely important). Scores could be repeated for more than one factor. The idea of this survey is to conduct it with actors at different nodes of the chain to compare the scores that actors give in order to understand the ability with which lead firms are able to make their demands heard. I therefore conducted the survey with the managing directors of the four tobacco leaf merchants in Malawi, the agronomy directors of these four companies, as well as farmers in executive positions of four of the major tobacco farmer associations in the country. However, my survey departed from its original intended use (in Kaplinsky and Morris, 2000, pp. 55-69) in that it was conducted twice at each node of the chain, in

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\(^{87}\) For an application of a similar survey, see Kaplinsky et al. (2003).

\(^{88}\) These were price, quality, long term relationships with suppliers, non-tobacco related materials (NTRM), child labour, volume (ability to buy large quantities from a single supplier), and good agricultural practices (GAP).
order to correspond to two different end markets. For a detailed elaboration and analysis of the results, see Chapters 5 and 6.

In addition to conducting the survey, the core fieldwork trip also allowed me to conduct semi-structured interviews with a number of important stakeholders whom I had not previously interviewed. These included other officials in tobacco leaf companies and important farmer organisations, as well as the Minister of Agriculture. Conducting a series of interviews of key actors at different nodes of the chain has precedence in GVC research such as in Dolan and Humphrey (2004). These authors conducted research on the fresh vegetables value chain from Africa to the U.K. Their fieldwork consisted of interviews with U.K. supermarket chains, U.K. importers, wholesalers, and trade associations, as well as with exporters in Kenya and Zimbabwe (p 495). In their study of the global wood furniture value chain, Kaplinsky et al. (2003) also rely on interviews and firm level surveys. However their interviews appear to be heavily orientated towards the buyer end of the chain.

Japan Tobacco (JT), the only international cigarette company purchasing tobacco leaf directly in Malawi, was the only organisation which refused to grant me an official interview. This is despite repeated efforts, informal conversations with senior managers, an affiliation with the Tobacco Control Commission (the governmental regulatory body), and having interviewed officials in all of the major tobacco leaf companies in the country. In my view it is not a coincidence that the only “lead firm” operating in the country was also the strictest and most tightly controlled organisation. Therefore the fact that this organisation did not grant me an interview can be used as evidence in and of itself, of the structure of the Malawi Tobacco Value Chain and the nature of lead firms in the chain. This issue is discussed more thoroughly in Chapter 5.

In addition to the semi-structured interviews and the survey, direct observation and informal conversations served as major methodological tools for this phase of my research. After having built up personal relationships with key individuals in tobacco farmer organisations (e.g. head of customer service in Tobacco Association of Malawi and head of

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89 I was never formally denied the interview, but rather was told repeatedly that the interview was pending clearance from headquarters in Geneva.
tobacco operations in National Smallholder Farmers’ Association of Malawi), during my core fieldwork trip I shadowed these individuals in their jobs on average once per week. This shadowing included visits to the auction floors, participation in “field day” events where new agronomical practices or techniques were disseminated to tobacco farmers, and visits with tobacco farmers during which their organizations educated them on the transition to contract farming or disseminated contracts with different leaf companies for the farmers to sign. Whilst these methods of observation may not appear as rigorous as a survey or a series of interviews, I found them to be extremely informative for my research. They could indeed be looked upon as a sort of triangulation whereby I could verify the assertions of senior figures in tobacco leaf companies or tobacco farmer organisations as to what was happening with tobacco farmers throughout the country.

2.4 Positionality

There are significant challenges that come with this research, especially regarding biases. Stevano (2011, p 1), paraphrasing Harding (1987) notes:

Feminist epistemologies offer interesting insights to reflect on issues of power that shape the relationship between the researcher and the researched and, therefore, the research itself.

In this same line of thinking, England’s (1994, pp 251-252) conclusion served as my starting point:

...fieldwork is intensely personal, in that the positionality [i.e. position based on class, gender, race, etc.] and biography of the researcher plays a central role in the research process, in the field as well as in the final text.
From colonial times until today the Malawian tobacco sector (estate owners in the former, leaf company managers in the latter) has been dominated by White foreign males. These individuals have occupied the positions most associated with exploitation (e.g. efforts to exclude Black farmers from cultivating burley, low leaf prices). In addition to being a White, foreign male myself, I was aware of the fact that I would immediately be perceived as comparatively wealthy due to my: ability to move around the country, having the luxury of being able to study rather than work, ability to travel to Africa, etc. My personal characteristics would undoubtedly affect what people would say to me, how I would interpret what they say to me, and more generally the nature of the relationship between interviewer and interviewee. As England (1994) points out, feminist methodologies do not eliminate these problems but can make the researcher more aware of these issues and serve as guidance in designing a methodology which attempts to minimize the resulting biases.

The political situation in the country was probably the most interesting contextual factor which influenced my results. On my first preliminary fieldwork trip to Malawi a number of respondents spoke freely, signed “consent to be named” forms allowing me to cite them, and criticised the government, although they usually did not want to be cited on that issue. Others were more reticent and careful not to say or do anything that could be perceived as anti-establishment. Respondents on my second preliminary fieldwork trip were less open. Fewer “consent to be named” forms were signed, and people were notably more careful in their words. The core fieldwork trip was by far the best in terms of open access to respondents. By this time I had decided that even with permission I would not cite my respondents’ name or position (with rare exceptions) as a way of protecting their identities, so “consent to be named” forms were a non-issue. However, I was able to get access to a number of individuals that I couldn’t get access to beforehand, and people were notably less cautious.

The attitudes of my respondents coincided with the political situation in the country during these three periods. In the first preliminary fieldwork trip (October-November, 2011) President Mutharika was becoming increasingly autocratic, however in the second trip (February-March, 2012) the country had come to the brink of chaos due, in part, to his
leadership style. Journalists and politicians were being harassed or killed, diplomats deported, etc. By the time of the third visit (June-July, 2012) Mutharika had died and been replaced by Joyce Banda who appeared to be doing everything possible to please the international media, donor community, and tobacco industry.

However, beyond the general political environment, there were a number of (unexpected) factors concerning my positionality which I believe gave me greater access to certain groups of people. Although the literature on positionality and feminist research methods is often preoccupied with power relations, I believe this issue was not as pertinent in many interviews. Many of the people I interviewed were members of the Malawian educated elite or expat community, and were not intimidated by or on (socially perceived) unequal footing with a young foreign student. To the extent there were unequal power relations, they were often in favour of the respondent as I had to try to make my research relevant to the respondent in order for them to grant me reasonable time for an interview. However, there are a number of reasons why I believe that the respondents did give me access.

I interviewed a number of expats and White Malawians. From numerous interactions with these people it is my belief that many of them identified with me as either being a foreigner or being White. I believe that the nationality and race factors were crucial here in that there was less common ground with many of these respondents on other issues such as education level, political views, personal interests, etc. I do not intend to imply any sort of racial bias among these people but rather that they identified with me and hence were open and helpful.

Another group of people that I felt identified with me and hence was particularly helpful was highly educated Malawian government officials. Many of these had either already completed a PhD or were in the process of writing their PhD dissertations. In the former case, we had informal conversations about writing chapters, supervision, etc. In the latter case we often exchanged articles or authors’ names as our topics tended to

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90 As observed through articles in the national newspapers (The Nation and The Daily Times) as well as revealed in interviews, in particular with the donor community.
have considerable overlap. In both cases, doctoral studies created a significant connection between me and the respondents.

Another factor was language. As most of the people I was interviewing were in the business community or in government, their English was impeccable. The fact that there was a common language made communication much easier. Also, although my Chichewa was far from fluent, I was able to have basic conversations. I used this as a form of breaking the ice with many of my respondents.

Another factor, and one of obvious interest to feminist research methodologies, is gender. The Malawian tobacco industry is heavily male-dominated and characterised by a macho mentality, in my opinion. All of the agronomy managers and managing directors of the tobacco companies, as well as the most important people in the farmer organisations, were men. Although it is impossible to know how respondents would have responded to me had I been female, I believe it is safe to assume that being male gave me considerable access to respondents.

In an industry which is hyper-sensitive to its taboo nature, not being perceived as anti-tobacco also facilitated my access to informants. Given that the entire Malawian tobacco industry was in the process of transforming itself, mainly to respond to public criticism of cigarette companies for engaging (indirectly) child labour, respondents were particularly vigilant towards any attempts to amass evidence which could be used to damage the public image of their clients. Being an occasional smoker myself, and making clear that my only agenda was academic interest in the economics of tobacco production in Malawi, I believe helped to assuage concerns among my respondents that I was collecting evidence to support anti-tobacco objectives.
2.5 Conclusions

In this chapter we have reviewed the variety of methods used to conduct the research for the remainder of this thesis. Chapter 3, which applies the GVC approach to the global tobacco industry, was based mainly on a desktop survey of secondary literature as well as primary sources from within the industry, a limited number of semi-structured interviews, and a farm and research site visit in the U.S.A. Chapter 4, which discusses the historical formation of the smallholder burley tobacco sector in Malawi, was mainly based on a review of secondary literature.

Chapters 5, 6, and 7, on the other hand, are the outcome of two one-month preliminary fieldwork trips to Malawi as well as a core six-week fieldwork trip. In total, 52 semi-structured interviews were conducted, as well as a firm-level survey of tobacco leaf company managing directors, agronomy directors, and farmers in executive positions in four of the leading farmer associations. In addition, I conducted dozens of informal conversations with industry insiders and field visits (observation) to triangulate the information being provided to me in more formal interviews. These interviews, informal conversations, and to a certain extent, survey respondents, have remained anonymous. In Appendix 2.A I numbered the respondents and provided the dates of the interviews. As one can observe from the repetition of certain respondent numbers I have interviewed some of the respondents more than once. Despite the fact that a number of respondents signed “consent to be named” forms, I have left all respondents (except the Minister of Agriculture) anonymous. I have also not listed the categories (e.g. leaf merchant, farmer association, etc.) of each respondent in Appendix 2.A. This is because many, if not a majority, of respondents did not want to be named. Given the fact that the key actors in the Malawian tobacco industry all know each other and that there are a limited number of tobacco leaf companies and key farmer associations, if I were to name some respondents and not others, it would be easier to track down the source of information for those who did not want to be named. I also found that when I guaranteed anonymity that

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91 Although not ideal, there is precedent for maintaining the anonymity of semi-structured interviews for similar reasons as those outlined above, e.g. Hughes (2005).
respondents were much more forthcoming with information, particularly sensitive information which was of particular interest to this research, e.g. on the policies of international cigarette companies on such things as child labour and the extent to which child labour was being employed in the industry. In sum, the tension between guaranteeing confidentiality to my informants and producing verifiable research is one which I have thought much about. I have come to the conclusion that the approach which is both most ethical and which enhanced access to information was for me to leave all informants anonymous.
PART 2: THE GLOBAL VALUE CHAIN FOR TOBACCO
Chapter 3: The Global Value Chain for Tobacco

3.1 Introduction

Tobacco leaf is used in a variety of products including chewing tobacco associated with American baseball players, pipe-tobacco à la Sherlock Holmes, snuff, bidis (a sort of hand-rolled cigarette popular in South Asia), and kreteks (a type of cigarette filled with tobacco and cloves and popular in Indonesia). However, manufactured cigarettes will be the focus of this chapter as they comprise 92 per cent of total manufactured tobacco products (Eriksen et al., 2012, p 1).

There are four main types of tobacco, distinguished by both the plant species and form of curing (preliminary, on-farm processing). These types are flue-cured Virginia (FCV), burley, oriental, and dark. Snuff, cigars, and pipes tend to use dark tobacco. Cigarettes on the other hand are usually either Virginia Style (using just FCV) or American Blend (using a mix of FCV, burley, and oriental). As will be discussed in more detail below, the use of burley tobacco in cigarettes is dependent upon both the combination with flue-cured tobacco as well as additives and/or flavourings. This is because burley tobacco is considered to be harsh and unpalatable as cigarette tobacco by itself.

Production of the different tobacco types is dependent on different inputs and suitable to different agro-ecological conditions and marketing systems. For example, oriental tobacco is considered to be very labour-intensive, whereas flue-cured tobacco is more capital-intensive, due to the nature of the curing barns required (more on which below).
Although we do not have access to extensive comparative price data\textsuperscript{92}, flue-cured tobacco is generally perceived to be a more valuable product than burley.

Similar to Ponte’s (2002a) point that the portion of the price of a cup of coffee at Starbucks actually spent on coffee is minimal, in 1997, the tobacco content of a pack of cigarettes in the U.S. constituted only 4 per cent of the cost of the pack (van Liemt, 2002). The lead firms in the chain, the international cigarette companies (ICCs), are similar to lead firms in producer driven chains in that these firms don’t outsource (cigarette) production, production is capital-intensive, and they tend to locate near main consumer markets. However they are more similar to buyer-driven chains in that the value added in their products is derived to a large extent from branding, they have decentralized production networks in developing countries, and their main objective is to maximise share values. Additionally they are highly concentrated, seek to distinguish themselves through product differentiation, are protected by high entry barriers, and have increased their power over their suppliers in recent decades.

Currently, the lead firms in this chain are undoubtedly the international cigarette companies (ICCs) (more on which below). Like Ponte’s (2002a) coffee chain, ICCs are not the end-node of the chain (pre-consumption) but maintain their lead firm status through branding and a lack of retailer competition (e.g. unlike fresh fruits and vegetables one can’t buy supermarkets’ own-brand cigarettes). The first tier suppliers in the chain are the leaf merchants which procure tobacco leaf from around the world, process the leaf, and sell it in large quantities to the ICCs. The second tier suppliers are the tobacco farmers. Of course, as the Global Value Chain for Tobacco (GVCT) operates in such a large number of countries, the chain will take slightly different forms depending on the market or type of tobacco, but the above description and Figure 3.1 below are broadly representative.

\textsuperscript{92} Personal communication with tobacco economist Blake Brown (26 April, 2011), confirmed our suspicion that there is not a reliable source on international tobacco prices. Dr. Brown pointed out that looking at export and import prices is not a very reliable proxy since often exports and imports of unmanufactured tobacco are merely intra-company transfers.
This chapter will partially answer Research Questions 1.a and 2.a. In particular, we will address the first part of Research Question 1.a: What is the territoriality of the Global Value Chain for Tobacco? We will also address the following parts of Research Question 2.a: Is the Global Value Chain for Tobacco driven? If so, by who? What enables the drivers to maintain their power? The final part of Research Question 2.a - What are the consequences of the drivenness throughout the chain? - will be answered elsewhere (primarily in Chapter 6). In answering these parts of our research questions, we will also attempt to partially heed Talbot’s (2009) call for more comparative analysis in commodity chain studies. Although we will not engage in a systematic comparison of the GVCT with another value chain, we will attempt to point out similarities with other chains throughout this chapter.

In Section 3.2 we will discuss the territoriality of the GVCT by engaging with three principal chain nodes: international cigarette companies (lead firms), tobacco leaf merchants (first tier suppliers), and tobacco farmers (second tier suppliers). We will also analyse the governance (as drivenness) of the chain. Section 3.3 will discuss the prospects for upgrading in the chain, and Section 3.4 will conclude. It is important to emphasize that our discussion of the tobacco farmer node of the chain, as well as our treatment of upgrading, primarily serve the purpose of contextualizing our later study of Malawi. A comprehensive GVC analysis of the global tobacco industry is far beyond the scope of this work and will not be attempted here.
3.2 Territoriality and Governance

3.2.1 Evolution of the Chain

The tobacco crop is indigenous to the Americas and was originally used by Native Americans as a cure for various illnesses\(^93\) (Goodman, 1993; Alan, 1995). It spread back to Europe through the colonizers so that by 1600

...in London alone there were over 7000 tobacconists, engaging in retail trade estimated at over 300,000 pounds annually, constituting a significant component of the English economy (Alan, 1995, p 239).

Indeed, the increase in consumption in England in the 17\(^{th}\) century was particularly notable (Goodman, 1993; see Table 3.1 below), marking the beginning of this country’s disproportionate importance in the global tobacco industry, which continues until the present time. Tobacco use was quickly assimilated by a broad swath of European social classes\(^94\) (Goodman, 1993, p 47). Tobacco also spread throughout the rest of the world (both in terms of production and consumption) by the end of the 17\(^{th}\) century. As Goodman (1993, p 37) notes:

By the turn of the century tobacco was also growing in the Philippines, India, Java, Japan, West Africa and China. Chinese merchants introduced the plant into Mongolia, Tibet and eastern Siberia so that, only one century after Columbus’s voyage, tobacco was either grown or consumed in most of the known world.

---

\(^93\) Goodman (1993, pp 24-25) suggests that it was the most widely used crop in shamanistic practices among Indigenous people of the Americas, and that its widespread use as a hallucinogenic may be partly attributable to the much higher nicotine content of the tobacco used.

\(^94\) Goodman (1993, p 61) suggests “that tobacco emerged as a European mass-consumed commodity in the eighteenth century, probably by 1750.” The most common form of tobacco consumption during its initial adoption in Europe appeared to be smoking; either with pipes in Northern Europe, or cigars in Southern Europe (Goodman, 1993, p 67).
By the time of American independence, tobacco was the most important export crop in that country, with over 100 million pounds exported in 1776 (Alan, 1995).

### Table 3.1: Tobacco Consumption, England and Wales 1620-1702

<table>
<thead>
<tr>
<th>Years</th>
<th>Annual Consumption (lb. per capita)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1620-9</td>
<td>0.01</td>
</tr>
<tr>
<td>1630-1</td>
<td>0.02</td>
</tr>
<tr>
<td>1669</td>
<td>0.93</td>
</tr>
<tr>
<td>1672</td>
<td>1.10</td>
</tr>
<tr>
<td>1682, 1686-8</td>
<td>1.64</td>
</tr>
<tr>
<td>1693-9</td>
<td>2.21</td>
</tr>
<tr>
<td>1698-1702</td>
<td>2.30</td>
</tr>
</tbody>
</table>

Source: modified from Goodman (1993, p 60)

Whilst production of tobacco in the New World was dominated by Brazil and the Chesapeake Colonies\(^{95}\) (Goodman, 1993, p 146), the eighteenth century saw a shift in consumption patterns in Europe from smoke to snuff. This trend is interesting for our discussion of tobacco in that the production of snuff was less tobacco-dependent than its smokable counterparts (Goodman, 1993, p 73). As Goodman (1993, p 73) notes:

> A given amount of tobacco leaf was stretched further in the manufacture of snuff than in that of smoking tobacco: not only did snuff contain many additives absent in smoking tobacco but there was much less waste in the former...

The shift in consumption to snuff also saw a proliferation of branding and the increasing importance of secret production recipes (Goodman, 1993, pp 74-75). These are all themes we will return to below.

The 1800’s saw a move away from snuff and back towards smokable tobacco products in Western Europe, specifically of cut tobacco and cigars (Goodman, 1993, p 92). In the

\(^{95}\) Currently the states of Virginia and Maryland.
19th century in the U.S., with the advent of the railroad and the invention of the cigarette-rolling machine, U.S. tobacco companies started to focus on volume and benefit from economies of scale. Towards the end of the century five companies had a (U.S.) market share of 92 per cent. In 1890 these companies joined forces and became known as the Tobacco Trust, a highly coercive and controversial entity (Alan, 1995). The key firm in the Tobacco Trust - the American Tobacco Company - attempted to enter the British market around the turn of the century. However, a number of British tobacco companies responded by merging to create the Imperial Tobacco Company. In 1902, the Imperial Tobacco Company and the American Tobacco Company agreed that the American Tobacco Company would return to America, the Imperial Tobacco Company would remain in the U.K., and the two companies would create a new company together - British American Tobacco - which would operate in non-U.S. and non-U.K. markets (Goodman, 1993; Wilshaw, 1994). Partly in response to the aggressive tactics of the American Tobacco Company (and then British American Tobacco), Japan nationalized its tobacco industry in 1904 (Suzuki and Miwa, 2009). The government tobacco monopoly, which later became the Japan Tobacco and Salt Public Corporation in 1949 (JT, 2012, p 38), was the precursor to today’s Japan Tobacco Inc.

In 1911, the US Supreme Court ruled the Tobacco Trust was a monopoly96. Consequently the Trust broke into 16 companies among which emerged Lorillard and R.J. Reynolds (Alan, 1995). In 1913 RJ Reynolds invented the *American Blend* cigarette (which mixes flue-cured, burley, and oriental tobacco) in the form of the *Camel* brand, which came to revolutionize the American (and later global) tobacco industry (Goodman, 1993, p 104)97. By the 1920’s the American cigarette market was already characterized by a high level of branding, as can be seen in Table 3.2 below. As may be expected, these brands were promoted with millions of dollars spent on advertising (Goodman, 1993, p 105).

---

96 Through the Sherman Anti-Trust Act (Eriksen et al., 2012, p 88).
97 The *American Blend* cigarette and the consequential demand for burley tobacco also had a particularly profound effect on the Malawian tobacco industry, as will be seen in Chapter 4.
Table 3.2: Market Share of Leading Cigarette Brands in the U.S., 1925-49

<table>
<thead>
<tr>
<th>Year</th>
<th>Brand (owned by)</th>
<th>Market Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1925</td>
<td>Lucky Strike (American Tobacco Company)</td>
<td>16.7</td>
</tr>
<tr>
<td></td>
<td>Camel (RJ Reynolds)</td>
<td>41.6</td>
</tr>
<tr>
<td></td>
<td>Chesterfield (Liggett and Myers)</td>
<td>24.0</td>
</tr>
<tr>
<td>1939</td>
<td>Lucky Strike</td>
<td>21.2</td>
</tr>
<tr>
<td></td>
<td>Camel</td>
<td>23.7</td>
</tr>
<tr>
<td></td>
<td>Chesterfield</td>
<td>18.3</td>
</tr>
<tr>
<td>1949</td>
<td>Lucky Strike</td>
<td>23.9</td>
</tr>
<tr>
<td></td>
<td>Camel</td>
<td>25.0</td>
</tr>
<tr>
<td></td>
<td>Chesterfield</td>
<td>17.6</td>
</tr>
</tbody>
</table>

Source: modified from Goodman (1993, pp. 104-05)

The first half of the twentieth century saw a number of developments bearing implications for our discussion below on the drivenness of the Global Value Chain for Tobacco (GVCT). Firstly, tobacco consumption in Europe and the U.S. increased dramatically. Secondly, consumption shifted increasingly towards a much more homogenous and commoditized product: the cigarette (Goodman, 1993, pp. 93-94). By mid-century, cigarettes already represented the predominant form of tobacco consumption in a number of these countries\(^9\) (see Table 3.3 below). The trend towards cigarette consumption only intensified throughout the course of the century, with an estimated 80% of (global) tobacco destined for cigarettes at the end of the 1980s (Goodman, 1993, p 97) and 92% by 2012 (Eriksen et al., 2012, p 1).

---

\(^9\) Cigarette consumption increased in the United States by 1,100 per cent between 1900 and 1924 (Alan, 1995).
Table 3.3: Predominance of Cigarette Consumption in Selected Countries in 20th Century

<table>
<thead>
<tr>
<th>Country</th>
<th>% of Total Tobacco Consumption, 1950</th>
<th>Year in which Cigarette Consumption Reached 50% of Total Tobacco Consumption</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>76</td>
<td>1939</td>
</tr>
<tr>
<td>Belgium</td>
<td>44</td>
<td>1961</td>
</tr>
<tr>
<td>Denmark</td>
<td>44</td>
<td>1961</td>
</tr>
<tr>
<td>France</td>
<td>53</td>
<td>1943</td>
</tr>
<tr>
<td>Germany</td>
<td>37</td>
<td>1955</td>
</tr>
<tr>
<td>Netherlands</td>
<td>43</td>
<td>1972</td>
</tr>
<tr>
<td>Spain</td>
<td>31</td>
<td>1955</td>
</tr>
<tr>
<td>Sweden</td>
<td>49</td>
<td>1951</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>84</td>
<td>1920</td>
</tr>
<tr>
<td>United States</td>
<td>72</td>
<td>1941</td>
</tr>
</tbody>
</table>

Source: modified from Goodman (1993, p 94)

Although the impact of tobacco consumption on health had long been the subject of debate in one form or another, the debate intensified profoundly with the publication by the American Cancer Society in 1954 of research establishing causality between cigarette consumption and lung cancer. One of the ways in which the cigarette industry responded was by promoting filter-tipped cigarettes, which rapidly came to dominate the American market (Goodman, 1993, pp 109-110) (see Table 3.4 below). A number of technological innovations such as filters, as well as the way tobacco leaf was processed, greatly reduced the amount of tobacco required per cigarette (Goodman, 1993, pp 111-112) (see Table 3.5 below).
Table 3.4: Filter-tipped Average Share of U.S. Cigarette Market, 1951-5 to 1981-5

<table>
<thead>
<tr>
<th>Year(s)</th>
<th>Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1951-5</td>
<td>6.5</td>
</tr>
<tr>
<td>1956-60</td>
<td>42.1</td>
</tr>
<tr>
<td>1961-5</td>
<td>58.1</td>
</tr>
<tr>
<td>1966-70</td>
<td>74.6</td>
</tr>
<tr>
<td>1971-5</td>
<td>85.2</td>
</tr>
<tr>
<td>1976-80</td>
<td>90.6</td>
</tr>
<tr>
<td>1981-5</td>
<td>93.7</td>
</tr>
</tbody>
</table>

Source: modified from Goodman (1993, p 110)

Table 3.5: Increase in Cigarettes per Pound of Tobacco Leaf in U.S., 1939-1980

<table>
<thead>
<tr>
<th>Year</th>
<th>Cigarettes per pound of tobacco leaf</th>
</tr>
</thead>
<tbody>
<tr>
<td>1939-53</td>
<td>324</td>
</tr>
<tr>
<td>1958</td>
<td>380</td>
</tr>
<tr>
<td>1970</td>
<td>467</td>
</tr>
<tr>
<td>1980</td>
<td>523</td>
</tr>
</tbody>
</table>

Source: created by author from Goodman (1993, pp. 111-12)

Another trend which developed in earnest in the second half of the 20th century in the American tobacco industry is the exponential growth in advertising (Goodman, 1993, p 114), as can be seen in Table 3.6 below. This simultaneous increase in importance of marketing and decrease in importance of tobacco leaf (as seen above in the reduction of tobacco leaf needed per cigarette) is of particular relevance to our discussion of buyer-driven chains in Chapter 1.
The GVCT exhibits a number of additional trends over recent decades similar to other GVCs. Power asymmetries have increased in the chain as lead firms have become more concentrated and entry barriers to the sector have risen while production has shifted to developing countries (see Table 3.7). Lead firms have placed increasing emphasis on product differentiation and increasing shareholder value, as business strategies and backwards vertical integration from ICC to farm is rare.

Global tobacco leaf production has doubled since 1960 with an even more marked increase in developing countries, although production in developed countries (DCs) has fallen by about 50% (Shafey et al., 2009, p 48). At the turn of the century over 40 million people engaged in tobacco cultivation (ILO, 2003) in more than 120 countries. The total amount of land used globally for cultivation is about 4 million hectares, roughly the same employed for the production of bananas or oranges. In 2006, these 4 million hectares produced 7 million tonnes of tobacco leaf (Shafey et al., 2009), up from 4.3 million tonnes in 1970 (ILO, 2003). The total value of global tobacco cultivation was recently estimated at US$ 7 billion (Shafey et al., 2009), and as with commodities in other buyer-driven chains, prices tended to be higher in the 1970’s and 80’s than in the early 90’s (ITGA, 1993). As with other buyer-driven chains, a high proportion of this crop (85%) was cultivated in developing countries (Shafey et al., 2009, p 48). As can be seen in Table 3.7 below, production has shifted increasingly towards concentration in developing countries. For

---

Table 3.6: Cigarette Advertising Expenditure in U.S., Selected Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Advertising Expenditure (US$ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1939</td>
<td>47</td>
</tr>
<tr>
<td>1959</td>
<td>148</td>
</tr>
<tr>
<td>1970*</td>
<td>361</td>
</tr>
<tr>
<td>1975*</td>
<td>491</td>
</tr>
<tr>
<td>1983*</td>
<td>1,900</td>
</tr>
</tbody>
</table>

*Data in “current” dollars
Source: modified from Goodman (1993, p 114)

---

99 This trend has continued in recent years. For example, in Japan the number of tobacco growers decreased from 18,000 in 2005 to 9,000 in 2012. Likewise, the area under tobacco cultivation decreased from 21,000 ha in 2005 to 13,000 ha in 2012 (JT, 2012, p 177).
the decline of production in selected developed countries in recent years, see Table 3.8 below.

Table 3.7: Tobacco Leaf Production by Region, 1970-1999 (farm weight '000 tonnes)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>4743.7</td>
<td>6061.4</td>
<td>7706.9</td>
<td>8307.0</td>
<td>6438.1</td>
<td>6309.6</td>
<td>7423.1</td>
<td>8982.6</td>
<td>6937.0</td>
<td>6972.2</td>
<td></td>
</tr>
<tr>
<td>Developed Countries</td>
<td>1997.3</td>
<td>2177.3</td>
<td>1843.3</td>
<td>1667.6</td>
<td>1537.9</td>
<td>1339.6</td>
<td>1438.7</td>
<td>1627.8</td>
<td>1495.6</td>
<td>1404.6</td>
<td></td>
</tr>
<tr>
<td>Developing Countries</td>
<td>2746.4</td>
<td>3884.2</td>
<td>5869.2</td>
<td>6639.5</td>
<td>4900.2</td>
<td>4970.0</td>
<td>5984.3</td>
<td>7354.8</td>
<td>5441.4</td>
<td>5567.6</td>
<td></td>
</tr>
</tbody>
</table>

Source: modified from FAO (2003a, p 67)

Table 3.8: Decline of Tobacco Production in Selected Developed Countries, 2000-2009

<table>
<thead>
<tr>
<th>Country</th>
<th>Tobacco Production (tonnes) 2000</th>
<th>Tobacco Production (tonnes) 2009</th>
<th>Per cent Change in Tobacco Production, 2000-2009</th>
</tr>
</thead>
<tbody>
<tr>
<td>Australia</td>
<td>7,762</td>
<td>4,315</td>
<td>-44.4</td>
</tr>
<tr>
<td>Austria</td>
<td>230</td>
<td>0</td>
<td>-100.0</td>
</tr>
<tr>
<td>Belgium</td>
<td>1,200</td>
<td>153</td>
<td>-87.3</td>
</tr>
<tr>
<td>Canada</td>
<td>53,010</td>
<td>45,991</td>
<td>-13.2</td>
</tr>
<tr>
<td>France</td>
<td>25,252</td>
<td>17,838</td>
<td>-29.4</td>
</tr>
<tr>
<td>Germany</td>
<td>10,985</td>
<td>8,223</td>
<td>-25.1</td>
</tr>
<tr>
<td>Greece</td>
<td>136,593</td>
<td>27,501</td>
<td>-79.9</td>
</tr>
<tr>
<td>Hungary</td>
<td>10,485</td>
<td>6,679</td>
<td>-36.3</td>
</tr>
<tr>
<td>Italy</td>
<td>129,937</td>
<td>119,119</td>
<td>-8.3</td>
</tr>
<tr>
<td>Slovakia</td>
<td>1,870</td>
<td>2</td>
<td>-99.9</td>
</tr>
<tr>
<td>Switzerland</td>
<td>1,182</td>
<td>953</td>
<td>-19.4</td>
</tr>
<tr>
<td>USA</td>
<td>477,753</td>
<td>373,440</td>
<td>-21.8</td>
</tr>
</tbody>
</table>

Source: modified by author from Eriksen et al. (2012, pp. 107-113).
Currently the top five producers of tobacco leaf in the world are China, Brazil, India, the United States, and Malawi (Afubra: “maiores por tipo”, http://www.afubra.com.br/principal.php?acao=conteudo&u_ID=1&l_ID=1&menusite_ID=302). However, global production should not be confused with global exports. For example, China, by far the largest producer of tobacco leaf in the world, exports only 5% of its leaf (Shafey et al., 2009, p 52). Global exports are considerably smaller than global production, averaging 2.4 million tonnes per year from 2006 to 2008 (Parker, 2009). See Table 3.9 for top exporters of tobacco leaf.
Table 3.9: Top Seven Exporters of Unmanufactured Tobacco Leaf (2006)

<table>
<thead>
<tr>
<th>Country</th>
<th>Amount Exported (Tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>566,027</td>
</tr>
<tr>
<td>Malawi</td>
<td>177,630</td>
</tr>
<tr>
<td>India</td>
<td>158,254</td>
</tr>
<tr>
<td>China</td>
<td>147,028</td>
</tr>
<tr>
<td>United States</td>
<td>138,579</td>
</tr>
<tr>
<td>Turkey</td>
<td>120,892</td>
</tr>
<tr>
<td>Argentina</td>
<td>100,498</td>
</tr>
</tbody>
</table>

Source: created by author from Shafey et al. (2009, p 52)

The shift towards production in developing countries comes from major producing countries (such as Brazil and China) dramatically increasing production as well as from some diversification of sourcing among different developing countries. See Table 3.10 for the example of Brazil’s increased exports. Tobacco production is gaining steadily in importance in sub-Saharan Africa. Growth of tobacco production in the region averaged 3.7% per year from 1970 to 2000\(^\text{100}\). The FAO (2003a) attributes this growth to initially high prices, FDI by tobacco companies, and improved technology and transportation. Zimbabwe, a major tobacco producer before its recent crisis, is still heavily dependent on tobacco as it contributed roughly a quarter of GDP in 2009. Tobacco leaf exports along with mining are considered by many to be the drivers of the country’s economic recovery (NKC Independent Economists, 2009).

\(^{100}\) We will return to this expansion in Chapter 8.
Table 3.10: Brazilian Exports of Tobacco Leaf, Selected Years

<table>
<thead>
<tr>
<th>Year</th>
<th>Quantity of Tobacco Leaf Exported (tonnes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>156,030</td>
</tr>
<tr>
<td>1995</td>
<td>193,190</td>
</tr>
<tr>
<td>2000</td>
<td>276,310</td>
</tr>
<tr>
<td>2001</td>
<td>326,770</td>
</tr>
<tr>
<td>2002</td>
<td>355,680</td>
</tr>
<tr>
<td>2003</td>
<td>360,570</td>
</tr>
<tr>
<td>2004</td>
<td>457,600</td>
</tr>
<tr>
<td>2005</td>
<td>478,050</td>
</tr>
<tr>
<td>2006</td>
<td>425,460</td>
</tr>
<tr>
<td>2007</td>
<td>543,390</td>
</tr>
<tr>
<td>2008</td>
<td>516,200</td>
</tr>
<tr>
<td>2009</td>
<td>529,470</td>
</tr>
</tbody>
</table>


The strategy of sourcing tobacco from developing countries is consistent among the three major types of cigarette tobacco (subject to how one classifies the countries of Southeastern Europe and the Middle East, the major producers of Oriental tobacco, see Table 3.11). As one can see from Tables 3.12-3.15 below, the major producers and exporters of both burley and FCV tobacco are all developing countries except for the U.S.A. The United States has been able to maintain its status as a major producer and exporter of both types through its quality niche. Tobacco produced in this country is widely considered to be top quality and is often added to cigarettes made of cheaper tobacco as flavouring (more on which below).
Table 3.11: Estimated Oriental and Semi-Oriental Production (million green kilos), 2010-2012

<table>
<thead>
<tr>
<th>Country</th>
<th>2010</th>
<th>2011</th>
<th>2012*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Turkey</td>
<td>50</td>
<td>44</td>
<td>55</td>
</tr>
<tr>
<td>Macedonia</td>
<td>26</td>
<td>21</td>
<td>24</td>
</tr>
<tr>
<td>Greece</td>
<td>17</td>
<td>18</td>
<td>19</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>29</td>
<td>17</td>
<td>18</td>
</tr>
<tr>
<td>Thailand</td>
<td>10</td>
<td>8</td>
<td>10</td>
</tr>
<tr>
<td>India</td>
<td>9</td>
<td>4</td>
<td>2</td>
</tr>
</tbody>
</table>

*Estimate
Source: modified from Universal Leaf Tobacco Company (2012, p 13)

Table 3.12: Estimated Flue-Cured Exports by Major Exporting Countries, 2011

<table>
<thead>
<tr>
<th>Country</th>
<th>Quantity (million kgs, declared weight)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Brazil</td>
<td>441</td>
</tr>
<tr>
<td>India</td>
<td>149</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>116</td>
</tr>
<tr>
<td>China</td>
<td>103</td>
</tr>
</tbody>
</table>

Source: created by author from Universal Leaf Tobacco Company (2012, p 3)
Table 3.13: Estimated Flue-Cured Production (million green kilos), 2011-2013

<table>
<thead>
<tr>
<th>Country</th>
<th>2011</th>
<th>2012*</th>
<th>2013**</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>2,354</td>
<td>2,580</td>
<td>2,580</td>
</tr>
<tr>
<td>Brazil</td>
<td>708</td>
<td>590</td>
<td>630</td>
</tr>
<tr>
<td>India</td>
<td>278</td>
<td>273</td>
<td>276</td>
</tr>
<tr>
<td>U.S.</td>
<td>169</td>
<td>204</td>
<td>230</td>
</tr>
<tr>
<td>Zimbabwe</td>
<td>132</td>
<td>144</td>
<td>165</td>
</tr>
<tr>
<td>Tanzania</td>
<td>122</td>
<td>70</td>
<td>125</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>87</td>
<td>90</td>
<td>95</td>
</tr>
<tr>
<td>Argentina</td>
<td>87</td>
<td>74</td>
<td>85</td>
</tr>
<tr>
<td>Indonesia</td>
<td>37</td>
<td>48</td>
<td>48</td>
</tr>
<tr>
<td>Philippines</td>
<td>45</td>
<td>44</td>
<td>47</td>
</tr>
</tbody>
</table>

*Estimate  **Projection  
Source: modified from Universal Leaf Tobacco Company (2012, p 4)

Table 3.14: Estimated Burley Exports of Top Exporters, 2011

<table>
<thead>
<tr>
<th>Country</th>
<th>Quantity (million kgs, declared weight)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>113</td>
</tr>
<tr>
<td>Brazil</td>
<td>57</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>43</td>
</tr>
<tr>
<td>Mozambique</td>
<td>50</td>
</tr>
</tbody>
</table>

Source: created by author from Universal Leaf Tobacco Company (2012, p 6)
Table 3.15: Estimated Burley Production (million green kilos), 2011-2013

<table>
<thead>
<tr>
<th>Country</th>
<th>2011</th>
<th>2012*</th>
<th>2013**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>208</td>
<td>65</td>
<td>160</td>
</tr>
<tr>
<td>U.S.A.</td>
<td>71</td>
<td>91</td>
<td>91</td>
</tr>
<tr>
<td>Brazil</td>
<td>111</td>
<td>85</td>
<td>90</td>
</tr>
<tr>
<td>Mozambique</td>
<td>66</td>
<td>53</td>
<td>65</td>
</tr>
<tr>
<td>Argentina</td>
<td>42</td>
<td>35</td>
<td>38</td>
</tr>
<tr>
<td>China</td>
<td>37</td>
<td>37</td>
<td>37</td>
</tr>
<tr>
<td>Thailand</td>
<td>36</td>
<td>28</td>
<td>32</td>
</tr>
<tr>
<td>Bangladesh</td>
<td>16</td>
<td>16</td>
<td>20</td>
</tr>
<tr>
<td>India</td>
<td>12</td>
<td>14</td>
<td>17</td>
</tr>
<tr>
<td>Philippines</td>
<td>19</td>
<td>14</td>
<td>17</td>
</tr>
</tbody>
</table>

*Estimate **Projection
Source: modified from Universal Leaf Tobacco Company (2008, p7)

This aggregate-level trend of increased sourcing from developing countries can be seen at a more individual level as well, as one ICC, British American Tobacco (BAT), states:

In 2009, our companies bought some 400,000 tonnes of tobacco leaf, grown by more than 250,000 farmers, about 80 per cent of it by volume coming from suppliers in emerging economies (BAT, 2010b, p 6).

Likewise, another ICC, Philip Morris International (PMI) states that it sources over 70% of its global tobacco leaf requirements from the following ten countries: Brazil, Turkey, U.S.A., Malawi, Indonesia, China, Argentina, Philippines, Mozambique, and Tanzania (PMI, 2012c, p 7).

The shift in sourcing to developing countries represents major cost advantages for the lead firms. This is in part due to a lower quality crop but also due to diminished bargaining power of producers as producer-units are likely to be much smaller than the 1000 acre farms typical of North Carolina (the biggest tobacco-producing state in the U.S.). In rich countries powerful governments also have an easier time (both practically and politically) implementing measures which increase costs of tobacco procurement on
companies. In the U.S., for example, the federal government implemented a costly quota system which inflated tobacco prices at the expense of the procuring companies (Womach, 2003).

This shift in production to developing countries also accentuated the shift in the scale of production from bigger to smaller. As Goodman (1993, p 193) writes:

…it was the absence of economies of scale that permitted the spread of cultivation as it tended to be small or even marginal growers who were in the forefront of expansion. For most of the nineteenth and twentieth centuries the social and economic history of tobacco cultivation has been characterized by a distinct dualism, between the small scale of growing operations and the giant scale of manufacturing and marketing. Only in the last few decades in the West, as mechanization has finally begun to make considerable inroads into traditional procedures of cultivation and harvesting, has the age of the small planter come under threat of extinction. In other parts of the world, in Africa and Asia especially, this dualism still exists.

We will discuss the level of concentration of cigarette manufacturers, as well as the numerous entry barriers protecting them, below. However, what is important for our purposes here, is to emphasize the simultaneous trends - as seen in other agricultural global value chains discussed in Chapter 1 - of increasing size and concentration of the retail node of the chain and the increasing dispersion and fragmentation of the farming node. The power asymmetries that these simultaneous trends entail is a central theme of this work.

Coinciding with the shift in production from rich countries to low- and middle-income countries has been a concomitant shift in key consumption markets (in terms of volume) from rich countries to emerging markets. For example, in 2012, 61% of PMI’s sales (in terms of volume) were in non-OECD countries (PMI, 2013). For the recent decline in cigarette consumption in the traditional markets of Japan and U.S.A., as well as the increase in emerging markets of China and Indonesia, see Figures 3.3 and 3.4 below.
Figure 3.3: Cigarette Consumption (billions of cigarettes) in Selected Key Markets, 2007-2011

Source: Created by author from JT (2012, p 52)

Figure 3.4: Cigarette Consumption (billions of cigarettes) in China, 2007-2011

Source: Created by author from JT (2012, p 52)
At the same time that production has shifted to developing countries and consequently the average bargaining power of producers has decreased, a number of trends has increased the bargaining power of buyers. As with other GVCs, more stringent regulation in key markets has become increasingly difficult to overcome. These regulations include bans on advertising, increased taxes, and regulation of pesticide use among others (more on which below). Most of the major cigarette companies and their first tier suppliers also have codes of conduct (CoC) which are expected to be implemented all the way upstream to the farmers (more on which below).

As with lead firms in other GVCs, the lead firms in the GVCT are characterised by high levels of (global) market share (more on which below). Indeed by 1988 35% of global cigarette production was accounted for by merely 8 multi-nationals, all of which were based in either the U.S. or Europe\(^\text{101}\) (Goodman, 1993, p 10).

Van Liemt (2002, pp 15-16) notes:

> Worldwide, concentration has placed considerable market share into the hands of a few players, enhancing their market power vis-à-vis their suppliers and subcontractors... Similar to what is occurring in other industries, the tobacco companies seek to do business with fewer suppliers but in the framework of long-term agreements.

Consolidation of the ICCs accelerated in the 1990’s as the ICCs took advantage of the massive market liberalization occurring by aggressively targeting new markets and buying up former state monopolies (van Liemt, 2002)\(^\text{102}\). JT is somewhat unusual in that its origins lie in a state-owned company that became market-oriented and started acquiring other ICCs\(^\text{103}\). Indeed, JT’s acquisitions of RJR Nabisco Inc.’s non-U.S. tobacco business and

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\(^\text{101}\) Another 60% was accounted for by state monopolies (Goodman, 1993, p 10).
\(^\text{102}\) For example, on the case of Turkey see Aydin (2010), who describes how the country shifted from developmentalist policies during the post-war period to neoliberal policies supported by the IFIs, the E.U., and American agribusiness from the 1980s on. At the beginning of the 21st century these policies resulted in the privatisation of the state tobacco company and the elimination of tobacco support purchases.
\(^\text{103}\) At the time of writing the Japanese government still owned over 30% of JT shares (JT, 2012).
Gallaher Group Plc. in 1999 and 2007 respectively (JT, 2012), have become the basis of JT’s international operations.

The combination of a simultaneous increase in market concentration and the importance of branding (more on which below), has enabled ICCs to engage in what Gibbon and Ponte (2005) refer to as “oligopolistic rent seeking.” This can be seen most clearly in the numerous examples of ICCs increasing profits in markets characterized by declining shipment volumes, through favourable pricing\textsuperscript{104}. For example, whilst JT’s adjusted EBITDA\textsuperscript{105} decreased by 93.6 billion yen in the Japanese cigarette market in 2012 due to lower volumes, this was more than compensated for by an increase of 99.1 billion yen due to “price and product mix effect” (JT, 2012, p 18). Likewise, overall shipment volumes for BAT were down by 1.6% in 2012 yet the company was able to increase profits by 15% (BAT, 2012, p 4).

\subsection*{3.2.2 Lead Firms}

The lead firms of the GVCT are highly concentrated and dominated by multinationals. However, as can be seen in Figure 3.5 below, the cigarette company with the largest global market share is China’s state-run monopoly. Like other sectors dominated by multinationals, the global tobacco industry is characterized by a number of mergers and acquisitions (both within and beyond the tobacco sector) and parent companies often work through subsidiaries and affiliates. This complicated web of ownership and control can often be confusing when attempting to discern which companies are dominant in given markets. For example, R.J. Reynolds has traditionally been a leading cigarette company. However their international division has recently been acquired by Japan Tobacco International (JTI) and their American division is an “associate company” of

\textsuperscript{104} Or as PMI (2012a, p 1) notes, part of its “resilience” is due to its “relatively unique pricing power driven by the strength and vibrancy of our industry-leading brands”

\textsuperscript{105} “Operating profit + depreciation and amortization + impairment losses on goodwill ± restructuring-related income and costs” (JT, 2012, p 18).
BAT\textsuperscript{106}. Therefore, in some cases the same brand is sold by two different companies in two different countries.

\textit{Figure 3.5: ICC Global Market Share, 2011}

\begin{figure}[h]
\centering
\includegraphics[width=0.7\textwidth]{icc_market_share.png}
\caption{ICC Global Market Share, 2011}
\end{figure}

Source: Created by author from JT (2012, p 52); Also see BAT (2010a) for broadly similar breakdown.

A further caveat to the breakdown of global market share is that different ICCs have market niches in different countries. For example, while British American Tobacco has the third largest market share internationally, this company has the largest market share in over 50 individual countries (BAT, 2010c). Also, Imperial Tobacco Group (ITG), the smallest of the ICCs depicted in Figure 3.5, is the market leader in both the U.K. and Spain (ITG: “Group at a Glance”, http://www.imperial-tobacco.com/index.asp?page=16). Furthermore, when the Chinese market is removed from the market share equation, the

\textsuperscript{106} More specifically, Reynolds American Inc. (RAI) is the outcome of a merger between Brown & Williamson (B&W) and R J Reynolds (RJR) in 2004 (BAT, 2012, p 116). BAT currently holds a 42% stake in RAI (BAT, 2012, p 175).
remaining ICCs account for roughly two thirds of the global tobacco market (JT, 2012, p 52). Excluding both China and the U.S. markets, PMI accounted for 28.8% market share in 2012\(^{107}\) (PMI, 2012a, p 1).

Of the 19% of the global tobacco market not accounted for by the China National Tobacco Corporation (CNTC) and the four leading multi-nationals, part is accounted for by large corporations which specifically target the American market. These firms are similar to the leading multi-nationals in a number of ways (highly concentrated, driven by shareholder value, etc.) and can be considered to be the lead firms in the American market. In this group of firms are Reynolds American Inc. (RAI), Lorillard, and Altria Group Inc., which owns Philip Morris USA. However, also included in this 19% are a number of smaller cigarette manufacturers which do not enjoy the asymmetrical bargaining power over their suppliers to the same extent as the sector’s lead firms. A number of these firms are state-owned. Indeed, it is estimated that state (monopoly) production constituted 6.2% (excluding China) of global cigarette production in 2012 (Universal Tobacco Leaf Company, 2012, p 18). We will return to these non-lead firm cigarette manufacturers in our case study of Malawi (in particular in Chapter 5). However, as one of the main aims of this work is to analyse the extent to which lead firms are driving the Malawi (smallholder burley) Tobacco Value Chain, these non-lead firm cigarette manufacturers will not be engaged with in this chapter.

It can be seen by some of the stated objectives of the ICCs that they appear to conform to the shareholder value doctrine, as outlined by Gibbon and Ponte (2005). Philip Morris International (“Company Overview”, http://www.pmi.com/eng/about_us/company_overview/pages/company_overview.aspx) claims that:

Our aim is to generate superior returns for shareholders, provide high quality and innovative products to adult smokers, and reduce the harm caused by tobacco products.

\(^{107}\) This is up from 28.3% and 27.6% in 2011 and 2010 respectively (PMI, 2012a, p 2).
British American Tobacco claims: “Our Group vision is to achieve leadership of the global tobacco industry to create shareholder value” (BAT, 2010b, p 2). Imperial Tobacco states:

To deliver sustainable shareholder returns by driving sustainable sales growth, optimizing costs and effectively using the cash we generate (ITG: “Delivering Value”, www.imperial-tobacco.com).

The importance of share values (as opposed to other indicators of business success) can be seen in a number of ways. For instance, share buyback schemes (where companies purchase shares to boost value) are commonplace among ICCs. For example, between the spin-off in 2008\(^{108}\) and the end of 2012, PMI has spent US$ 27.9 billion in share repurchases, which represented over a fifth of all outstanding shares\(^{109}\). To put this figure in perspective, it is interesting to compare with the much smaller US$ 3.7 billion that this same company spent on tobacco leaf in 2011 (PMI, 2012b). Executive remuneration can also serve as anecdotal evidence of the pre-eminence of shareholder value. As can be seen in Table 3.16 below on the two performance-related incentive schemes for the BAT Chief Executive Officer (CEO), compensation is higher for achieving greater shareholder returns than for improving more traditional metrics.

\(^{108}\) Prior to 2008 PMI was owned by Altria Group Inc., as is its counterpart Philip Morris USA (PMUSA) currently.
\(^{109}\) Also, JT was “considering allocating up to approximately 250 billion yen for a share buyback program (JT, 2012, p 9). Likewise, BAT announced a programme worth £1.5 billion for 2013, which followed on one valued at £1.25 billion in 2012 (BAT, 2012, p 30). BAT’s associate company, Reynolds American Inc. (RAI), similarly conducted share buy-back programmes worth £71 million and £262 million in 2011 and 2012 respectively (BAT, 2012, p 34).
Table 3.16: Comparison of BAT CEO Incentive Schemes

<table>
<thead>
<tr>
<th>Performance-related bonus-International Executive Incentive Scheme (IEIS)</th>
<th>Long-term incentives</th>
</tr>
</thead>
</table>
| **Purpose** | -incentivise the attainment of corporate targets on an annual basis  
-attract and retain key management talent | -incentivise growth in earnings per share and total shareholder return (TSR) over a three-year period  
-attract and retain key management talent |
| **Policy** | -four measures for performance for 2012 with the following weightings: adjusted profit from operations (40%); Group’s share of key subsidiary markets (20%); Global Drive Brand volumes (20%); and cash flow from operations (20%)  
-the annual ‘on-target’ bonus opportunity for the Chief Executive is 100% of base salary with a maximum award of 200% of salary | -maximum annual award of 400% of salary  
-three year performance period  
-TSR performance (50% of the total award) combines both the share price and dividend performance during the three-year performance period as against two comparator groups (25% for each measure): (1) constituents of the FTSE 100 index; and (2) a peer group of international FMCG companies  
-earnings per share measure (50% of the total award) relates to earnings per share growth (on an adjusted diluted basis) relative to inflation (measured as RPI) |

Source: modified from BAT (2012, pp. 74, 76)

Operating in a context of stagnating global demand for tobacco products in the 1990’s and of decreasing demand in some traditional markets such as North America\(^\text{110}\) (van Liemt, 2002), the ICCs have resorted increasingly to product differentiation, which is

\(^{110}\) Global cigarette production continues to increase at a very moderate rate. For example, production increased by 1.1% per annum between 2001 and 2011. However, excluding China, global cigarette production decreased by 0.2% per annum (Universal Tobacco Leaf Company, 2012, p 17). This is relevant for our discussion of lead firms in that the Chinese market is essentially the domain of the CNTC, thereby leaving the remaining firms to compete in a context of declining demand. Although, and as explained in Chapter 1, an analysis of tobacco products consumption will not be directly engaged with in this work, it is worth briefly highlighting two (consumption) factors, both of which are somewhat unique to tobacco. On the one hand, the addictive nature of the product (specifically of the nicotine component) mitigates against major volatilities in consumption patterns. On the other hand, deliberate efforts by governmental and non-governmental organizations to decrease consumption for health reasons, are seen to be particularly effective in developed countries.
particularly important with cigarettes. For example, JT President and CEO Mitsuomi Koizumi, states:

...under the GFB\textsuperscript{111} strategy, the international tobacco business will concentrate resources on key brands and implement a number of initiatives to increase value added product offerings. Product innovation, in particular, is increasingly important if we are to outperform competitors in a context of intensifying competition. So all of our business units will step up efforts in this respect (JT, 2012, p 9).

The blends used in cigarettes involve different types of tobacco, flavourings, and additives, and are usually top-secret. The secret nature of these blends creates a serious disconnect between tobacco farmers, leaf merchants, and end-users of cigarettes. This has major implications for upgrading (more on which below).

Original product differentiation of cigarettes in the twentieth century includes key innovations such as filters, menthol cigarettes or cigarettes of different sizes (Alan, 1995). These categories have since been further differentiated and other sources of differentiation have been introduced\textsuperscript{112}, usually targeting a particular market segment such as women, young people, low-end buyers, etc. (van Liemt, 2002). Women are seen as a particularly lucrative target group as according to a recent statistic only 250 million females smoke in the world as compared to 1 billion males, hence there is scope for growth. Long and thin cigarettes, menthols, and caramel flavouring have all been used in attempting to attract female smokers to a given brand (Shafey et al., 2009, pp. 22-24).

In recent years product differentiation has become increasingly complex and technology-intensive. For example some brands have incorporated designs which

\textsuperscript{111} GFB refers to “Global Flagship Brands” which JT considers to be its most important brands. These are listed in Table 3.17 below and include Winston (2\textsuperscript{nd} largest brand in the world) and Camel. In 2012 GFB represented 60.2\% of JT’s total shipment volume (JT, 2012, p 24). Likewise, BAT’s “Global Drive Brands” (GDB) are four of the company’s more important brands (out of over 200 brands total), and account for over a third of the company’s volumes (BAT, 2012, pp. 1, 6). Additionally, PMI’s top ten brands (by volume) represented over three quarters of total cigarette shipment volume in 2012 (PMI, 2012a, p 27). As can be seen from these examples, similar to Gibbon and Ponte’s (2005) point that multi-national lead firms are increasing focus on their key brands, it is common for ICCs to develop marketing strategies based on a small selection of more prominent brands.

\textsuperscript{112} BAT (2010b) and ITG (2012) identify “packaging” as a source of product differentiation. JT (2012, p 20) also refers to “package design” as a source of product differentiation. Despite ICC claims to the contrary, it has been alleged that in some instances packaging is designed to attract youth smokers (Laurance, 2012).
minimise the amount of visible smoke emitted, and others contain capsules which can be crushed inside the cigarette to release certain flavours (JT, 2012, p 23).

**Table 3.17: International Cigarette Companies and Selected Brands**

<table>
<thead>
<tr>
<th>Company</th>
<th>Selected Brands</th>
</tr>
</thead>
<tbody>
<tr>
<td>Philip Morris International</td>
<td>Marlboro, L&amp;M, Bond Street, Philip Morris, Chesterfield, Parliament, Lark, A Mild, Morven Gold, Dji Sam Soe</td>
</tr>
<tr>
<td>British American Tobacco</td>
<td>Pall Mall, Lucky Strike, Dunhill, Kent</td>
</tr>
<tr>
<td>Japan Tobacco Inc.</td>
<td>Winston, Camel, Mild Seven, LD, Sobranie, Benson &amp; Hedges, Silk Cut, Glamour</td>
</tr>
<tr>
<td>Imperial Tobacco Group*</td>
<td>Davidoff, Gauloises Blondes**, West, JSP</td>
</tr>
</tbody>
</table>

*This company is probably more known for its non-cigarette products such as Montecristo and Cohiba cigars and Rizla+ rolling papers.

**This is ITG’s largest brand. The company attributes the brand’s success to its association with “freedom” and “joi de vivre.”

Sources: PMI: “Key Facts and Financial Data” (http://www.pmi.com/eng/about_us/company_overview/pages/key_facts_and_financial_data.aspx); BAT (2010b); ITG (2009, p iii; 2012); JT (2012, p 23)

The importance of branding and the emphasis placed by ICCs on lead brands can be seen in the example of Marlboro, the world’s best-selling cigarette brand\(^{113}\) (owned by PMI and PMUSA). Marlboro accounted for 42.6% of market share in the U.S. in 2012 (Altria Group Inc., 2013). For recent global market share of the brand, see Figure 3.6 below. Furthermore, the pre-eminence of branding in cigarettes, and the extent to which branding depends on non-tobacco aspects of consumption\(^{114}\), can be seen in the following description by PMI (2012a, p 13) of the change in marketing strategy for Marlboro:

For decades, the brand image of Marlboro was built upon the famous cowboy campaign\(^{115}\). We recognized that Marlboro needed a new communications platform

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\(^{113}\) According to WHO (2013, p 25) Marlboro has enjoyed this status since the 1970’s.

\(^{114}\) Similar to Ponte’s (2002a) coffee chain, one could argue that the tobacco content of the final consumption experience of smoking is minimal, compared to the psychological content. Ponte (2002a, p 1099) in the case of coffee writes: “...the relative coffee content of the final consumption “experience” in these outlets is extremely low. Coffee bar chains sell an ambience and social positioning more than just “good” coffee.” For more on the differentiation of coffee based on non-material attributes, and on how lead firms control that differentiation and hence the coffee chain, see Daviron and Ponte (2005).

\(^{115}\) Ironically, Marlboro was originally introduced as a cigarette for women in 1924 (Eriksen et al., 2012, p 88).
for today’s world. We developed the new “Don’t Be A Maybe- Be Marlboro” campaign, which was initially implemented in Germany and rolled out to approximately 20 markets in 2012. With the new campaign, Marlboro encourages adult smokers to be decisive, trust themselves and follow their inspiration. Marlboro does not believe in “Maybes.” The campaign is proving successful and contributed to the market share growth of our flagship brand in 2012.

Figure 3.6: Marlboro Global Market Share*, 2010-2012

*Excluding China and U.S.A.
Source: modified from PMI (2012a, p 2).

Similar to lead firms in other GVCs, the lead firms in the GVCT are characterised by enormous entry barriers. A tobacco farmer wishing to upgrade to become a cigarette producer must invest in more than just a cigarette-rolling machine (more on which below). Some of these entry barriers have been alluded to above. For example, the asymmetric information the ICCs have regarding blend recipes vis-à-vis their suppliers represents an entry barrier for leaf merchants wishing to produce marketable cigarettes. Cigarette manufacturing, unlike tobacco agriculture, is capital- and technology- intensive and requires investment in specific and expensive machinery. For example, Imperial Tobacco has machines that produce up to 14,000 cigarettes per minute (ITG: “Our Operations”),
Other major entry barriers safeguarding the ICC’s status as lead firms include costs associated with marketing, litigation, research and development, regulation and lobbying, and public relations.

Marketing. Like many other industries, marketing is a major cost, and especially important in the context of promoting product differentiation. In 2006, marketing costs, on average, constituted just under US$ 0.75 per pack of cigarettes (Shafey et al., 2009, p 58). As British American Tobacco (2010b, p 18) states:

Successful marketing is the bedrock of growth for any fast-moving consumer goods business and ours is no exception… We invest in gathering comprehensive insights into their preferences and buying behaviour, then invest in developments across the marketing mix to be truly relevant to consumers’ tastes, attitudes, pockets and purchasing patterns.

The costs associated with what is described above would be prohibitively expensive for most businesses attempting to venture into cigarette production. For example, PMI alone spent US$ 402, US$ 464, and US$ 483 million on advertising in 2010, 2011, and 2012, respectively (PMI, 2012a, p 73), and it is estimated that over US$ 10 billion is spent annually on advertising by the tobacco industry in the U.S. (WHO, 2013, p 22). Yet without marketing, the ICCs cannot promote their brands, which is an ICC’s greatest asset. It is even more complicated to market in a context where more and more of the normal modes of marketing/advertising are becoming illegal. As van Liemt (2002, p 23) put it: “It takes millions of US dollars to introduce a new tobacco product. Who wants to do so when you can’t even advertise its name?” However, a number of marketing options remain for ICCs. For example,

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116 Eriksen et al. (2012, p 60) suggest that the tobacco industry spent US$ 34 per person on marketing in the U.S. alone in the year 2008.
117 Marketing a lethal product also implies more challenges than less controversial or more socially accepted products. As the WHO (2013, p 23) notes: “To sell a product that kills up to half of its users requires extraordinary marketing savvy, and tobacco companies are some of the most manipulative product sellers and promoters in the world.”
PMI promotes its products with advertising, consumer incentives and trade promotions. Such programs include, but are not limited to, discounts, rebates, in-store display incentives and volume-based incentives (PMI, 2012a, p 59).

For the relative importance of different marketing strategies employed by the U.S. tobacco industry, see Figure 3.7 below.

*Figure 3.7: Cigarette Marketing Expenditures by Category in the U.S.A., 2008*

In addition to complying with different national regulations regarding marketing, most of the ICCs voluntarily adhere to the “International Marketing Standards” (IMS) or other internal marketing codes. The IMS concern targeting of and exposure to youth and disclosure of health concerns in cigarette advertisements (JTI, 2008).
Legal expertise, which is particularly necessary for ICCs doing business in the U.S., is another enormous expense that characterizes the global tobacco industry. Whilst any multinational will need to have legal experts, the ICCs are being constantly sued, especially in the U.S. where potential punitive damages and compensation tend to be the highest. For the most part, ICCs appear to be successful in fighting off major court cases. For example, JT has never lost a smoking and health-related litigation case (JT, 2012, p 62). Also, PMI (2012a, p 79) states: “To date, no tobacco-related case has been finally resolved in favor of a plaintiff against us, our subsidiaries or indemnities.” However, there are still major cost implications of the high extent of litigation. Lawyers still need to be paid and the occasional loss and/or settlement for the ICC can be extremely costly. Furthermore, JT (2012, p 62) states:

...regardless of the results of specific lawsuits, critical media coverage of such lawsuits may reduce social tolerance of smoking, strengthen public relations concerning smoking and prompt the filing of a number of similar lawsuits against JT or its subsidiaries, forcing JT or its subsidiaries to bear litigation costs that could materially affect JT’s business performance.

Similarly, Eriksen et al. (2012, p 82) highlight a number of other non-monetary effects of successful (from the anti-smoking lobby's perspective) litigation against the tobacco industry:

...the release of internal industry documents; agreements from the industry to restrict marketing; the channelling of settlement money to public health; increased media attention to the problem of tobacco use; decreased youth access to tobacco products; and improvements in protection from secondhand smoke.

Van Liemt (2002, p 19) succinctly describes the history of tobacco litigation:

\[\text{For example, JT’s “Global Tobacco Products Marketing Standard” includes provisions on print advertising (publication needs to have a 75% adult readership), and on radio, TV, and internet advertising (only allowed if viewer/listenership is 100% adult) among others (JT, 2012, p 61).}\]

\[\text{Van Liemt (2002) emphasizes this entry barrier heavily in his analysis of the global tobacco industry.}\]

\[\text{It is important to note that legal expertise is required and costs incurred for reasons other than claims against the ICCs. For example, PMI responded to plain packaging legislation in Australia (more on which in Chapter 8) by filing a lawsuit against the Australian government for allegedly violating the Australian Constitution, as well as by commencing international arbitration proceedings with regards to the Hong Kong-Australia Bilateral Investment Treaty (PMI, 2012a, p 31).}\]
The first (in the 1950s) and the second wave (that started in the 1980s) consisted of individual personal injury suits$^{122}$. The third wave of tobacco litigation that began in 1994 was different in that litigation was no longer limited to individual claims by individual smokers. For the first time, States and other third-party payers of medical costs sued the tobacco industry...

Another significant category of litigation is comprised of class action suits where plaintiffs are a group of individuals with similar characteristics, e.g. having smoked x amount of cigarettes per day in a given location in a given time period (JT, 2012; BAT, 2012)$^{123}$. For an example of the extent of different types of cases against PMI in recent years, see Table 3.18 below.

Table 3.18: Number of Tobacco-related Cases Pending against PMI*, 2010-2012

<table>
<thead>
<tr>
<th>Type of Case</th>
<th>Number of Cases Pending as of December 31, 2010</th>
<th>Number of Cases Pending as of December 31, 2011</th>
<th>Number of Cases Pending as of December 31, 2012</th>
</tr>
</thead>
<tbody>
<tr>
<td>Individual Smoking and Health Cases</td>
<td>94</td>
<td>75</td>
<td>76</td>
</tr>
<tr>
<td>Smoking and Health Class Actions</td>
<td>11</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Health Care Cost Recovery Actions</td>
<td>10</td>
<td>11</td>
<td>15</td>
</tr>
<tr>
<td>Lights Class Actions</td>
<td>2</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Individual Lights Cases (small claims court)</td>
<td>10</td>
<td>9</td>
<td>7</td>
</tr>
<tr>
<td>Public Civil Actions</td>
<td>7</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>134</strong></td>
<td><strong>110</strong></td>
<td><strong>115</strong></td>
</tr>
</tbody>
</table>

*Includes subsidiaries and indemnities
Source: modified from PMI (2012a, p 79)

In recent years the third-wave lawsuits have been filed by U.S. states and territories, the U.S. Department of Justice, and various Canadian provinces, among others. A number of these lawsuits have resulted in costly settlements for the ICCs. For example,$^{122}$ These suits continue, and in the case of BAT there were 329 of these cases pending (outside of the U.S.A.) at the end of 2012 (BAT, 2012, p 184).$^{123}$ For example there were ten on-going class action suits against BAT companies in Canada, three in Brazil, and one in Italy, at the end of 2012 (BAT, 2012, p 183).
individual settlements with the states of Florida, Minnesota, Mississippi, and Texas, resulted in compensation of more than US$ 40 billion over 25 years (Redhead, 1999).

An even bigger settlement, the Master Settlement Agreement (MSA), was signed on November 23, 1998 between the attorneys general of 46 U.S. states, 5 U.S. territories and the District of Columbia with 4 of the biggest U.S. tobacco companies. As the main rationale behind the lawsuit was to recoup Medicaid\textsuperscript{124} costs, companies agreed to pay a total of US$ 206 billion by 2025 to the suing entities for this purpose. The money was divided among the suing entities according to a formula based on estimated Medicaid costs from tobacco and number of smokers. In addition, the defendants agreed to pay US$ 5.15 billion in compensation to tobacco farmers and quota holders affected by the MSA and nearly US$ 1.5 billion to fund an anti-smoking campaign through the newly created American Legacy Foundation. The MSA also had non-monetary components such as restrictions on advertising (Redhead, 1999).

These settlement costs were to a large extent passed on to consumers. As Redhead (1999, p 1) notes: “On the day the settlement was signed, the major cigarette companies raised prices by 45 cents a pack to cover the cost of the annual payments.” The power of the ICCs over their consumers, represented by the ease with which they were able to shift the monetary burden of the MSA onto the latter, is indeed an entry barrier unto itself\textsuperscript{125}.

\textit{Research and Development.} Research and Development is another prohibitive expense for firms wishing to venture into cigarette production. For example, British American Tobacco alone invested £171 million in R&D in 2012 (BAT, 2012, p 19)\textsuperscript{126}. Likewise PMI spent US$ 391, US$ 413, and US$ 415 million on R&D in 2010, 2011, and 2012, respectively (PMI, 2012a, p 73), and JTI spent 48,866 and 51,461 million yen on R&D in

\begin{itemize}
  \item \textsuperscript{124} A U.S. government health care programme for low-income people.
  \item \textsuperscript{125} Also, see Gibbon and Ponte’s (2005) “oligopolistic rent seeking”.
  \item \textsuperscript{126} This increased from £112 million in 2009 (BAT, 2010c) and £166 million in 2011. For an interesting non-financial measure of the extent of R&D operations, BAT submitted 29 research papers to peer-reviewed journals for publication (BAT, 2012, p 19).
\end{itemize}
2011 and 2012, respectively (JT, 2012, p 131). ICCs invest in R&D on a variety of topics ranging from tobacco leaf agronomy to consumer trends and innovation of new products. In the context of increasing global regulation of the tobacco industry, when certain products become outlawed, the ICCs need to have another product ready to introduce.

PMI (2012a, p 10) states that

Our primary R&D challenge is to deliver a world-class portfolio of innovative Next Generation Products supported by robust scientific evidence of their potential to reduce the risk of smoking-related diseases in comparison to conventional cigarettes.

The company’s website boasts that it

...recently opened a new, state-of-the-art R&D center in Neuchâtel, Switzerland (PMI-Company Overview, http://www.pmi.com/eng/about_us/company_overview/pages/company_overview.aspx), and that their

...Research and Development Department includes a team of scientists with expertise across a range of disciplines including biology, chemistry, and computing (PMI: “R&D at PMI”, http://www.pmi.com/eng/research_and_development/r_and_d_at_pmi/pages/r_and_d_at_pmi.aspx).

This company also funds agronomists and entomologists associated with universities in the U.S. working on issues such as pest control, disease control, and new tobacco varieties.

Regulation and Lobbying. Regulation in the tobacco industry is pervasive and represents enormous costs to the ICCs. ICCs have to be more efficient and effective when operating in such hostile environments. In lucrative markets with tight regulations (e.g. the U.S.) the ICCs also invest substantially in lobbying. For example, Eriksen et al. (2012, p 62) estimate that in the U.S. Altria Group Inc. alone spent more than US$ 10 million on lobbying in 2010. Furthermore, Imperial Tobacco states: “We employ a number of senior
and experienced corporate affairs specialists to manage regulatory risk and engage with regulators” (ITG, 2009, p 10). Even in smaller markets, overcoming regulation requires investing in lobbying and legal expertise. For example Philip Morris International has filed a lawsuit against the Uruguayan government due to what it sees as unfair enforcement of “extreme and ineffective measures” (PMI, 2010).

Regulations have become increasingly guided by the World Health Organization’s (WHO) Framework Convention on Tobacco Control (FCTC), which was adopted by member states in 2003. One of the FCTC’s principal aims is to reduce demand for tobacco products\textsuperscript{127} (WHO, 2013, pp. 11-12). As of 15 June, 2013 there were 176 Parties to the FCTC\textsuperscript{128} (WHO, 2013, p 16). Tobacco products regulations and other demand-reduction policies such as mass media campaigns, also appear to be expanding at a rapid rate. For example, between 2010 and 2012 alone, an additional 22% of the world’s population was exposed to mass media anti-smoking campaigns (WHO, 2013, p 15).

As mentioned above, a common regulation is restriction on marketing, such as limitations on where cigarette advertising can occur. For example, in 2012 128 countries engaged in some form of restriction or ban on advertisement of tobacco products (WHO, 2013, p 15). Furthermore, the FCTC legally binds parties to implement a comprehensive ban on tobacco advertising, promotion and sponsorship (TAPS)\textsuperscript{129} within five years of adhering to the treaty (WHO, 2013, p 18).

There are also moves to increase the proportion of cigarette packages that are covered with health warnings and/or graphic pictures of the dangers of smoking, which are intended to dissuade smokers from purchasing tobacco products. For example, in 2012

\textsuperscript{127} The FCTC’s demand-reduction measures include: Monitor tobacco use and prevention policies, Protect people from tobacco smoke, Offer help to quit tobacco use, Warn people about the dangers of tobacco, Enforce bans on tobacco advertising, promotion and sponsorship, and Raise taxes on tobacco (WHO, 2013, p 12).

\textsuperscript{128} In 2012 87.4% of the world’s population was covered by this treaty (Eriksen et al., 2012, p 1).

\textsuperscript{129} Exceptions are made when a comprehensive TAPS ban is deemed to violate a signatory’s constitution (WHO, 2013, p 18).
122 countries issued some form of warning labels for tobacco products (WHO, 2013, p 15). As WHO (2013, p 44) notes:

The number of people worldwide who are exposed to strong, graphic health warning labels on cigarette packs has nearly tripled in the past five years, from 356 million (5% of world population) in 10 countries in 2007 to more than 1 billion people (14% of world population) in 30 countries by 2012.

Bans on smoking locations, e.g. restaurants, public buildings, etc. are also pervasive throughout the world. According to WHO (2013, p 86), smoking bans is one of the most rigorously applied measures within the FCTC. For example, this source indicates that 32 countries passed complete smoking bans covering all work places, public places and public transportation means between 2007 and 2012, protecting nearly 900 million additional people.

Bans on flavourings and additives in cigarettes have been a contentious issue in regulatory bodies such as WHO and the U.S. Food and Drug Administration (FDA). Canada recently banned additives, which essentially makes American Blend cigarettes unsellable there (Brown and Snell, 2011, p 6). This is because harsher types of tobacco, such as the burley used in American Blend cigarettes are considered unpalatable without flavourings or additives. The U.S. has now banned all flavourings except menthol, and is considering whether menthol should be banned as well (Brown, personal communication, 26 April, 2011).

130 The FCTC suggests that health warnings should occupy 50% of the tobacco products (visible) packaging (WHO, 2013, p 62).
131 In New York City it has even become illegal to smoke in Times Square.
132 The FDA commenced regulation of tobacco products in the U.S. with the passing of the 2009 Family Smoking Prevention and Tobacco Control Act (Universal Corporation-UC, 2013, p 32). Whilst ostensibly a public health law, one of the more interesting provisions of the law requires cigarette packs to identify the percentage of tobacco in the product that is domestically grown (Alliance One International- AOI, 2012a, p 14). This provokes further questions with regards to the debate about how DCs use regulations as trade protection. Further investigation on this topic is required to understand the motivations for and consequences of this provision, however. For a discussion on the relationship between food standards and trade protection more generally, see Barling and Lang (2005).
One interesting aspect of the FCTC and the regulations that it promotes, is that contrary to the general focus of GVC analysis on DC regulations, the bulk of new FCTC-inspired regulation in recent years has occurred in developing countries (WHO, 2013). Indeed, rather than the U.K. having the strictest regulations (as in Dolan and Humphrey, 2004; Selwyn, 2012) the country that has the highest level of FCTC implementation is Turkey\textsuperscript{133}, a major tobacco-producer (WHO, 2013, p 47). This appears to break with a trend in food standards, identified by Barling and Lang (2005), whereby the health and needs of developing country consumers tend to be largely overlooked. For the example of health warning labels on cigarette packs, and the extent to which medium- and low-income countries have adopted these, see Figure 3.8 below.

\textit{Figure 3.8: Number of Countries with Medium to Large Warning Labels*, by Country Income Group}

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure3_8.png}
\caption{Number of Countries with Medium to Large Warning Labels*, by Country Income Group}
\end{figure}

\*The WHO (2013, p 94) defines the medium and large sizes as occupying at least 30% of the visible display of a cigarette pack.
Source: modified by author from WHO (2013, p 63).

\textsuperscript{133} Strict tobacco regulations have historical precedent in this country, as in 1633 Turkey introduced capital punishment for smoking (Eirksen et al., 2012, p 86).
Taxes are another highly prevalent and controversial form of tobacco products regulation. For example in the U.S. there are both federal and state excise taxes on cigarettes and in the U.K. and France, taxes constituted 76% and 80% (respectively) of the retail price of cigarettes in 2008 (Brown and Snell, 2011, p 6). Given the relative price-inelasticity of cigarettes, there is considerable scope for investigation into the extent that governments implement taxation for the purpose of obtaining a reliable stream of revenues, rather than just for public health objectives. For the percentage of cigarette sales prices accounted for by excise taxes in selected countries, see Figure 3.9 below.

*Figure 3.9: Excise Tax as Percentage of Cigarette Price, Selected Countries*

![Figure 3.9: Excise Tax as Percentage of Cigarette Price, Selected Countries](image)

Compliance, CSR, and Public Relations. Otañez et al. (2006, 227) show how labour exploitation and child labour issues in particular have become a key concern to the ICCs in particular British American Tobacco:

A BAT presentation entitled ‘Child labour in the leaf-growing sector’ circa 1999 noted that the child labour issue had ‘the potential to become an issue with sweeping repercussions in the national and international media’ and included several highlighted consequences such as ‘exploitation by the anti-smoking movement’. BAT’s efforts to ‘manage’ child labour and other social responsibility issues show how the company seeks to control or evade problems of labour exploitation that can harm BAT’s corporate reputation.

This company’s attempt to manage the child labour issue can be seen in other initiatives such as the collaboration with the International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers’ Association (IUF) and the International Tobacco Growers’ Association (ITGA) in a “Conference on the Elimination of Child Labour” in Kenya in 2000. Otañez et al. (2006, 228) describe how the ICCs respond to child labour issues:

Just as the industry has used “youth smoking prevention” programmes as a strategy to displace meaningful tobacco control efforts and shift the responsibility for increased youth smoking on to parents and “peer pressure” and away from the industry’s advertising and marketing practices, the industry has successfully sidestepped the child labour issue by funding modest efforts to rehabilitate schools, build wells, train villages in bookkeeping, and build community awareness on child labour issues.

The immense amount of attention that the tobacco industry receives, due to such issues as targeting youths and the deadly nature of the products, is not lost on tobacco labour groups. For example, Eldring et al. (2000, p 8) note:

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134 Otañez et al. (2006) claim that substituting child labour with adults compensated at the minimum agricultural wages in Malawi would cost US$ 10 million per year, much more than the social programmes and publicised efforts that the ICCs make in the country (as in other tobacco producing countries) to address the issue. For more on the pervasiveness of child labour in tobacco production in Africa, see Eldring et al. (2000).
A crucial point from the workers’ and the unions’ perspective should be that the attention attracted to the tobacco industry provides some opportunities for action when it comes to improving employment practices within the sector.

The influence of public relations concerns on ICC’s supply chain and labour policies in general, and the case of child labour in particular, will be developed further in our case study of Malawi (in particular in Chapters 5-8).  

Labour issues in tobacco production (beyond just the child labour aspect) have become increasingly contentious. For example, in 2011 PMI together with the NGO Verité, developed the Agricultural Labour Practices (ALP) Code, which is based on ILO conventions (PMI, 2012c). The code concerns the following seven areas: child labour, income and work hours, fair treatment, forced labour, safe work environment, freedom of association, and compliance with the law (PMI, 2012c). PMI (2012a, p 35) states:

To date, over 2,900 field technicians in 30 countries have received in-depth training on the ALP code, including child labor, forced labor prevention and safe work environment requirements. During 2012, these field technicians communicated our expectations to approximately 497,000 farmers with whom our affiliates or suppliers have contracts.

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135 For a discussion on child labour in the cocoa industry, and the response of the industry (which displays striking similarity with that of the tobacco industry), see Fold (2005).
136 We will return to the ALP Code and its significance for our country case study of Malawi in Chapter 6. However, it is important to note that our purposes with regards to the ALP Code do not lie in an evaluation of its effectiveness, but rather in an evaluation of its relation to and impact on power asymmetries and governance. As a complementary endeavour to the code, PMI also participates in the Eliminating Child Labour in Tobacco Foundation (ECLT) and in funding Total Land Care, an NGO with similar child labour objectives, specifically in Malawi, Mozambique, and Tanzania (PMI, 2012c, pp 4, 24). This endeavour is similar to others in agro-food chains whereby multi-nationals increasingly collaborate with NGOs to increase the social and/or environmental standards of production (Fold and Pritchard, 2005a, p 19).
137 The aims of PMI’s ALP displays a number of similarities with the Ethical Trading Initiative (ETI) which a number of U.K. food retailers participate in (for more on which see Hughes, 2005).
138 In the first (and at time of writing only) progress report on ALP Code implementation (PMI, 2012c), it is interesting to note that “affiliates” and “suppliers” are used almost interchangeably. This is representative of the extent to which ICCs govern and control their supply chains, a topic to which we will return in detail in the case of Malawi in Chapter 6. Indeed, PMI even conducted the ALP Code training for the global agronomy teams of the two leading international leaf merchants (PMI, 2012c, p 12).
The ALP Code implementation will be evaluated by a supposedly independent third party\(^{139}\), Control Union. PMI (2012c, p 4) states that this organization

...will assess a representative random sample of farms in the market, interviewing farmers and workers and verifying that the labor conditions on the farms meet the measurable standards in our ALP Code.

...Control Union plans to start external monitoring in the latter part of this year, and we expect to publish the first report under this new system in the first half of 2013. Once the system is fully operational we expect that Control Union will conduct approximately six audits every year.

Similar to codes described by Barrientos et al. (2001) in Chapter 1, the ALP Code is mainly implemented and monitored by leaf technicians, whose training background lies predominantly in agronomy (PMI, 2012c, p 9). For the extent of leaf technician training (on the ALP Code) by region, as well as the number of farms reached through the Code, see Tables 3.19 and 3.20, respectively (below).

### Table 3.19: PMI Field Technician Training on ALP Code, by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Field Techs</th>
<th>Trained</th>
<th>Training Sessions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America &amp; US</td>
<td>799</td>
<td>729</td>
<td>46</td>
</tr>
<tr>
<td>Africa</td>
<td>1,100</td>
<td>1,100</td>
<td>33</td>
</tr>
<tr>
<td>Asia</td>
<td>825</td>
<td>714</td>
<td>33</td>
</tr>
<tr>
<td>Europe &amp; Oriental</td>
<td>476</td>
<td>409</td>
<td>25</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>3200</strong></td>
<td><strong>2952</strong></td>
<td><strong>137</strong></td>
</tr>
</tbody>
</table>

Source: modified from PMI (2012c, p 13).

\(^{139}\) The level of this independence is called somewhat into question by the fact that PMI and Verité are involved in the elaboration of the assessment and the training of the code evaluators (PMI, 2012c).
Table 3.20: Communication of PMI Code to Farmers, by Region

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Farms</th>
<th>Initial Outreach</th>
</tr>
</thead>
<tbody>
<tr>
<td>Latin America &amp; US</td>
<td>104,427</td>
<td>65,017</td>
</tr>
<tr>
<td>Africa</td>
<td>227,406</td>
<td>188,246</td>
</tr>
<tr>
<td>Asia</td>
<td>89,815</td>
<td>16,354</td>
</tr>
<tr>
<td>Europe &amp; Oriental</td>
<td>95,353</td>
<td>67,318</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>520,004</strong></td>
<td><strong>226,935</strong></td>
</tr>
</tbody>
</table>

Source: modified from PMI (2012c, p 14).

The importance of CSR and “ethical” practices in ICC business strategies is paramount. Likewise ICCs have become increasingly concerned with environmental issues and being seen to operate in an environmentally sustainable manner. For example, JT has emissions reductions targets and elaborates an environmental management plan in the “JT Group Environmental Charter” (JT, 2012, p 32). BAT has an afforestation programme, and the company’s Annual Report 2012 also discusses initiatives in the areas of biodiversity, and human rights (pp. 19-20). PMI (2012a, p 17) claims it focusses on “Hunger and Poverty, Education, Rural Living Conditions, Domestic Violence and Disaster Relief.”

As can be seen in some of the voluntary marketing (and other) codes above, it is common for ICCs to engage in a certain amount of self-regulation, and to greatly publicize these engagements\(^{140}\). For example, PMI (2012a, p 29) claims:

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\(^{140}\) Another peculiar feature of the ICC public relations initiatives (which will be seen in more detail in Chapter 6) is the extent to which these companies collaborate, e.g. on child labour initiatives. The collaboration is also necessitated when the companies are on the defensive such as in litigation. This collaboration has historical precedence as can be seen in Goodman’s (1993, p 110) account of how the tobacco industry responded to the first publication by the American Cancer Society of the causal link between smoking and cancer:

Tobacco chiefs responded in a number of ways, including, not insignificantly the creation of a powerful industry lobby and publicity organization called the Tobacco Industry Research Committee, and then in 1958 the more influential Tobacco Institute Inc., both of which, in their own way, sought to undermine the smoking-cancer equation...

This collaboration bears striking resemblance to Fold’s (2005) description of the cocoa-chocolate industry:

...over the years the global cocoa-chocolate industry has been involved in other ‘common battles’, for instance on nutritional issues, cocoa butter substitutes and the recent child labour issues. Perhaps this previous experience of mutual exchange of concerns, coordination of statements and positions and lobbying of public institutions for common interests have resulted in some kind of shared ‘cooperative capital’ that is not found in other global value chains (p 235).
...we have long advocated for laws that strictly prohibit the sale of tobacco products to minors, limit public smoking, mandate the placement of health warnings on tobacco product packaging, and regulate product content to ensure that changes to the product do not increase the adverse health effects of smoking and to establish a regulatory framework for future reduced risk products. We also strongly support the use of tax and price policies to achieve public health objectives, provided that they do not result in increased illicit trade.

There are a number of interpretations of these CSR (and other initiatives). Indeed, one interpretation that has been put forward, notably by the anti-smoking lobby, is that in a context of restricted advertising opportunities that ICCs use sponsorship of events and publicity of CSR engagements as a form of advertisement (e.g., WHO, 2013, p 20). However, it is interesting to note the connection between shareholder value on the one hand, and CSR, public relations, and self-regulation on the other. For example, BAT (2012, p 19) states:

We continue to address our social, environmental and economic impacts to build value for the business, for our shareholders and for all the wider stakeholders affected by our business.

Among the responsibilities listed for the Corporate Social Responsibility committee of BAT’s Board of Directors, is “monitoring and reviewing the effectiveness of the Group’s strategy for, and management of, significant social, environmental and reputational issues” (BAT, 2012, p 64). Anecdotal evidence also suggests that some ICC shareholders are interested in seeing the companies they invest in behave ethically. For example, at the annual shareholders’ meeting for Altria Group Inc. in 2009, there was a 25% vote in favour of a proposal to “Create Human Rights Protocols for the Company and its Suppliers” (Altria Group Inc., http://investor.altria.com/pheonix.zhtml?c=80855&p=RssLanding&cat=news&id=1290019). Furthermore, with regards to the development of the ALP Code, PMI (2012c, p 6) states that: “we have drawn on the experience and gathered the input from various stakeholders including, in particular, the Interfaith Center on Corporate Responsibility.” This organization describes itself as a “coalition of active shareowners who view the
management of their investments as a catalyst to promote justice and sustainability in the
world” (PMI, 2012c, p 6).

Whilst further research would be required to establish clear causality, we would
hypothesize that to a certain extent, the ICCs’ strategy of engaging in “ethical” practices,
self-regulation, and CSR as a way of managing “reputational risk” is driven by concerns
over shareholder value in three inter-related ways. Firstly, and as seen in the example of
the Interfaith Center on Corporate Responsibility above, the strategy responds to
concerns of existing shareholders, thereby encouraging them to maintain their
investments. Secondly, and given the decreasing social acceptability of smoking in
countries where institutional (and other) investors dominate, the strategy is designed to
pre-empt and/or assuage concerns of potential investors over the “ethical” implications of
their investments. And thirdly, to the extent that reputational damage has the potential
to reduce demand for the ICCs’ products, the strategy is designed to reduce the perceived
risk associated with investing in ICC shares.

Of course, similar points to those presented in the above hypothesis could be made
about a number of publicly-listed companies which engage in CSR\textsuperscript{141}. However, the ICCs
are somewhat unique in two ways. First, due to the taboo nature of the lethal product
they market, the ICCs are under a heightened level of critical scrutiny. We argue that this
“ethical scepticism” necessitates enhanced efforts by ICCs to build shareholder value for
investors. These efforts are seen both in the share buyback schemes and in the CSR and
self-regulation policies described above. Second, and contrary to the “consumer-led”
nature of improving the “ethical” standards of supply chains (e.g. Gereffi and Lee, 2012;
Barling and Lang, 2005), based on our survey of the ICC sector (through annual reports,
webcasts, communications with shareholders, and industry press), we are yet to observe
even anecdotal evidence for the postulation that the ICCs’ increased concern with “ethical”
practices is being driven by consumers. Furthermore, these practices don’t appear to be
marketed via particular brands. In other words, unlike coffee consumers, who can buy

\textsuperscript{141} For example, see Mayer and Pickles (2010) on the use of CSR in global value chains, which the authors
subsume under the category of “private governance”.
sustainable, fair trade, or organic coffee, cigarette consumers do not appear able to “consume ethics” (Daviron and Ponte, 2005, p 37).

The potential relevance of these insights for our analytical approach developed in Chapter 1 is that they may allow us to build upon Gibbon and Ponte’s (2005) discussion of shareholder value doctrine, whilst retaining two of the key contributions of the latter: that lead firms are increasingly focused on maximizing shareholder value, and that this implies changes in the functions of their suppliers. Our above hypothesis would lead us to believe that instead of (or in addition to) the outsourcing of capital-intensive production emphasized by Gibbon and Ponte (2005), that the shareholder value doctrine would imply ICCs seeking to increase control over their suppliers in order to obtain their “ethical” objectives. As stressed in other GVC literature reviewed in Chapter 1, this control could be obtained via vertical integration or via hands-off forms of governance. Both of these will be discussed below as well as in Chapter 6 for the case of Malawi.

3.2.3 First Tier Suppliers: Independent Leaf Merchants

The majority of the ICCs’ tobacco leaf is procured through the independent leaf merchants, of which there are only two major global competitors: Universal Corporation and Alliance One International. For example, ITG bought over 218 000 tonnes of tobacco leaf in 2009 (ITG, 2009, p 29), of which the majority

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142 It is important to note that there are a number of national and/or regional competitors, as will be seen in our case study of Malawi in Chapters 5-7. However, this node of the chain, like the ICC node, has been subject to increasing concentration in recent years.

143 This company, which specialises in the procurement of burley and flue-cured tobacco, claims to have traditionally sold 20%-30% of Brazilian production of these crops (annually) and 35%-45% of African production. The company also procures substantial quantities of oriental leaf through its 49% ownership share in Socotab, L.L.C., a leading oriental leaf supplier based in Southeastern Europe (UC, 2013, p 5). However, 90% of company revenues in fiscal year 2013 were derived from burley and flue-cured operations (UC, 2013, p 7).

144 AOI is the outcome of a merger - completed in May of 2005 (see AOI, 2005) - between DIMON Incorporated and Standard Commercial Corporation, the world’s second and third largest leaf merchants
...is purchased through the leading international leaf supplying companies. Only a small portion is purchased directly from growers, mainly in Morocco, Madagascar and Laos.

Similarly, two thirds of PMI’s tobacco

...is purchased through independent leaf suppliers, principally the two largest international companies (Universal Leaf Tobacco Company, Inc. and Alliance One International, Inc. and their affiliates) (PMI, 2012c, p 7).

Likewise, these leaf merchants sell predominantly to the ICCs discussed above. For example, in fiscal years 2010-2013, the five major ICCs (including the Chinese state monopoly), accounted for over 60% of Universal Corporation’s sales revenue¹⁴⁵ (UC, 2013, p 6). Similarly, JTI, PMI, and ITG each accounted for more than 10% of AOI’s revenues for the fiscal year ending 31 March, 2012 (AOI, 2012a, p 5).¹⁴⁶ For revenues accruing from three of Universal Corporation’s customers in recent years, see Figure 3.10 below.

¹⁴⁵ For fiscal year 2013, UC’s two largest customers were PMI and ITG, both of which accounted for over 10% of sales revenues (UC, 2013, p 6).
¹⁴⁶ PMI, JTI, and BAT each accounted for over 10% of AOI’s revenues in the fiscal years ending on 31 March, 2010 and 2011 (AOI, 2012a, p 5).
As seen in lead firm-first tier supplier relationships in other GVCs, both the ICCs and the independent leaf merchants have focused on developing long-term partnerships. For example, Japan Tobacco International’s procurement strategy includes “assurance of supply” and optimizing “…spend through consolidation of suppliers and standardization of specifications” (JTI, 2010, p 6). Universal Corporation (Key Operating Principles, http://www.universalcorp.com/AboutUs/AboutUs-Strategy.asp), on the other side of the lead firm-first tier supplier relationship, takes a similar approach:

Universal fosters strategic alliances with its major customers to the benefit of all parties. These alliances with major manufacturers are, in its opinion, especially appropriate to the leaf tobacco industry where volume at an appropriate price is a key factor in long-term profitability.

However, and as alluded to above, a number of the ICCs have increasingly integrated backwards to include leaf procurement. For example, in 2009 JT acquired a number of
leaf merchant businesses\textsuperscript{147} and established JTI Leaf Services (US) LLC (JT, 2012, p 41)\textsuperscript{148}. Likewise, in 2010 PMI’s Brazilian affiliate\textsuperscript{149} purchased assets and contractual relationships with 17,000 farmers from AOI’s and Universal Corporation’s Brazilian subsidiaries\textsuperscript{150}. The total cost to PMI was US$ 83 million\textsuperscript{151}, and the amount of tobacco sourced from these farmers is expected to represent about 10% of PMI’s total tobacco leaf sourcing (PMI, 2012a, pp. 36-37)\textsuperscript{152}. In total, PMI purchases about one third of its tobacco leaf directly\textsuperscript{153} (PMI, 2012c, p 7). BAT, widely considered to be the industry leader on vertical integration, contracts over 100,000 tobacco farmers globally (BAT, 2012, p 13). Furthermore, the China National Tobacco Corporation is arguably the largest leaf procurer in the world. It can therefore be argued that the major competitors to the two leading independent leaf merchants are not other leaf merchants but rather backwards integrated cigarette companies (Brown, personal communication, 26 April, 2011)\textsuperscript{154}.

The increase in direct sourcing from ICCs has increased power asymmetries between them and their leaf merchant suppliers (more on this for the case of Malawi in Chapter 6). Increased direct sourcing reduces overall demand for leaf merchants’ tobacco which consequently increases competition for the remaining market. This occurs in a context of increasing competition between ICCs and leaf merchants in sourcing tobacco.

Although the sector is being encroached upon by ICCs, the nature of the leaf merchant business entails a number of entry barriers which protect these firms’

\textsuperscript{147} Acquisitions include Kannenberg & Cia. Ltda. (Brazil), Kannenberg, Barker, Hail & Cotton Tabacos Ltda. (Brazil), and Tribac Leaf Limited (UK) (JT, 2012, p 41). We will return to the 2009 acquisition of Tribac and the relevance of this acquisition for our country case study, in Chapter 6.

\textsuperscript{148} AOI (2012a, p 22) partially attributes its 30.2% reduction in gross profit between the fiscal years ending on 31 March 2011 and 2010 to JTI’s vertical integration.

\textsuperscript{149} Philip Morris Brasil Industria e Comercio Ltda.

\textsuperscript{150} Alliance One Brasil Exportadora de Tabacos Ltda. and Universal Leaf Tabacos Ltda., respectively.

\textsuperscript{151} Universal Corporation (2013, p 81) records the value of the sale of contractual relationships with farmers and related assets at US$ 34.9 million. The arrangement with PMI also entailed that UC would continue to process tobacco for PMI in Brazil. This is similar to other arrangements with customers who source leaf directly. For example, AOI processes tobacco leaf in the U.S. which is owned by its customers (AOI, 2012a, p 5).

\textsuperscript{152} The number of farmer contracts transferred to PMI (by AOI) represented about 20% of AOI’s Brazilian suppliers at the time (AOI, 2012a, p 33).

\textsuperscript{153} The term directly here implies that purchases were conducted through affiliates rather than suppliers.

\textsuperscript{154} Gereffi (2013) notes a similar trend (of increasing direct procurement by lead firms) developing in other agricultural GVCs (such as cocoa, coffee, and sugar).
asymmetrical bargaining power and large market share (from non-ICC firms). These entry barriers include the costs associated with research and development and physical capital, economies of scale, and the development of long-term relationships with a small number of buyers.

The agronomical characteristics of tobacco require that it be processed shortly after curing to avoid perishability. After it has been processed and packed it can endure for years. The implications of this are that (leaf processing) factories tend to be located near major tobacco producing areas (UC, 2013, p 5), which has investment implications for companies in this sector. Another factor contributing to the capital-intensity of this node of the chain is the requirement that major leaf merchants have the physical and financial ability to maintain inventories, particularly uncommitted stocks (tobacco with no immediate buyer). Leaf merchants are pressured from both ends of the chain to occasionally buy more tobacco than is necessary for a given season. For example, contractual obligations with farmers may entail leaf merchants being obliged to purchase an entire crop even in a situation of over-supply (UC, 2013, p 24). Likewise, and given that part of the multi-national leaf merchants' competitiveness derives from economies of scale and diversification of sourcing, these companies need to have access to a large and heterogeneous selection of inventories to be prepared to respond to customer orders. For world uncommitted stocks in recent years, see Figure 3.11 below. For the example of

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155 In addition to (and partially as a result of) being protected by large entry barriers, these firms display a number of characteristics in common with lead firms. For example, their market share gives them enormous bargaining power over their suppliers. Also, and although they have subsidiaries throughout the world, both of these firms are headquartered in a developed country (the U.S.). However, whilst PMI, BAT, and JT are headquartered in New York City, London, and Tokyo, respectively, Universal Corporation and AOI are headquartered in Virginia and North Carolina, respectively. Whilst the ICCs have chosen to locate close to their relevant financial markets, the leaf merchants are located in the major tobacco-producing states of the U.S.

Universal Corporation’s tobacco inventories and the level of uncommitted stock, see Table 3.21 below\footnote{157}.

*Figure 3.11: World Uncommitted Tobacco Stocks, 2008-2012*

*As of June 30, 2012
Note: Totals for burley and flue-cured exclude Asian monopolies’ and KT&G’s stocks
Source: created by author from Universal Leaf Tobacco Company (2012, pp. 2, 7, 10)

*Table 3.21: Universal Corporation Tobacco Inventories, 2012-2013*

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Tobacco Inventories (US$ millions)</th>
<th>Uncommitted Tobacco Inventory (US$ millions)</th>
<th>Uncommitted Tobacco Inventory Percentage of Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012 (31 March)</td>
<td>682</td>
<td>143</td>
<td>21%</td>
</tr>
<tr>
<td>2013 (31 March)</td>
<td>623</td>
<td>117</td>
<td>19%</td>
</tr>
</tbody>
</table>

Note: Figures are rounded and hence differ slightly from actual amounts.
Source: created by author from UC (2013, pp. 24, 38)

\footnote{157} Although we do not have figures for the amount of uncommitted stock, we know that AOI held comparable (monetary) amounts of tobacco inventories. For example, the company had US\$ 796,152,000 and US\$ 756,590,000 worth of tobacco inventories in 2012 and 2011, respectively (AOI, 2012a, p 51).
Access to finance - either commercially or through internal sources, facilitated by economies of scale\textsuperscript{158} - on favourable terms is another entry barrier that protects the leading multi-national leaf merchants from serious competitors on a global scale. For example, UC (2013, p 4) states:

We believe that our financial strength is important, because it enables us to fund our business efficiently and make investments in our business when appropriate opportunities are identified. We believe that lower interest and capital costs give us a competitive advantage. Our financial strength also affords us financial flexibility in dealing with customer requirements and market changes. We continually work to improve our financial condition and creditworthiness.

Seasonal finance is also essential with regards to the considerable undertakings of leaf merchants to provide farmers with input loans for the purposes of contract farming (UC, 2013).

A further entry barrier, which relates both to our discussion of lead firms above as well as to arguments we will develop in Chapter 6, is the ability to respond to ICC demands for compliant production. For example, UC’s 2013 Annual Report states:

...our customers- tobacco product manufacturers- are increasingly demanding not only quality leaf, but quality compliant leaf. Compliant leaf has many meanings, depending on the customer, but generally necessitates that the leaf supplier ensure that the tobacco was grown utilizing good agricultural practices (GAP) in a sustainable manner related not only to the environment, but also to social concerns and grower profitability. We have invested significant resources in the programs and infrastructure needed to work with growers to produce compliant leaf and support our growers’ communities (p 6).

In a letter to shareholders, UC Chairman, President, and Chief Executive Officer George C. Freeman, Ill emphasizes UC’s competitive edge in compliance:

We expect that provision of compliant leaf, security of supply, and social responsibility concerns will continue to increase in importance in the future. Meeting these requirements will involve significant efforts on our part, and we are

\textsuperscript{158} For example, Universal Corporation recorded cash flow of roughly US$ 234 million in fiscal year 2013, which it used for investments and debt reduction, among other things (UC, 2013, p 24).
well-positioned, both operationally and fiscally, to address those needs (UC, 2013, p 5).

The independent leaf merchants in turn source their tobacco leaf from tobacco farmers (second tier suppliers). These transactions are often direct - between leaf merchants and farmers - but occasionally there are intermediaries between the two, such as independent buyers or transporters. The leaf companies buy through a number of different marketing channels, the most common of which are contract farming, auctions, and state agricultural marketing boards (more on which below and in Chapters 5-8 for the case of Malawi). However in most contexts and marketing arrangements, the independent leaf merchants maintain asymmetrical bargaining power over their suppliers through some combination of information asymmetries, market share, diversified sourcing, contractual agreements and in some cases legal monopsonies (more on which in Chapters 6-7 for the case of Malawi).

Asymmetrical information regarding quality gives buyers enhanced bargaining power over growers. As Universal Corporation states:

...in all instances the grade selection and establishment of price has to be done by a corps of experienced tobacco experts (Tobacco Merchant Industry, http://www.universalcorp.com/Operations/Tobacco/Tobacco-Merchant.asp?Menu =)

The companies’ large international market share and diversification of sourcing also contribute to asymmetrical bargaining power over individual suppliers, the implicit threat being that the supplier must sell at a price acceptable to the leaf merchant otherwise the latter will merely turn to one of its other suppliers in country X. Concessionary contract farming schemes epitomize the unequal relationship between grower and leaf merchant

159 For example, UC operates in each of the major tobacco categories, and maintains a presence in over 30 countries in 5 continents (UC, 2013, p 4). Likewise, AOI operates in over 35 countries (AOI, 2012a, p 4).
as the former depends on the latter - the only legal buyer - for inputs and agronomical supervision. Furthermore, contract farming schemes, particularly those whose form mitigates against side-sellings (whether through concessions or monopsonistic/oligopsonistic buying practices\textsuperscript{160}), have been criticized for representing a form of “proletarianization... without dispossession” (Oya, 2012, p 7). Or as Reardon and Barrett (2000, p 200, cited in Oya, 2012, p 7) notes: “[CF] typically displaces decision-making authority from the farmer to the downstream processor or distributor, turning farmers into quasi-employees”\textsuperscript{161}.

3.2.4 Second Tier Suppliers: Growers

When looking at the conditions of production in some of the major producing and exporting countries in more detail, it becomes clear that the incentives to cultivate tobacco tend to consist of some combination of suitable agro-ecological conditions and favourable marketing schemes. In this sub-section we will attempt to point out some of the common themes found in tobacco cultivation, as well as various sources of differentiation among tobacco-producing countries and farmers. However, given the importance of product specificity, farmer differentiation, and the role of non-lead firm actors in shaping value chains in developing countries, and as emphasised in Chapter 1, this section will not attempt to provide a comprehensive analysis of tobacco production in developing countries. Rather, the key contribution of this section should be understood as raising issues to be aware of when applying our analytical approach to a country case study, as well as setting the context in which Malawi will be analysed.

\textsuperscript{160} For a discussion of some of the contract farming literature on the dependency of contract farming success on effective forms of side-selling prevention, see Oya (2012).

\textsuperscript{161} However, this is not to imply that increased power asymmetries necessarily negate any possibility of benefit for smallholders in contract farming schemes. For the example of benefits accruing to smallholder participants in an (organic) contract farming scheme of Arabica coffee in Uganda, see Bolwig et al. (2009).
Agronomy, Ecology, and Environment. One of the reasons tobacco is considered an attractive crop is its adaptability to a wide array of agro-ecological conditions, and in particular its drought-resistance (MacDonald, 2009).

Brazilian tobacco, for example, is grown in some areas that would be unsuitable for other crops, such as on hilly land in the South. Also, the low soil requirements of tobacco make this crop more attractive for some farmers than other profitable Brazilian crops like garlic or asparagus (FAO, 2003b).

Oriental tobacco is particularly suitable to arid environments. In addition, the crop does not perish easily after cultivation (ITGA, Alternative Crops, http://www.tobaccoleaf.org/conteudos/default.asp?ID=50&IDP=20&P=5). However, this type of tobacco is extremely labour intensive as curing requires threading together and hanging characteristically small leaves (Gooden, personal communication, 18 April, 2011). Oriental tobacco is traditionally sun-cured but is shifting towards being cured in “plastic covered tunnels” in Turkey (the principal oriental-producing country) (FAO, 2003b, p 75).

Production of flue-cured and burley tobacco follows a series of procedures if done in an ideal way. First trays are prepared with the tobacco seeds and left to germinate in a greenhouse for 7-8 weeks. The greenhouse is ideally regulated at 68 degrees fahrenheit at night and 86 degrees fahrenheit during the day. Temperature regulation is important in that too high a temperature can cause seedling damage. Seed growth is encouraged with some use of nitrogen fertilizers. Clipping is also done 3-5 times during the germination period. At the end of this process the plants are “transplanted” to the field (Tobacco Farm Quarterly- TFQ, 2007, pp 8-10, 30-32).

Once the plants are in the field, managing soil nutrients becomes important. The three main steps in any fertilization programme are soil testing, fertilizer selection, and fertilizer application. Soil testing is done to ascertain pH and nutrient levels. In most states in the U.S., the state government will administer this process. Soil pH levels should be between 5.8-6 (FCV) or 5.5-5.8 (burley). If the soil is not at this level, the level can be changed through liming. Liming can increase the health of the plant and enhance drought
resistance and nutrient absorption, all of which can lead to increased yields. Typical fertilizers are of the N-P-K (nitrogen, phosphorous, potassium) variety with the distinguishing factor being the ratios of the ingredients. On average, 50-80 pounds of nitrogen (for FCV, and significantly more for burley) should be applied to each acre of tobacco field. Timing of the fertilization is extremely important, and should be done during the transplant and ten days afterwards (for FCV). If administered correctly, the nitrogen will be depleted at the time of harvest as ripening of the tobacco plant is caused by “nitrogen starvation” (TFQ, 2007, pp 8-10, 33-34).

Following the above procedures properly, in addition to crop rotation, can also help manage weeds. Crop rotation is also useful in disease control in that many diseases are tobacco-specific. Therefore planting other crops removes the tobacco plants from the soil and cleanses the area. The ideal schedule is three years of alternate crops followed by one year of tobacco. After each tobacco harvest the stalks and roots should be completely removed from the soil and destroyed. As diseases can be spread through contaminated machinery, it is advised that diseased portions of a field be harvested last (TFQ, 2007, pp. 16-25).

When the flowers start to bud they should be removed immediately. This process is called “topping” and can lead to the growth of “suckers” which in turn can be controlled with chemicals (TFQ, 2007, p 26). At the point of harvest, a ripe plant is essential in commanding high quality classification (TFQ, 2007, pp. 27-28).

Nitrogen uptake, rainfall, temperature, root health and variety are all factors in ripeness, but the most critical is weather conditions. Drier conditions will see tobacco ripen quickly and hold for 10 to 20 days before quality declines in excessive heat, while wetter conditions see a slow ripening followed by a quick deterioration due to wet conditions (TFQ, 2007, p 27).

Separation by stalk position is used as an indicator of quality. After the crop is harvested it is cured (by the farmers). Flue-curing takes place in a heated curing barn in three steps: yellowing (moisture removal), leaf drying, and stem drying. Each step takes approximately 48 hours. Temperatures are increased at about 2 degrees farenheight per hour during
leaf drying and 3 degrees farenheight per hour during stem drying. As is evident, temperature and humidity (determined by fresh airflow, controlled by a damper) are critical in the curing process (TFQ, 2007, pp. 27-28). Unlike FCV, burley tobacco is air-cured and the entire stalk is hung in the barns. As the curing is normally done without the aid of central heating, the key to good curing is appropriate ventilation (TFQ, 2007, p 44; Gooden, personal communication, 18 April, 2011).

As can be seen above, crop quality is dependent on adherence to a number of complex and resource-intensive procedures. The ability to implement the above guidelines depends on, among other things, the access of farmers to extension services, physical capital, inputs, labour, and laboratory facilities. The access to and quality and/or productivity of the above-listed things constitute key sources of differentiation among tobacco farmers and the quality and category of tobacco they produce (more on which below).

**Differentiation.** According to the FAO (2003a, p 1) “...tobacco production returns and tobacco profitability in most developing countries are much higher than in any other cash crop...” However, production is driven by different forces in different contexts. For example, the FAO (2003b) argues that Chinese farmers are drawn to tobacco production by the low risk (the crop is sold under contract) associated with the crop rather than prices (which have been higher in other crops such as cotton and sugarcane). On the other hand,

...tobacco in India generally provides higher net returns per unit of land than most other cash crops and substantially more than food crops (FAO, 2003b, p 3).

Tobacco in the United States is one of the most valuable (field) crops, generating about US$ 4 000 per acre (Parker, 2009). In South Carolina, U.S.A., efficient tobacco farmers can often generate up to US$ 1 500 per acre, net of variable costs (Gooden, personal communication, 18 April, 2011). Given that many of these farmers farm 100
acres of tobacco (in addition to a number of other crops), this means that at least some of these farmers are generating an income of over US$ 150 000 per year, placing them in the upper income brackets in the U.S.A.

In Brazil, 96% of tobacco production occurs in the South (Afubra, *Informações Gerais*, http://www.afubra.com.br/principal.php?acao=conteudo&u_ID=1&menus_site_ID=20) where mainly FCV is produced for cigarettes. Tobacco production in this region occurs primarily on small farms and is high-yielding, having an average yield of 3.74 tonnes per hectare in 2000/01 (FAO, 2003b). North East Brazil\(^\text{162}\), on the other hand, is focussed on tobacco for cigars. Tobacco in both regions of Brazil is produced according to the “integration system” whereby the tobacco leaf buyers (usually multinationals) provide inputs (and in some cases finance and transport) and guarantee purchase (Afubra, *Evolução da Fumicultura*, http://www.afubra.com.br/principal.php?acao=conteudo&u_ID=1&menus_site_ID=23; FAO, 2003b). It can be seen by this example that finance and affordability are also important determining factors of tobacco cultivation. In 2000/01 season, family farmers averaged US$ 5000 gross income (FAO, 2003b, p 2). Afubra (an association representing tobacco farmers in Southern Brazil) provides crop insurance which is considered better than those available for other crops (FAO, 2003b, p 14), which again highlights the importance of risk mitigation associated with tobacco cultivation.

Indeed, marketing systems are one of the key sources of differentiation of tobacco production in different countries. For example, whilst most tobacco is sold directly to leaf merchants from farmers, there are still important auction markets\(^\text{163}\) in such countries as India, Malawi\(^\text{164}\), and Zimbabwe. Also, there are a number of countries where it is common for leaf merchants or ICCs to purchase tobacco from intermediaries rather than the farmers themselves. The intermediaries may be parastatal agricultural marketing

\(^{162}\) Tobacco production in this region of Brazil can be traced back to the 16\(^{th}\) century (Goodman, 1993, p 140).

\(^{163}\) This is the intermediary through which PMI sources roughly 10% of its global tobacco leaf requirements, mainly in Malawi and India (PMI, 2012c, p 8).

\(^{164}\) We will return to this theme in Chapters 4-8.
boards or private traders\textsuperscript{165}. For example, in China AOI purchases tobacco from intermediaries that purchase and process tobacco from farmers (AOI, 2012a, p 3).

In addition to the type of marketing system under which farmers sell their tobacco, there are a number of other aspects which differentiate tobacco-producing countries and farmers. One of the most obvious is farm size. As seen above, large (over 100 acres) and super-large (over 1,000 acres) tobacco farms are increasingly the norm in the major flue-cured producing state of North Carolina, in the U.S.A. On the other hand, small family farms predominate in many tobacco-producing countries in Africa and elsewhere. Indeed, in 2011 PMI purchased around 440,000 tons of tobacco grown by more than 500,000 contracted farmers in over 30 countries. The vast majority of the tobacco purchased by PMI is grown by small-scale family farms ranging in size from half a hectare to just a few hectares (PMI, 2012c, p 7).

Producer countries are also differentiated by the type of tobacco they produce. In addition to the tobacco types discussed thus far (i.e. burley, oriental, flue-cured, and dark), tobacco-producing countries are commonly segmented (by leaf merchants and ICCs) into either “flavour” or “filler” categories, depending on the type and purpose of tobacco leaf produced. For flue-cured tobacco, the U.S., Brazil, and Zimbabwe are usually classified as flavour-producers, whereas India and Tanzania are filler-producers. Likewise for burley, the U.S., Brazil and Argentina are considered flavour-producers whereas the remaining exporting countries are filler-producers (Universal Leaf Tobacco Company, 2012, pp. 3, 7).

Just within the burley sector (our main focus in this work), there is substantial differentiation. Of course, as a point of departure for a discussion of burley differentiation, it is perhaps worth briefly re-iterating burley’s\textsuperscript{166} relation to and distinction from its flue-cured counterpart. One important distinction, emphasized by Goodman (1993) and which we will return to in our case study of Malawi, is the degree of mechanization, or capital-intensity. As mentioned above, the curing of flue-cured tobacco is mechanized while

\textsuperscript{165} PMI also sources about 10% of its tobacco in this manner, principally in Indonesia and to a lesser extent in Thailand and the Philippines (PMI, 2012c, p 8).

\textsuperscript{166} Despite its global importance, burley is a relatively new form of tobacco, not believed to have been discovered until 1864 (Goodman, 1993, pp 208-9).
burley tobacco is air-cured. The lower capital requirements of burley production can lend themselves to the feasibility of smaller landholdings. For example, Goodman (1993) emphasizes this relationship in explaining the fact that flue-cured land allotments were over three times as large as burley ones in the U.S. in 1970 (p 202). However, also of relevance to burley producers is the dependence of burley production on the production of its flue-cured counterpart. For example, American Blend cigarettes, which combine burley, flue-cured, and oriental tobacco, are dependent on flue-cured for the largest proportion (Goodman, 1993). The other main type of cigarette, Virginia, does not use any burley at all. Combined with the unpalatibility and harsh taste of burley mentioned above, this means that burley tobacco cannot be used in cigarettes without both flue-cured tobacco and artificial flavourings or additives. This has the potential to increase power asymmetries between burley producers and buyers in that the former are more dependent on the latter to source complementary tobacco types as well as to have the ability to blend with non-tobacco inputs. These two factors would not necessarily apply to flue-cured tobacco producers.

Differentiation among burley-producing countries can be seen in a number of ways. For example, and likely related to the quality classifications described above, whilst burley is predominately smallholder-based in both Malawi and Argentina, prices in the former country have been considerably lower in recent years. Whilst burley prices in Argentina averaged US$ 2.42 per kg in 2012, in Malawi they averaged US$ 1.22 in the same year. Colombian burley, on the other hand, was characterized by yields roughly 27.5% higher than those in Argentina in 2012/13 (ITGA, 2013). The factors which influence total burley production are also markedly different in the various producing countries. For example, the Burley Tobacco Growers Cooperative Association of the U.S.A. (cited in ITGA, 2013, p 15) states that

The 2013 world burley production is predicted to increase as well as the U.S. tobacco crop. The actual results for U.S. production depend on many

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167 We will discuss pricing at length in Malawi in Chapters 6 and 7.
168 Burley yields in Argentina averaged 1,105 kgs/ha in 2013 (ITGA, 2013; author’s calculations) while in Colombia they averaged 1,410 kgs per hectare in 2012 (ITGA, 2013).
factors such as available labor, immigration reform, and global regulations but the outlook is very positive...

...We believe U.S. burley tobacco will continue to be the gold standard for world production.

Entry Barriers. Given the environmental, ecological, agronomical, and marketing conditions which have been identified as ideal for tobacco cultivation, one can identify a number of entry barriers for farmers wishing to engage in tobacco cultivation. One obvious potential constraint on tobacco cultivation is land. Tobacco has particularly burdensome requirements regarding land in that crop rotation is essential for disease and pest mitigation and for maintaining healthy soils.

Labour is another potential constraint. Tobacco has always been a labour-intensive crop. Despite major advances in technology over the past couple hundred years (since the time when tobacco in the U.S.A. South was synonymous with slave labour) tobacco cultivation has remained very labour-intensive. Labour costs can therefore be particularly burdensome. This is especially relevant to poorer households in sub-Saharan Africa, for example, without access to much family labour (as seen in the case of Malawi in Chapter 4).

Credit and/or capital can be another major constraint. Tobacco is input-intensive. As can be seen above in our description of the ideal production conditions, fertilisation is particularly important in tobacco cultivation. In poorer households without much savings or available cash, access to credit can be a determining factor of whether tobacco cultivation is feasible or not. The need for credit is one of the rationales behind the contract farming schemes so prevalent in tobacco cultivation. Leaf merchants become financiers (or partial financial guarantors) in locations where credit markets are particularly thin or non-existent.

However, whilst these entry barriers may be prohibitive for some smallholders and certainly impede many more farmers from producing high quality tobacco, overall the entry barriers at this node of the chain are relatively low. This can be seen by the fact that
over a hundred of countries and hundreds of thousands (if not millions) of smallholder farmers participate in tobacco cultivation (ILO, 2003), compared to merely a handful of firms located in primarily four countries that constitute the other chain nodes.

3.3 Upgrading

Different types of upgrading are common in the GVCT. For example, intersectoral upgrading (i.e. diversification) is a common strategy for the ICCs, especially in food and logistics (van Liemt, 2002). Upgrading has occurred at the national level as well in a number of instances. Some countries (e.g. Mozambique) have moved from exporting unmanufactured tobacco to exporting processed tobacco. With the caveat presented above that our discussion of upgrading is intended to contextualize our case study (rather than provide a comprehensive analysis of upgrading in the GVCT), we group the remainder of this section (loosely) into three of the four categories of upgrading outlined by the GVC-GHS variant: process, product, and functional.

3.3.1 Process Upgrading

Process upgrading - producing the same product but more efficiently and therefore increasing value - is arguably the most common form of upgrading in the GVCT. World tobacco leaf production (in dry weight) was 4.3 million tonnes in 1970 and increased to 8.1 million tonnes in 1997. This increase was due to higher average yields (an example of process upgrading) rather than a net increase in area cultivated. In 1970 (global) yields averaged 1.3 tonnes per hectare whereas in 2000 yields averaged 1.7 tonnes per hectare.
China is the exception to this rule in that as this country increased the amount of land under tobacco cultivation, increasingly low-quality areas were absorbed, bringing down the average yields from 2.1 tonnes per hectare in 1970 to 1.9 tonnes per hectare in 2000 (FAO, 2003a).

Process upgrading is common because it is usually in the interest of the downstream actors (leaf merchants and ICCs) that farmers produce a higher quality and quantity of tobacco. However, process upgrading will depend largely on the environment in which a farmer operates. Particularly important are a number of factors discussed above, namely, climate and agro-ecology, credit, access to marketing infrastructure, and agronomical advice/supervision. As mentioned above, the operating environment in the Southeastern United States is in many ways ideal for process upgrading. It is therefore unsurprising that one farmer in South Carolina interviewed by this author was able to produce tobacco in the 2010/11 growing season with yields of 4.04 tonnes per hectare\textsuperscript{169} (DuRant, personal communication, 18 April, 2011).

\textit{3.3.2 Product Upgrading}

One potential for product upgrading would be switching to more valuable types of tobacco. However, this could be difficult due to climate or input constraints. For example, switching from burley tobacco (mainly a smallholder crop in Malawi and Mozambique) to FCV would entail substantial capital investments in flue-curing barns. Switching to oriental tobacco would entail increased labour costs. In many cases, particularly in contract farming schemes, the potential for product upgrading will depend

\textsuperscript{169} Figures were converted and rounded by author from 3,600 pounds per acre.
on the leaf merchants in two ways. Firstly, the leaf merchants must believe that sourcing a different type of tobacco from the same farmers is a viable strategy. Second, the leaf merchants must be willing to provide the necessary (agronomical, financial, etc.) support for farmers to make this transition.

Vargas (2001) emphasizes the important role of the buyers (leaf merchants and ICCs) in determining the potential process and product upgrading in the Rio Pardo Valley in southern Brazil. The buyers and growers engage in “integrated production systems,” whereby the buyers provide the necessary inputs, technical assistance, and transportation to smallholder tobacco growers who are in turn bound to sell their output to the buyers (as in other contract farming schemes). This gives the buyers complete control over production processes and hence over upgrading possibilities regarding production.

Vargas (2001) points out that product upgrading necessitates research and development (R&D). Whilst the Rio Pardo Valley has two universities and other governmental institutions engaged in R&D, the tobacco cluster still bases most of its innovation on R&D from external (leaf merchant and ICC) sources. Therefore product upgrading in the Rio Pardo Valley tobacco cluster appears to be constrained by two factors: consent of the buyers and access to enormous R&D resources (Vargas, 2001).

3.3.3 Functional Upgrading

Functional upgrading - moving up a node of the GVC and engaging in a function associated with higher value added and greater proximity to end users - is extremely difficult for tobacco farmers given the entry barriers associated with the first tier suppliers described above. Functional upgrading for tobacco farmers would entail processing tobacco and selling it to the ICCs. As can be seen from our above description of the first tier suppliers, a farmer wishing to move up the GVCT would need to make substantial capital investments in a processing factory, acquire the technologies necessary for such a
factory, and develop relationships with buyers. In Mozambique, functional upgrading has occurred at the *national* level. The Mozambican government used incentives to encourage one of the leaf merchants to establish processing facilities in the country (Hanlon, 2006). However at the *farmer* level, examples of functional upgrading into the leaf merchant sector are less common.

Functional upgrading by farmers or leaf merchants into cigarette production is made difficult by the enormous level of entry barriers associated with the ICC node of the chain, as discussed above. However, the agronomical properties of tobacco also play a role in determining the possibilities of functional upgrading. As seen above, the nature of perishability of tobacco dictates that the crop needs to be processed and packed shortly after curing and hence requires that tobacco processing plants be located in relative proximity to major sourcing sites. However, given that processed tobacco has a much longer shelf life (as seen above), cigarette manufacturers do not experience the same need to locate their factories in tobacco-producing countries. Rather, ICC factory location is more driven by proximity to key markets. Combined with business strategies increasingly based on cost rationalization and economies of scale in manufacturing (BAT, 2012), the location of an ICC factory is becoming more selective. Given that rises in smoking rates are largely determined by increasing income and population, the outlook for upgrading into cigarette manufacturing in poor tobacco-producing African countries with low population densities is particularly dim. For example, out of 42 manufacturing locations globally, PMI currently has only one location in Africa (PMI, *PMI around the World*, http://www.pmi.com/eng/pages/homepage.aspx).

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170 For example, AOI (2012a, p 4) states: “Processed flue-cured, burley and oriental tobacco is redried to remove excess moisture so that it can be held in storage by customers or us for long periods of time.”

171 This discussion of the role of agronomical characteristics and technology in functional upgrading has some parallels with Gibbon and Ponte’s (2005) discussion of coffee. For example, the authors note:

> Although green coffee (the usual form of export) can be stored for a couple of years under good conditions, roasted coffee becomes stale much more quickly. Second, most coffee roasters in the commercial market use blends of a variety of origins from around the world. This restricts the nature of the final product and therefore the market for Africa-based roasting (p 153).

However, there are also examples of commodities whose perishability characteristics imply less fatalistic outcomes with regards to functional upgrading. For example, in their discussion of the South African dairy sector, Mather and Kenny (2005) describe how the perishability of milk implies that multi-nationals need to
However there are some emerging market economies which are both sources of production and consumption. In these countries it makes sense in some cases (from the ICCs’ perspective) for tobacco to be cultivated, processed, manufactured, and sold all in one country. In the GVCT we therefore see some countries with a nearly autonomous tobacco value chain. This is notably the case in China, the world’s largest tobacco producer and home to the world’s largest cigarette company. South Africa also produces both tobacco leaf and manufactured tobacco products. The sector consists of just under 150 farms covering roughly 4,000 hectares of tobacco cultivation and employing more than 10,000 workers (Fox, 2010; see Table 3.22 below). South Africa is also notable in that farmers have functionally upgraded by co-owning a processing plant (see below).

Table 3.22: South African Crop Estimate 2009/2010

<table>
<thead>
<tr>
<th></th>
<th>Flue-Cured</th>
<th>Dark Air-Cured</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of farmers</td>
<td>82</td>
<td>65</td>
<td>147</td>
</tr>
<tr>
<td>Estimated number of hectares planted</td>
<td>3,050</td>
<td>900</td>
<td>3,950</td>
</tr>
<tr>
<td>Farm weight: kg</td>
<td>8,235,000</td>
<td>2,900,000</td>
<td>11,135,000</td>
</tr>
</tbody>
</table>

Source: reproduced from Fox (2010, p 8)

Francois van der Merwe\(^{172}\) (personal communication,\(^{173}\) 18 April, 2011) sums up the process below:

FCV tobacco is cured and graded on the tobacco farms and then sold under contract to Afgri Tobacco. The tobacco from the farmers is pooled and processed in the GLT (green leaf threshing plant). This plant is co-owned by the farmers and Afgri. During processing, the stem and the leaf of the tobacco are separated, and the different types, qualities, colour

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\(^{172}\) Chief Executive and Chairman of the Board of the Tobacco Institute of Southern Africa (at the time of interview). He is currently President of the International Tobacco Growers’ Association (ITGA).

\(^{173}\) After reading through my paraphrasing of an interview with him, Mr. van der Merwe re-worded what I had written. It is this re-wording which is cited here.
and other characteristics of the tobacco is used to make up the different blends required by the cigarette manufacturers.

At this stage, more than 95% of the total SA flue cured crop is sold to the South African subsidiary of British American Tobacco (BATSA). At the cigarette factory further processes take place where cut rag (finely cut tobacco) is made where after the cigarettes are made in technically advanced and modern making machines.

After the cigarettes are produced, they are sold to wholesalers who then sell to retailers, which is where consumers buy their cigarettes (Fox, 2010).

Upgrading (particularly in the broader GVC-GPD conceptualization) has also occurred in different segments of the GVCT, especially in developed countries, as a result of government intervention. Indeed, the role of governments in the global tobacco industry has been pervasive, especially in rich countries where for years many governments pursued seemingly contradictory policies of supporting and protecting tobacco producers (farmers) while at the same time heavily regulating and taxing cigarettes in an effort to decrease consumption. Until recently the U.S. also had a system of quotas and minimum price guarantees for tobacco production and the E.U. subsidized tobacco production.

As with other agricultural commodities, the U.S. provides an interesting case study of both direct and indirect support and protection for tobacco farming. In the United States, tobacco farming was for decades directly supported under a quota and minimum price system. The system was created in the 1930’s with the objective of stabilizing and raising prices and existed in some form or another through 2003. Due to a system of loans and assessments, the programme was supposed to be self-financing, however the costs of the programme to the federal government in a given year were not necessarily nil. For example, in FY2003, the programme cost the federal government US$ 60 million (Womach, 2003).

For decades, particularly in the 1950’s and 60’s, the quota system kept the price of U.S. tobacco (artificially) high as Southern Rhodesia was the only serious competitor for quality flue-cured tobacco. The political violence in Southern Rhodesia interrupted supplies and
gave the U.S. near monopoly status of global FCV production. However in the late 1970s, the tobacco companies started investing in Southern Brazil in areas with agro-ecological conditions similar to the South-eastern U.S. In the 1990’s Brazil surpassed the U.S. in FCV production and remains today the only serious competitor for quality FCV tobacco in the world. Given this increased competition in the global FCV market, the U.S. quotas had to become smaller and smaller to keep the same prices for farmers. This gave momentum to a movement to de-regulate tobacco production, and the quota system was finally eliminated in 2004 with a buy-out whereby the tobacco companies “bought” the quotas from the farmers (Brown, personal communication, 26 April, 2011).

In the U.S. burley market there was less momentum for and more resistance to ending the quota and minimum price system. While Brazil had emerged as a serious competitor to the U.S. for FCV, Malawi was the only main competitor for burley and this country still produced a substantially lower-quality version of this crop. Although the tobacco companies (leaf merchants and cigarette companies) took similar approaches to burley as to FCV, i.e. going to South America to develop new sources of production, these companies initially had a more difficult time in replicating U.S. quality with burley than with FCV. One explanation that has been offered for this is climatic conditions. Whereas the conditions in these new areas were suitable for tobacco-growing, they seemed to be less adequate for tobacco-curing. Since burley curing is much more dependent on climate than flue-curing (the former is done with air whereas the latter with regulated central heating), quality burley curing seems to be more difficult to replicate than quality flue-curing (Brown, personal communication, 26 April, 2011).

As a mechanism for guaranteeing minimum prices the U.S. government mandated a small number of grower cooperatives such as the “Flue-Cured Tobacco Stabilization Corporation” and the “Burley Growers’ Cooperative.” However, with the end of the farmer-support system in 2004, these entities were able to turn themselves into leaf merchants, procuring and processing tobacco leaf and selling it to the ICCs (Brown,

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174 Zimbabwe’s current political situation has once again eroded its status as a global producer of quality FCV.
175 Tobacco companies creating new (country) sources of production in response to uncompetitive conditions in current (country) sources is a theme we will return to in Chapter 8.
personal communication, 26 April, 2011). This is an example of government-supported functional upgrading
dan

Other direct support for tobacco farmers in the U.S. in the past has included payments to producers as compensation for natural disasters or low commodity prices (US$ 471 million in FY2001), a short-lived domestic content requirement for American cigarettes, a tariff-rate quota on imported tobacco, and subsidized crop insurance (US$ 39 million in FY 2003) (Womach, 2003). Indirect support occurs more at the state and/or local level and includes such things as free (or cheap) extension services or soil analysis. For example, the North Carolina State University Production Guide (2011, p 3) states that:

Tobacco growers in North Carolina are fortunate to have an Extension agent with tobacco responsibilities in each tobacco-producing county. These agents are supported by research and extension faculty in the College of Agriculture and Life Sciences at North Carolina State University.

Other government support/protection programmes in the past in major producing and/or rich countries have included: direct price supports (European Community, Japan, Taiwan, Korea, Brazil, Zimbabwe, Argentina), export subsidies (European Community, Canada, Korea, Turkey), input subsidies (Korea, Canada, Brazil, India, Indonesia), tariff barriers (European Community, Brazil, Korea, Zimbabwe, Canada, Australia, China, India, Indonesia, New Zealand, Taiwan, Thailand, Turkey), pesticide residue restriction (European Community, U.S.) and mixing regulations and/or import quotas (Australia, Brazil, China, Finland, India, Malawi, Zimbabwe) (FAO, 2003b, p 97). Of course, the biggest example of government intervention in the GVCT is the China National Tobacco Corporation, a state-owned enterprise and the largest cigarette manufacturer in the world.

With regards to Daviron and Ponte’s (2005) conception of upgrading as creating and controlling the value associated with quality attributes (discussed in Chapter 1), it is important to re-iterate a key distinction between coffee (the commodity for which these

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176 There is also considerable scope for investigation into the associational power of the cooperative members and the impact of this on upgrading.
177 This was later struck down as being in violation of GATT rules (Brown, personal communication, 26 April, 2011).
authors’ framework was developed) and tobacco. In tobacco, the *symbolic* quality attributes, with the exception of branding, tend not to be marketed. For example, one does not buy fair trade or organic cigarettes, or cigarettes identified with a particular region of tobacco production. The implications of this are that unlike coffee, where there exists (at least a theoretical) possibility of upgrading through producers obtaining control over the ability to market their products as fair trade, organic, or as originating from a particular region, in the case of tobacco the symbolic quality associated with consumption depends entirely on branding. As we have seen above, branding in the tobacco industry is associated with particularly high entry barriers.

3.4 Conclusion

In this chapter we have attempted to answer part of Research Question 1.a, i.e. *What is the territoriality of the Global Value Chain for Tobacco?* We have emphasized that production has increasingly shifted to smallholders in developing countries. Production of tobacco leaf is highly fragmented and dispersed, occurring in over 120 countries. Production of tobacco leaf is segmented by type of tobacco (i.e. burley, flue-cured, oriental, dark) as well as primary use for the tobacco (e.g. filler versus flavour). Although sometimes mediated by auction houses, private traders, or agricultural parastatal companies, tobacco farmers most often sell their tobacco leaf directly to leaf merchants and international cigarette companies. The leaf merchant sector of the chain is highly concentrated and is dominated by two American corporations: Alliance One International and Universal Corporation. However, international cigarette companies such as BAT and PMI are becoming increasingly involved in direct procurement.

After the tobacco leaf is purchased and processed the leaf merchants then sell it to cigarette manufacturers. The cigarette manufacturing sector is also highly concentrated and is dominated by a handful of multi-national companies headquartered in the U.S.,
U.K., and Japan, as well as the Chinese state-owned tobacco company. A very small portion of this sector is represented by small private and state-owned cigarette manufacturers who compete mainly on a regional rather than international basis. We refer to these companies as non-lead firm cigarette manufacturers. With the exception of the Chinese state tobacco company, the multi-national cigarette manufacturers are captive to the shareholder value doctrine, with the three largest multi-nationals headquartered in close proximity to their respective stock markets: New York City, London, and Tokyo. Despite the concentration of location of multi-national cigarette manufacturers in developed countries, consumption is increasingly shifting to developing countries, and is highly dispersed.

We have also addressed parts of Research Question 2.a, specifically: Is the Global Value Chain for Tobacco driven? If so, by who? What enables the drivers to maintain their power? We have argued in this chapter that the GVCT is driven by the international cigarette companies, which constitute the lead firms in the chain. The drivenness can be seen in that these firms are able to set and enforce rules and standards for production on their suppliers, who in turn enforce them on the farmers they buy tobacco from. This is seen in the lead firms’ attempt to deal with child labour, in their Codes of Conduct, and in PMI’s recent Agricultural Labour Practices Code. The power of lead firms over their suppliers can also be seen in the lead firms’ definition of the suppliers’ functions more generally in that the lead firms are now demanding “compliant” tobacco leaf from their suppliers.

There are a number of factors which contribute to the asymmetrical power that lead firms have over the chain. First, the high level of concentration of the lead firm sector and enormous market share of the lead firms enhances their ability to dictate terms to suppliers. This high level of concentration is compounded by the highly fragmented and dispersed nature of production of tobacco leaf. Hundreds of thousands of tobacco farmers in over a hundred countries all compete to serve a handful of cigarette manufacturers concentrated in five countries. Of course, the leaf merchant sector is also highly concentrated, however the lead firms mitigate against the build-up of bargaining power in their supply base by engaging in substantial direct sourcing of tobacco leaf.
Furthermore, and unlike the cocoa chain (e.g. Fold, 2002), the leaf merchants have few alternative outlets for their product.

Second, the lead firms are focused on branding and marketing, the most profitable node of the chain. The blends and recipes for different cigarette brands are top secret and include a number of non-tobacco ingredients. The brands are also marketed primarily by their psychological or symbolic features, rather than by the quality of tobacco used, thereby reducing the importance of tobacco as a component of cigarettes. Furthermore, the lead firms have exclusive knowledge of key consumer trends due to their investment in marketing, and hence are uniquely positioned to market manufactured tobacco products.

Finally, the lead firms are protected by an enormous array of entry barriers, which enhance and solidify their bargaining power vis-à-vis their suppliers, as well as the chain more generally. Some of the key entry barriers discussed in this chapter include: asymmetric information, the level of capital- and technology-intensity of production, and the costs associated with marketing, litigation, R&D, conforming to regulations, lobbying, and public relations.
PART 3: THE MALAWI SMALLHOLDER BURLEY TOBACCO VALUE CHAIN
Chapter 4: Historical Formation of the Smallholder Burley Tobacco Sector in Malawi

4.1 Introduction

The GVC-GPD variant of the literature emphasises the importance of the historical formation of chains (also see Campling, 2012b) and even occasionally criticises the GVC-GHS variant for its dehistoricized approach (e.g. see Daviron and Ponte, 2005; Gibbon and Ponte, 2005). Having touched briefly on some of the more prominent historical trends in the GVCT in Chapter 3, in this chapter we will seek to engage in more detail with the historical formation of the Malawi (smallholder burley) Tobacco Value Chain.

Colonial settlers started growing tobacco in Malawi as early as the 1890’s (Jaffee, 2003, p 1). As the country moved from British protectorate to semi-independence to independent one-party dictatorship to liberal democracy, tobacco continued to gain in political and economic importance, to become the most tobacco-dependent country in the world, with the crop accounting for more than sixty percent of export revenues (Prowse, 2009).

Malawi grows burley, flue-cured Virginia (FCV), and Malawi Western (an assortment of dark air- and fire-cured types). The production of tobacco in Malawi has been marked by its dual structure of estates and smallholdings, from colonial times until the present. Estates are defined as “holdings operating leasehold or freehold tenures”\(^{178}\) whereas

\(^{178}\) For an estate to register with the Tobacco Control Commission (TCC), the piece of land on which the estate owner intends to plant the tobacco must have a valid sketch map issued by the Survey Department of the Ministry of Lands, a title deed for the land must also be
smallholders are characterised by their “usufruct rights to customary land” (Orr, 2000, p 347).

However, and as noted in previous chapters, the smallholder burley sector did not emerge in Malawi until the early 1990’s. In this chapter we will trace this sector’s emergence by highlighting different trends and policies that led to the sector’s creation. In so doing, we will partially address the first part of Research Question 1.b, i.e. How has the territoriality of the Malawi (smallholder burley) Tobacco Value Chain come to be shaped over time? We will start by describing government policy towards and the development of the Malawian tobacco sector in an evolutionary manner with Sections 4.2, 4.3, and 4.4 devoted to the colonial regime, the Banda years, and the democracy years, respectively. Section 4.5 will conclude.

4.2 “Why not Persuade Them to Grow Tobacco”\textsuperscript{179}: Tobacco in Colonial Malawi

4.2.1 The Beginnings: Tobacco in the Southern Region

From the 1870’s until the beginning of the Protectorate in 1891\textsuperscript{180}, large quantities of freehold land were acquired by European settlers (Mulwafu, 2002). Malawi’s first colonial ruler, Harry Johnston, sanctioned much of this acquired land through “certificates of claim” (Mulwafu, 2002, p 27). Johnston also instituted a land classification system, with ramifications lasting until today. The three classifications were: public land, available and must be in the name of the person/institution that intends to register the estate (Tobacco Control Commission- TCC, Grower Information, http://www.tccmw.com/growers.htm).

\textsuperscript{179} This is a quote from A.F. Barron, an influential settler in colonial Malawi who introduced tobacco sharecropping/tenancy in the Central Region. I have borrowed the idea of using this as a section title from Woods’s (1993) article: “‘Why Not Persuade Them to Grow Tobacco:’ Planters, Tenants, and the Political Economy of Central Malawi, 1920-1940.”

\textsuperscript{180} The British Central Africa Protectorate later became Nyasaland in 1907 (Prowse, 2011b).
freehold/leasehold land, and Trust Land (Mulwafu, 2002). Woods (1993) suggests that the combination of Johnston’s land allocations in the South plus this region’s more market-accessible geographic characteristics (i.e. via water) led to the concentration of the Malawian plantation sector in the Southern Region. Designation of the Southern Region as plantation-oriented resulted in the remaining two provinces becoming “reservoirs of labor for both the southern estates and mines in neighboring territories” (Woods, 1993, p 132). The original plantation crop was coffee, followed by cotton, and finally FCV tobacco at the beginning of the twentieth century (Woods, 1993). With striking similarity to the reasons given in interviews for the extensive cultivation of tobacco in Malawi today (more on which in Chapters 6-8), Wilshaw (1994, p 16) argues that tobacco originally gained traction with the settler community in colonial Malawi due to the reliable market with minimal fluctuations.

Settler tobacco in Malawi originally struggled to gain access to lucrative export markets such as the U.K. South Africa constituted a somewhat less exigent market yet access was still hindered by such things as substantial domestic (Boer) production and trade laws. However, exports increased markedly during the Anglo-Boer War (from 4,000 to 14,000 pounds) (Wilshaw, 1994, p 17). The opening of Imperial Tobacco Company’s (ITC) Malawi factory in 1908 helped divert sales to the U.K. (McCracken, 1983; Wilshaw, 1994). For example, Prowse (2011b) points out that whilst 99 per cent of tobacco exports were destined for South Africa in 1905, in 1908 94% of tobacco exports were shipped to the U.K. Both the timing and location (Limbe) of the ITC factory coincided with those of the Nyasaland Railways, which contributed to an effective export-orientation of the developing industry (Wilshaw, 1994).

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181 McCracken (1983) notes migration to farms in the Rhodesias as well.
182 At the time of the declaration of the British Protectorate it appears there was already tobacco cultivation occurring in Malawi yet of *Nicotania Rustica*, not of FCV tobacco (Wilshaw, 1994, p 7).
183 Although coffee lost importance after the turn of the century (Wilshaw, 1994, p 13), cotton continued to be an important crop through much of the colonial era (Ng’ong’ola, 1986) and at the time of fieldwork was being promoted by Government as an alternative to smallholder burley tobacco. Tea was another colonial estate crop which is still important today. Coffee remains one of the few principal exports today, but cannot compete with tobacco in terms of importance.
184 Wilshaw (1994) argues that this was mainly due to the curing techniques employed in Malawi at the time.
The Imperial Tobacco Company implemented a number of policies which were later replicated by other tobacco companies (more on which in Chapters 7 and 8). Wilshaw (1994, p 25) writes:

The Imperial Tobacco Company Ltd (ITC) adopted an aggressive tobacco purchasing policy promising to buy any marketable tobacco. ITC’s aims were to obtain the best quality ‘brights’ and to encourage its production. To help achieve this they launched a grower’s assistance programme—the industry’s first—which offered advice either on the spot or by correspondence on growing, harvesting, curing and grading aspects of production.

Consistent with contract farming schemes mentioned earlier in this work and with themes which we will develop in Chapters 6 and 7, many growers were attracted to ITC as a marketing outlet due to the company’s offer of spot cash for tobacco (Wilshaw, 1994). Wilshaw (1994, p 50) argues that 11 years after the coming of the ITC to Malawi that FCV tobacco exports to the U.K. were further enhanced through a customs duty rebate known as the “Imperial Preference” which was introduced in part to offset the greater transportation costs associated with African (as compared to American) tobacco.\(^{185}\)

In 1912, the colonial government ceased granting freehold tenure in favour of leasehold tenure. In 1918 Governor Sir George Smith ceased even this type of land grant in the Shire Highlands, arguing that the land was needed for evicted African tenants (Palmer, 1985). Also in the Southern Province, tobacco led to a rapid depletion of soil nutrients. This, combined with land pressure, compared to more tobacco-suitable (sandy) soil and land abundance in the Central Province, led to interest among tobacco settlers in this area (Woods, 1993).

A.F. Barron, an early and important tobacco settler in Malawi, on a trip to the Central Province

saw the fertile land of the Lilongwe plain and strong men loafing around their villages, and thought ‘why not persuade them to grow tobacco under my guidance, I will tell them how to do this, and will promise to buy it from them when grown and

\(^{185}\) Wilshaw (1994, p 50) argues that both the Malawian and the Southern Rhodesian FCV tobacco sectors benefited from the Imperial Preference.
then re-sell it to the Imperial Tobacco Company’ (Widdas, cited in Woods, 1993, pp 132-33).

This marketing system\textsuperscript{186} has many parallels with contract farming schemes (more on which in Chapters 6, 7, and 8). In 1920 Barron and another settler, R.W. Wallace, instituted the former’s plan in the Central Province\textsuperscript{187}. Although he began with FCV, the tobacco variety associated with settlers at the time, Barron instituted his tenancy scheme for dark fired tobacco (van Donge, 2002a; Wilshaw, 1994; Prowse, 2011b). Barron wanted to turn his marketing system into a concessionary scheme by obtaining a legal monopsony on tobacco purchases in his production areas but this wish was not granted by the colonial authorities. Initially protected naturally by geographic dispersion and a lack of competitors, Barron’s protection from competition eroded over time as other settlers attempted to achieve his success by emulating his choice of location and marketing system, particularly in the 1930’s (Woods, 1993).

The settler tobacco growers instituted a sharecropping system using what were called “visiting tenants”\textsuperscript{188}, which continued after independence (McCracken, 1983, p 173) and which Woods (1993) suggests evolved as a way around the monopsony issue. Woods (1993) also argues that this system was indeed beneficial to participating African farmers in that they got more land and higher prices for their output. However, he acknowledges that there existed a certain amount of forced labour in this scheme. McCracken (1983, p 186) describes the system:

Most tenants were permanently indebted to the estate owners who supplied them with hoes and watering cans on credit, in addition to maize, on the security of the next season’s crop, and it was frequently asserted that the estate-owner made a good profit on these advances when he purchased his tenants’ tobacco.

\textsuperscript{186} There was a precursor to this marketing system in Malawi in that Robert Spenser Hynde, an influential tobacco grower at the turn of the century, ran a tenant scheme for the production of FCV tobacco (Wilshaw, 1994, pp 9-10). Likewise, the Blantyre and East Africa Company (B&EA) “…supplied seed, offered instruction to growers and assisted the better growers with barn accommodation for both flue and fire cured tobacco” (Wilshaw, 1994, p 31).

\textsuperscript{187} Legend has it that the land allocations between Barron and Wallace were the result of a coin toss between the two men (interviews; Wilshaw, 1994, pp. 44-45). Barron’s descendants still play a key role in the Malawian tobacco industry today, in particular through participation in farmer and government organisations, more on which in Chapter 7 (interviews; direct observation).

\textsuperscript{188} There were about 6 500 of these types of workers by the end of the 1930s (McCracken, 1983).
Production in Malawi expanded until 25,000 acres were planted in the country in 1927 (McCracken, 1983). For example, in Lilongwe and Dowa districts (in the Central Region) alone, production of fire cured tobacco increased from 193 tons in 1924 to 1,500 tons in 1926 (Wilshaw, 1994, p 47). Simultaneous expansion of cultivation in Southern Rhodesia caused an oversupply and consequent price collapse in 1927. This in turn led to a decrease in FCV production in Malawi by the mid 1930’s (McCracken, 1983).

4.2.2 Colonial Tobacco Policies from the 1930’s until Independence

In 1926 the Native Tobacco Board (NTB) was established, along with the requirement that tobacco growers and buyers must be registered. The NTB was to be funded through a levy on tobacco buyers, which was in practice passed on to the sellers (producers) (McCracken, 1983). Among other roles the NTB was given a legal monopsony on smallholder tobacco purchases (Orr, 2000). The NTB also took on grower supervision, a role that used to belong to the settlers in tenant schemes (Ng’ong’ola, 1986).

The NTB instituted an obligatory grading system of marketed tobacco\(^1\) (van Donge, 2002a), and began a policy (that would last long after independence) of restricting smallholder tobacco production, especially by limiting the physical locations where it would buy smallholder tobacco (McCracken, 1983). Prowse (2011b) emphasises the major shift in production from estates to smallholders in the years leading up to and immediately after the creation of the NTB by pointing out that whilst in 1917 estates produced 96% of Nyasaland’s tobacco, by 1929 this had this had dwindled to merely 37%. Likewise the number of tenants continued to increase in subsequent years, especially in the Central Region where the number went from 500 in 1927 to more than 7,500 in 1938 (Prowse, 2011b).

\(^1\)This asymmetrical information is a common theme in the tobacco trade, as seen in Chapter 3.
Labour was a major source of anxiety for settlers. Prowse (2011b) identifies the following four labour regimes: *estate labour production, estate tenant production, estate outgrower production,* and *peasant/smallholder production.* Some settlers agitated for regulation of the peasant sector (mainly dark tobacco) due to fears “that profitable peasant production could reduce the reservoir of cheap African labour for the estates” (Ng’ong’ola, 1986, p 248). The labour issue was later one of the main points of debate among white settlers when considering joining a federation of neighboring colonies (i.e. Northern and Southern Rhodesia) which offered higher wages (Palmer, 1985). Labour migration, which was common in the 1930’s, was another contentious issue and hence

...white tobacco growers in the Central Province complained bitterly about the Witwatersrand Native Labour Association being allowed to open depots in Dedza and Lilongwe (Palmer, 1985, p 233).

However, these frustrations were voiced more forcefully in the South and eventually resulted in the cessation of labour recruitment for Southern Rhodesia and South Africa (Palmer, 1985).

Peasant economic crops were subject to a complicated web of rules and regulations, supposedly to increase production and quality, however

...special and different considerations influenced the regulation of the estate crops. For most of the colonial period, the political clout wielded by the settlers and their representatives in constitutional forums kept to a minimum statutory interference in the production and marketing of the estate crops (Ng’ong’ola, 1986, p 242).

Ng’ong’ola (1986, p 257) argues that

...state intervention in the marketing of peasant produced commodities was originally justified by the paternalistic assumption that the peasants could not comprehend world commodity price fluctuations and were gullible to exploitation by unscrupulous middlemen.

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Estate owners attempting to influence smallholder production due to labour concerns appears to be a common theme. As Prowse (2011b, p 7) notes: “...estate owners have always attempted to foster or constrain smallholder production dependent on the complementarities or competition with estate production.”
However, other authors have pointed out that the discriminatory policies towards the peasant sector were not motivated strictly by paternalism. For example, conservation practices (which can be burdensome in the short term) were much more rigorously enforced in the peasant sector than on estates (Mulwafu, 2002). As seen above, some government policies (such as migration restriction) were motivated by a desire to respond to the demands of the White settlers. Also, Woods (1993) argues that the colonial government was hesitant in allowing the development of an African bourgeoisie.

There are different views on the influence of settler interests on colonial policy. Whilst a number of authors have written about the enormous influence of the settlers on colonial agricultural policy, Palmer (1985) emphasizes the disunity of the settlers, whose policy objectives often differed as a function of their farm size, primary crop, etc.\(^\text{191}\). Palmer also argues that the colonial administration, for most of the inter-war period, was of the view that Nyasaland was not suitable for small White farmers. Kydd and Christiansen (1982) take the more nuanced view that the colonial administration commenced with a policy-bias towards the estates but later shifted to promote the peasant sector.

High levels of production, low demand, and prices at an all-time low in 1937 led to reforms of the NTB. An auction system was instituted\(^\text{192}\) in the same year and in 1938 the NTB began to provide transportation services for independent peasant growers from farm to auction. The previous source of financing (levy) was replaced with a “working margin”, i.e. the spread between auction and farm-gate prices. By 1939 this spread accounted for 53% of auction prices which caused widespread malcontent among peasant growers. This led to another restructuring, and in 1942 Trust Land (African) tobacco production was to be overseen by the Department of Agriculture rather than the NTB (McCracken, 1983).

\(^{191}\) There is ample scope for investigating the differentiation (as per our discussion in Chapter 1) of the settler tobacco farmers as well as the influence of this differentiation on colonial tobacco policy. However, that investigation lies beyond the scope of this chapter, the main purpose of which is to provide a brief historical account of the formation of the smallholder burley sector.

\(^{192}\) At this time Tobacco Auctions Limited and Producers Warehouse Limited were running auctions in Limbe. They would go on to merge in 1962 and become Auction Holdings Nyasaland Limited, the colonial precursor to today’s Auction Holdings Limited (Auction Holdings Limited- AHL, Our History, http://www.ahlmw.com/history.php).
During this (inter-war) time period, the peasant production of tobacco - either through sharecropping or independent cultivation - increased massively (see Table 4.1). At the same time, (direct) estate production of FCV tobacco declined (see Tables 4.2 and 4.3) (Palmer, 1985; McCracken, 1983). Palmer (1985) suggests that this process occurred as a result of a host of unfavourable (agronomical and economic) conditions for White farmers and the rise of the sharecropping schemes. Palmer (1985) suggests that African farmers were more successful with crop rotation than White farmers. Also, many hectares of land were abandoned in the 1930’s in the Central Province by failing White tobacco farmers, only to be returned to tobacco cultivation in the 1970’s (Palmer, 1985).

Table 4.1: Changes in Tobacco Production Schemes (in pounds), 1926-1938

<table>
<thead>
<tr>
<th>Year</th>
<th>Tenant Production on Estates</th>
<th>Native Trust Land Production</th>
</tr>
</thead>
<tbody>
<tr>
<td>1926</td>
<td>330 000</td>
<td>4 000 000</td>
</tr>
<tr>
<td>1938</td>
<td>6 000 000</td>
<td>10 000 000</td>
</tr>
</tbody>
</table>

Source: created by author from Palmer (1985, p 238)

Table 4.2: The Collapse of FCV Tobacco in Malawi, 1928-1935

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of European Planters</th>
<th>Quantity of Exports (pounds)</th>
<th>Value of Exports (GBP)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1928</td>
<td>229</td>
<td>5 419 595</td>
<td>232 579</td>
</tr>
<tr>
<td>1935</td>
<td>82</td>
<td>1 020 107</td>
<td>29 982</td>
</tr>
</tbody>
</table>

Source: created by author from McCracken (1983, p 174)
Table 4.3: Percentage of Total Nyasaland Tobacco Produced by White Farmers, 1915-1937

<table>
<thead>
<tr>
<th>Year</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1915</td>
<td>94</td>
</tr>
<tr>
<td>1920</td>
<td>89</td>
</tr>
<tr>
<td>1921</td>
<td>94</td>
</tr>
<tr>
<td>1922</td>
<td>94</td>
</tr>
<tr>
<td>1923</td>
<td>85</td>
</tr>
<tr>
<td>1924</td>
<td>86</td>
</tr>
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<td>1925</td>
<td>67</td>
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<tr>
<td>1926</td>
<td>59</td>
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<tr>
<td>1927</td>
<td>57</td>
</tr>
<tr>
<td>1928</td>
<td>63</td>
</tr>
<tr>
<td>1929</td>
<td>37</td>
</tr>
<tr>
<td>1930</td>
<td>41</td>
</tr>
<tr>
<td>1931</td>
<td>35</td>
</tr>
<tr>
<td>1932</td>
<td>32</td>
</tr>
<tr>
<td>1933</td>
<td>28</td>
</tr>
<tr>
<td>1934</td>
<td>26</td>
</tr>
<tr>
<td>1935</td>
<td>19</td>
</tr>
<tr>
<td>1936</td>
<td>16</td>
</tr>
<tr>
<td>1937</td>
<td>16</td>
</tr>
</tbody>
</table>

Source: modified from Palmer (1985, p 236)

During World War II, the Malawian tobacco industry benefited from the decreased supply of American tobacco which in turn led to increased demand from the U.K. for Malawian tobacco. This increased prices of all types of Malawian tobacco and the NTB adopted a policy of encouraging expansion of production. Quality decreased, however, as a consequence of this expansion (McCracken, 1983).

There was slight deregulation during this time, in the context of rising tobacco prices, with the Tobacco Ordinance of 1946. Partially due to concerns over quality and partially due to concerns over sufficient food production, in 1948 Geoffrey Colby, Malawi’s new governor, adopted a policy of lower prices for smallholder tobacco growers (McCracken, 1983). However, it has been argued that this was merely a facade and that the real reason behind the policy reversal was the recognition that a relaxation of NTB monopoly power could seriously reduce government revenues (Ng’ong’ola, 1986).
In the second half of the 1940’s and early 1950s, estates focused more on burley and FCV (McCracken, 1983). This was reinforced by Tobacco Ordinance No. 39 (of 1952) which mandated that burley and FCV be produced solely by estates (Orr, 2000). By the mid-1950’s the tobacco sector was once again successful to the point where McCracken (1983, p 172), claims that the Central Province was “...one of the most prosperous agricultural districts in Central Africa...”

The Central African Federation of 1953 joined Nyasaland with Northern and Southern Rhodesia (today Malawi, Zambia, and Zimbabwe respectively) (Palmer, 1985). The political ramifications of this colonial policy were profound. Indeed, when Kamuzu Banda returned to Malawi, one of the main themes of his independence campaign was to break the federation¹⁹³ (Lwanda, 2009). However for our purposes it is worth noting that European tobacco farmers appeared to endorse the policy of federation in the belief that it would lead to improved government-supported research on tobacco (Wilshaw, 1994). The policy appears to have borne some results, but it certainly did not offer a major boost to the FCV tobacco sector:

Nothing was more static in the Federation years than flue cured tobacco production. In most years it remained below 3 million lbs. with the 1958 crop of 2.1 million being the lowest. Seldom, if ever, did it meet trade estimates or expectations. In 1959 the flue cured crop of 2.2 fell 5 million short of the 7.3 million lbs. requirement. Despite this consistent shortfall there was a general improvement in the quality of the flue-cured crop produced. This was an important factor and one that relates directly to the significant developments in tobacco research that took place during the Federation period (Wilshaw, 1994, p 95).

In 1955 the government merged the NTB with its cotton and produce counterparts to form the Agricultural Production and Marketing Board (APMB), in a drive for greater bureaucratic efficiency (Ng’ong’ola, 1986). In the context of increasing politicization of an African merchant class engaged in tobacco trading and intermediary functions, the APMB continued its policy of maintaining low producer prices. The Farmers Marketing Ordinance of 1962 renamed the APMB the Farmers Marketing Board (FMB) and instituted

...an expansion of the powers and duties of the Board to cover the appointment of buying agents, the establishment and management of seed farms, and the provision and distribution of inputs like fertilizer at subsidized costs (Ng’ong’ola, 1986, p 254).

The following year the institution took on a financial capacity in providing loans (Ng’ong’ola, 1986).

4.3 The Rule of His Excellency Life President H.K. Banda

When Malawi achieved independence in 1964194, agriculture dominated its economy, accounting for 55% of GDP and 90% of labour. The government, under the leadership of H.K. Banda of the Malawi Congress Party (MCP), initially supported smallholder tobacco production (Prowse, 2011b), but eventually adopted an estate-centred export-oriented economic policy. The government attempted to keep wages low and the Kwacha (Malawi’s currency) weak to maintain competitiveness (Harrigan, 2001, pp 12-15). The results of this policy tended to be good in terms of strong growth rates, increased savings and investment, increased government revenues and moderate budget deficits from independence to the late 1970’s (Harrigan, 2001, pp 18-24). The 1966 United Nations sanctions on Rhodesia195 also gave Malawi’s estate tobacco sub-sector an extra boost (Orr, 2000). The steady rise in burley tobacco from the late 1960’s can be seen in Figure 4.1 below.

194 Malawi became a “self-governing entity” in 1961 whereby the head of state was a representative of the British Government (specifically, Governor Glyn Jones). H.K. Banda officially became Prime Minister in 1963 (Lwanda, 2009).
195 These sanctions were in response to the White minority government’s Unilateral Declaration of Independence (UDI) in 1965. The UN sanctions were expanded in 1968 (Wilshaw, 1994, p 108).
In 1968 dark fired tobacco was designated as a smallholder-only crop, to the detriment of estate-run sharecropping schemes for this tobacco variety (van Donge, 2002a). In 1971 the Farmers Marketing (Amendment) Act renamed the FMB the Agricultural Development and Marketing Corporation (ADMARC). The legislation also included a number of structural changes ranging from the Board’s governance to its objectives. Whilst the newly created ADMARC focused on increasing quantity and quality of peasant crops (as did some of the colonial-era marketing legislation), the price stabilization objective of the colonial government was replaced with a focus on profit and economic development (Ng’ong’ola, 1986). This can be seen in an excerpt from one of President Banda’s speeches in parliament (cited in Ng’ong’ola, 1986, p 257):

...Today paternalism is...out of date, out of place...The purpose of the Board must no longer be confined to or even concerned with...the narrow limits of stabilizing prices of farm produce,...but must be widened to include actual development...of agricultural resources in the country...Not only that, but even more, those concerned with “management” must be taught to think in terms of active managers of development and of a business concern which must develop our agricultural resources and make a profit at the same time.
In 1972 an amendment to the Special Crops Act made engagement in production or marketing of “special crops” (e.g. burley tobacco) contingent on ministerial (presumably Agriculture) permission (Ng’ong’ola, 1986).

Kydd and Christiansen (1982) argue that the post-colonial period (up until time of writing) was characterized by a strong policy bias in favour of estate agriculture to the detriment of peasant agriculture. However, the authors note that this policy bias was not without some results: “Between the periods 1965-1969 and 1975-79 average production levels of the major tobacco variety, flue-cured, increased by 886%” (p 362). See Figure 4.1 for the trends in tobacco production by type.

During the 1970’s tobacco (estate) cultivation became popular with the political elite (Prowse, 2009), or as Lwanda (2006, p 530) put it: “...relatively few, mostly senior civil servants, police and army officers and high-ranking MCP officials...” In the most extreme example of this, a number of tobacco estates were run on expropriated White settler farms taken over by Press Holdings Ltd., which was owned by President Banda. Press also owned 42% of Universal Corporation’s Malawian subsidiary (Limbe Leaf, more on which below) (van Donge, 2002b).

Kydd and Christiansen (1982, p 374) stress further intra-sectoral bias in that:

...in the face of a deteriorating balance of payments the government has resorted to rationing credit by sector to control money supply growth. In the implementation of this policy agriculture has received very favourable treatment and the commercial banks have been encouraged to continue to support clearly non-viable tobacco companies.

---

196 Similar laws restricting smallholder production include the 1952 Tobacco Ordinance (mentioned above) and the 1962 Africans on Private Estates Ordinance (Prowse, 2011b).
197 Press was an enormous corporation whose tentacles reached various parts of the Malawian economy, ranging from agriculture to commercial banking. The IFI’s treated it as a parastatal and one author (van Donge, 2002b) likened it to the South Korean chaebol. In 1977, the gross turnover of Press and its subsidiaries constituted one third of Malawian GDP (Lwanda, 2009, p 202).
198 Universal Corporation is one of the world’s leading leaf merchants, (see Chapter 3). The company’s Malawian subsidiary was incorporated in Malawi in 1962 (Wilshaw, 1994, p 114). The political significance of this 42% ownership will be elaborated upon further in Chapter 7.
As during the colonial era, access to cheap labour was a source of anxiety for estate farmers. Burley estate production tended to use the tenant (sharecropping) system inherited from colonial times whilst FCV cultivation tended to rely on hired labour (Prowse, 2009). Restrictions on migration enhanced the labour supply for estates (Palmer, 1985). Similar to colonial policies, Kydd and Christiansen (1982) argue that ADMARC’s pricing policies were used in part to decrease the profitability of peasant agriculture which in turn increased the relative attractiveness of wage-labour on estates (see Table 4.4).

Kydd and Christiansen (1982) argue that in addition to labour, estate agriculture depended on adequate supplies of land, managerial and technical skills, and finance. Whilst the government had extensive control over land allocation\footnote{In addition to land allocation powers, the government kept the cost of leased land low, making the policy an implicit subsidy of estate production (Tobin and Knausenberger, 1998).}, and the sector was able to draw on the experience of expatriate managers, the government used ADMARC in part to meet the estate sector’s financial needs, both directly and indirectly. For example, in 1978, 50.9% of ADMARC’s investments and loans went to the estate tobacco sub-sector (p 368). ADMARC also provided finance for estates indirectly through its ownership interests in the country’s small commercial banking sector.
### Table 4.4: ADMARC Pricing Policies for (dark) Peasant Tobacco

<table>
<thead>
<tr>
<th>Year</th>
<th>5-year moving average of price received by peasant growers (kwacha/lb.)</th>
<th>5-year moving average of price received by ADMARC at auction in Malawi (kwacha/lb.)</th>
<th>Grower Percentage of ADMARC Price*</th>
</tr>
</thead>
<tbody>
<tr>
<td>1953</td>
<td>0.062</td>
<td>0.126</td>
<td>49.21</td>
</tr>
<tr>
<td>1954</td>
<td>0.067</td>
<td>0.135</td>
<td>49.63</td>
</tr>
<tr>
<td>1955</td>
<td>0.076</td>
<td>0.138</td>
<td>55.07</td>
</tr>
<tr>
<td>1956</td>
<td>0.081</td>
<td>0.141</td>
<td>57.45</td>
</tr>
<tr>
<td>1957</td>
<td>0.081</td>
<td>0.135</td>
<td>60.00</td>
</tr>
<tr>
<td>1958</td>
<td>0.077</td>
<td>0.129</td>
<td>59.69</td>
</tr>
<tr>
<td>1959</td>
<td>0.076</td>
<td>0.133</td>
<td>57.14</td>
</tr>
<tr>
<td>1960</td>
<td>0.078</td>
<td>0.135</td>
<td>57.78</td>
</tr>
<tr>
<td>1961</td>
<td>0.075</td>
<td>0.139</td>
<td>53.96</td>
</tr>
<tr>
<td>1962</td>
<td>0.078</td>
<td>0.155</td>
<td>50.32</td>
</tr>
<tr>
<td>1963</td>
<td>0.086</td>
<td>0.161</td>
<td>53.42</td>
</tr>
<tr>
<td>1964</td>
<td>0.090</td>
<td>0.161</td>
<td>55.90</td>
</tr>
<tr>
<td>1965</td>
<td>0.089</td>
<td>0.152</td>
<td>58.55</td>
</tr>
<tr>
<td>1966</td>
<td>0.084</td>
<td>0.153</td>
<td>54.90</td>
</tr>
<tr>
<td>1967</td>
<td>0.082</td>
<td>0.172</td>
<td>47.67</td>
</tr>
<tr>
<td>1968</td>
<td>0.081</td>
<td>0.192</td>
<td>42.19</td>
</tr>
<tr>
<td>1969</td>
<td>0.088</td>
<td>0.234</td>
<td>37.61</td>
</tr>
<tr>
<td>1970</td>
<td>0.089</td>
<td>0.268</td>
<td>33.21</td>
</tr>
<tr>
<td>1971</td>
<td>0.096</td>
<td>0.290</td>
<td>33.10</td>
</tr>
<tr>
<td>1972</td>
<td>0.101</td>
<td>0.325</td>
<td>31.08</td>
</tr>
<tr>
<td>1973</td>
<td>0.106</td>
<td>0.405</td>
<td>26.17</td>
</tr>
<tr>
<td>1974</td>
<td>0.114</td>
<td>0.491</td>
<td>23.22</td>
</tr>
<tr>
<td>1975</td>
<td>0.130</td>
<td>0.610</td>
<td>21.31</td>
</tr>
<tr>
<td>1976</td>
<td>0.156</td>
<td>0.653</td>
<td>23.89</td>
</tr>
<tr>
<td>1977</td>
<td>0.187</td>
<td>0.661</td>
<td>28.29</td>
</tr>
<tr>
<td>1978</td>
<td>0.194</td>
<td>0.637</td>
<td>30.46</td>
</tr>
<tr>
<td>1979</td>
<td>0.208**</td>
<td>0.500**</td>
<td>41.60</td>
</tr>
</tbody>
</table>

*Author’s calculations

**3-year moving average

Source: modified from Kydd and Christiansen (1982, p 369); author’s calculations

Throughout the Banda era, increasing prices (see Figure 4.2) helped encourage production. In 1979 Auction Holdings Limited (AHL) opened a new auction floor in Lilongwe to respond to increasing production (AHL, *Our History*,...
The Malawian economy went into crisis in the late 1970's, sparked by a downturn in the terms of trade. Export prices for key commodities such as tea and tobacco decreased and prices of essential imports such as fuel increased. The detrimental economic impact of this terms of trade shock was aggravated in following years by drought, transport route disruption, and high international interest rates. The resulting deterioration in economic indicators led to discussions with the International Financial Institutions (IFI's) (Harrigan, 2001, pp. 40-45). The talks led to three structural adjustment loans (SAL I-III) from the World Bank in the 1980’s, which, true to the predominant Washington Consensus of the time, aimed to remove price distortions from the economy and reduce the role of the state. Within these objectives:

Key reforms focused on increasing the production of smallholder exportable cash crops, namely tobacco\(^2\), groundnuts and cotton, by increasing the producer prices offered by ADMARC. At the same time maize prices were held down to reduce the relative price of food crops so as to encourage more export crop production (Harrigan, 2003, p 849).

The focus of these loans reflected the divergent priorities of the World Bank and the Government of Malawi as the former was focused on generating cash and the latter with food\(^2\). However, the pricist approach was weak in that whilst price-elasticity of supply was high at household levels, it was low at aggregate (agricultural sector) levels due to non-price structural constraints on production (Harrigan, 2001; Peters, 1996).

The 1980’s also witnessed the beginning of the shift in estate cultivation from FCV to burley\(^3\) (Harrigan, 2001) (see Figure 4.1 and Table 4.5). Much of the increase occurring

\(^2\) This move was in line with Banda’s plan to develop the Central Region by moving the capital to Lilongwe from the previous capital Zomba, which was located in the Southern Region (Lwanda, 2009; Wilshaw, 1994, p 113).

\(^3\) Although smallholders could not legally produce burley and FCV, they did produce oriental and Western Malawi tobacco types (Orr, 2000).

\(^2\) The Government’s tactic of limiting smallholder cash crop cultivation in the interest of food security is not dissimilar to colonial government policies seen above.

\(^3\) Prowse (2011b) points out that the shift in estate production in the Central Region from fire-cured to burley began in the 1950s. Likewise, the production of oriental tobacco began in earnest in the 1950’s (Wilshaw, 1994, p 100).
in this decade (see Figure 4.1) was from new small estates formed on previously customary land (Jaffee, 2003, p 2).

Figure 4.2: Average Price of Sold Tobacco in Malawi (tambala/kg), by Type

Source: created by author from TCC (Annual Sales Data, http://www.tccmw.com/index.htm)
Note: FCV and MW are not 0 but just missing data for years when not positive
Note: Malawi Western average price was calculated by author (amalgamating data for SDF, NDDF, and SUN/AIR tobacco types).

Table 4.5: Increase in Number of Registered Burley Growers, 1980's

<table>
<thead>
<tr>
<th>Year</th>
<th>Growers</th>
</tr>
</thead>
<tbody>
<tr>
<td>1983</td>
<td>3,858</td>
</tr>
<tr>
<td>1990</td>
<td>8,707</td>
</tr>
</tbody>
</table>

Source: created by author from van Donge (2002a, p 102)

Until 1989 all tobacco producers had to be licensed through the Tobacco Control Commission (TCC) (FAO, 2003b, p 64). In 1990, a new loan from the World Bank, the Agricultural Sector Adjustment Credit (ASAC, 1990-93) called for a small allocation of FCV
and burley production quotas to smallholders (Orr, 2000). This reflected the Bank’s view that food security could (and should) be achieved through entitlements, both at household and national levels (Orr, 2000; Harrigan, 2001). The argument that smallholder cash from tobacco cultivation could be used to purchase maize also helped achieve the Bank’s objective of eliminating fertilizer subsidies (Orr, 2000). The Government created the Malawi Rural Finance Company in 1993/94, which provided credit for many of the new smallholder tobacco growers (Jaffee, 2003, p 16).

Towards the end of the Banda-era, van Donge (2002a, p 103) describes:

Looser controls meant that estates could move into trading, marketing tobacco grown by smallholders in their vicinity. They could also pay very low prices, as there were no other marketing outlets. Indirect access to the auction floors was therefore already significantly opening up before the onset of liberalisation. Liberalisation was thus, in large part, legalisation of an existing situation.

### 4.4 Democratisation and Liberalisation

In June, 1993, there was a referendum (which passed) on the introduction of multi-party democracy (Lwanda, 2006). In May, 1994, Bakili Muluzi\textsuperscript{204} of the United Democratic Front (UDF) won the first multi-party presidential election in the country’s history and a new constitution was introduced the following year (Harrigan, 2001, p 290). One of Muluzi’s first policies was free primary education (Harrigan, 2001, p 292-93) and part of the UDF political campaign focussed on land reform (Harrigan, 2001, p 307). And in striking contrast to Banda and the MCP, Muluzi held poverty alleviation as a top policy

\textsuperscript{204} Like many of the other prominent politicians at the time, Muluzi had a history with the former ruling Malawi Congress Party (MCP). In fact, he became secretary general of this party in 1979 (Lwanda, 2006) until his resignation in 1982. It later emerged that Banda had forced him to resign “because he had allegedly been implicated in the illegal handling of tobacco from Banda’s farms and in the misappropriation of party cheques” (Lwanda, 2009, p 456).
priority (Harrigan, 2003, p 852), which was used as justification in some of the liberalisation efforts\textsuperscript{205}.

\textbf{4.4.1 The Economics of Liberalisation}

The UDF’s general approach to economic policy was market-oriented, and included initiatives in privatisation and trade liberalisation (Harrigan, 2001)\textsuperscript{206}. The government also took a more liberal approach to managing the exchange rate. In 1994 the government let the Kwacha float, which in turn led to devaluation. After this the Reserve Bank intervened occasionally (notably to devalue the currency in 1998) but attempted to let the currency float (Harrigan, 2001, pp. 327-328). However, as Jaffee (2003) points out, there is not necessarily a clear link between a cheap currency and tobacco exports due to the import-intensive nature of tobacco production (notably for fertilizer)\textsuperscript{207}. Burley-liberalisation (in the Malawian context meaning allowing smallholders to grow burley) was implicitly endorsing one of Kydd and Christiansen’s (1982, p 372) policy conclusions: “We believe that a broad based and effective development strategy for Malawi must be based on prosperous and productive peasant agriculture.”

Harrigan (2003, p 854) points out that: “The Bank saw burley, the most profitable crop, as the driving force in agriculture, with all farmers who could being encouraged to cultivate it.” As in the 1980’s the World Bank argued that the food problem be resolved through cash crop revenues. This is seen in the Bank’s Financial Restructuring and

\textsuperscript{205} However, van Donge (1995) describes how political parties came to represent geographic regions (rather than ideologies), with the two major parties - MCP and UDF - representing the Central and Southern Regions, respectively.

\textsuperscript{206} UDF policy has been interpreted by some to signify a neglect of agriculture. For example, Lwanda (2009, p 528) writes:

\begin{quote}
The first violent casualty of Banda’s retirement was the Malawi economy itself. The UDF ruling comprador class had little interest in agriculture, manufacturing or other creative industries. Their interests lay in marketing and retail. Agricultural estates became run-down and Malawi suffered from the aggressive South African export drive.
\end{quote}

\textsuperscript{207} Exchange rate policy was a topic of great controversy in policy and donor circles during the time of fieldwork, more on which in Chapter 7.
Decentralization Programme, which completed the liberalisation process of burley production and marketing (Harrigan, 2003, p 854). There was a big initial response to liberalisation. By 1996, as many as 200 000 smallholders became tobacco farmers (Jaffee, 2003, p 2) and five years later smallholder tobacco accounted for 70% of total production (Jaffee, 2003, p 15).

In response to delivery quotas and immediate needs for cash, an independent buyer (IB) system was introduced in 1994 (Jaffee, 2003, pp. 42-44). The IB scheme also grew out of the removal of ADMARC’s (legal) monopsony of smallholder tobacco (Harrigan, 2003). IB’s offered lower prices than could be obtained at auction but payment was immediate. The IB’s fulfilled similar roles as estates in the tenancy system (Jaffee, 2003). Many of the IBs were indeed estate owners themselves, although to the surprise of the government many with no tobacco industry experience also joined the profession. The number of IBs peaked in 1997 at more than 4000 but rarely accounted for more than 10% of tobacco sold at the auctions (Jaffee, 2003, pp. 42-44). Van Donge (2002a, p 104) describes the system in comparison to the tenancy schemes:

Sharecropping had, in some cases, changed its form: smallholders grew tobacco on their own land, but the person with access to the auction floors would advance inputs, even money to buy food, on condition that they could buy the tobacco.

This description has similarities with some aspects of contract farming.

Jaffee (2003) points out that IBs were accused of harming the industry in a number of ways such as increasing credit default, encouraging tobacco theft, and decreasing quality, among others, but argues that IB’s are not guilty of all accusations. According to classification data from the Tobacco Association of Malawi (TAMA), Jaffee (2003) points out that years of active IB involvement were not associated with a generally lower quality crop. In a similar vein the author points out that these years were not associated with a

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208 In the 1960’s the Banda government considered and then aborted plans to allow smallholder production of burley (Prowse, 2011b).
209 In later chapters we will discuss the desire of tobacco companies to implement contract farming (Chapter 6), the response of government and farmers’ organizations (Chapter 7), and some of the impacts of these responses on both the Malawian and the regional tobacco industries (Chapter 8).
large number of MRFC credit defaults. Jaffee (2003) does concede that the IB system probably was associated with increased tobacco theft. Jaffee (2003, p 44) describes changes in the IB sector:

By 2000, the IB function was beginning to evolve with a sub-set of IB operators providing inputs on credit and selected other services to growers. That evolution ceased with the official announcement that the IB system would end.

However, by 2001, the system was (officially) phased out (Jaffee, 2003, pp. 42-44) (see Table 4.6).

Table 4.6: Prevalence of Independent Buyers (excluding ADMARC) of Burley Tobacco, 1994-2001

<table>
<thead>
<tr>
<th>Year</th>
<th>Number of licensed buyers</th>
<th>Quantity sold (tons)</th>
<th>Share of national crop (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>79</td>
<td>398</td>
<td>0.6</td>
</tr>
<tr>
<td>1995</td>
<td>1074</td>
<td>4854</td>
<td>4.8</td>
</tr>
<tr>
<td>1996</td>
<td>3106</td>
<td>3834</td>
<td>3.3</td>
</tr>
<tr>
<td>1997</td>
<td>4012</td>
<td>19287</td>
<td>14.4</td>
</tr>
<tr>
<td>1998</td>
<td>3239</td>
<td>13889</td>
<td>12.2</td>
</tr>
<tr>
<td>1999</td>
<td>1402</td>
<td>3089</td>
<td>2.8</td>
</tr>
<tr>
<td>2000</td>
<td>671</td>
<td>3547</td>
<td>2.5</td>
</tr>
<tr>
<td>2001</td>
<td>148</td>
<td>542</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Source: modified from Jaffee (2003, p 45)

Burley clubs were another new phenomenon associated with liberalisation and promoted by both the government and USAID\textsuperscript{210} (Jaffee, 2003). These “clubs”

\textsuperscript{210} In particular, the Smallholder Agribusiness Development Project, which Jaffee (2003, p 41) credits with having made some considerable headway in bringing a commercial orientation to farmer clubs and in incrementally improving their management and record keeping. The functions handled by these clubs have been extended to include collective input procurement, collective transport of tobacco, and, in some cases, collective marketing of other crops. A stronger understanding about the value and underlying costs of borrowed finance has been developed among many such club members.
represented burley smallholders who banded together to get credit, organize transportation, receive tobacco payments, and other services\textsuperscript{211} (see Table 4.7). Clubs often consisted of between 12 and 20 individual farmers (Prowse and Moyer-Lee, \textit{forthcoming}). In the case of the National Smallholder Farmers’ Association of Malawi (NASFAM)\textsuperscript{212}, clubs were then grouped into \textit{Group Action Committees}, consisting of roughly 5 clubs, which would help facilitate transportation arrangements (Koester et al., 2004).

\textbf{Table 4.7: Volume of Burley Tobacco Marketed through Burley Clubs, Liberalisation-era}

<table>
<thead>
<tr>
<th>Year</th>
<th>Volume Sold (millions kgs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>3.8</td>
</tr>
<tr>
<td>1995</td>
<td>4.7</td>
</tr>
<tr>
<td>1996</td>
<td>12.8</td>
</tr>
<tr>
<td>1997</td>
<td>16.8</td>
</tr>
<tr>
<td>1998</td>
<td>19.2</td>
</tr>
<tr>
<td>1999</td>
<td>27.4</td>
</tr>
</tbody>
</table>

Source: modified from van Donge (2002a, p 110)

The post-liberalisation period saw a decline of the estate sub-sector in both relative and absolute terms due to low productivity, underutilized land and low returns to capital (Harrigan, 2003) (see Table 4.8). The decline of the estate sub-sector was exacerbated by the fact that (former) tobacco tenants, upon which much of this sub-sector depended, took advantage of the removal of production restrictions in order to engage in direct production of burley tobacco themselves (Jaffee, 2003). Jaffee (2003) also attributes part of the decline of this sub-sector to the independent buyer (IB) system, which was accused of encouraging theft of tobacco estates by tenants and managers. Therefore,

\textsuperscript{211} By 2001 there were already 23,363 registered burley clubs, however not all of these registrations were genuine smallholder clubs, as sometimes club registration was used by other actors as a way of avoiding certain fees associated with the sale of their tobacco (Jaffee, 2003).

\textsuperscript{212} However, by mid-2004, only 16% of registered clubs were part of NASFAM (Koester et al., 2004). We will discuss NASFAM further in Chapter 7.
concomitant with the decline of the estate sub-sector was a shift in the labour regime of this sub-sector from one of tenancy to direct labour (Jaffee, 2003).

In addition to private estates, another casualty of the liberalisation programme was Banda’s Press Holdings, which was taken over by the Muluzi government in 1997. Press Agriculture (the subsidiary of Press Corporation\textsuperscript{213} which was involved in burley tobacco production) dramatically decreased its production volumes following liberalisation. It has been suggested that the tobacco theft by tenants associated with burley liberalisation was the culprit (van Donge, 2002b). But Press still benefited from tobacco since “A quarter of all the profits of Press in 1995-98 came from its minority interest (31.9 per cent) in Limbe Leaf Corporation\textsuperscript{214}” (van Donge, 2002b, p 666). In addition, Press continued to engage in direct production of FCV tobacco (van Donge, 2002b).

<table>
<thead>
<tr>
<th>Year</th>
<th>Quantity Produced (tons) by Estates</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>95,400</td>
</tr>
<tr>
<td>1998</td>
<td>40,300</td>
</tr>
</tbody>
</table>

Source: created by author from Harrigan (2003, p 859)

At the same time as the decline in estate production described above, there was an increase in smallholder burley production (see Table 4.9). The Bank’s ASAC therefore appears to have achieved major structural adjustment. As Harrigan (2001, p 297) notes:

\[\textsuperscript{213}\text{Press Holdings Ltd. went through a number of changes and restructuring starting in the 1980's. A detailed explanation of these changes is not necessary for our purposes. Suffice it to say that one of these changes resulted in the formation of Press Corporation and Press Trust out of Press Holdings Ltd., hence our reference to Press Corporation in the text (van Donge, 2002b).}\]

\[\textsuperscript{214}\text{This is Universal Corporation’s Malawian subsidiary. Apparently the stake had been reduced from the 42% originally held. However, according to Appendix 3 of van Donge (2002b), the share was back to 42% in the year 2000. Interviews reveal that the stake was 42% at the time of fieldwork as well, more on which in Chapter 7.}\]
The smallholder-led growth in the second half of the 1990’s represented a major shift in the structure of the Malawian economy, which in previous decades had been dominated by estate growth.

**Table 4.9: The Rise of Smallholder Burley Production in Malawi, Liberalisation-era**

<table>
<thead>
<tr>
<th>Year</th>
<th>Smallholder Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>16</td>
</tr>
<tr>
<td>1995</td>
<td>24</td>
</tr>
<tr>
<td>1996</td>
<td>39</td>
</tr>
<tr>
<td>1997</td>
<td>54</td>
</tr>
<tr>
<td>1998</td>
<td>64</td>
</tr>
<tr>
<td>1999</td>
<td>68</td>
</tr>
<tr>
<td>2000</td>
<td>66</td>
</tr>
<tr>
<td>2001</td>
<td>70</td>
</tr>
</tbody>
</table>

*Source: modified from Jaffee (2003, p 15)*

The trends described above (declining estate sub-sector and increasing smallholder sub-sector) mirror trends in the colonial period from the 1930s on. When looking at production trends in the 1990’s in terms of type of tobacco, there are also some similarities with the colonial (inter-war) period, e.g. declining FCV (see Figure 4.3). Although it is important to note that as burley has become a viable crop for many smallholders since liberalisation, the traditional types of smallholder tobacco (Malawi Western) have decreased. This of course was not the case in the colonial period.

Cross-border trade, or “smuggling” of tobacco (as it is illegal), was another common feature of the smallholder burley sector post-liberalisation. Indeed, Jaffee (2003, p 24) estimates the smuggled tobacco to account for between five and ten per cent of total tobacco production in Malawi in the year 2001. In the early 2000s, the reasons for smuggling include the transaction costs associated with the Malawi auction system, the potential for avoiding re-payment of loans (which were deducted at the auction), and the shorter delay in obtaining payment. Ironically, the growers were often selling to the same
buyers, yet in buying stations across the borders in Mozambique and Zambia\textsuperscript{215} (Prowse and Moyer-Lee, forthcoming).

\textit{Figure 4.3: Tobacco Sold (kg) in Malawi by Type, Liberalisation-era}

\begin{center}
\includegraphics[width=\textwidth]{tobacco_sold.png}
\end{center}

Source: created by author from TCC (\textit{Annual Sales Data}, http://www.tccmw.com/index.htm)

Note: Malawi Western data was calculated by author (amalgamating data for SDF, NDDF, and SUN/AIR tobacco types.

The Food and Agriculture Organization (FAO, 2003b, p 66) notes that:

...although more inputs- including land, labour, fertilizer and others – were used in tobacco production in 2000, and more tobacco leaf was produced, the revenue was much less than in 1996, when about 25 percent less land was used for tobacco.

The FAO (2003b) argues that an excessive production increase occurred to the detriment of quality and productivity. This is consistent with Jaffee’s (2003, p 18) interviews with people in the industry which revealed the view that quality had decreased since

\textsuperscript{215} By the 2009/10 season the Malawi, Auction Holdings had set up a number of smaller district markets, designed to and largely perceived to be effective in, mitigating against tobacco smuggling (Prowse and Moyer-Lee, forthcoming).
liberalisation. Jaffee (2003, pp. 18-19) offers a series of possible explanations including more production by smallholders with fewer resources, environmental constraints, logistical constraints, and an insufficient price premium on higher quality tobacco. Some of these same constraints can account for the decreasing yields in this period (see Figure 4.4 and Table 4.10 for price and yield declines respectively\(^{216}\).

*Figure 4.4: Tobacco Prices (US$/kg) in Malawi by Type, Liberalisation-era*

![Tobacco Prices Chart](source)

Source: created by author from TCC (*Annual Sales Data*, http://www.tccmw.com/index.htm)
Note: Malawi Western average price was calculated by author (amalgamating data for SDF, NDDF, and SUN/AIR tobacco types.)

\(^{216}\) Whilst we point to a number of Malawi-specific factors which contributed to the price decline, and bearing in mind the major caveat that we do not have access to comparative price data, it is important not to lose sight of the international picture. More specifically, these changes in Malawi occurred in a context of increasing concentration and hence buying power of ICCs, as well as increasing fragmentation of tobacco leaf production as well as a shift in the latter to developing countries (see Chapter 3).
Table 4.10: Yield Declines During the Liberalisation-era (kgs/ha)

<table>
<thead>
<tr>
<th>Year</th>
<th>Burley</th>
<th>FCV</th>
</tr>
</thead>
<tbody>
<tr>
<td>1990</td>
<td>1150</td>
<td>1760</td>
</tr>
<tr>
<td>2001</td>
<td>922</td>
<td>973</td>
</tr>
</tbody>
</table>

Source: Jaffee (2003, p 20)

4.4.2 Liberalisation, Household Poverty, and Profitability

The World Bank (1995, p 4, cited in Tobin and Knausenberger, 1998, p 408) argued that permission to grow burley tobacco is perhaps one of the most powerful, and feasible, tools available to [the Government of Malawi] to redistribute wealth and reduce poverty within a reasonable period of time.

The World Bank and USAID pushed for production quotas to mainly target households with less than one hectare, in order to enhance the poverty-reducing impact of the programme (Prowse, 2009). As can be seen in Table 4.11, the general findings from a number of studies, is that whilst liberalisation of burley tobacco has benefited some, it did not benefit the poorest households. This is often due to the uneven adoption of the crop, which is attributable to a number of factors. For example, burley adoption in Malawi may be limited for those who lack tobacco experience as estate workers (Orr, 2000). Tobacco cultivation in Malawi is also more associated with male-headed households and higher expenditure/income groups (seen in our tabulation of studies and in Table 4.12 below).

Access to labour appears to be a serious entry barrier for many households wishing to engage in burley tobacco production. For example, from the tabulation of studies in Table 4.11, Orr (2000, p 355, referring to a national survey) points out that “Of the 572 households in the sample which provided reasons for non-adoption of burley, 173 cited
labor as the primary adoption constraint.” An example of the extent of the dependence on hired labour can be seen in Takane’s (2005) study (see Table 4.13). Takane (2005, p 108) suggests that

The labor-intensive nature of tobacco production may explain why most female-headed households (which usually have fewer laborers available than male-headed households) did not cultivate tobacco in the villages studied.

Furthermore, Peters (1996, p 23) points out that not everyone has the luxury of being able to work on their own farm:

A long recognized problem for the poorer rural households is that they are forced to look for temporary work in the deficit (rainy) season, usually working on the fields of neighbors or local estates, so failing to work as much on their own fields as they should.

Fertilizer can be another prohibitively expensive requirement associated with burley tobacco. For example, Takane’s (2006) survey of tobacco-growing households in four villages found that hired labour and fertilizer were the most costly inputs, representing 27% and 49% of production costs, respectively.

Land, as Orr (2000) stresses, can be another important constraint. Growing burley tobacco under ideal conditions involves crop rotation, which has certain land implications (as seen in Chapter 3). Also, given a small and finite amount of land, tobacco might not be viewed as a priority crop. For example, Takane (2005) found that with some land-scarce households who did not have enough land to plant both maize and tobacco that maize was prioritized. However as Orr et al. (2001) point out, the relative importance of land versus fertilizer in determining maize production can depend to a large extent on the level of soil fertility.

The studies in Table 4.11 vary somewhat in terms of how beneficial they view burley-liberalisation. For example, Orr and Mwale (2001) find that burley liberalisation led to increased trade and services in rural areas. The authors further note that “Most households that now felt better off had also increased their maize production, mostly through the provision of fertilizer credit for burley growers” (p 1340). These authors also
argue that burley income was used as a sort of investment in other highly remunerative economic activities such as micro-enterprises. Takane (2006) came to similar conclusions regarding re-investment of burley income.

Table 4.11: Selected Findings from Studies on the Relationship between Burley Liberalisation and Poverty

<table>
<thead>
<tr>
<th>Source</th>
<th>Study Period</th>
<th>Description</th>
<th>Findings</th>
<th>Caveats/Other</th>
</tr>
</thead>
<tbody>
<tr>
<td>Peters (1996)</td>
<td>1986/87-1990/91</td>
<td>Longitudinal study of 200 households (HHs) in Shire Highlands, Southern Region</td>
<td>Share of income from tobacco and maize more than tripled for richest quartile; poorest quartile became worse off in terms of income and food security; increased demand for labour for burley did not lead to increased wages</td>
<td>-</td>
</tr>
<tr>
<td>Orr (2000)</td>
<td>1993/94</td>
<td>Based on SDA Project survey, 818 HHs from throughout the country</td>
<td>Burley-grower HH’s have more land, more people, “…grow more hybrid maize, use more fertilizer, and are more food-secure” (p 347); microenterprises in burley-growing areas are more successful</td>
<td>Author recognizes correlation of certain attributes with burley-growing does not necessarily mean causation; unusual crop year in terms of credit and drought.</td>
</tr>
<tr>
<td>Orr et al. (2001)</td>
<td>1998/99</td>
<td>Data from 22 off-farm enterprises and 15 HHs in Blantyre Shire Highlands, Southern Region</td>
<td>The 2 HHs with highest net incomes were burley-growers</td>
<td>-</td>
</tr>
<tr>
<td>Study</td>
<td>Period</td>
<td>Methodology</td>
<td>Findings</td>
<td>Notes</td>
</tr>
<tr>
<td>-----------------------</td>
<td>-----------------</td>
<td>----------------------------------------------------------------------------</td>
<td>----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
<td>--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Orr and Mwale (2001)</td>
<td>1990-2000</td>
<td>Sustainable livelihoods approach assessing impact of structural adjustment on 50 HHs in Blantyre Shire Highlands, Southern Region</td>
<td>Burley-growing HHs had the highest average incomes; 90% of burley HHs believed themselves to be better off at end of study period, 10% saw no change; crop income as percentage of total income for burley-growing HHs rose from 31% to 56%</td>
<td>According to HHs, burley was not their most important cash crop, ranking behind field pea and pigeon pea; authors recognize that burley-growing strategy may not be possible for poor HHs with sub-optimal access to labour</td>
</tr>
<tr>
<td>Takane (2005)</td>
<td>August-October, 2004</td>
<td>HH interviews; all 31 HHs of Kachamba village, Central Region, 30 HHs from Belo village in Southern Region</td>
<td>In both villages, burley-growers had average incomes more than three times greater than non-growers</td>
<td>The author does not claim the chosen villages to be representative on a national scale; the author points out that 2004 was a bad season for burley growers, characterized by low prices and delayed payments; burley income is not the whole story as burley-growers also earn more from other sources, e.g. livestock</td>
</tr>
<tr>
<td>Takane (2006)</td>
<td>May-September, 2005</td>
<td>Comparison of tobacco growing and non-growing HHs in 4 villages (2 from North, 1 from Centre, 1 from South)</td>
<td>Tobacco-growing HH’s had on average more assets and significantly higher incomes than non-growing HHs, mainly from livestock and crop income. Tobacco-growing HHs also produced more maize in all 4 villages.</td>
<td>The author does not claim the chosen villages to be representative on a national scale; the year of study experienced significant dry spells which affected production; tobacco-growing HHs in 2 of the 4 villages had (on average) negative income from tobacco</td>
</tr>
<tr>
<td>Prowse (2009)</td>
<td>2003/04</td>
<td>Fieldwork undertaken for doctoral thesis at University of Manchester; HH survey and focus group study in Kasungu</td>
<td>Most of burley income is spent on food, fertilizer, clothing, household maintenance, and repaying credit but author stresses prevalence of “conspicuous consumption” from burley income as well</td>
<td>-</td>
</tr>
<tr>
<td>Prowse (2011a, personal communication)</td>
<td>2003/04, 2009/10 tobacco seasons</td>
<td>HH survey and focus group study in Kasungu</td>
<td>Tobacco-growing HHs increased their food security through growing tobacco. Mechanism was through food purchases from enhanced tobacco income rather than increased food production.</td>
<td>-</td>
</tr>
</tbody>
</table>
Table 4.12: Proportion of Agricultural Households who Cultivated Tobacco according to Background Characteristics, 2005

<table>
<thead>
<tr>
<th>Background Characteristics</th>
<th>Proportion of agricultural households who cultivated tobacco</th>
<th>Proportion of tobacco growing households who were burley tobacco growers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Malawi</td>
<td>20.2</td>
<td>92.7</td>
</tr>
<tr>
<td>Sex of household head</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>23.3</td>
<td>92.9</td>
</tr>
<tr>
<td>Female</td>
<td>10.2</td>
<td>91.0</td>
</tr>
<tr>
<td>Household per capita expenditure quintile</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1st</td>
<td>11.1</td>
<td>90.6</td>
</tr>
<tr>
<td>2nd</td>
<td>18.8</td>
<td>93.2</td>
</tr>
<tr>
<td>3rd</td>
<td>22.9</td>
<td>93.5</td>
</tr>
<tr>
<td>4th</td>
<td>24.2</td>
<td>92.0</td>
</tr>
<tr>
<td>5th</td>
<td>22.9</td>
<td>90.8</td>
</tr>
</tbody>
</table>

Source: modified from National Statistics Office-NSO (2005, p 106)

Table 4.13: Source of Labour in Tobacco Production (Person Days per Hectare) in Takane’s (2005) Study

<table>
<thead>
<tr>
<th>Labour Type</th>
<th>Kachamba (Central Region)</th>
<th>Belo (Southern Region)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Family Labour</td>
<td>742 (79%)</td>
<td>337 (41%)</td>
</tr>
<tr>
<td>Hired Labour</td>
<td>202 (21%)</td>
<td>494 (59%)</td>
</tr>
<tr>
<td>Total</td>
<td>944 (100%)</td>
<td>831 (100%)</td>
</tr>
</tbody>
</table>

Source: modified from Takane (2005, p 107)

With regards to the profitability of those smallholders who were able to engage in burley production, it is important to note that measurement is an extremely complex task. This is due to the varying levels of input-intensity and hence costs of production, differing use and costs of labour, transportation, and the multitude of different quality grades with a corresponding multitude of prices. With this complexity in mind, as well as the caveat of data limitations, we can point to some broad indicators and/or trends. For example, despite lowering costs of production, Jaffee (2003) argues that the profitability of
smallholder burley tobacco production declined sharply post-liberalisation, a phenomenon the author attributes in part to declines in price, quality, and productivity, as well as to inefficiencies in the marketing chain more broadly. Jaffee (2003) provides data on both the aggregate decline of smallholder tobacco profits (see Table 4.14 below) as well as on the declining profitability of a representative NASFAM smallholder (see Table 4.15 below). Similarly, the World Bank (2005) also points to a general decline in profitability of both high- and low-input burley tobacco production between the 1993/94 and 2003/4 seasons (see Table 4.16 below). The World Bank (2005) also attributes this decline primarily to inefficiencies in the marketing chain. Finally, and whilst arguing that pricing collusion by oligsonistic buyers also played a crucial part in reducing smallholder burley profits, Prowse and Moyer-Lee (forthcoming), show that profitability for a Kasungu smallholder burley farmer differed markedly in the 2003/04 season by marketing channel, with an estimated net margin of US$ 0.59 per kg, US$ 0.41 per kg, and US$ 0.02 per kg associated with using the auction floors, cross-border trade, and independent buyers (IBs), respectively. For the direct costs (charges) associated with using the auction system in the 2003/04 system, see Table 4.17 below.

Table 4.14: Decline in Aggregate Smallholder Tobacco Net Profits, 1997-2001

<table>
<thead>
<tr>
<th>Year</th>
<th>Aggregate Smallholder Tobacco Net Profits (US$ millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>26</td>
</tr>
<tr>
<td>1998</td>
<td>26</td>
</tr>
<tr>
<td>1999</td>
<td>26</td>
</tr>
<tr>
<td>2000</td>
<td>16</td>
</tr>
<tr>
<td>2001</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: created by author from Jaffee (2003, p 28)
Table 4.15: Net Returns (US$) for NASFAM Smallholder Burley Growers, 1997-2001

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Average Sales Price (US$/kg)</td>
<td>1.56</td>
<td>1.30</td>
<td>1.42</td>
<td>1.05</td>
<td>1.10</td>
</tr>
<tr>
<td>Net Returns/kg (US$)</td>
<td>0.36</td>
<td>0.37</td>
<td>0.34</td>
<td>0.17</td>
<td>0.09</td>
</tr>
<tr>
<td>Net Returns per Farmer (US$; output=300 kg)</td>
<td>108</td>
<td>111</td>
<td>102</td>
<td>51</td>
<td>26</td>
</tr>
<tr>
<td>Net Returns per Hectare (US$)</td>
<td>540</td>
<td>555</td>
<td>510</td>
<td>255</td>
<td>130</td>
</tr>
<tr>
<td>Net Returns as Percentage of Average Price</td>
<td>23</td>
<td>28</td>
<td>24</td>
<td>16</td>
<td>8</td>
</tr>
</tbody>
</table>

Source: Modified by author from Jaffee (2003, p 21)

Table 4.16: Gross Margins (US$/ha) for Burley Production, 1993/94 and 2003/04 Seasons

<table>
<thead>
<tr>
<th></th>
<th>1993/94</th>
<th>2003/04</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low-input</td>
<td>790</td>
<td>373</td>
</tr>
<tr>
<td>High-input</td>
<td>838</td>
<td>791</td>
</tr>
</tbody>
</table>

Source: Created by author from World Bank (2005, p 16).
Table 4.17: Levies and Deductions on Auction Floors in 2004

<table>
<thead>
<tr>
<th>Levy</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>TCC levy</td>
<td>US$ 0.10 per kg</td>
</tr>
<tr>
<td>AHL levy</td>
<td>3.25% of total proceeds</td>
</tr>
<tr>
<td>Hessian levy</td>
<td>US$ 0.30 per bale (TAMA)</td>
</tr>
<tr>
<td>ARET levy</td>
<td>1% of total proceeds</td>
</tr>
<tr>
<td>TAMA/NASFAM levy</td>
<td>US$ 0.70 per kg, applicable to members</td>
</tr>
<tr>
<td>Withholding tax</td>
<td>7% (not applied to smallholders earning less than MWK 36,000)</td>
</tr>
<tr>
<td>Transport</td>
<td>variable</td>
</tr>
</tbody>
</table>

Source: modified from Prowse and Moyer-Lee (forthcoming, p 11)

4.5 Conclusion

In this chapter we have reviewed the history of tobacco production in Malawi from its beginnings as a settler crop until the smallholder burley prevalent today. From the beginning of tobacco cultivation in Malawi there have been large fluctuations in production, prices, and policies. When comparing the trends and fluctuations in production, prices, and policies between the colonial and the Banda eras, one can see many similarities. However, one of the themes in the history of the Malawian tobacco industry, which is worth emphasising by way of conclusion, is that of conflict over pricing. As Wilshaw (1994, p 120) sums up:

...Malawi’s tobacco history is littered with disputes between growers and buyers over tobacco prices. One of the earliest was when growers in 1910 shunned Imperial Tobacco’s prices and shipped their tobacco directly to brokers in the United Kingdom. In the 1930s Imperial themselves took a hard line on prices by demanding better quality and grading from growers. The establishment of the ‘American Auction’ solved many problems but did not end the seminal grower complaints about prices or the buyers’ complaints over quality.

This is a theme we will return to in Chapter 7.
In this chapter we have also attempted to partially address the first part of Research Question 1.b\(^{217}\): *How has the territoriality of the Malawi (smallholder burley) Tobacco Value Chain come to be shaped over time?* Specifically, we have described how tobacco production was encouraged in Malawi by both government (colonial and post-colonial) and the private sector (e.g. ITC). We have also described the long history of smallholder (dark) tobacco production in Malawi as well as the coming of prominence of burley tobacco among estate producers (especially in the 1980s). Smallholder tobacco production was encouraged by the World Bank in the 1980s, and estate production of burley tobacco was encouraged by President Banda throughout his time in office.

However, probably the most important event in the history of tobacco cultivation in Malawi is the liberalisation of burley tobacco in the 1990’s. The liberalisation programme was designed (in part) in order to achieve dramatic poverty reduction by creating cash-generating opportunities for smallholders. Burley production did transfer *en masse* to the smallholder sector, but the impact on poverty reduction was mitigated by the constraints on burley adoption for poorer smallholders. An important result of the liberalisation programme for our purposes is the creation of a large sector of society with potentially common political interests\(^{218}\). As seen in Table 4.12 above, in 2005 roughly one fifth of agricultural households produced tobacco. The political and policy consequences of this will be explored further in Chapter 7.

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\(^{217}\) Research Question 1.b will also be partially addressed in Chapter 5 as well as in the thesis conclusion (Chapter 8).

\(^{218}\) It is also worth emphasizing here the contrast between the historical trajectory of the smallholder burley sector in Malawi with that of other African export crops mentioned in earlier chapters (e.g. see Daviron and Gibbon, 2002; Gibbon and Ponte, 2005). “Liberalisation” in the Malawian (burley tobacco) context meant a shift in production from estates to smallholders, rather than the removal of a state marketing board as intermediary.
Chapter 5: Territoriality of the Malawi Smallholder Burley Tobacco Value Chain

5.1 Introduction

In this chapter we will address part of Research Question 1.a, specifically, What is the territoriality of the Malawi (smallholder burley) Tobacco Value Chain? Our starting point in this chapter is the distinction made in Chapter 1, following Daviron and Ponte (2005), between the Global Value Chain for Tobacco (GVCT) and the Malawi (smallholder burley) Tobacco Value Chain. In Chapter 3 we addressed the territoriality of the former, i.e. from the lead firms looking upstream, whilst in this chapter we will discuss the territoriality of the latter, i.e. from the Malawi smallholder burley sector looking downstream. We will also, albeit to a lesser extent, engage in a discussion of power asymmetries between leaf merchants and farmers, and relate this discussion to end-market segmentation.

Given our discussion of lead firms in the GVCT and the extent of their market concentration (in Chapter 3), we would expect smallholder burley tobacco in Malawi to be mainly sold to these firms. We would also expect the quality, price, and (ability to meet regulatory) standards of Malawian tobacco to be largely controlled by the ICCs, who easily enforce their demands on their upstream suppliers. And we would further expect that the ICCs significantly control the extent of upgrading of farmers and leaf merchants in Malawi, and that power relations are reproduced between leaf merchants and farmers, with the former benefitting from asymmetrical bargaining power due to access to lucrative markets, asymmetric information, and prohibitively high protective entry barriers.
Indeed, and despite the lack of precise figures for Malawi, we know (from interviews) that Philip Morris International (PMI) is the biggest buyer, industry leader, and trend setter for the country. Japan Tobacco (JT) is the second biggest buyer due (in part) to its acquisition of RJ Reynolds International which is a major producer of American Blend cigarettes (see Chapter 3). British American Tobacco (BAT) also has a large presence in Malawi though BAT appears to have stopped purchasing tobacco from one of the leaf merchants. Philip Morris USA (PMUSA)\footnote{As explained in Chapter 3, this company is owned by Altria (which also buys tobacco separately in Malawi). Philip Morris International (PMI) was spun off from the parent company in 2008.}, Imperial Tobacco Group (ITG), and Reynolds American Inc. (RAI) also buy tobacco from Malawi. These companies are the “Blue Chips” (or in GVC terminology “lead firms”) and are the clients most sought by leaf merchants in Malawi. The China National Tobacco Corporation (CNTC) does not appear to have a major presence in Malawi since it is mainly concerned with FCV tobacco for the Chinese market (which consumes predominantly Virginia Style cigarettes)\footnote{However there is a “government-to government” scheme whereby Malawi sells a small amount (estimated at 5 million kgs) of FCV tobacco to China. President Mutharika also decided to cease recognising Taiwan - originally recognized by H.K. Banda in 1966 (Lwanda, 2009, p 169) - as an independent country in favour of improved diplomatic relations with China, although it is doubtful that this was a “tobacco move.”. This is because the president was certainly aware of the fact that China is a mainly FCV-consuming country and Malawi a mainly burley-producing country. It is more likely that this diplomatic calculation was done in order to attract infrastructure investments from China such as the new parliament building. In some cases the Chinese have even taken over construction of the same roads that the Taiwanese were in the process of building. Although it is interesting to note that one informant stated that bringing China to Malawi was President Mutharika’s greatest achievement in terms of tobacco policy (interviews).}.

Although the Blue Chip (BC) firms do dominate the Malawian tobacco industry (more on which in Chapter 6), nevertheless a significant portion of the Malawian tobacco industry is oriented towards serving a very different end-market, i.e. the Non-Blue Chip (NBC) customers (or non-lead firm cigarette manufacturers). Led by Eastern Tobacco Company of Egypt\footnote{Eastern is owned by Egypt’s Holding Company for Chemical Industries, and produced an estimated 60 billion cigarettes in 2011 (Universal Leaf Tobacco Company, 2012, p 18).}, a multitude of smaller cigarette companies\footnote{Other companies in this category include but are not limited to Elwarda (Egypt), KT&G (South Korea), small American, Dutch, and German manufacturers, Jordan Tobacco, GRE, BulgarTabac, and Karelia (Greece) (interviews). Nyasa Manufacturing, a cigarette manufacturer located in Malawi, would presumably fit in this category. However, none of the leaf merchant officials interviewed named Nyasa Manufacturing as a customer, and according to government (TCC) statistics Nyasa Manufacturing did not buy tobacco on the auction floors. We would therefore conclude, based on both the statistics available and the (lack of attention) given to this company throughout dozens of interviews with tobacco industry stakeholders, that Nyasa Manufacturing is at best a minimal player in the Malawian tobacco industry.} is playing an increasingly important role as customers for Malawian tobacco. These companies have a
very different set of objectives than the Blue Chip companies. They also - due in part to their smaller size - lack the power over their suppliers that their Blue Chip counterparts enjoy. In fact, the differences between these two sets of companies (and hence end-markets) are stark enough that we would postulate that there is actually a bifurcation of the Malawian tobacco end-market. Lest the BC-NBC distinction appear tautological, it is important to note that the terminology and categories were consistently referred to by respondents, were not the invention of the author, and were not predicted by our analytical framework or analysis of the global tobacco industry. Although this chapter is mainly descriptive, given its focus on territoriality, one of the main aims is to demonstrate the extent to which non-lead firm cigarette manufacturers are present as buyers of Malawi tobacco.

Other GVC work has also identified and/or theorized end-market segmentation, e.g. Gibbon (2003b), Selwyn (2007, 2012), and Palpacuer et al. (2005), as discussed in Chapter 1. However, rather than focus on the geographical or regulatory features of the end-market segmentation, and following Gibbon and Ponte (2008), this chapter will assess the segmentation through the differentiation of the sourcing objectives of the firms in each segment. There are a number of reasons for why this bifurcation of the Malawian tobacco end-market has developed, many of which will be discussed in Chapters 7 and 8. However in this chapter we aim to clearly demonstrate the existence of this end-market bifurcation and the ramifications of this throughout the Malawi Tobacco Value Chain.

In Section 5.2 we will establish the bifurcation of the end-market for Malawian tobacco by emphasizing in particular the different sets of objectives that characterize the firms which dominate each end-market. Section 5.3 will explain the extent to which the end-market bifurcation affects the operations of the leaf merchants, and their relations with farmers. Section 5.4 will conclude.
5.2 End-Market Bifurcation

In Chapter 3 we identified the sources of power that the ICCs have over first tier suppliers and in Chapter 6 we will examine how the (BC) ICCs attempt to use this power in order to drive the Malawi (smallholder burley) Tobacco Value Chain. However, in this chapter we will build on the empirical discussion in Chapter 3 by identifying the particular objectives of cigarette companies in Malawi, as a differing set of objectives is one of the key distinguishing features between the two end-markets.

As seen in Chapter 3, traditional objectives of the ICCs in terms of their tobacco leaf sourcing include reliable supply of quality tobacco at competitive prices. For example, Japan Tobacco International’s procurement strategy includes “assurance of supply” and optimizing “...spend through consolidation of suppliers and standardization of specifications” (JTI, 2010, p 6). This is one of the reasons why the ICCs tend to concentrate much of their business (globally) with a small number of international leaf merchants. ICCs also have objectives similar to other lead firms in GVCs such as shifting more costly and burdensome functions (such as warehousing) upstream to their suppliers. As highlighted by the GVC literature this reduces capital expenditure which can have the benefit of increasing perceived efficiency and hence share values.

However, in addition to these more traditional objectives, ICCs are increasingly concerned with compliance and traceability (C&T). This means that they want to have intimate knowledge of the production processes for the tobacco they purchase. Compliance and traceability imply concerns over the chemical inputs used (pesticides, fertilizers, etc.) and, in particular, adherence to good agricultural practices (GAP), reforestation, the labour practices involved in production (especially the use of forced and child labour)\(^{223}\), and the integrity of the leaf in terms of guaranteeing that

\(^{223}\) As seen in our discussion of PMI’s Agricultural Labour Practices Code in Chapter 3. Not only is child labour in tobacco very prevalent in Malawi but a decent road infrastructure, widespread use of English, and easy accessibility of tobacco growing regions from major urban centres makes the country particularly vulnerable to journalistic coverage of the practice (interviews; direct observation). In fact, it has been suggested that one of the reasons for the recent explosion in burley production in Mozambique is that the ICCs are more insulated from exposure to child labour practices by the Portuguese language and the remote and sparsely populated rural setting of tobacco production in this country (interviews). However, an alternative explanation is that Mozambique burley tobacco is produced essentially entirely though IPS,
there are no non-tobacco substances present (*non-tobacco related materials* or NTRM in the industry jargon). ICCs have become increasingly vigilant regarding the presence of NTRM in cigarettes due to potential lawsuits from consumers.

The Non-Blue Chips (NBCs), on the other hand, appear to have a very different set of objectives. They are not as concerned with issues of branding, public image, corporate social responsibility, and litigation. They are more concerned with traditional objectives more characteristic of arms-length market interactions, such as price and quality. These differences are borne out in a survey I conducted during my fieldwork. The survey was modelled on Kaplinsky and Morris (2000, pp. 55-69), and was used to identify what these authors refer to as “critical success factors” (CSFs), i.e. the determining factors of whether a product succeeds in a given value chain. Although designed to measure the extent to which lead firms are able to communicate the CSFs upstream to their suppliers, we adapted the survey to compare the CSFs in the two end-markets.

Based on previous research on the global tobacco industry, as well as observation and semi-structured interviews, we have identified seven CSFs for the Malawi Tobacco Value Chain. Although we conducted this survey with a number of respondents at different nodes of the chain (more on which in Chapter 6), in Table 5.1 we show the results of the survey when conducted with the managing directors (MDs) of the four major leaf merchants in Malawi.

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224 For a more detailed explanation of this survey and our adaptations, see Chapter 2. Our survey results will be discussed in full in Chapter 6.

225 These are Alliance One International (AOI), Limbe Leaf (a subsidiary of Universal Corporation), Premium-TAMA, and Malawi Leaf. We will discuss each of these in more detail below.
Table 5.1: CSFs for BCs and NBCs According to Leaf Merchant MDs

<table>
<thead>
<tr>
<th>CSF</th>
<th>Blue Chips*</th>
<th>Non-Blue Chips*</th>
<th>Level of Bifurcation**</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>5</td>
<td>6</td>
<td>-1</td>
</tr>
<tr>
<td>Quality (grade)</td>
<td>6.5</td>
<td>4.75</td>
<td>1.75</td>
</tr>
<tr>
<td>Integrity (No NTRM, residue)</td>
<td>7</td>
<td>3.25</td>
<td>3.75</td>
</tr>
<tr>
<td>No child labour</td>
<td>6.75</td>
<td>2.75</td>
<td>4</td>
</tr>
<tr>
<td>GAP</td>
<td>6.5</td>
<td>2.25</td>
<td>4.25</td>
</tr>
<tr>
<td>Volume (being able to buy large quantities from a single supplier)</td>
<td>5.5</td>
<td>3.5</td>
<td>2</td>
</tr>
<tr>
<td>Long term relationships with suppliers</td>
<td>6.75</td>
<td>2.75</td>
<td>4</td>
</tr>
</tbody>
</table>

* Each factor is rated on a scale of 1-7 where 7 is extremely important and 1 is not at all important. ** Level of bifurcation is the value of the NBC score subtracted from the BC score.

The score in each category in Table 5.1 represents the average of the four scores given by the leaf merchant MDs. The individual scores for each MD are not provided for confidentiality reasons. There are a few caveats to this survey which need to be highlighted. First of all, notably absent from the respondents is Japan Tobacco International (JTI)\(^{226}\), which, although it purchases tobacco directly in Malawi, is an ICC, not a leaf merchant. It could be argued that the MDs of the leaf merchants are in a position to give more honest and objective responses as they are responding on behalf of their customers rather than on behalf of their own companies’ official policies. As will be discussed further below, the ICCs are much more concerned with their public images and hence are much more cautious in their public statements, than are the leaf merchants. Anecdotal evidence for this claim can be seen by the fact that whilst officials at all of the leaf merchants in Malawi granted me interviews, my repeated requests for a non-cited interview with JTI was subject to approval by headquarters in Switzerland (which was never granted).

\(^{226}\) This is Japan Tobacco’s international tobacco business, which purchases tobacco directly in Malawi, more on which below and in Chapter 6.
However, a case could be made for JTI being included in the survey in that the company directly purchases a substantial amount of tobacco in Malawi and its own CSFs play a role in determining the CSFs of the Malawian tobacco industry. In particular, and taking into consideration our discussion in Chapter 3, JTI’s objectives correspond to the Blue-Chip end-market. Given the high concentration of firms in this end-market, JTI is one of merely a handful of companies which determines this end-market’s CSFs.

Had JTI been surveyed, the company most likely would have responded “7” to most of the CSFs, which would have resulted in a higher level of bifurcation in all categories except “price” and “integrity”. We postulate that their responses would have been skewed towards 7 because the company (like other BCs) invests a great deal of resources in its public image, in an effort to convince the public that it is concerned with such issues as GAP and child labour. However, the leaf merchant MDs are in a more objective position in that they can rate their clients in how important these issues actually are when it comes to making purchasing decisions from suppliers.

The other major caveat to the survey is that one of the four respondents, Malawi Leaf, sells essentially all of its tobacco to NBCs (more on which in Chapters 7 and 8). Given this fact, the company has very little direct experience with BC customers and the issues that these customers would deem as CSFs, whilst the other three companies have experience and deal with both BC and NBC customers. One final caveat is that the responses are pure arithmetic means and are not weighted either in terms of market share, experience in the industry, or proportion of tobacco sold to BCs versus NBCs.

Despite all of the above caveats one can identify a number of trends. First of all, the most important issue for BC customers appears to be integrity of the crop (no NTRM or residue), followed by no child labour, GAP, and quality. This fits quite well with themes brought to our attention by GVC analysis, such as lead firms being driven by branding and product differentiation. Litigation for pieces of plastic and chemical residues found in a

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227 As can be seen in Table 5.3 below, JTI accounts for roughly 10-15% of the Malawian tobacco market. It is also the second biggest buyer of Malawian tobacco in terms of cigarette companies (interviews). Both AOI and Limbe Leaf buy more Malawian tobacco each than JTI but the leaf merchants, as explained elsewhere, then go on to sell this tobacco to a multitude of customers.

228 The very fact that JTI, an ICC, is operating in Malawi is evidence of this in that the firm chose to vertically integrate backwards in order to better achieve its objectives and ensure that the tobacco it purchased was meeting the company’s CSFs (interviews; more on which in Chapter 6).
cigarette, and bad press exposing the use of child labour in tobacco production could greatly damage the public image of certain ICCs and hence the “equity” of their brands\textsuperscript{229}. The fact that price is ranked as the least important concern of BCs is further evidence of the importance of branding and product differentiation, as highlighted by much of GVC analysis. This is the case not merely because the BCs are greatly concerned with issues related to their public image, but also because it is evidence of the fact that tobacco is actually a very small price component of a cigarette, as compared to marketing, for example\textsuperscript{230}.

For the NBCs, on the other hand, price appears to be the most important CSF, evidence of the fact that arms-length market interactions are the norm with this category of customers. The three CSFs with the lowest scores for the NBCs are GAP, no child labour, and long term relationships with suppliers. This is further evidence of the fact that these companies are not driven by concern over their public image and/or brands and that finding cheap and readily available tobacco is more important than developing consistent sources of supply.

When looking at the level of bifurcation, one can see that there is a clear difference in the level of importance of each and every CSF for the BC and NBC end-markets. The biggest differences are in the categories of no child labour, GAP, and long term relationships with suppliers. However, the importance of long term relationships with suppliers can also be seen as evidence of the importance of branding and public image, in that only through serious partnerships with highly capable first tier suppliers, can lead firms really enforce their standards, as highlighted in other GVC work. In particular, this trend of lead firms developing relationships with first tier suppliers with high capabilities can be seen in the Kenya-UK fresh fruit and vegetables chain (Dolan and Humphrey, 2004; Dolan et al., 2000), in the global coffee chain (Ponte, 2002a), and in the global apparel chain (Gereffi, 1994), among others.

The NBC customers, on the other hand, due in part to their smaller size, lower level of concentration, and less remunerative purchases, do not benefit from the asymmetrical

\textsuperscript{229} For a more detailed discussion on this topic, refer to Chapter 3.

\textsuperscript{230} This point has been made previously in Chapter 3 and is similar to Ponte’s (2002a) example of the proportion of the price of a Starbucks Latte that is spent on coffee.
bargaining power over their suppliers that GVC analysis would ascribe to lead firms (interviews), nor do they appear to place a premium on doing business with highly capable suppliers. This latter point is borne out by the fact that (in proportional terms) Malawi Leaf is the most NBC-oriented leaf merchant, and undoubtedly the least able to respond to customer demands\textsuperscript{231}.

5.3 Leaf Merchants and Farmers Cater to Different End-Markets

The majority of tobacco in Malawi is bought and sold by subsidiaries of the two leading international leaf merchants: Alliance One International (AOI) and Limbe Leaf (Universal Corporation). These two firms together constitute about 60-70\% of tobacco purchases in Malawi. AOI exports more than it purchases because it imports tobacco from neighbouring countries for processing in Malawi before re-exporting (interviews). Until 2009 when it was acquired by JTI, AfricaLeaf (owned by Tribac) was another leaf merchant operating in Malawi. Two additional leaf merchants in Malawi include Premium-TAMA and Malawi Leaf. Premium-TAMA is a subsidiary of Premium Tobacco Holdings (U.K.) although the Tobacco Association of Malawi (TAMA\textsuperscript{232}) owns 14\% of the company\textsuperscript{233}. Malawi Leaf, on the other hand, is a subsidiary of Auctions Holdings Limited\textsuperscript{234}, and was created in 2006 as a pet project of President Bingu wa Mutharika in an effort to inject pricing competition at the auction floors (interviews; more on which in Chapter 7).

\textsuperscript{231}Ironically, the one issue which according to leaf merchant MDs is the most important CSF to the NBCs – price - is a CSF which Malawi Leaf appears to be particularly ill-equipped to satisfy. According to numerous interviews, Malawi Leaf, for a number of reasons (more on which in Chapter 7), is perceived to attempt to raise the leaf prices accruing to farmers on the auction floors.

\textsuperscript{232}TAMA is the largest farmer association representing tobacco growers in Malawi (more on which in Chapter 7).

\textsuperscript{233}We will return to this ownership stake, with particular reference to upgrading, in Chapter 7.

\textsuperscript{234}Which is in turn a subsidiary of ADMARC, the agricultural marketing parastatal. Although ADMARC does not own an absolute majority of AHL shares, AHL is widely perceived to be under state control (interviews). Refer to Chapter 4 for more on ADMARC and its origins.
All four of the leaf merchants sell to both end-markets, although as mentioned above Malawi Leaf is primarily orientated towards the NBC market. See Table 5.2 below for the percentage of tobacco that is destined to each end-market, for the leaf merchants and JTI. Notably absent from the table are the figures for Premium-TAMA. These were not obtained, although we know from interviews that this leaf merchant sells to both end-markets. For a schematic of the Malawi Tobacco Value Chain, see Figure 5.1 below.

Although we will argue in Chapter 6 that only the BC end-market is driven by lead firms, it appears that leaf merchants are able to maintain substantial asymmetrical bargaining power vis-à-vis their (farmer) suppliers, regardless of the end-market destination of the tobacco being purchased. In addition to controlling access to customers for Malawian tobacco, the leaf merchants have this power over their suppliers due to a high level of market concentration and asymmetric information. We will consider each of these in turn below.

### Table 5.2: Percentage of Tobacco Accruing to Each End-Market

<table>
<thead>
<tr>
<th>Tobacco-Buying Company</th>
<th>BC End-Market</th>
<th>NBC End-Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>AOI</td>
<td>60%</td>
<td>40%</td>
</tr>
<tr>
<td>Limbe Leaf</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>Malawi Leaf*</td>
<td>1%</td>
<td>99%</td>
</tr>
<tr>
<td>JTI</td>
<td>100%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Source: Interviews  
Note: Figures are rough estimates.  
*According to interviews, 99% of this company’s tobacco is destined to NBCs. However upon further investigation it was revealed that included in this 99% are some American BCs. It is probably safe to assume that these companies make up a very small proportion of this 99%. Of this 99%, roughly 20% is sold to Eastern Tobacco Company of Egypt.
Figure 5.1: Schematic of Malawi Tobacco Value Chain
As can be seen in Table 5.3 below, the leaf merchant node of the chain is highly concentrated. 100% of the market is controlled by merely five firms (including JTI), only four multi-nationals account for 92% of the market, and the top two firms control up to 70% of the market\textsuperscript{235}. This is characteristic of the global tobacco industry, and some reasons for this high (global) level of leaf merchant market concentration have been provided in Chapter 3. However, in Malawi the international leaf merchants are able to maintain their key market positions in particular due to access to finance on more favourable terms (due to NYSE-listed parent companies as financial guarantors as well as internal finance from them), long-term relationships with customers, and prohibitively expensive capital costs of investing in a factory\textsuperscript{236}. In addition to the financial benefits, the agronomy departments of these multi-nationals - which are becoming the most important part of the leaf merchant business (more on which in Chapter 6) - benefit from cross-pollination of policies and R&D with agronomy departments in other subsidiaries or with centralised agronomy research\textsuperscript{237} (interviews). Ironically, it has been asserted in interviews that this node of the chain might have been characterised by a higher level of market concentration had it not been for the promotion of the ICCs of more competition, in particular in encouraging the participation of Premium-TAMA in the Malawian tobacco market (interview).

**Table 5.3: Leaf Merchant (Average) Market Share in Malawi**

<table>
<thead>
<tr>
<th>Leaf Merchant</th>
<th>Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Alliance One Int.</td>
<td>34-35 %</td>
</tr>
<tr>
<td>Limbe Leaf</td>
<td>30-35%</td>
</tr>
<tr>
<td>Premium-TAMA (burley)</td>
<td>15%</td>
</tr>
<tr>
<td>JTI*</td>
<td>10-15%</td>
</tr>
<tr>
<td>Malawi Leaf</td>
<td>8%</td>
</tr>
</tbody>
</table>

Source: Interviews

\textsuperscript{235} Although extreme, this level of concentration is not unprecedented among export sectors of agricultural commodity chains in developing countries, e.g. Bendini and Steimbreger (2005) on the case of Argentinian fresh fruits and vegetables.

\textsuperscript{236} For example, AOI (2012a, p 77) valued its physical assets in Malawi (property, plant, and equipment, net) at US$ 27,918,000 in 2012.

\textsuperscript{237} For example, the agronomy director for the Africa Region at AOI is based in Malawi.
*As explained elsewhere, JTI is an ICC and not a leaf merchant. JTI has been included here because it buys tobacco directly in Malawi rather than through leaf merchants.

The asymmetrical bargaining power that leaf merchants often have over their suppliers (discussed in Chapter 3), derived in part from information asymmetries, can be seen in the case of Malawi in the following passage:

The only quality classification system that really counts is that of the international buyers of Malawi’s tobacco. These classifications, however, seem to be regarded as something of a trade secret, and the underlying data on the quality mix of the Malawi crop is not available in the public domain (Jaffee, 2003, p 19).

The asymmetric information is experienced not just in terms of quality classifications, however, but also in terms of familiarity with the demands of the customers. This takes us back to our survey of the critical success factors. At the farmer node of the chain we conducted the CSF survey with farmers in executive positions at four of the leading farmer associations representing tobacco farmers. Comparing the responses given by these farmers with those given by the leaf merchant MDs demonstrates the lack of familiarity of farmers with the differentiated demands of the customers in the end-markets to which their tobacco is sold (see Tables 5.4-5.7 below). One major caveat to this comparison is that it is heavily biased towards underestimating the extent of asymmetric information. This is because the farmers surveyed are not a representative cross-section of smallholder tobacco farmers in Malawi, but rather, it could be argued, are amongst the best-informed tobacco farmers in the country as they direct tobacco farmer associations, and often weigh in on public policy debates regarding the tobacco industry.

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238 These were TAMA, NASFAM, Phindu, and Farm Produce.
### Table 5.4: Farmer Responses to CSF Survey

<table>
<thead>
<tr>
<th>CSF</th>
<th>Blue Chips</th>
<th>Non-Blue Chips</th>
<th>Level of Bifurcation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>6.25</td>
<td>4.5</td>
<td>1.75</td>
</tr>
<tr>
<td>Quality (grade)</td>
<td>6.75</td>
<td>6.5</td>
<td>0.25</td>
</tr>
<tr>
<td>Integrity (No NTRM, residue)</td>
<td>7</td>
<td>6.5</td>
<td>0.5</td>
</tr>
<tr>
<td>No child labour</td>
<td>6.75</td>
<td>7</td>
<td>-0.25</td>
</tr>
<tr>
<td>GAP</td>
<td>5.5</td>
<td>5.75</td>
<td>-0.25</td>
</tr>
<tr>
<td>Volume (being able to buy large quantities from a single supplier)</td>
<td>6.5</td>
<td>6.25</td>
<td>0.25</td>
</tr>
<tr>
<td>Long term relationships with suppliers</td>
<td>6.5</td>
<td>6</td>
<td>0.5</td>
</tr>
</tbody>
</table>

### Table 5.5: Difference in Responses on Blue Chips between Leaf Merchants (MDs) and Farmers

<table>
<thead>
<tr>
<th>CSF</th>
<th>Leaf Merchants (MDs)</th>
<th>Farmers</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>5</td>
<td>6.25</td>
<td>-1.25</td>
</tr>
<tr>
<td>Quality (grade)</td>
<td>6.5</td>
<td>6.75</td>
<td>-0.25</td>
</tr>
<tr>
<td>Integrity (No NTRM, residue)</td>
<td>7</td>
<td>7</td>
<td>0</td>
</tr>
<tr>
<td>No child labour</td>
<td>6.75</td>
<td>6.75</td>
<td>0</td>
</tr>
<tr>
<td>GAP</td>
<td>6.5</td>
<td>5.5</td>
<td>1</td>
</tr>
<tr>
<td>Volume (being able to buy large quantities from a single supplier)</td>
<td>5.5</td>
<td>6.5</td>
<td>-1</td>
</tr>
<tr>
<td>Long term relationships with suppliers</td>
<td>6.75</td>
<td>6.5</td>
<td>0.25</td>
</tr>
</tbody>
</table>
Table 5.6: Difference in Response on Non-Blue Chips

<table>
<thead>
<tr>
<th>CSF</th>
<th>Leaf Merchants (MDs)</th>
<th>Farmers</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>6</td>
<td>4.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Quality (grade)</td>
<td>4.75</td>
<td>6.5</td>
<td>-1.75</td>
</tr>
<tr>
<td>Integrity (No NTRM, residue)</td>
<td>3.25</td>
<td>6.5</td>
<td>-3.25</td>
</tr>
<tr>
<td>No child labour</td>
<td>2.75</td>
<td>7</td>
<td>-4.25</td>
</tr>
<tr>
<td>GAP</td>
<td>2.25</td>
<td>5.75</td>
<td>-3.5</td>
</tr>
<tr>
<td>Volume (being able to buy large quantities from a single supplier)</td>
<td>3.5</td>
<td>6.25</td>
<td>-2.75</td>
</tr>
<tr>
<td>Long term relationships with suppliers</td>
<td>2.75</td>
<td>6</td>
<td>-3.25</td>
</tr>
</tbody>
</table>

Table 5.7: Difference in Perception of End-Market Bifurcation, Leaf Merchants (MDs) and Farmers

<table>
<thead>
<tr>
<th>CSF</th>
<th>Leaf Merchant (MDs) Level of Bifurcation</th>
<th>Farmer Level of Bifurcation</th>
<th>Difference</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>-1</td>
<td>1.75</td>
<td>-2.75</td>
</tr>
<tr>
<td>Quality (grade)</td>
<td>1.75</td>
<td>0.25</td>
<td>1.5</td>
</tr>
<tr>
<td>Integrity (No NTRM, residue)</td>
<td>3.75</td>
<td>0.5</td>
<td>3.25</td>
</tr>
<tr>
<td>No child labour</td>
<td>4</td>
<td>-0.25</td>
<td>4.25</td>
</tr>
<tr>
<td>GAP</td>
<td>4.25</td>
<td>-0.25</td>
<td>4.5</td>
</tr>
<tr>
<td>Volume (being able to buy large quantities from a single supplier)</td>
<td>2</td>
<td>0.25</td>
<td>1.75</td>
</tr>
<tr>
<td>Long term relationships with suppliers</td>
<td>4</td>
<td>0.5</td>
<td>3.5</td>
</tr>
</tbody>
</table>
As can be seen in Tables 5.4-5.7 above, there are a number of salient differences in the responses to this survey between the Leaf Merchants MDs and the farmers. Starting with the ratings that each group gave to the Blue Chip customers, it can be seen in Table 5.5 that there were not major discrepancies. Most of the scores differed by 1 point or less. For both integrity and no child labour both groups gave the same scores. The biggest difference was on the price ranking where Leaf Merchant MDs ranked this CSF as 5 and farmers as 6.25. Based on this comparison of responses, one can assert that Leaf Merchant MDs and the farmers surveyed largely concur on the importance of the CSFs to Blue Chip customers.

However, turning to the CSFs of the NBC end-market, there are major differences in the scores given by our two surveyed groups (see Table 5.6). The differences in rankings are minor on the more traditional CSFs of quality and price. However, there are major differences in the other 5 CSFs. Of particular interest is the issue of no child labour, which the farmers have ranked as being extremely important to the NBC end-market (average score of 7) whereas Leaf Merchant MDs have given this an average score of merely 2.75. Likewise for the importance of GAP, where farmers believed this to be a relatively important CSF for the NBC end-market (average score of 5.75) and leaf merchant MDs ranked it as largely unimportant (average score of 2.25). Also of particular interest to the GVC literature are the scores given to integrity of the crop and importance of long term relationships with suppliers. In both cases the farmers believed these CSFs to be important to the NBC end-market (average scores of 6.5 and 6 respectively) and leaf merchant MDs ranked them as relatively unimportant (average scores of 3.25 and 2.75, respectively).

The evidence presented in Tables 5.5-5.6 can therefore be used to argue that there is asymmetric information between leaf merchants and farmers in that leaf merchants clearly understand that there are two end-markets for Malawian tobacco, one of which is driven by concerns with branding and public relations and the other driven by price, whereas the farmers in charge of associations perceive merely one end-market driven by branding, public relations and price. However, given that the rankings are subjective, it could be argued that these differences are exaggerated and that the absolute value of a
score for a farmer might have a different meaning than the same absolute value for a leaf merchant MD. Following this line of argument, what would be important in terms of examining whether the farmers in the survey recognize the end-market bifurcation, would be the *relative* scores given by the farmers to the CSFs of the two end-markets. In other words, do the farmers rank price as being *more important* to NBCs than BCs? Do the farmers rank GAP as being *more important* to BCs than NBCs? However, Table 5.7 demonstrates that this is not the case. The farmers surveyed rank price as being more important to BCs than NBCs, whereas the leaf merchant MDs assert the contrary. Furthermore, and although by a small margin, the farmers surveyed rank GAP and no child labour as being more important to the NBC end-market than to the BC market, in stark contrast to the leaf merchant MDs surveyed.

Based on this evidence, we argue that the leaf merchant MDs clearly distinguish between two end-markets for Malawian tobacco, each with its own set of objectives or CSFs. The farmers leading four of the most important tobacco farmer associations in the country, on the other hand, *do not* distinguish between the CSFs of the two end-markets. Hence, there is a considerable amount of asymmetric information, which contributes to the power that leaf merchants have over their (farmer) suppliers. More specifically, leaf merchants exploit and/or attempt to create the perception of farmers that all customers demand crop integrity, no child labour, GAP, and low prices in order to implement measures to guarantee these production characteristics and hence serve their more lucrative (BC) end-market whilst at the same time lowering costs.

However, despite their power over growers, many of these efforts by leaf merchants are frustrated by heavy government intervention. For example, the introduction of minimum prices in the 2006/07 season has mitigated (but certainly not eliminated) the leaf merchants’ control over prices paid to producers (more on which in Chapter 7). One key method that leaf merchants use at the auction, in addition to bidding down prices amongst themselves, is rejecting bales of tobacco that they deem of low quality or of being worth less than the minimum prices attached to their grades. Bales are often rejected for containing NTRM, mouldy tobacco, nesting\textsuperscript{239}, and where the part of

\textsuperscript{239} Where low quality tobacco is mixed into a bale rated as higher quality.
the tobacco leaf in the bale does not conform to orders from ICCs. When a bale is rejected it has to repeat a lengthy process at the auction company to reappear on the auction floors. Often these bales are bought when they reappear despite insignificant (or no) changes to the issues which ostensibly caused the bale to be rejected, e.g. mould, nesting, etc. (interviews; observation). This process may contribute to lowering prices in two ways. Firstly, by lowering the perceived quality of the bale, farmers may be willing to accept lower prices. And secondly, due to concerns about the potential inability to sell their tobacco, farmers will occasionally attempt to intervene to reduce the official grade of their tobacco, which in turn implies a lower minimum price (interviews; more on which in Chapter 7).

5.4 Conclusion

In this chapter we have partially addressed Research Question 1.a, i.e. *What is the territoriality of the Malawi (smallholder burley) Tobacco Value Chain?* In particular, we have identified two key end-markets for Malawi burley tobacco. One end-market consists of Blue Chip tobacco companies. These companies are the same as those identified as lead firms of the GVCT in Chapter 3, i.e. the international cigarette companies (ICCs). The other end-market for Malawi tobacco consists of the Non-Blue Chip companies, or the *non-lead firm* cigarette manufacturers identified in Chapter 3. These firms, the most prominent (in Malawi) of which is Eastern Tobacco Company of Egypt, differ from the ICCs in that their sourcing decisions are driven mainly by price, rather than concerns over *compliance and traceability*.

The tobacco buying companies which purchase tobacco directly in Malawi are highly concentrated and consist of one ICC (JTI) and four leaf merchants. In total, just five companies account for 100% of Malawi tobacco, four companies account for over 90%, and just two companies account for up to 70%. Four of these buying companies are multi-nationals and one is (indirectly) state-controlled. One of the multi-nationals is part-owned
by TAMA, the largest tobacco farmer association in Malawi. Although not discussed in this chapter, we saw in Chapter 4 that tobacco production in Malawi is highly fragmented and dispersed with smallholders accounting for the bulk of production.

It is important to re-iterate here that other work in the GVC tradition has identified and analysed end-market segmentation. Indeed Gibbon (2003b) identifies multiple end-markets, with distinct governance forms, for clothing exports from African countries. As another empirical example, as noted in Chapter 1, Selwyn (2007, 2012) identifies four end-markets for grape production in the North-East of Brazil. Furthermore, and as pointed out in Chapter 1, one of Gereffi et al.’s (2005) GVC governance types is “market”, which is characterized by low levels of power asymmetries between lead firms and first tier suppliers. Whilst other work has focused on end-market segmentation due (primarily) to geography, regulation, trade laws, and/or high-end versus low-end markets, the main distinguishing factor of the end-markets presented in this chapter relates to the type of lead firm. Indeed, the lead firms discussed in Chapter 3 operate in multiple geographies, regulatory and trade frameworks, and they cater to multiple market segments within each of these. Furthermore, and as seen in Chapter 3, tobacco products regulations are characterized by both their global reach and by their increasing presence in developing countries. Of course, further research could identify a number of other features which represent the NBC and BC buyers, however for our purposes in this work, the CSFs which appear to distinguish the firms in each end-market, are (or relate to) some of the main concerns of GVC analysis of governance.

These findings bring us back to our discussion in Chapter 1 of the question posed by GVC analysts of whether a GVC refers to a specific strand of a chain, a specific form of the commodity in question, or specific end-market (among other sources of intra-chain differentiation). Although we do not attempt to provide a definitive answer to this question, it is worth re-iterating here that our analytical focus in this work is on the value

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240 However his analysis is limited primarily to the U.K. end-market.

241 For example, a common topic for ICC annual reports is the extent to which consumers are “up-trading” or “down-trading” between higher or lower-end segments, usually due to socio-economic and wealth factors. The combination of premium-, mid-, and low-price brands pertaining to an ICC is referred to as the “product mix” in industry jargon (PMI, 2012a, p 21).
chain that connects smallholder burley tobacco in Malawi to the international cigarette companies. This focus is in large part based on our survey and interviews, which reveal that only the ICCs can be said to be *driving* the Malawi Tobacco Value Chain (more on which in Chapter 6). Finally, and whilst further research would be required to enhance our understanding of the sources of differentiation within the cigarette industry globally\(^\text{242}\), in this work we will attempt to explain some of the reasons for the existence of this end-market bifurcation within Malawi. This is a task we will return to in Chapter 8, building on insights presented in Chapters 6 and 7.

\(^{242}\) Given the simultaneous trends of increasing regulation and increasing consumption of tobacco products in emerging economies, we would build on our discussion of the shareholder value doctrine in Chapters 1 and 3 by hypothesising that one of the key sources of differentiation in the global cigarette industry lies in the geography of financial markets, rather than consumer markets. Whilst the ICCs’ consumer markets are truly global, their key financial markets are New York, London, and Tokyo, where they must overcome concerns and satisfy expectations of investors who operate in these markets. Of particular relevance is the ability to address issues relating to “ethical” concerns and “reputational risk”, as discussed in Chapter 3. Further research on investment patterns and ICC relations with shareholders would be required in order to test this hypothesis.
Chapter 6: How the International Cigarette Companies Govern and Control Upgrading in the Malawi Tobacco Chain

6.1 Introduction

In Chapter 3 we established the sources of power that Blue Chip ICCs (lead firms) have over leaf merchants (their first tier suppliers) globally. In particular in Malawi, in recent years the ICCs have used their informational asymmetries, oligopsony power, “punishing and rewarding” buying patterns, and the (implicit) threat of vertical integration in order to achieve more beneficial cost structures, impose functions upstream, and most importantly, to achieve compliance and traceability (C&T). In Chapter 5 we discussed the particular objectives of these lead firms. We emphasized that price (of tobacco) was not the key Critical Success Factor (CSF), but rather issues relating to C&T - or credence (as discussed in Chapter 1) - such as certification that production did not involve child labour, assuring good agricultural practices (GAP), etc.

In this chapter we will partially answer Research Questions 2.a, 3.a, and 4.a. Specifically, we will address the following:

2.a How do lead firms drive the Malawi (smallholder burley) Tobacco Value Chain?

3.a How is the lead firm-first tier supplier node of the Malawi Tobacco Value Chain coordinated? Does the coordination observed correspond to the predictions of Gereffi et al. (2005)?
4.a Have lead firms promoted upgrading in Malawi? If so, in what form and for whom?

In this chapter we will build on our discussion of governance in the Global Value Chain for Tobacco (GVCT) in Chapter 3 by analysing how lead firms drive the Malawi Tobacco Value Chain243 (Section 6.2). In Section 6.2 we will also assess how lead firms coordinate the lead firm-first tier supplier node of the chain. In Section 6.3 we will discuss upgrading within the Malawi Tobacco Value Chain and the extent to which lead firms control this upgrading. Section 6.4 will conclude244.

6.2 Governance

In Section 6.2.1 we will develop our argument that lead firms benefit from asymmetrical power over first tier suppliers by incorporating evidence gathered in field work. In particular we will further demonstrate the level of asymmetrical information, which contributes to power asymmetries, and the extent to which lead firms define functions of their suppliers. In Section 6.2.2 we will engage with governance as coordination by testing Gereffi, Humphrey, and Sturgeon’s (2005) theory of GVC governance.

6.2.1 Governance as Drivenness

In Chapter 5 we discussed the extent of asymmetric information at the leaf merchant-farmer node of the chain. In particular we compared the results of our survey which

243 For the distinction between the Global Value Chain for Tobacco, and the Malawi Tobacco Value Chain, refer to Chapter 1.
244 There is considerable overlap between this chapter and Moyer-Lee and Prowse (2012). My contributions to the latter will not be cited in this chapter; however I will cite any material that was produced either jointly or by the other author.
asked respondents to rank the levels of importance of various “Critical Success Factors” in the two end-markets: Blue Chips (BCs) and Non-Blue Chips (NBCs). We discussed the results of the survey when conducted among Leaf Merchant Managing Directors (MDs) and farmers in executive positions of four of the leading tobacco farmer associations. Our key findings were that whilst the leaf merchant MDs clearly distinguished between these end-markets, the farmers failed to distinguish between purchasing objectives of the two end-markets.

Below we expand on these findings to incorporate the results of the survey when conducted among the Agronomy Directors (ADs) of the four leaf merchant companies (see Table 6.1). The survey results reveal that with the exception of “price” (where ADs ascribe the same level of importance to both end-markets), the ADs do distinguish between the two end-markets in terms of the importance that each ascribes to the remaining six CSFs. However, what is interesting about the results is when the level of bifurcation (given by the ADs) is compared with that given by the leaf merchant MDs on the one hand, and the farmers on the other (see Table 6.2 and Figure 6.1).

Table 6.1: CSF Survey with Leaf Merchant ADs

<table>
<thead>
<tr>
<th>Critical Success Factor</th>
<th>Blue Chips</th>
<th>Non Blue Chips</th>
<th>Level of Bifurcation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>6</td>
<td>6</td>
<td>0</td>
</tr>
<tr>
<td>Quality (grade)</td>
<td>5</td>
<td>4.5</td>
<td>0.5</td>
</tr>
<tr>
<td>Integrity (No NTRM, residue)</td>
<td>5.75</td>
<td>4.75</td>
<td>1</td>
</tr>
<tr>
<td>No child labour</td>
<td>6.25</td>
<td>4</td>
<td>2.25</td>
</tr>
<tr>
<td>GAP</td>
<td>5.25</td>
<td>3.25</td>
<td>2</td>
</tr>
<tr>
<td>Volume (being able to buy large quantities from a single supplier)</td>
<td>5.5</td>
<td>3.25</td>
<td>2.25</td>
</tr>
<tr>
<td>Long term relationships with suppliers</td>
<td>5.5</td>
<td>4.5</td>
<td>1</td>
</tr>
</tbody>
</table>
Table 6.2: Level of Perceived End-Market Bifurcation by Various Chain Nodes/Sub-Nodes

<table>
<thead>
<tr>
<th>Critical Success Factor</th>
<th>Leaf Merchant MDs</th>
<th>Leaf Merchant ADs</th>
<th>Farmers</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price</td>
<td>-1</td>
<td>0</td>
<td>1.75</td>
</tr>
<tr>
<td>Quality (grade)</td>
<td>1.75</td>
<td>0.5</td>
<td>0.25</td>
</tr>
<tr>
<td>Integrity (No NTRM, residue)</td>
<td>3.75</td>
<td>1</td>
<td>0.5</td>
</tr>
<tr>
<td>No child labour</td>
<td>4</td>
<td>2.25</td>
<td>-0.25</td>
</tr>
<tr>
<td>GAP</td>
<td>4.25</td>
<td>2</td>
<td>-0.25</td>
</tr>
<tr>
<td>Volume (being able to buy large quantities from a single supplier)</td>
<td>2</td>
<td>2.25</td>
<td>0.25</td>
</tr>
<tr>
<td>Long term relationships with suppliers</td>
<td>4</td>
<td>1</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Consistent with our assumption in Chapter 5 that the leaf merchant MDs’ rankings are the most accurate descriptors available of the purchasing priorities in the two end-markets, it can be seen in Table 6.2 and Figure 6.1 that in six out of the seven CSFs, leaf merchant ADs were less accurate in their responses than MDs but more accurate than farmers. In other words, the ADs perceive less of a bifurcation of the two end-markets than do their MD bosses, but perceive more of a bifurcation than do the farmers. The notable exception to this is “price” where the ADs perceive no difference in the value ascribed to this CSF by the two end-markets whereas the farmers perceive the BC end-market as being more concerned with price than the NBC end-market. As explained in Chapter 5 and as can be seen in Table 6.2 and Figure 6.1 above, this is opposite to the perceptions of the MDs. The conclusion that can be drawn from the results presented here is that not only are there informational asymmetries between customers and farmers, but that these asymmetries actually increase as one moves along the chain upstream away from consumers and towards producers.
**Pricing.** The extent of ICCs’ control over their (first tier) suppliers can be seen in the description of former Tobacco Control Commission (TCC) general manager Godfrey Chapola (cited in Otañez et al., 2007, p 263):

The [raw tobacco] price that is paid to the producer, it starts from the cigarette manufacturer. Because the manufacturer tells, [Limbe Leaf or Alliance One] ‘can you buy me so much tobacco, deliver it at my doorstep at four dollars twenty?’ The local supplier [with Limbe Leaf or Alliance One] here will then do his arithmetic, putting all their costs. So, that will be the price that at the end of they will be competing for at the auction floor.
The traditional pricing model used for tobacco sales from leaf merchants to Blue Chips is known in industry jargon as “in the box”. This refers to a customer demanding a certain type of tobacco and a certain price (as in the quote above). This model is implemented between the leaf merchants’ sales departments and Blue Chip purchasing department. Great emphasis is placed on the personal relationships that the salespeople are able to establish with the customers. This is particularly important in that the (non-contract farming) tobacco being sold by Alliance One International (AOI) and Limbe Leaf, for example, is indistinguishable (interviews).

However, coinciding with the increasing professionalization of the global tobacco industry and the increasing power of lead firms over suppliers, the model is shifting towards “cost-plus.” In this model the customer pays the price of the tobacco plus the costs of processing and a small (6-12%) profit margin. In this model, the leaf merchants’ cost structures become the main selling point and hence represent an increased role for accountants and finance directors and a decreased role for salespeople (interviews). The shift in pricing models from “in-the-box” to “cost-plus” is also representative of an increase in information asymmetries between lead firms and first tier suppliers in that the former are able to obtain detailed cost structures of the latter without offering information on their own cost structures in return (interviews).

As noted in Chapter 1, Gibbon and Ponte (2005, p 123) state that

...the most important element of power relations between lead firms and first-tier suppliers is control over the definition of the functions that first-tier suppliers should play, rather than the externalization of low-profit functions as argued in earlier literature.

This definition of functions is seen in particular in ICC policies on durations as well as on C&T tobacco.
Durations. Policies on durations - which refer to the amount of tobacco stocks maintained by ICCs - are an example of lead firms defining functions of their suppliers. The ICCs are very secretive about this, even in regards to their suppliers, however they are perceived by some to be intentionally decreasing their durations to about 12 months’ worth of stock (interviews). This is a reflection of drivenness in two ways. Firstly, given our discussion of the importance of product differentiation, branding, and marketing for ICCs, less importance is attached to the tobacco component of the ICCs’ products. Dedicating fewer financial and physical resources to the tobacco side (i.e. stocking) is representative of the increasing importance of marketing as ICC business strategy. Decreasing durations also unties capital which can be perceived as efficiency gains and raise share values (as with other buyer-driven chains). Secondly, decreased durations imply increased burden on first tier suppliers in that they will have to fill more timely and accurate orders by ICCs to make up for what the ICCs could have drawn from their own stocks. The process of decreasing durations, i.e. cigarette companies depleting their tobacco stocks instead of purchasing new tobacco for cigarette production, also has the potential to increase their (short-term) power over their first tier suppliers in that it could artificially decrease demand for tobacco beyond that due to cigarette consumption trends, which are more easily predicted by multi-national leaf merchants. More specifically, and given both the secretive nature of durations policies (mentioned above) and the various forms of tobacco leaf market segmentation (e.g. by quality, flavour versus filler, etc., discussed in Chapter 3), drawing on durations may enable ICCs to overcome the price implications of shortages of certain types of tobacco in a given season.

Compliant and Traceable (C&T) Tobacco. The most significant example of lead firms defining functions of their first tier suppliers is through the implementation of compliance and traceability in tobacco leaf sourcing. Indeed, a number of the Blue Chips

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245 For example, the value of leaf tobacco held by JT decreased from 359,152 million yen in 2010 to 343,198 million in 2011, to 294, 813 million in 2012 (JT, 2012, p 111). However, one important caveat to this anecdotal evidence is that it is based on value rather than volume, and hence could potentially represent a decrease in high-value tobacco rather than a decrease in overall tobacco.

246 For more on this see Gibbon and Ponte’s (2005) shareholder value doctrine, as well as our discussions in Chapters 1 and 3.
have even threatened to stop buying non-C&T tobacco from Malawi within a number of years (some as early as 2013/14 season). As contract farming is the primary method used to attain compliance, leaf merchants are obliged to develop agronomy departments, relationships with farmers and banks, and methods of demonstrating traceability to the Blue Chips (interviews).

Interviews reveal two key issues regarding C&T tobacco: firstly, leaf merchants aim to achieve 100% contract farming C&T tobacco, and secondly, they only have this aim due to customers’ demands. The shift to C&T tobacco has required significant investments on the part of the leaf merchants. Taking into account the fact that interviews have revealed that leaf merchants are focusing on C&T tobacco merely to satisfy customers, and that the leaf merchants have expanded their agronomy departments essentially for the purpose of obtaining more C&T tobacco, one can therefore see the recent expansion of leaf merchant agronomy departments as evidence of lead firm function definition.

For example, AOI has more than doubled its agronomy department budget in the span of just two seasons, moving from a budget of roughly US$ 1 million in the 2010/11 season to US$ 2.1 million in the 2011/12 season, to US$ 2.8 million in the 2012/13 season. The company intends to keep expanding the department until an end-state budget of roughly US$ 4.5 million (see Figure 6.2 below). Given the quantity of tobacco AOI intends to purchase, this end-state budget would equate to US$ 0.06 – US$ 0.11 per kg of tobacco by 2016 or 2017 (interviews).

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247 As seen in Chapter 5, Malawi is rather unusual in that its marketing system (at the time of fieldwork) was auction (rather than contract farming) based. Indeed, PMI (2012c, p 8) sources roughly 80% of its global tobacco leaf through contract farming.
Like AOI, Limbe Leaf has also massively increased outlays for its agronomy department. The company moved from spending roughly US$ 400,000 on the agronomy department in the 2010/11 season to about US$ 2.7 million in the 2012/13 season (see Figure 6.3 below). Although we have not obtained precise figures, we do know that the agronomy department for this company was quite large in the years 2000-2006; however this was mainly for the purposes of contract FCV tobacco. For political reasons, FCV tobacco has been treated quite differently than burley tobacco in Malawi (more on which in Chapter 7). Therefore our interests in this chapter lie in the expansion of agronomy departments for the purposes of increasing C&T burley tobacco.

We also know that ensuring traceability was one of the main rationales behind JTI’s decision to vertically integrate in 2009, and although we do not have precise figures we do know that establishing an agronomy department which can deliver C&T tobacco has had major cost implications for the company. Premium-TAMA did not have an agronomy department for the first two years (2006-2008) of the company’s existence.
Although its agronomy department was initially launched for the purposes of NDDF tobacco for the NBC end-market, the following season it expanded into burley. The agronomy department currently costs roughly US$ 0.20 per kg of tobacco. Malawi Leaf opened its agronomy department in the 2012/13 season and at the time of fieldwork was still developing its first budget. The department had three employees (interviews).

*Figure 6.3: Limbe Leaf Agronomy Department Budget (US$ Millions, Rough Estimates)*

![Graph showing budget evolution from 2010/2011 to 2012/2013](source: Interviews)

In terms of employment, AOI has massively increased the number of smallholder-related employees in the agronomy department in recent years. *Smallholder-related* is a relevant category because these employees are hired primarily for the purposes of implementing contract farming and compliance issues. An agronomy department requires minimal smallholder-related employees if the smallholder tobacco is being bought via an auction system alone. As can be seen in Figure 6.4 below, this category of employment at AOI has increased from merely 8 people in 2004 to 154 people in 2012. This tallies with
AOI’s operations globally in that at the time of research roughly one third of AOI’s employees worldwide were in agronomy departments (interviews).

*Figure 6.4: Smallholder-Related Agronomy Employees at AOI, 2004-2012*

As can be seen in Table 6.3 below, the majority of these employees are leaf technicians (agronomy extension officers). At the time of the interviews there were 105 leaf technicians and the agronomy department had an eye to an end-state of 110 leaf technicians. The majority of these leaf technicians have diplomas from the Natural Resources College and certificates in tobacco production from Mwimba Farm Institute. Previously AOI would recruit them as trained leaf technicians, but starting in August, 2011 the company introduced its own 18 month trainee course (interviews).

As can be seen in Table 6.4 below, Limbe Leaf has a similar employment pattern in its agronomy department in that it is heavily orientated towards leaf technicians - which
are used to disseminate C&T-related agronomy practices - and compliance-related staff (e.g. GAP, ALP, etc.). Although we do not have detailed data on the expansion of employment in the Limbe Leaf agronomy department, we do know that in the 2010/11 season there were no leaf technicians or zone leaders, which would have made contract growing near impossible (interviews).

### Table 6.3: Smallholder-Related Agronomy Employees at AOI, 2012

<table>
<thead>
<tr>
<th>Job</th>
<th>Number of Employees</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leaf technicians</td>
<td>105 (5 vacancies)</td>
<td>Extension officers</td>
</tr>
<tr>
<td>Supervisors</td>
<td>12</td>
<td></td>
</tr>
<tr>
<td>Area managers</td>
<td>4</td>
<td>Oversee leaf technicians</td>
</tr>
<tr>
<td>Operations managers</td>
<td>2</td>
<td></td>
</tr>
<tr>
<td>Senior agronomist (smallholders)</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Country agronomist</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Compliance officers</td>
<td>6</td>
<td>Auditors- cross-check that farmers are who they say they are; cross-check fertilisers, hectarage, chemicals, tree counts, plant counts, bank account details</td>
</tr>
<tr>
<td>Agro-forestry</td>
<td>4</td>
<td></td>
</tr>
<tr>
<td>Motorcycle mechanics</td>
<td>3</td>
<td></td>
</tr>
</tbody>
</table>

Source: Interviews
Table 6.4: Agronomy Department Employees at Limbe Leaf, 2012

<table>
<thead>
<tr>
<th>Job</th>
<th>Number of Employees</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Zone leaders</td>
<td>350</td>
<td>Lead farmers used to disseminate best practices, expenses paid (only)</td>
</tr>
<tr>
<td>Leaf technicians</td>
<td>77</td>
<td>Agronomy extension officers</td>
</tr>
<tr>
<td>ALP</td>
<td>4</td>
<td>Staff responsible for implementation of PMI’s Agricultural Labour Practices</td>
</tr>
<tr>
<td>GAP</td>
<td>3</td>
<td>Staff responsible for implementation of Good Agricultural Practices</td>
</tr>
<tr>
<td>Forestry</td>
<td>4</td>
<td>Staff responsible for implementation of Limbe Leaf forestry programme</td>
</tr>
<tr>
<td>Area coordinators</td>
<td>8</td>
<td>-</td>
</tr>
<tr>
<td>Operations manager</td>
<td>1</td>
<td>-</td>
</tr>
<tr>
<td>Market liaison staff</td>
<td>8</td>
<td>Linking area officers to floors, sales</td>
</tr>
<tr>
<td>Monitoring and evaluation systems management</td>
<td>2</td>
<td>-</td>
</tr>
<tr>
<td>Support logistics</td>
<td>2</td>
<td>Procurement, inputs</td>
</tr>
<tr>
<td>Admin officers</td>
<td>16 (2 per area)</td>
<td>-</td>
</tr>
<tr>
<td>Accounts personnel</td>
<td>2</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: Interviews

Beyond investing in an agronomy department, the implementation of contract farming entails a number of further costs and risks from the leaf merchants’ perspective. The leaf merchants need to source inputs for the farmers, develop relationships with banks that will provide finance for the purchase of these inputs and accept part of the liability for these loans as smallholders do not generally have sufficient collateral for the banks to provide loans (interviews).

The model being used by AOI and Premium-TAMA (which appears to be similar to those being used by competitors) was developed over the first couple years of (burley) contract farming (introduced in the 2005/6 season). The farmers are given loans by

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248 The implementation of contract farming from the farmers’ perspective will be discussed in further detail below in Section 6.3 of this chapter on upgrading.
Malawian commercial banks on a joint liability basis through the so-called “burley clubs”. The clubs are responsible for the first 15% of the loan in the case of default and the leaf merchant for the next 6-10%. This leaves the banks responsible for (at most) 69% of the loan in the case of default. Although all parties appear to be happy with the model the burden rests significantly on the leaf merchants (as opposed to the bank) as they are not only partially reliable in the case of default but also do much of the work that one would normally consider to be the responsibility of the lender such as screening of customers, follow up in case of default, etc. (interviews).

In addition to working with banks, Limbe Leaf also does direct lending to some of its farmers (estimated at about 20%). The interest rates available to farmers through this sort of lending are much lower than those offered through commercial bank loans (roughly 3.75% versus 37%) and hence appear to be beneficial to the farmer. Limbe Leaf of course bears much more risk through this sort of lending (interviews).

However, interviews reveal that some leaf merchants do not deem financial implications of the shift to C&T tobacco to be the most burdensome, but rather training. Training is carried out by leaf merchants in a number of ways, including but not limited to: field days, workshops, and conferences with farmers, via leaf technicians which work directly with farmers, and via growers’ representatives in farmer organisations (more on which in Chapter 7) (direct observation; interviews). This point has been emphasized in light of the fact that part of what is required is changing long-time practices such as the use of child labour and deforestation (interviews).

6.2.2 Governance as Coordination

The main contribution of Gereffi, Humphrey and Sturgeon (2005) is their elaboration upon the variety of value chain governance forms which fall in between the two end-points of vertical integration and arms-length market interactions. As explained in
Chapter 1, the authors refer to these governance types as “network relationships.” The authors postulate three main types of network relationships - modular, relational, and captive - which are functions of the complexity of transactions, ability to codify transactions, and capabilities in the supply base, see Table 6.5 (reproduced from Chapter 1).

It is important to note that although this is one of the more complex and developed theories regarding value chain governance, an important caveat - which the authors themselves point out - is the subjective nature of the evaluation of the degrees of complexity of transactions, codification, and capabilities in the supply base. Furthermore, for the purposes of this model of governance, the three previously-mentioned indicators are designated as either “high” or “low”. In reality, these indicators are much more likely to be located on a continuum with “high” and “low” representing end-points, rather than dichotomous alternatives. However, within the restrictions of the model, we will discuss each of these indicators, as well as their predictive implications for governance (as coordination) at the lead firm-first tier supplier node of the ICC-Malawi Tobacco Value Chain.

**Table 6.5: Key Determinants of GVC Governance**

<table>
<thead>
<tr>
<th>Governance type</th>
<th>Complexity of transactions</th>
<th>Ability to codify transactions</th>
<th>Capabilities in the supply-base</th>
<th>Degree of explicit coordination and power asymmetry</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td>Low</td>
</tr>
<tr>
<td>Modular</td>
<td>High</td>
<td>High</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Relational</td>
<td>High</td>
<td>Low</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Captive</td>
<td>High</td>
<td>High</td>
<td>Low</td>
<td>High</td>
</tr>
<tr>
<td>Hierarchy</td>
<td>High</td>
<td>Low</td>
<td>Low</td>
<td>High</td>
</tr>
</tbody>
</table>

Source: Modified from Gereffi, Humphrey and Sturgeon (2005, p 87)
Gereffi et al.’s (2005, p 85) first factor is “The complexity of information and knowledge transfer required to sustain a particular transaction, particularly with respect to product and process specifications…” The complexity of transactions is considered to increase when lead firms increase demands on their suppliers and considered to decrease through standards (re codification). With the previously stated caveat that the degree of complexity of transactions is measured subjectively rather than scientifically, we argue that the transactions between ICCs and leaf merchants are highly complex. Referring back to the Critical Success Factors - established in Chapter 5 - which drive buying decisions of ICCS in Malawi, one can see that establishing the degree to which each CSF is met requires a large amount of detailed and complex information.

The more traditional CSFs, such as price and quality, are less complex than some of the others. In particular, quality is relatively easily established through visual inspection. Price is somewhat more complex however, in that ICCs are increasingly demanding detailed information on leaf merchants’ costs structures in order to determine how much they are willing to pay for tobacco. This implies increased flow of information between accountants and finance directors rather than just on-the-floors negotiations between leaf merchants’ salespeople and buyers. Crop integrity can to a certain extent be established through physical inspection (e.g. NTRM); however chemical residues need to be established through lab tests. GAP and the use of child labour, however, cannot be established through physical inspection. To credibly establish these credence issues for ICCs, leaf merchants need to first disseminate methods of combatting non-GAP cultivation and the use of child labour and then collect an extensive amount of data on farmer cultivation practices and communicate this data in a simple manner to ICC buyers (interviews; more on which below).

Codification refers to

...the extent to which this information and knowledge can be codified and, therefore, transmitted efficiently and without transaction-specific investment between the parties to the transaction (Gereffi et al., 2005, p 85)....
Contract farming is only part of ensuring C&T. In fact, it could be argued that contract farming is merely a method of improving compliance. The other essential part entails the ability to prove compliance to customers, i.e. traceability. Interviews suggest that ten years ago the Blue Chips appeared to be much less concerned with traceability. They would arrive occasionally in Malawi and demand to visit one of the farmers who was producing the tobacco they were buying. It was common practice for leaf merchant officials to bring the ICC representative to one of their “model farmers” who they knew met all of the ICC’s compliance standards. As concerns regarding traceability started to increase the ICC representative would start to demand to see a particular farmer. The leaf merchants would respond in kind by bringing that farmer to their “model farm” thereby creating the appearance of conformity to ICC standards. However, interviews revealed that at the time of fieldwork this model was no longer feasible. The ICC representatives may arrive unannounced, with lawyers and agronomists in tow, and demand to see a particular farmer at a particular location. The ICCs are also demanding more generalized data on their farmers in order to control the amount of pesticide use, child labour, etc. The leaf merchants selling to the Blue Chips have responded by embarking on enormous data collection endeavours with their contracted farmers. Two of the three leaf merchants selling large amounts of tobacco to the Blue Chips have hired Agronomy Technologies, a private company, to provide data collection services\(^\text{249}\) (interviews), in what could be interpreted as a massive attempt to codify information.

Agronomy Technologies designs a number of questionnaires in order to gather information from contract growers which are of interest to the leaf merchants; this in turn reflects what is of interest to the ICCs. This information includes crop estimates, chemical use, use of child labour and other compliance concerns, as well as a number of social issues such as presence of clinics and schools in the area, prevalence of malaria and green tobacco sickness, and sources of income for tobacco-growing families. Agronomy Technologies trains the leaf merchants’ agronomy officials on how to administer the survey on a handheld device with GPS positioning. The agronomy officials then conduct

\(^{249}\) JTI is believed to have its own system of data collection. The third leaf merchant selling to blue-chips is believed to have a similar system to Agronomy Technologies.
the survey in five different visits to the farms, with the GPS confirming that the agronomy officials actually visited the farm. In addition to a series of closed questions the survey also has room for the agronomy officials to note observations such as the presence of child labour on the farm despite a farmer’s denial. As the information is entered onto the handheld devices it flows automatically to Agronomy Technologies which then cleans the data and produces reports for the leaf merchants. This enables the leaf merchants to indicate to their (Blue Chip) customers the prevalence of child labour among their contract growers, which tasks children are doing, which pesticides are being used, etc. This system is new and expensive yet provides the traceability that the ICCs are demanding. In fact the ICCs want this type of system extended to cover all of the farmers that are producing the tobacco they buy (interviews).

Gereffi et al. (2005, p 85) list “…the capabilities of actual and potential suppliers in relation to the requirements of the transaction” as one of the determinants of GVC governance. To the extent that capabilities in the supply base can be measured by suppliers’ ability to meet new demands of lead firms, we argue that the capabilities of leaf merchants in Malawi which serve the BC end-market are high and increasing. The evidence for this is that in a very short period of time, AOI, Limbe Leaf, and Premium-TAMA have created and/or expanded agronomy departments (as demonstrated above), disseminated desirable farming processes to farmers, established relationships with farmers which lead to better (in the view of the ICCs) practices, and established systems of monitoring and evaluation of farmers and methods of communicating this information back to customers. The level of capabilities in the above-listed leaf merchants, as well as at JTI, can also be established by point of comparison with Malawi Leaf, which has not been able to achieve the objectives listed above to the same degree. Malawi Leaf could therefore be considered to have a low level of capabilities.

250 Costs for the leaf merchants average US$ 6.30 per farmer per season but the exact cost will depend on a number of factors (interviews). These costs are considerable when one considers the thousands of farmers that are being contracted.
Predictions and Outcomes. Referring back to Table 6.5 above, and given our assertion that transactions are highly complex, that information can be codified and that there is a high degree of capabilities in the supply base, Gereffi et al.’s (2005) theory would predict that governance is modular and that there is a relatively low degree of power asymmetry between lead firms and first tier suppliers. Indeed, as predicted by this theory of governance, transactional dependence does not appear to be particularly prevalent in that leaf merchants sell to various ICCs and ICCs buy from various leaf merchants. ICCs do not appear to “lock-in” certain leaf merchants.

However, a striking discrepancy between the theory’s predictions and our observations is the degree of power asymmetries between lead firms and first tier suppliers (more on which below). Of course, in the case of JTI, GVC governance is hierarchical as this company has vertically integrated in order to achieve its objectives. However, in terms of power relations between the remaining ICCs and the leaf merchants, the degree of power asymmetry more closely corresponds to that ascribed to “captive” value chains:

...power is exerted directly by lead firms on suppliers, which is analogous to the direct administrative control that top management at headquarters might exert over subordinates in an off-shore subsidiary or affiliate of a vertically integrated firm (or ‘hierarchy’ in our framework). Such direct control suggests a high degree of explicit coordination and a large measure of power asymmetry (Gereffi et al., 2005, p88)...

Whilst Gereffi et al.’s (2005) theory of governance did not provide accurate predictions in our case study, it is still useful because it expands upon the network forms of governance typical of buyer-driven chains. In so doing, the theory draws our attention to three factors in particular which have the potential to explain/predict the degree of explicit coordination and power asymmetry in a global value chain. Our case study of the ICC-Malawi Tobacco Value Chain also highlights a number of weaknesses in these authors’ theory and potentially contributes to an expansion of the theory with greater explicative power in other case studies. We consider these weaknesses below.
As emphasized above, and as pointed out by the authors themselves, the theory relies on subjective measures of the main determinants. Of particular concern in our case study is the measure of capabilities in the supply base. We have argued that there is a high degree of capabilities in the supply base as evidenced by the fact that leaf merchants serving the BC end-market have been able to meet the ICCs’ new requirements for C&T tobacco and by the fact that the one leaf merchant that has been unable to meet new demands has also been largely unable to serve the BC end-market. However, one could counter-argue that supplier capabilities are actually low in that the leaf merchants have received major support from ICCs in these endeavours. For example, PMI has financed some of the leaf merchants’ equipment and provided guidance on and interpretation of laws relating to child labour in order to enable leaf merchants and farmers to more easily eliminate the latter. The ICCs are also involved in training leaf merchant officials and aiding the leaf merchants in training their staff on compliance issues\textsuperscript{251}. Furthermore ICCs often either conduct their own audits or contract outside organization to conduct audits to make sure that C&T tobacco is actually compliant (interviews).

Another potential weakness in the theory is its (in)ability to capture certain dynamic elements of the governance predictors. Although the authors claim that one of the strengths of the theory is its ability to capture the dynamics of global value chain governance, it is important to note that the measures of the three governance predictors can change over time and hence would lead one to predict different forms of governance depending on when these measures are evaluated. Whilst the authors do point this out, what is relevant for our case is that even testing the theory at different points in time does not bear accurate results. Continuing on from our discussion above on the level of capabilities in the supply base, and putting aside for the moment that this measure is subjective, it could be argued that the measure would be different if evaluated in the year 2009 than if evaluated in the year 2012. As can be seen in Figures 6.1-6.3 above, the major expansion in leaf merchant agronomy departments started after 2009. Prior to this expansion, the leaf merchants had relatively low abilities to deliver C&T tobacco and hence meet the demands of their customers. The ability to codify information was also

\textsuperscript{251} For the specific case of PMI and the ALP Code, refer to Chapter 3.
low because the leaf merchants had not yet embarked on their massive data collection endeavours. Therefore, Gereffi et al.’s theory would have predicted that the hierarchy form of value chain governance would have prevailed. Their predictions proved partially correct in that in an effort to achieve their objectives by directly sourcing their own tobacco rather than by imposing their demands on suppliers, JTI decided to vertically integrate by acquiring AfricaLeaf in 2009 (interviews).

Furthermore, although the theory does account for the fact that different nodes of a value chain can be characterized by different forms of governance, it does not appear to account for the situation where one node of a value chain - consisting of a group of similar lead firms originally purchasing from the same supply base - is characterized by two different forms of governance. This is notably the case in the lead firm-first tier supplier node of our value chain case study. Given that the theory does not account for multiple governance forms at one node of the chain, it by logical extension cannot account for how one form of governance can influence other forms of governance at the same node of the value chain. In our case study, we argue that JTI’s decision to vertically integrate has had major consequences for the power asymmetries between ICCs and the remaining leaf merchants.

Table 6.6: Lead Firm-First Tier Supplier Chain Governance

<table>
<thead>
<tr>
<th>Lead Firms (Cigarette Companies)</th>
<th>First Tier Suppliers (Leaf Merchants)</th>
<th>GVC Governance Type</th>
</tr>
</thead>
<tbody>
<tr>
<td>JT</td>
<td>JTI (Malawi subsidiary)</td>
<td>Hierarchy</td>
</tr>
<tr>
<td>Blue Chips (excluding JT)</td>
<td>Limbe Leaf (Universal Corporation)</td>
<td>Captive (in terms of power asymmetries and explicit coordination)</td>
</tr>
<tr>
<td></td>
<td>Alliance One International Premium-TAMA</td>
<td></td>
</tr>
</tbody>
</table>

JTI’s vertical integration has increased power asymmetries between ICCs and leaf merchants in a number of ways. For one, JTI’s move to directly source its own tobacco removed one of the major BC customers and hence increased the concentration of the BC
end-market for Malawian tobacco. Increased buyer concentration, as emphasized by much of GVC analysis, often leads to increased negotiating power of buyers over suppliers as suppliers become more beholden to the smaller number of remaining buyers. Furthermore, JTI’s vertical integration has consequences for the level of competition in the leaf merchant sector in Malawi. Although JTI’s vertical integration does not represent an increase in the number of buyers (because the integration occurred through the acquisition of AfricaLeaf, a pre-existing leaf merchant), JTI does have the potential to represent more serious competition for the multi-national leaf merchants operating in Malawi. This is because JTI also benefits from a number of the characteristics which enhance the multi-national leaf merchants’ competitiveness, e.g. access to finance on favourable terms, access to agronomy R&D, etc. Anecdotal evidence of this assertion is seen in interviews with various officials at farmer associations, who looked favourably upon JTI’s vertical integration as the company was perceived to offer better contracts and/or prices to the farmers it contracted (interviews).

Secondly, and as stated above, JTI’s vertical integration serves as an implicit threat to leaf merchants of what can happen if they do not conform to buyers’ demands. In fact, interviews reveal that some leaf merchants have considered the possibilities of joint ventures with ICCs. A joint venture, it could be argued, would lead to a form of governance somewhere between captive and hierarchy. However, the threat of further vertical integration may actually negate its occurrence. As one leaf merchant official stated, there’s no need for vertical integration because “when they (ICCs) say jump, we say how high?” (interviews).

Another element of our case study which is not predicted by Gereffi et al.’s (2005) theory is that interviews reveal that PMI is the leader of the BC end-market. In other words, the compliance standards that PMI sets for its suppliers appear to be accepted by PMI’s BC competitors. This “leader of the pack” role of PMI was confirmed by numerous respondents in interviews. For example, the GAP and child labour issues appear to be driven by PMI’s pressure and the Agricultural Labour Practices (ALP) Code. Furthermore, the surveys that Agronomy Technologies designs are largely based on templates provided
by PMI, even though the data collected serves multiple BC customers (interviews)\textsuperscript{252}. The extent of PMI’s involvement and leadership is somewhat revealed in the following passage from PMI (2012c, p 28):

PMI’s leaf purchases in Malawi are entirely conducted through leaf suppliers who in turn have to procure the bulk of the tobacco through the auction system. PMI does not have Malawi-based personnel and much of our effort is carried out in close coordination with or by our suppliers. In the absence of direct contracts, PMI has been pursuing a three-pronged approach for dealing with child labor and other labor practices issues in Malawi:

- Engage with the government to implement a supply chain system where leaf suppliers or tobacco manufacturers can establish direct contractual relationships that allow for ongoing support of farmers by field technicians;
- Support multi-party efforts to improve the regulatory framework and define concrete actions and accountabilities to implement the national action plan on child labor;
- Continue to support community level initiatives to tackle the root causes of child labor.

This is a particularly interesting finding in that although GVC analysis often draws attention to power asymmetries and the role of lead firms, it often does not usually allow for distinct levels of power between different lead firms, or for the role of a leader within the lead firm sector. In terms of Gereffi et al.’s theory, PMI’s role as “leader of the pack” has a particular impact on the ability to codify transactions and consequently on the degree of transactional dependence between lead firms and first tier suppliers. PMI’s status as lead firm leader goes a long way in explaining why Gereffi et al.’s (2005) captive value chains predictors do not hold in our case study. Regarding the power asymmetries of captive value chains, Gereffi et al. (2005, pp. 86-87) state the following:

...low supplier competence in the face of complex products and specifications requires a great deal of intervention and control on the part of the lead firm, encouraging the build-up of transactional dependence as lead firms seek to lock-in suppliers in order to exclude others from reaping the benefits of their efforts. Therefore, the suppliers face significant switching costs and are ‘captive’.

\textsuperscript{252} There is scope for investigation into the extent to which PMI acts as lead firm leader in other countries. For example, PMI (2012c, p 31) states that one of its major suppliers has agreed to implement the ALP Code in all of its tobacco sourcing locations and that the other major supplier is considering the same.
However, as established above, PMI does not seek to “lock-in” its suppliers but rather appears to allow other BC customers to reap the benefits of its C&T programmes. Therefore transactional dependence is minimized yet power asymmetries remain high.

*First Tier-Second Tier Coordination.* Although our principal area of investigation in this work relates to how lead firms govern the Malawi Tobacco Value Chain, with a particular emphasis on interactions at the lead firm-first tier supplier node, and our main interest in the impact of this governance (as *coordination*) on famers lies in the smallholder burley sector (more on which below), we can still make a number of general observations on the governance of the first tier-second tier supplier node of the chain. However, and in light of the above caveat, we will retain Gereffi et al.’s five governance typologies here for the purpose of *description*, and will not attempt to test the predictive powers of the theory at this node of the chain.

Our observations suggest that elements of several of Gereffi et al.’s governance typologies can be seen in the first tier-second tier supplier node of the chain. For instance, in some instances the hierarchy mode of governance is present, notably in the case of leaf merchants vertically integrating to administer their own farms for production of FCV tobacco. For example, AOI’s agronomy department leases or owns 19 FCV tobacco farms which it runs directly, producing 2.9 million kgs of flue-cured tobacco per year (interviews). We argue that different elements of the network governance types - modular, relational, and captive - can be seen in the various forms of contract farming (more on which below). Indeed the very word “contract” implies a “locking-in” of supplier and buyer. The level of transactional dependence will depend on the amount of support given by the buyers (in this case, with the exception of JTI, the first tier suppliers are the buyers) to the (second tier) suppliers. As will be described in more detail below, some forms of contract farming provide extensive supervision, finance, and inputs, whereas others merely apply a contractual obligation to buy tobacco in a given season. Therefore, relations between leaf merchants and (contracted) large burley farmers who are able to produce a high quality crop whilst adhering to compliance requirements of buyers may more closely approximate Gereffi et al.’s (2005) modular form of governance.
With regard to C&T tobacco produced by burley smallholders (the details of which will be discussed below), we argue that relations between leaf merchants and growers correspond to the captive governance type. Indeed, and in addition to being “locked in” to the transaction due to contractual obligation, smallholder burley farmers producing C&T tobacco are dependent on leaf merchants for finance, inputs, and detailed instructions. Interactions of this node of the chain also correspond to Gereffi et al.’s (2005, p 84) description of this type of governance:

In these networks, small suppliers are transactionally dependent on much larger buyers. Suppliers face significant switching costs and are, therefore ‘captive’. Such networks are frequently characterized by a high degree of monitoring and control by lead firms.

The apparent heterogeneity of governance (as coordination) types at this node of the chain is a reflection of a number of themes which are highlighted throughout this work. These include but not are limited to: the level of differentiation among tobacco farmers (discussed in Chapter 4, more on which in Chapter 7), the existence of two end-markets characterized by firms with different sourcing objectives (discussed in Chapter 5), the somewhat unique (in terms of tobacco-producing countries) dual-marketing system (auction and contract farming, more on which below and in Chapters 7 and 8), and the changing nature of the global tobacco industry, i.e. the increasing importance of compliance and traceability (discussed in Chapter 3). The level of transactional dependence of farmers on leaf merchants, the increase in contract farming, and the shift from auction to C&T tobacco, are all intimately connected with the key GVC concept of upgrading. It is to this subject that we now turn.

6.3 Upgrading

It may be a stretch to consider participation in the Malawi Tobacco Value Chain a dynamic learning curve in the Gereffi sense, however the industry is certainly dynamic. Just within the past decade, there have been numerous changes in key actors in the
industry and a number of examples of different types of upgrading. There have been some (limited) instances of functional and inter-sectoral upgrading and extensive examples of product and process upgrading, notably through contract farming (more on which below).

In terms of functional upgrading the key example, and indeed a major priority of government, would be the establishment in Malawi of a cigarette factory by a multinational company, orientated towards exports. As we have established in Chapter 3, there are considerable and indeed prohibitive, entry barriers for leaf merchants wishing to venture into cigarette production. This is the case not just globally but also in Malawi. In fact when asked about the possibility of venturing into cigarette production in an interview, one respondent replied that leaf merchants could never do that because the ICCs would perceive them as competitors and cease tobacco purchases (interviews).

This leaves two possible options for functional upgrading into cigarette production: either JTI will start producing cigarettes or a different ICC will be persuaded to establish operations in Malawi. However, at the time of completion of fieldwork, no BCs were manufacturing cigarettes in Malawi\(^\text{253}\), and no leaf merchants were considering venturing in to cigarette manufacturing. Furthermore, and following on from our discussion in Chapter 3 where we highlighted both the fact that ICCs tend to locate their manufacturing facilities near key markets and the trend of ICCs to rationalise manufacturing facilities, Malawi appears to be a particularly unattractive location for an ICC cigarette plant. For example, Eriksen et al. (2012, pp. 98-105) list Malawi as having one of the lowest cigarette (per capita) consumption rates in the world. For cigarette per capita consumption in selected countries, see Figure 6.5 below. Given the population sizes of the countries in Figure 6.5, when comparing the size of overall cigarette markets (i.e. the total amount of cigarettes consumed per annum) Malawi appears an even less attractive option for manufacturing plant location.

\(^{253}\) As mentioned in Chapter 5, Nyasa Manufacturing was producing cigarettes at the time of fieldwork, however their purchasing and market size appeared to be minimal. According to the TCC the company did not purchase tobacco directly on the auction floors, and no leaf merchant official interviewed during fieldwork named the company as a customer.
6.3.1 Product and Process Upgrading: The Case of Contract Farming

From our discussion above, and indeed from the perspective of the ICCs, we can identify two principal types of tobacco, or two different products. On the one hand there is the traditional burley tobacco, produced by smallholders and sold via auction. We refer to this sort as standard tobacco (Moyer-Lee and Prowse, 2012). On the other hand there is the integrated production system (IPS) tobacco which is grown on contract and produced with all the correct inputs and adheres to all the appropriate standards, i.e. compliant and traceable (C&T) tobacco (interviews).

In the IPS system, farmers receive an input package which includes a number of items such as fertilizer, maize seeds, transport, chemicals, tobacco seeds, and hessian\footnote{Material for packing the tobacco bales.}. In
addition, the farmer is also often linked to a commercial bank for financing (or receives direct financing from leaf merchants), receives agronomical supervision and purchase is arranged in advance. The combination of the above factors results in much higher yields for IPS tobacco of roughly 1700/1800 kilogrammes per hectare compared to the standard tobacco yields of 700/800 kilogrammes per hectare\textsuperscript{255} (interviews).

Measures to increase food security tend to be a key component of IPS, hence the inclusion of maize seed in many of the input packages. Also, one of the company’s input package includes a cash advance of US$ 107 for three months of the lean season\textsuperscript{256}. A different leaf merchant provides groundnuts as part of the input package and yet another is experimenting with including seeds for vegetables. There are a number of potential reasons for the leaf merchants to include food security as one of the objectives of their input packages. One of the more cynical reasons is that promoting food security is an effective means of mitigating against side-selling, whereby a contracted farmer sells his/her tobacco early in the season to a trader or independent buyer in order to obtain cash for purchase of food in the lean months. Side-selling from the leaf merchants’ perspective leads to accumulation of bad debt and reduction in tobacco obtained (interviews).

A slightly less cynical interpretation of the rationale for food security content is that it can be used to lobby government. The leaf merchants (at time of fieldwork) were still in the process of lobbying the government in an effort to obtain permission to run the entire Malawian tobacco market via contract farming rather than auction. The government had been extremely reluctant to allow this for a number of reasons (more on which in Chapter 7). One of these reasons, at least ostensibly, is concern for the welfare of the smallholder farmer growing tobacco by contract. Demonstrating that this smallholder farmer will

\textsuperscript{255} Moyer-Lee and Prowse (2012, p 17) note that This latter figure tallies broadly with wider estimates. For example, the average smallholder burley yield in Kasungu Agricultural Development District (ADD) in 2001 was 280.4 per acre (701 kgs per hec) whilst a small-n survey in Kasungu district in 2004 found an average burley yield of 360 kgs per acre (900 kgs per hec).

\textsuperscript{256} The lean season in Malawi is the time (usually January to March) after which many smallholders have consumed most or all of the previous season’s maize harvest and before the following season’s harvest.
obtain a number of benefits from contract farming, including improved food security, is a strong arguing point for the leaf merchants (interviews).

C&T tobacco, produced through IPS, contains different elements of product and process upgrading. In the case of product upgrading, as stated above, it is plausible that the characteristics of IPS (C&T) tobacco are different enough from standard tobacco for the two to be considered different products. In line with our discussion of product differentiation through credence factors (Chapter 1), it could be argued that IPS (C&T) tobacco is essentially differentiated through its process attributes and traceability (Moyer-Lee and Prowse, 2012). Of these two, IPS tobacco is of much more value to the lead firms, which is why they have been insistently demanding that all tobacco be IPS tobacco. Of course, one of the key characteristics of IPS tobacco from the lead firms’ perspective (and as seen in our discussion of Agronomy Technologies above) is that it be traceable, i.e. that data on the production processes and producers are available.

In terms of the product upgrading concept, the prices associated with IPS tobacco have been higher in the 2009/2010 (by about US$ 0.60) and 2010/11 (by US$ 0.30-0.40) seasons than the national average price (interviews). According to a leaf merchant official, their IPS farmers earned 193 MKW\textsuperscript{257} per person-day (above minimum wage) as compared to the average (standard tobacco) farmer who earned 106 MKW per person-day, which is not only below minimum wage, but also potentially a loss on investment (interviews). From the farmers’ perspective, in addition to being a product that the lead firms are demanding, IPS tobacco can also be considered a product upgrade in that it is associated with very real benefits for the farmer such as measures to improve food security and cash advances for the lean season.

Many of the elements in Gibbon’s (2001, p 352) description of upgrading are present as well:

...the capture of higher margins on exports of existing forms of unprocessed raw material, by moving up the quality grade ladder, increasing volumes and reliability of

\textsuperscript{257} Malawi Kwacha.
supply, securing more remunerative contracts through forward sales and becoming active in hedging risk via utilizing futures and options instruments.

The IPS system exhibits many of the characteristics outlined in the quote above, as well as with common elements of “process upgrading” highlighted by the GVC-GHS literature, namely improved quality, increased volumes, increased reliability, and hedging of risk. The agronomical supervision associated with IPS leads to a better quality crop. The supervision combined with improved inputs leads to increased volumes by individual farmers (as seen in the yields above), and risk is reduced and financial management improved with the signing of a contract months prior to sale (interviews). For an example of one company’s quality comparison between standard and IPS tobacco, see Table 6.7 below.

<table>
<thead>
<tr>
<th>Quality&lt;sup&gt;(a)&lt;/sup&gt;</th>
<th>Auction&lt;sup&gt;(b) %&lt;/sup&gt;</th>
<th>AOI IPS %</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>6</td>
<td>15</td>
</tr>
<tr>
<td>2</td>
<td>16</td>
<td>22</td>
</tr>
<tr>
<td>3</td>
<td>41</td>
<td>37</td>
</tr>
<tr>
<td>4</td>
<td>23</td>
<td>18</td>
</tr>
<tr>
<td>5</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>6</td>
<td>2</td>
<td>1.5</td>
</tr>
</tbody>
</table>

Source: Modified from AOI (2012b, p 11)

(a) AOI uses its own quality grading system which is different from the TCC. There are 6 grades, ranging from 1 (best quality) to 6 (worst quality).

(b) “Auction” tobacco in this case is synonymous with standard tobacco.

The Complexities of Upgrading. Whilst for analytical purposes it is convenient to portray the options for process and product upgrading as a simple dichotomy of standard (non-upgraded) tobacco on the one hand and IPS (upgraded) tobacco on the other, the reality of upgrading possibilities is more complex than this. In fact we argue that it is more
useful to conceptualize product and process upgrading as continuous rather than dichotomous. For example, there are a number of different types of contract farming in the burley smallholder sector in Malawi. The first useful distinction is between contract selling and contract growing. Contract selling refers to an agreement between producer (farmer) and purchaser (leaf merchant) to buy/sell a given amount of tobacco. There is no provision of inputs, agronomical supervision, or finance arrangement. Contract growing on the other hand, implies some involvement of the purchaser in the growing process, usually through a combination of input provision, supervision and in some cases finance. Of course, as seen above, IPS involves all of these, however there are a number of different levels of buyer involvement in the growing process ranging from mere provision of seeds and limited supervision on the one hand to the full IPS on the other (see Figure 6.6 below) (interviews).

\textit{Figure 6.6: Degree of Buyer Involvement in Contract Farming (Process Upgrading)}

\begin{itemize}
\item \textbf{Contract Selling:} agree to buy tobacco in advance- no support for growing process
\item \textbf{Contract buying with limited support, e.g. seeds and some supervision}
\item \textbf{IPS: high input provision, high yields, financing arrangement, supervision provided}
\end{itemize}

The prevalence of the different types of contracts will depend on a number of factors including leaf merchant resources, past experience with given farmers, geographical locations of farmers, and in some cases, the ability of farmers to make a down payment or provide collateral. Past (successful) dealings with individual farmers are seen as good indicators for future contracts (from the leaf merchants’ perspective) in that

\footnote{This conceptualization would appear to be compatible with the Gibbon-Ponte approach to upgrading as one where the position of developing country suppliers is improved.}
the farmer has demonstrated that he/she will not default on the loan or side-sell (interviews).

For example, Malawi Leaf (at the time of fieldwork) only engaged in contract selling and was planning on venturing into IPS in the 2013/14 season. AOI was involved heavily in contract growing yet operated a number of different types of contract growing referred to as tiers. This company’s contracted growers are therefore classified as first tier, second tier, or third tier contract growers (tier four refers to contract selling), depending on where they are located on the continuum in Figure 6.6. For example, whilst Tiers One and Two include financing arrangements for growers, Tier Three is restricted to seed bed inputs and agronomical supervision (interviews). See Table 6.8 for yield estimates for different tiers for AOI in the 2011/12 season.

Table 6.8: Yield Estimates for AOI Contract Growing, by Tier (2011/12)

<table>
<thead>
<tr>
<th>Tier</th>
<th>Yield (kgs/ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>1864</td>
</tr>
<tr>
<td>Tier 2</td>
<td>1640</td>
</tr>
<tr>
<td>Tier 3</td>
<td>1300</td>
</tr>
</tbody>
</table>

Source: Interviews

Likewise, Limbe Leaf offered contracts with differing levels of buyer involvement in the growing process. This company distinguished the contracts according to tiers as well with Tier One amounting to full IPS and Tier Three essentially contract selling. For the yield estimates for Limbe Leaf contract farming according to tier level of the contract, see Table 6.9 below. Premium-TAMA also offers its contracted farmers different tiered contracts with Tier One representing IPS, Tier Two containing seeds and agronomical supervision, and Tier Three representing contract selling (see Table 6.10 below). Within Tier One there are three sub-categories with different input levels (interviews). To the

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259 This terminology is independent of and not to be confused with the GVC terminology regarding first, second, and third tier suppliers.
extent that inputs (such as fertilizer) partially determine increased yields, which according to the GVC-GHS literature is a form of process upgrading in agricultural value chains, the various tiers of contracts offered by leaf merchants can be taken to represent different degrees of process upgrading for the contracted farmers.

Table 6.9: Limbe Leaf Yield Estimates for Contract Farming, According to Tier

<table>
<thead>
<tr>
<th>Tier</th>
<th>Yield (kgs/ha)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier One</td>
<td>1400</td>
</tr>
<tr>
<td>Tier Two</td>
<td>1200</td>
</tr>
<tr>
<td>Tier Three</td>
<td>1000</td>
</tr>
</tbody>
</table>

Source: Interviews

Table 6.10: Input Levels in Premium-TAMA Contracts, According to Tier

<table>
<thead>
<tr>
<th>Tier</th>
<th>Inputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier One- Full Gap</td>
<td>Super D (NPK) fertiliser 225kgs/0.5ha; CAN fertiliser 100 kgs/0.5ha; maize fertiliser; hybrid maize seed; plastic sheets; certified tobacco seed; hessian; 3 month cash advance at US$ 33/month; US$ 33 allowance for curing barn; agronomy supervision; financing; aforestation;</td>
</tr>
<tr>
<td>Tier One- Full Gap Economy</td>
<td>Same as above without hessian; Super D fertiliser at 200 kgs/0.5ha; no plastic sheets; 2 months cash advance; no curing barn allowance</td>
</tr>
<tr>
<td>Tier One- Half Gap</td>
<td>Same as above except Super D at 150 kgs/0.5ha;</td>
</tr>
<tr>
<td>Tier Two</td>
<td>Certified seed; agronomy extension</td>
</tr>
<tr>
<td>Tier Three</td>
<td>Contract selling</td>
</tr>
</tbody>
</table>

Source: Interviews

In total, in the 2012/13 season, out of AOI’s 22.5 million kgs of contracted tobacco, 11 million kgs were contracted through the IPS system (AOI, 2012b, p 5). One of the leaf merchants’ main objectives of operating different tiers is to progress farmers through to
Tier One. For AOI’s planned progression of farmers through tiers in coming seasons, see Table 6.11 below. Premium-TAMA also plans on moving contracted farmers up the tiers and into IPS (see Table 6.12 below).

Table 6.11: AOI Desired IPS Projected through 2015 Crop

<table>
<thead>
<tr>
<th>Tier</th>
<th>FY 13</th>
<th>FY 14</th>
<th>FY 15</th>
<th>FY 16</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>5,300</td>
<td>8,000</td>
<td>12,000</td>
<td>15,000</td>
</tr>
<tr>
<td>Tier 2</td>
<td>2,800</td>
<td>5,000</td>
<td>7,500</td>
<td>10,000</td>
</tr>
<tr>
<td>Tier 3</td>
<td>3,600</td>
<td>8,000</td>
<td>10,500</td>
<td>15,000</td>
</tr>
<tr>
<td>Tier 4</td>
<td>28,300</td>
<td>19,000</td>
<td>10,000</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>40,000</td>
<td>40,000</td>
<td>40,000</td>
<td>40,000</td>
</tr>
</tbody>
</table>

Source: Reproduced from AOI (2012b, p 9)

Table 6.12: Premium-TAMA Farmer Objectives by Tier

<table>
<thead>
<tr>
<th>Tier</th>
<th>2011/12</th>
<th>2012/13 (target)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1</td>
<td>1,650</td>
<td>2,500</td>
</tr>
<tr>
<td>Tier 2</td>
<td>15,000</td>
<td>22,000</td>
</tr>
</tbody>
</table>

Source: Interviews

Product upgrading, to the extent that it is proxied by the degree of compliance and traceability (i.e. credence attributes as per Chapter 1 and Moyer-Lee and Prowse, 2012), can also be situated on a continuum (see Figure 6.7 below). Contract farming in general, and IPS in particular, is no guarantee of meeting the ICCs’ C&T demands. It is merely perceived to be the best method in attempting to meet these demands. Some elements of compliance are easier to address than others. For example, use of pesticides and chemicals that conform to ICC standards is controlled by including the correct products in the input package. Traceability is also relatively easy to implement (although not inexpensive) as seen with the example of Agronomy Technologies above. Compliance on other issues, however, such as child labour, is much more difficult to ensure. Indeed, IPS
tobacco with comprehensive data is merely a first step in dealing with such compliance issues in that it provides the ICCs with more information on these issues. Information on which specific tasks in the harvesting process are performed by children can lead to more appropriate solutions (interviews).

Figure 6.7: Degree of Compliance and Traceability (Product Upgrading)

An example of this notion of the continuous nature of C&T can be seen explicitly in AOI’s own evaluations of the degree of compliance in the different types of contracts the company offers to growers (see Table 6.13 below). Likewise, the sub-categories of Tier One contracts at Premium-TAMA are Full GAP, Full GAP economy, and Half GAP, implying different levels of compliance with good agricultural practices. In terms of traceability, data on farmers on Tiers One and Two at Premium-TAMA are collected with the Agronomy Technologies system described above (interviews).
Table 6.13: AOI Compliance Levels by Tier

<table>
<thead>
<tr>
<th>Target Issue</th>
<th>Tier 1</th>
<th>Tier 2</th>
<th>Tier 3</th>
<th>Contract marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Compliance levels</td>
<td>Low</td>
<td></td>
<td></td>
</tr>
<tr>
<td>GAP</td>
<td>Full</td>
<td>Full</td>
<td>Reduced inputs ability</td>
<td>N/A</td>
</tr>
<tr>
<td>ALP</td>
<td>Full</td>
<td>Full</td>
<td>Full</td>
<td>Only contractual</td>
</tr>
<tr>
<td>Total Product Integrity</td>
<td>Full</td>
<td>Full but with reduced inputs ability</td>
<td>Full but with reduced inputs ability</td>
<td>Reduced</td>
</tr>
</tbody>
</table>

Source: Modified from AOI (2012b, p 10)

The continuous nature of C&T, buyer involvement in contract farming, and hence product and process upgrading, are brought together in Figure 6.8 below. As argued above, we can see in Figure 6.8 that the degree of product upgrading increases with increasing compliance and traceability. Likewise, the degree of process upgrading increases with increasing involvement of the leaf merchants in the growing process of their contracted growers. Box A in Figure 6.8 therefore represents the standard tobacco farmer where tobacco is grown with minimal inputs, no agricultural or labour practices are purposefully adhered to, and the tobacco is sold via auction. Box A is representative of the majority of smallholder burley tobacco being produced in Malawi at the time of fieldwork. Box B would represent the IPS system in terms of inputs provided and the consequential increase in yields and quality of tobacco. Box B would imply that the IPS system is in operation without any data collection or attention paid to compliance factors such as child labour and/or pesticide use. This would be unlikely in the Malawian context. Likewise Box C would be unlikely: full C&T without a beneficial input package and increases in yields and quality. Box D, on the other hand is what the ICCs are demanding: full compliance and traceability through the IPS system. Our discussion above can be represented graphically by conceptualizing smallholder burley farmers in Malawi as moving gradually from quadrant three (Q3) in Figure 6.8 towards quadrant two (Q2).
6.4 Conclusion

In this chapter we have extended our earlier discussions of lead firm governance and upgrading in the GVCT to the case of Malawi. In particular, we have addressed part of Research Questions 2.a, 3.a, and 4.a. With regards to the part of Research Question 2.a answered here, i.e. *How do lead firms drive the Malawi (smallholder burley) Tobacco Value Chain?*, we have emphasized issues of pricing and the definition of functions of first tier suppliers. With regards to pricing we have shown how lead firms are increasingly demanding detailed cost structures of their suppliers in order to control the margin of profit accruing to the latter. With regards to defining functions, we have discussed the ICC policy of decreasing durations, which logically shifts part of the warehousing and inventories burden to first tier suppliers. However, the most important example of lead firms defining first tier suppliers’ functions is seen in the obligation of leaf merchants to shift procurement from *standard* to *C&T* tobacco. As demonstrated in this chapter, this has required leaf merchants to massively expand their agronomy departments (both in
terms of budgets and employees), and to develop financing arrangements with banks, a system of contracts, and methods of codifying traceability. The demand of the ICCs that production shift from standard to C&T tobacco is a good example of governance as drivenness because the impact is not limited to merely the lead firm-first tier supplier node of the chain. As seen above, the demand for C&T tobacco has also dramatically altered the first tier supplier-farmer node of the chain, as farmers increasingly market their tobacco via contract and are encouraged to change standard production processes.

Our discussion of the “big picture” of how lead firms are driving the Malawi Tobacco Value Chain, provokes the two further questions of how the lead firms coordinate their first tier suppliers, and whether the shift from standard to C&T tobacco entails a form of upgrade for tobacco farmers. The first of these two questions corresponds to Research Question 3.a, i.e. How is the lead firm-first tier supplier node of the Malawi Tobacco Value Chain coordinated? Does the coordination observed correspond to the predictions of Gereffi et al. (2005)? To answer this question we have attempted to test Gereffi et al.’s (2005) theory of value chain governance (as coordination) by evaluating the theory’s three independent variables and asking if the form of governance (as coordination) observed corresponds to the predictions of the theory. We have argued that the theory would have predicted a modular form of value chain governance to prevail, whereas what we observe are both captive (in terms of power asymmetries and explicit coordination) and hierarchy forms of governance. We have argued that this discrepancy occurs primarily as a result of the theory’s inability to differentiate the lead firm sector. This is seen in our example both in the case of two forms of coordination occurring at one node of the chain and in the role of PMI as “leader of the pack”.

Research Question 4.a asks: Have lead firms promoted upgrading in Malawi? If so, in what form and for whom? In this chapter we have centred discussion of lead-firm promoted upgrading on the shift in smallholder burley production from standard to C&T tobacco. We have engaged with the upgrading concept advocated by both the GVC-GHS and GVC-GPD variants. With regards to the former we have highlighted the aspects of smallholder upgrading which correspond to both product and process upgrading, e.g. increased remuneration in the case of the former, higher yields and quality in the case of
the latter. However, we have also engaged with a Gibbon-Ponte conceptualization of upgrading as improving the position of developing country suppliers by stressing the continuous (rather than dichotomous) nature of upgrading, as well as stressing aspects such as improved food security and security of sale. This conceptualization has proved useful in that we have found the smallholder burley sector to be moving (upgrading) gradually from a position of low yielding, standard tobacco, to one of high yielding and more remunerative C&T tobacco.
Chapter 7: The Role of Government and Associational Power in Value Chain Governance and Upgrading

7.1 Introduction

In this chapter we will continue on from Chapter 6 by analysing chain governance (as drivenness) and upgrading within the ICC-Malawi (smallholder burley) Tobacco Value Chain. We will continue to temporarily disregard the Non-Blue Chip end-market for Malawian tobacco (which we will return to in Chapter 8). However, in this chapter we will draw on our analytical approach developed in Chapter 1 - in particular on our discussions of the developmental state and associational power - in order to address the following Research Questions:

2.b Does the Malawian government play a role in driving the Malawi (smallholder burley) Tobacco Value Chain?

4.b Has the Malawian government promoted upgrading in Malawi? If so, in what form and for whom?

4.c Has farmer associational power contributed to upgrading in Malawi? If so, in what form and for whom?

In the remainder of this introduction we will provide a brief institutional context with particular reference to governmental and farmer organisations. Section 7.2 will concern itself with chain governance (as drivenness). This will be followed by Section 7.3 on upgrading and Section 7.4, which will conclude.
7.1.1 The State

The Malawian state has a history of strong intervention in general and in the tobacco industry in particular (see Chapter 4). The state has intervened in a number of ways ranging from a multitude of state-owned, -controlled, or -affiliated enterprises (e.g. ADMARC\textsuperscript{260}, AHL\textsuperscript{261}, Malawi Leaf\textsuperscript{262}, MRFC\textsuperscript{263}, Malawi Savings Bank), regulatory bodies (e.g. ARET\textsuperscript{264}, TCC\textsuperscript{265}), legislation, research and education (e.g. Bunda College of Agriculture\textsuperscript{266}), establishing minimum prices, production quotas, and monetary and exchange rate policies, among others. Rather than provide an encyclopaedic listing of these different institutions/policies and their impacts on the tobacco industry, we introduce them in our analysis below in relation to their role in the governance of and/or upgrading in the Malawi Tobacco Value Chain.

However, in terms of understanding the context in which these institutions operate, it is perhaps useful to refer back to Mkandawire’s (2001) elaboration upon the notion of the Developmental State, with reference to Africa\textsuperscript{267}. In particular Mkandawire highlighted the importance of both ideology and structure in the definition of a developmental state. The Malawian state, during the Bingu wa Mutharika presidency (2004-2012) appears to correspond to Mkandawire’s (2001, p 291) definition of a developmental state

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\textsuperscript{260} Agriculture Development and Marketing Corporation (agricultural parastatal; see Chapter 4).
\textsuperscript{261} Auction Holdings Limited is a subsidiary of ADMARC. All tobacco sold in Malawi must pass through the auspices of this company.
\textsuperscript{262} Malawi Leaf is the only entirely Malawian-owned leaf merchant, and is a subsidiary of AHL (more on which below).
\textsuperscript{263} The Malawi Rural Finance Corporation is a state-owned enterprise which provides micro-finance to farmers.
\textsuperscript{264} Agricultural Research and Extension Trust is a research body in charge of accrediting the introduction of new technologies and products in the tobacco sector (more on which below).
\textsuperscript{265} The Tobacco Control Commission is the governmental body in charge of regulating and licensing the stakeholders in the industry.
\textsuperscript{266} Bunda College of Agriculture offers degrees in agronomy and is responsible for training a large portion of agronomy-related staff in the Malawian tobacco industry.
\textsuperscript{267} Of course, a comprehensive analysis of the Malawian state during the Mutharika presidency, and the relation of the latter to the developmental state literature, is far beyond the scope of this work. However, we do intend to draw on some elements of the developmental state literature discussed in Chapter 1, with the far more modest objective of analysing two of the GVC literature’s key concerns - governance and upgrading - in the tobacco industry.
...as one whose ideological underpinnings are developmental and one that seriously attempts to deploy its administrative and political resources to the task of economic development.

In addition to continuously claiming publicly to have “developed Malawi beyond recognition”, this is exemplified by President Mutharika’s (2010) book The African Dream: From Poverty to Prosperity, and in particular the following passages:

The deepest and most delicate challenges of African development and poverty reduction have always been at the forefront of my entire professional career—first in Malawi, then in the Diaspora at the United Nations, the World Bank and COMESA, and back in Malawi again as its leader. The African dream is for me the epitome of my aspirations as I apply what I have learned, experienced and believed that the entire continent of Africa can emerge from poverty to prosperity.

...it does provide an overview of African nations who share a common agenda to fight extreme poverty, hunger, deprivation and underdevelopment, a vision to bring about fast macroeconomic growth (p xiv-xv).

Indeed with an average economic growth rate of 8.3% from 2007-2010\(^{268}\), the ideology of President Mutharika and his developmental state appear to be borne out in macroeconomic results\(^{269}\) (World Bank, http://data.worldbank.org/indicator/NY.GDP.MKT.P.KD.ZG/countries/MW-ZF?display=graph).

With regards to Mkandawire’s (2001) reference to African states being captured by BWI interests rather than by national capitalists, it is important to note that one of the defining characteristics of the Mutharika regime was its defiance of donors’ policy prescriptions. This defiance came to the fore in two major policy contentions: the Farm Input Subsidy Programme (FISP) and the IMF’s Extended Credit Facility (ECF). The FISP, which primarily targeted maize production, was initially met with the characteristic free-

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\(^{268}\) This is compared with a world GDP growth rate of 1.85% for the same time period (World Bank, http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG/countries/1W?display=graph).

\(^{269}\) Mkandawire (2001, p 296) discusses the relation between macroeconomic results and political legitimacy of the developmental state in Africa:

…whereas the first generation of African leaders concentrated their energies on the politics of nation building, there are signs of a new leadership whose focus is on the economics of nation building. These new leaders swear by economic growth and seem to view good growth indicators as the main source of their legitimacy.
market antipathy to state subsidies and promotion of national food security\textsuperscript{270}. The policy - which Mutharika implemented despite donor opposition - became extremely popular and successful, turning Malawi from a country once stricken by famine in the early 2000’s\textsuperscript{271} (Devereux, 2002) into a maize-exporter (Denning et al., 2009). The policy eventually even attracted donor funds (interviews).

Mutharika’s resistance to the ECF, on the other hand, had mixed results. Although the ECF contained a number of policy prescriptions, the most contentious one was its insistence that Malawi devalue the Kwacha, largely perceived by donors to be overvalued and hence contributing to the foreign exchange crisis occurring in the country during the time of fieldwork (interviews). Without unnecessarily distracting our discussion with an exposition of the theoretical merits of the debate on exchange rate policy and its impact on the balance of payments, it is useful for our purposes to note that the economic consequences of Mutharika’s refusal to devalue the Kwacha went far beyond those associated merely with an over-valued exchange rate. In particular, those donors who participated in direct budget support (Common Approach to Budget Support, CABS\textsuperscript{272}), cut off their direct budget support because they understood Malawi’s failure to comply with the stipulations of the ECF as an indicator of a lack of macroeconomic stability in the country, one of the conditions of budget support (interviews).

Although some of these donors did re-allocate some of their funds towards direct projects and/or investments, the foreign exchange shock on the country was huge. For a country that depended on CABS for up to 30-40% of its foreign exchange, the removal of CABS was believed by many (ironically) in the donor community to be putting real depreciative pressure on the currency, and hence accentuating the over-valuation of the official exchange rate (interviews). The relevance of this discussion is not to suggest that exchange rate policy is the defining factor of a developmental state, but rather to suggest that whilst Malawi under Mutharika quite clearly did not dance “to the tunes of the BWIs”

\textsuperscript{270} See Dorward et al. (2008) for more information.

\textsuperscript{271} Malaw/Nyasaland also experienced a famine in 1949 and food crisis in 1987 (Prowse, 2011b).

\textsuperscript{272} This group of donors includes but is not limited to the World Bank (WB), the African Development Bank (AfDB), the European Union (EU), Germany, and the U.K. (interviews).
as suggested by Mkandawire (2001, p 301), the BWIs did wield enormous influence on the Malawian economy.

As a result of the foreign exchange shock, Malawi during the period of fieldwork was in a state of economic crisis. The black market for forex was thriving and petrol queues were often kilometres long with widespread instances of motorists waiting in queue for days (direct observation; popular press\textsuperscript{273}). The effects of the foreign exchange crisis and resulting fuel crisis were felt throughout the economy, and the tobacco sector was no exception. Agricultural extension officers had to rationalise on field visits, tobacco transportation from auction floors to processing plants was interrupted, and fertiliser imports were reduced, thereby affecting the following season’s production (interviews; direct observation\textsuperscript{274}).

Although the ideological orientation and economic results of the Mutharika government appear at first glance to correspond to those of a Developmental State, our aims in drawing on the developmental state (DS) literature do not lie in evaluating the extent to which Malawi corresponds to a “Developmental State”. Rather, having established here that the possibility of the Malawian developmental state cannot be discarded, the test of the usefulness of selected concepts from the DS literature for our purposes will be in whether they help us to explain governance and upgrading in the Malawi Tobacco Value Chain. This test is one of the main foci of the remainder of this chapter.

\textsuperscript{273} In particular national dailies such as \textit{The Nation} and \textit{The Daily Times}.

\textsuperscript{274} My research was also impacted by these phenomena in a number of ways. Many of my field visits were cancelled or delayed due to a lack of petrol. At one point early on in the fieldwork I attempted to conduct a case study of one of TAMA’s farmer co-operatives yet decided against this as my planned visits to the co-op were repeatedly cancelled for the above-mentioned reason.
7.1.2 Farmer Associations and Associational Power

Farmer associations in Malawi are particularly important in that smallholder burley tobacco farmers are grouped into “burley clubs” of 10-15 farmers which are in turn members of a tobacco association which usually helps organise transportation to the auction floors and technical operations such as grower registration cards. They may also serve to negotiate contracts with leaf merchants for contract farmers. The farmer association system is not unique to the tobacco sector as many of the same associations cater to farmers producing other crops and other associations exist solely for non-tobacco producers. These associations are grouped together within the Farmers Union of Malawi (FUM) (direct observation; interviews). Indeed in addition to the FUM having a very powerful political voice, the lines between the political power of farmers and government itself can sometimes become blurred, as exemplified by FUM’s President Felix Jumbe declaring his candidacy for President (of Malawi) in the 2014 elections (Nation Online, 2013). Likewise the (illegal yet omnipresent) intermediate buyers (IBs) are perceived to have enormous policy influence in government (albeit promoting policies which are not necessarily in the best interests of farmers) in that many of the IBs are alleged to be government employees working in relevant bodies such as the Ministry of Agriculture or the Tobacco Control Commission (interviews).275

During the H.K. Banda years all burley farmers were obliged to be members of the Tobacco Association of Malawi (TAMA), and indeed it was during these years that TAMA came to prominence. However, after liberalisation of the tobacco sector in the 1990s, alternative farmer associations started to increase, with particularly exponential growth during the Mutharika years. These new and often under-resourced associations are

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275 As discussed in Chapter 4, an Independent Buyer (IB) system developed in parallel with liberalisation whereby the buyers provided immediate cash compensation for tobacco to farmers (albeit at a lower price than the auctions) and would then take on the responsibility of transporting and selling the tobacco to the leaf merchants (Jaffee, 2003; Chapter 4). Although the IB system was officially phased out in 2001, evidence from fieldwork, e.g. Takane (2006) and this author’s observations, indicate that independent buyers/traders are still very much active in some parts of the country. The relationship between IBs and farmers, and the potential correlation between the use of IBs and socio-economic indicators of farmers, could constitute an area of further research.
referred to by many in the sector as “briefcase associations” and are often accused of corruption, misleading farmers, and/or existing for the personal benefit of the directors rather than the farmer-members (interviews). These new associations are also perceived as a major threat by the more established associations in terms of recruiting members. The newer associations often draw in less-resource-endowed farmers with smaller landholdings, due to an array of financial incentives, e.g. paying the farmers’ registration fees.

There is considerable scope for investigation into the nature of free-riding in the tobacco farmer association sector. In particular, one of the distinguishing features of TAMA is its political voice, in both national as well as international forums (e.g. TAMA was a founding member of the International Tobacco Growers’ Association). TAMA claims to use its influence for the benefit of the entire Malawian tobacco sector despite its membership numbers coming under consistent competitive pressure (interviews). Indeed, and according to interviews, the Farmers’ Union of Malawi undertook an assessment of these associations and found only 50% to be genuine. This explains why FUM is advocating for the introduction of new legislation which would increase the accountability of these associations\(^\text{276}\) (interviews). Yet despite the recent proliferation of associations, TAMA, and to a lesser extent NASFAM\(^\text{277}\), still remain dominant (interviews; direct observation).

Our discussion of farmer differentiation in Chapter 1 is pertinent in terms of understanding the composition and internal dynamics of the farmer associations. TAMA membership and governance structures constitute a particularly interesting example of tobacco farmer differentiation in that TAMA is a democratic organisation whose administrative secretariat is accountable to 21 elected councillors, all of whom are tobacco growers. Whilst these councillors include both small and large growers, for historical and political reasons as well as differing levels of formal education, the large growers tend to dominate the governance of TAMA (interviews; direct observation).

\(^{276}\) At the time of fieldwork the relevant (existing) legislation was the Trustees Incorporation Act or Cooperative Act 1998 (interviews).

\(^{277}\) National Smallholder Farmers’ Association of Malawi (more on which below).
Although there is an extensive level of material differentiation among TAMA members, this is mainly due to TAMA’s expansion in later years to include smallholder farmers, as the origins of the organisation are firmly rooted in the estate sub-sector. At times (before the inclusion of smallholders) TAMA members’ interests directly opposed the interests of smallholder producers. Discussing pricing in the 1980’s, Prowse (2011b, p 26) notes:

Prices paid to tenants by estate owners were set nationally by the Tobacco Association of Malawi (TAMA) which were only nineteen to forty per cent of average prices received on the floors...

Furthermore, and of potentially even greater importance, TAMA was opposed to the liberalisation of burley tobacco due to fears of a decrease in tenant labour supply (Prowse, 2011b).

The origins of NASFAM, on the other hand, lie in the burley liberalisation process. As Prowse (2011b, p 31) states:

...through institutional support the reform process created the Smallholder Agricultural Development Project (SADP), which subsequently became the National Smallholder Farmers’ Association of Malawi (NASFAM), to enable even land-constrained smallholders to commercialise through burley production.

Differentiation among NASFAM members, and among smallholder farmers more generally, however, cannot be ruled out. As seen in Chapter 4, a large number of studies on the impact of burley tobacco liberalisation in Malawi find that (smallholder) burley tobacco growers were often better off than non-growers and that there was uneven

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278 Although we do not have statistics, we do not have reason to believe that smallholder members of TAMA are necessarily wealthier than smallholder members of NASFAM.
279 Indeed, the interests of the so-called ‘big farmers’, which have historically dominated TAMA, do diverge in a number of ways from those of the smallholder burley farmers, in that they tend to perceive the latter as contributing to a disorderly market flooded with an oversupply of low quality tobacco full of non-tobacco substances. Over-supply and low quality contribute to a market characterized by lower average prices. Furthermore, a failure on the part of the tobacco-farming sector as a whole - which is dominated by smallholders - to deal with issues such as GAP, child labour, and NTRM, has reputational consequences for Malawian tobacco and the country’s industry more broadly. These farmers’ interests are perceived by many to have been better represented during the H.K. Banda years where supply and quality were tightly controlled and tobacco producers in general were on more equal footing with leaf merchants (interviews).
adoption of the crop. The households able to take up burley tobacco cultivation often had larger landholdings and/or more access to labour, proving that the liberalisation process occurred in the context of an already differentiated rural population. Furthermore, among tobacco-adopters there is considerable differentiation as well. For example, at the time of liberalisation many tobacco-adopting households had serious cash constraints which made it difficult to follow the formal procedures of auctioning tobacco and waiting to be paid. Other farmers were constrained by inputs and/or land size, resulting in small total amounts of tobacco produced.

One of the major sources of differentiation among TAMA members corresponds to the first of Bernstein’s (2010, p 22) four questions used to analyse rural differentiation: “who owns what?” (see Chapter 1). As explained in Chapter 4, smallholders in Malawi are defined primarily by the fact that they use communal land whereas estate farmers either lease or own their land\footnote{As seen in Chapter 4, during colonial times the differentiation of tobacco farmers by land tenure corresponded to differentiation by race, type of tobacco grown, and marketing system, as estate producers tended to be White farmers growing burley or flue-cured and smallholders tended to be Black farmers growing Malawi Western and selling via a parastatal. Tobacco farmers in post-colonial Malawi continued to be classified by land tenure, tobacco type, and marketing system.}. Furthermore, it could be argued that there are TAMA members who correspond to several of Bernstein’s (2010) and Kautsky and Lenin’s (cited in Mueller, 2011) categories of poor, middle, and rich farmers. If one were to undertake a study of TAMA members based on Oya’s (2004) criteria for class classification\footnote{These include: “nature of labour relations”, “patterns of land use/ownership”, “degree of capitalisation”, “education”, and “surplus use patterns” (Oya, 2004, pp 307-08; Chapter 1).}, one would uncover an even greater degree of differentiation. Indeed, an investigation into the nature of differentiation of TAMA members and the impact of this differentiation on TAMA governance and policies could constitute the basis of a doctoral thesis in and of itself and is only partially analysed here.

However, this differentiation presents a potential conundrum for us in that we are using TAMA (and other farmer associations) as an example of the realisation of Wright’s (2000) associational power, a theoretical concept developed for the purpose of explaining class compromise, thereby implying (and indeed explicitly stated by Wright) that associational power corresponds to collective class interests. In the spirit of the gross simplifications used in Wright’s representations of class relations, we attempt to resolve...
this conundrum by focussing on the subjective nature of class formation presented by Thompson (1963, p 8, cited in Selwyn, 2011, p 219):

Class happens when some men [and women], as a result of common experiences (inherited or shared), feel and articulate the identity of their interests as between themselves, and as against other men [and women] whose interests are different from (and usually opposed to theirs)...

Focusing on Wright’s (2000) sphere of exchange, we argue that we can still consider the TAMA members to be realising their collective interests through associational power in that they have a common interest in obtaining higher prices for their tobacco, increasing the value added associated with it, as well as increasing the status and sustainability of the association, and that these interests are opposed to those of the tobacco companies. The articulation of this associational power and how this power contributes to chain governance and upgrading will be elaborated upon further below.

One of TAMA’s (and Government’s) most important forms of influence in the Malawian tobacco industry is through the Agricultural Research and Extension Trust (ARET). ARET\textsuperscript{282} was formed from a merger between the tobacco section at the (Government) Chitedza Research Station (the Tobacco Research Institute of Malawi; TRIM\textsuperscript{283}) and TAMA’s extension system (Estate Extension Trust) in 1995. Both TAMA and Government are considered to be 50% owners of ARET. At its inception Government donated the physical assets (e.g. land, building, etc.) with the understanding that TAMA would fund the organisation. Government’s main source of influence in the organisation is through its board members. Out of eight board members (at the time of fieldwork), two were from the Ministry of Agriculture (one of which was usually the director of research at the Ministry). A member of the NASFAM executive (i.e. a smallholder farmer), and a representative from the leaf merchants (usually an agronomy director) also held posts on

\textsuperscript{282} The institution’s name purposely omitted the word “tobacco” in order to obtain funding from the E.U. (interviews).

\textsuperscript{283} TRIM was originally run by TAMA, and grew out of the government’s Malawi Tobacco Research Authority (MTRA) (Wilshaw, 1994, p 129).
the board. The remaining four board positions (including the chair) went to TAMA councillors (farmers) (interviews).

In addition to calculating the costs of production which are used as a starting point for calculating minimum prices (more on which below), ARET also produces all of the certified seed in the country, conducts the necessary tests before new technologies can be introduced in the country, trains leaf technicians, and has a number of agricultural extension workers in the field assisting farmers. ARET carries out these operations through three research stations, 28 field offices, a training centre and 31 leaf technicians (interviews). However, of particular relevance for our purposes, is ARET’s responsibility for certifying new technologies. In many cases these are technologies that the leaf merchants or ICCs are already using in other locations and want to implement in Malawi. However, ARET conducts a one to three year evaluation of the technologies in order to ensure that the given technologies are in the interests of Malawi and not just the tobacco companies (interviews). Through this example it can be seen that both farmer organisations and the state play a direct role in answering one of the main questions about value chain governance: what is produced and how it is produced. However, ARET is merely one example of the influence of non-lead firm actors on the Malawi Tobacco Value Chain. It is to other examples of intervention by these actors and their analysis that we now turn.

284 For example, ARET has trained over 100 leaf technicians that at the time of fieldwork were employed by JTI (interviews).
285 If the technology has already been tested in a SADC country then ARET requires only one year of testing (interviews).
286 A more comprehensive evaluation of the influence and power of ARET could be based on the frequency with which and reasons for the institution’s rejections of the introduction of new technologies. This could constitute an area for further research.
7.2 Governance

We will argue below that through minimum prices, contract farming production quotas, the creation of a leaf company, and other interventions, the Malawian government has had a direct role in *driving* the Malawi Tobacco Value Chain.

7.2.1 Malawi Leaf

One of the Mutharika government’s main concerns with regards to the tobacco industry was farm-gate prices (interviews). One notable example of government intervention to influence prices is the creation of Malawi Leaf Company Ltd., in 2006. It was created as a subsidiary of the state-controlled company, Auctions Holding Limited (AHL)\(^\text{287}\) and deals only in Malawian tobacco (AHL, *Subsidiaries*, http://www.ahlmw.com/subsidiaries.php). The company was initially created for the purpose of injecting pricing competition into the market by reducing the level of concentration in the leaf merchant sector in Malawi\(^\text{288}\). As Prowse and Moyer-Lee (*forthcoming*) note:

> In the first few days Malawi Leaf bought up to 26% of leaf at higher prices than Limbe Leaf and Alliance One. In the following weeks this market share slumped to less than 1%

Ironically however, the company does not have that much autonomy when it comes to price setting. After stabilising at roughly 8% of market share, when others in the sector have over 30% market share, Malawi Leaf may seem much more of a market price follower than price setter.

\(^{287}\) It is interesting to note that although Mutharika created Malawi Leaf specifically in order to have a state-run tobacco company, the company was created as a subsidiary of AHL rather than ADMARC as in this manner it appeared to be further removed from state control, a move designed to please tobacco-wary donors (interviews).

\(^{288}\) Part of the rationale for its existence is that by being Malawian they have a better understanding of the Malawian smallholder, especially on such issues as pricing (interviews).
Yet although Malawi Leaf is (by comparison) a small operation in terms of market share, employment (roughly 50 permanent and 300 seasonal staff), and annual budget (roughly US$ 40 million), the company’s entrance in the market is perceived by many to have shaken the pricing cartel\(^{289}\). Despite the company’s reduced ability to influence auction prices due to market share, its institutional design (as a subsidiary of AHL) is conducive to higher prices for two reasons. Firstly, given that the parent company, AHL, receives a levy on the tobacco sold, to the extent that Malawi Leaf is able to push up prices, the parent company will benefit financially. Secondly, on AHL’s board (at the time of fieldwork) were at least three large tobacco farmers (who presumably would be sensitive to pricing issues). Three of these farmers were Andrew Barron\(^{290}\), Duncan MacPherson, and Henry Nthaba. It is worth pointing out that all three of these growers were at the time of fieldwork elected officials in and heavily involved with TAMA\(^{291}\). In particular, Nthaba was formerly the President of TAMA and at the time of fieldwork was the chairman of ARET (interviews).

Whilst Malawi Leaf was widely credited with having (positively) influenced prices, this influence has been interpreted as both positive and negative, depending on the perspective of the stakeholder. For example, whilst farmer associations and farmers will generally perceive increased prices as good for the industry, Malawi Leaf has been criticised by its competitors for distorting the market in that it is not motivated by competition and profit but rather by raising prices for the benefit of its parent company (as above). The company has also been reproached by some of its competitors for (allegedly), among other things, operating on an uneven playing field because the company didn’t invest in a factory\(^{292}\), benefiting from Mutharika’s intervention in arranging customers, receiving tobacco which AHL had diverted from other leaf merchants, and potentially not following payment rules prescribed by AHL (interviews). Indeed, Malawi Leaf provides an interesting case study of how government intervention reduces

\(^{289}\) For more on the pricing cartel see Prowse and Moyer-Lee (forthcoming).

\(^{290}\) Andrew Barron is the grandson of A. Barron, who introduced tobacco tenant farming to the Central Region (see Chapter 4).

\(^{291}\) TAMA also held a tiny portion of AHL shares at the time of fieldwork.

\(^{292}\) At the time of fieldwork the company processed its tobacco at Limbe Leaf’s factory (interviews).
and/or eliminates what appear to be insurmountable entry barriers associated with the leaf merchant sector (see Chapter 3). Further research is required in order to understand the politics of Limbe Leaf processing tobacco for Malawi Leaf and thereby negating the need for the latter to invest in a factory. However, and given the Mutharika administration’s targeting of Limbe Leaf (more on which below), we would hypothesise that the processing arrangement is related to a public relations initiative towards government.

7.2.2 Minimum Prices

Minimum prices were introduced by President Bingu wa Mutharika and are established at the beginning of the tobacco season every year. The starting point for the establishment of minimum prices is ARET’s calculations of the average costs of production. The annual ARET study benefits from contributions from industry stakeholders such as AOI and the prices are largely based on fertiliser prices. A politically calculated margin is then added on to the costs of production, followed by adjustments for the 87 grades of burley tobacco (made by the TCC). The final prices are then negotiated by industry stakeholders (interviews).

However, the minimum prices have not been implemented entirely as planned. In particular, in a situation of massive over-supply in 2011, the average (burley) price was US$ 1.13 whereas it should have been US$ 1.80 (interviews). In this same season an additional grade of tobacco (with an associated lower minimum price) was introduced in order to “clear the market”, as the leaf merchants were unwilling to buy all of the tobacco on the market at the contemporary minimum prices. Furthermore, after individual bales

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As a further example of the collaboration between government and farmers’ associations, grading in Malawi is done by the TCC. Grading used to be done by TAMA but TAMA’s grading department transferred en masse to the TCC (interviews).
of tobacco were occasionally rejected by leaf merchants on the grounds that they were not worth the minimum price attached to the grade of the bale, it was common practice for the farmers/sellers to lobby officials at the Tobacco Control Commission to lower the grades of their bales thereby lowering the minimum price attached to them and increasing the chance of sale (interviews; author’s observations).

Due to issues with implementation, Mutharika turned to increasingly aggressive forms of enforcement, notably through removing government officials (such as former TCC CEO Dr. Chapola) as well as deporting non-Malawian tobacco leaf merchant managing directors\textsuperscript{294}. Ironically, there was a near consensus among respondents during fieldwork that Mutharika’s best and worst tobacco policy was minimum pricing. Most respondents, even including various leaf merchant officials, viewed Mutharika’s effort to ensure minimum prices for farmers as a positive measure, however nearly all respondents viewed his enforcement of the policy and the consequential politicisation of the latter as having a profoundly negative impact on the tobacco industry (interviews).

Although for our purposes it is difficult to disentangle the pricing effects of government intervention, ICC policies on durations, international tobacco prices, increased competition on auction floors, and the forces of supply and demand, it can be seen in Figure 7.1 below that prices increased dramatically in the years 2007-2010. Given that Malawi Leaf was created in 2006 and minimum prices were introduced in 2007, it can be reasonably interpreted that government intervention had much to do with the dramatic

\textsuperscript{294} The deportations are seen by some to be related to the general mistrust and animosity between the Mutharika government and the leaf merchants. Although much of this was based on the minimum pricing policy, some of it also related to the conflict over the implementation of contract farming, with leaf merchants insisting on shifting to an IPS model and government resisting (more on which below). For example, in the case of Limbe Leaf, the former managing director Charlie Graham was deported after suggesting that contract farming was the way forward for Malawi. However it is important to note that there were also (party) political tensions between Limbe Leaf and Mutharika. This is because Limbe Leaf, which was (at the time of fieldwork) 42% owned by Press Corporation, was seen as being close to the Malawi Congress Party (the party of former President Kamuzu Banda) and its leader John Tembo (also official leader of the opposition at the time of fieldwork). This is exemplified by Tembo holding a position on the board and one of his relatives holding the position of finance director at the company (interviews). Furthermore Tembo had previously held the position of Chairman at both Limbe Leaf and Auction Holdings (Lwanda, 2009, p 220). The effect of the deportation on Universal Corporation’s policies was questionable at best, however. In this company’s 2013 Annual Report, Charles Graham was listed as the Managing Director, Africa Region (p 3).
price increases. A possible exception to this could be the year of 2008 which is perceived by stakeholders to have had a situation of undersupply which drove up prices. However, given that the following three years were widely perceived to be characterised by a situation of over-supply (more on which below), the fact that prices were higher than previous years is potentially indicative of pricing intervention (interviews).

![Figure 7.1: Average Burley (Nominal Current) Prices, US C/KG, 1995-2011](image)

Source: Tobacco Control Commission

*Widely perceived to be in a situation of under-supply (interviews).

**Situation of massive over-supply (interviews).

7.2.3 Quotas and Participation

One of the main factors influencing the pattern of production is the fact that unlike neighbouring countries such as Zambia and Mozambique, there is still a vibrant and dominant auction system in Malawi and the leaf merchants are not legally allowed to
source all of their tobacco through contracting. This forces them to buy *standard* tobacco via the auction system. In fact, in addition to pricing, Mutharika’s refusal to allow the entire Malawian tobacco market to evolve towards contract farming and IPS (as in other African countries, more on which below) was one of the main sources of contention between industry stakeholders and government (interviews). For a breakdown of the burley tobacco contract farming quota allocations for the years 2009-2011, see Tables 7.1-7.2 below.

Table 7.1: Contract (Burley) Farming Allocations and Purchases for Major Tobacco Companies, 2009-2011

<table>
<thead>
<tr>
<th>Company</th>
<th>Volumes (KG)</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Allocated</td>
<td>Actual purchase</td>
<td>Allocated</td>
<td>Actual purchase</td>
</tr>
<tr>
<td>JTI</td>
<td>13,800,000</td>
<td>13,657,845</td>
<td>9,800,000</td>
<td>9,813,327</td>
</tr>
<tr>
<td>AOI</td>
<td>15,500,000</td>
<td>15,348,497</td>
<td>9,600,000</td>
<td>9,575,861</td>
</tr>
<tr>
<td>Limbe Leaf</td>
<td>14,900,000</td>
<td>14,476,621</td>
<td>9,800,000</td>
<td>9,754,991</td>
</tr>
<tr>
<td>Malawi Leaf</td>
<td>900,000</td>
<td>862,101</td>
<td>300,000</td>
<td>236,036</td>
</tr>
<tr>
<td>Premium-TAMA</td>
<td>14,900,000</td>
<td>14,785,590</td>
<td>9,800,000</td>
<td>9,765,967</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>60,000,000</strong></td>
<td><strong>59,130,654</strong></td>
<td><strong>39,300,000</strong></td>
<td><strong>39,146,182</strong></td>
</tr>
</tbody>
</table>

Source: Tobacco Control Commission

(a) In 2010 the Associated Tobacco Company (ATC), a minor player in the Malawian tobacco industry which did not appear to be operating at the time of field work, was allocated 700,000 kgs and actually purchased 582,092 kgs of burley tobacco. This allocation and purchase have been omitted from this table in order to continue the focus on the five companies that have been at the heart of our analysis throughout this work. However, if included for the year 2010, the ATC figures would bring the total allocation to 40,000,000 and total actual purchase to 39,728,274 kgs.
Table 7.2: Burley Tobacco Contract Farming Allocation as Percentage of Total Crop, 2009-2011

<table>
<thead>
<tr>
<th>Year</th>
<th>Allocation (kgs)</th>
<th>Total Crop (kgs)</th>
<th>Percentage Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>60,000,000</td>
<td>208,301,519</td>
<td>28.8%</td>
</tr>
<tr>
<td>2010</td>
<td>39,300,000</td>
<td>193,238,632</td>
<td>20.34%</td>
</tr>
<tr>
<td>2011</td>
<td>65,000,000</td>
<td>208,324,837</td>
<td>31.2%</td>
</tr>
</tbody>
</table>

Source: Tobacco Control Commission and author’s calculations

(a) It is important to note that whilst Malawi does have an extensive system of record keeping and control with regards to tobacco sold, these figures are not 100% accurate in that they do not account for cross-border trade. More specifically, tobacco grown in Malawi yet smuggled out of the country will not show up in these statistics and tobacco grown in neighbouring countries and sold in Malawi will show up in these statistics even though it is not Malawian tobacco.

These quotas are evidence of government chain driving in two important ways. Firstly, with regards to the questions of what is to be produced and how it is to be produced, there was a clear divergence of interests between lead firms and the Mutharika government. Whilst the ICCs desired C&T tobacco, to be produced via contract farming, the Mutharika government desired auctioned tobacco, which by default in the Malawian context meant standard, rather than C&T tobacco. As can be seen in Table 7.2 above, the government won the debate in that the majority of Malawian tobacco was sold via auction rather than via contract in the years 2009-2011. This first example of the role of the state displays some similarities with Gibbon and Ponte’s “publicly regulated break” in buyer-drivenness in the cocoa (Ghana) and coffee (Kenya and Ethiopia) chains (2005, p 145).

The second way in which the contract farming allocations represent a form of state driving is due to the role that the allocations play in determining who participates in the value chain. This issue is particularly pertinent when discussing C&T versus auctioned tobacco in that fully-IPS C&T tobacco tends to have twice the yields as standard auctioned tobacco (see Chapter 6). As many leaf merchant officials openly point out, a full transition from standard to IPS tobacco in Malawi would mean doubling the yields and halving the number of farmers (interviews). Preventing this transition, through contract farming
quotas, is hence preventing a massive reduction in the number of burley tobacco farmers in Malawi. In addition to state-led governance determining how tobacco was produced, it also helped determine how much was produced. For example, since liberalisation of production in 1994 until the 2011/12 season, there has been essentially no regulation of total quantity of tobacco production in Malawi which can lead to a situation of over-supply given the lack of economically viable alternatives for smallholder farmers. Since the 2006/7 season this problem has been compounded by the introduction of minimum prices which are widely perceived to have induced an over-supply situation in the seasons of 2008/9, 2009/10, and 2010/11 (interviews).

The other prominent factor determining chain participation is a political economy aspect peculiar to the Malawian tobacco industry: the leaf merchants are expected (by government) to buy all of the tobacco produced, or mop up the market. The leaf merchants comply in order to keep government happy and in order to preserve the Malawian tobacco industry. Given the fact that leaf merchants essentially buy all of the tobacco on the market, even in situations of “over-supply,” one may wonder how “over-supply” is defined. Indeed the leaf merchants are often accused of inventing the over-supply narrative in order to artificially lower prices. This is a complex issue and the complexity is compounded by the secretive nature of the industry. However, the leaf merchants tell government in advance the amount of tobacco they would like to buy and (according to interviews) the Tobacco Control Commission attempts to verify the numbers through looking at the global supply and demand situation of burley tobacco and by trying to establish ICC demand. However, one of the most compelling pieces of evidence for the over-supply narrative is the nature of financing that the leaf merchants use to purchase

A similar pattern of government - rather than lead firms - determining what’s produced, how it’s produced, and who produces it, can be seen with the effect of government’s restriction on (leaf merchant) estate-farming to merely flue-cured tobacco rather than FCV and burley. Had leaf merchants been allowed to vertically integrate by acquiring burley tobacco estates, presumably the major leaf merchants would have done so in order to achieve full control over production processes and achieve C&T tobacco (interviews).

A quota system was re-introduced in the 2011/12 season in response to a three year period of over-supply. However this quota system is perceived as largely irrelevant for the 2012 season in that supply appears to be much lower than industry demand due to a number of non-quota factors (more on which below) (interviews).
tobacco. Under normal conditions the merchants take out seasonal loans at favourable rates for “committed stock.” This refers to a situation where a bank will finance a leaf merchant for the purpose of buying tobacco in order to satisfy an order from an ICC. Under these conditions the buying order serves as a sort of collateral. However, in the 2010/11 season, one of the major leaf merchants had been forced to turn to the financial markets to acquire 2-3 year loans as they were buying tobacco to place in storage since the supply well exceeded the demand of the ICCs (interviews).

Furthermore, although we do not have data on the levels of uncommitted stock in Malawi, the data we do have access to indicates there were high levels of uncommitted (burley tobacco) stock in 2011 globally (as seen in Chapter 3). For a comparison of the levels of uncommitted burley tobacco between 2008 and 2012, see Figure 7.2 below.

*Figure 7.2: World Uncommitted Burley Stocks (million kgs, dry weight), 2008-2012*

*As of June 30, 2012
Note: Totals exclude Asian monopolies’ and KT&G’s stocks
Source: modified from Universal Leaf Tobacco Company (2012, p 7).
With regards to the definition of functions, it is perhaps worth returning to Gibbon and Ponte’s (2005, p 123; also cited in Chapters 1 and 6) statement that

...the most important element of power relations between lead firms and first-tier suppliers is control over the definition of the functions that first-tier suppliers should play, rather than the externalization of low-profit functions as argued in earlier literature.

In Chapter 6 we argued that the leaf merchants’ development of agronomy departments, for the purposes of implementing C&T tobacco at the behest of the ICCs, was an example of lead firm function-definition. However, in this chapter we will argue that (with the possible exception of Malawi Leaf), the fact that during the years 2009-2011 these leaf merchants were still purchasing the majority of their tobacco via auction rather than via contract (as they desired) can be seen as an example of state-imposed function definition. Indeed, none of the firms were allowed to acquire anywhere near the 100% of their tobacco via IPS, as was being demanded by Blue Chip customers.

In addition to playing a major role in defining functions of the leaf merchant sector and hence in governing the chain, the Mutharika government also played a differentiated role in defining functions of leaf merchants in that not each leaf merchant was equally affected by the quota allocations. Table 7.3 below presents the burley tobacco contract farming quota allocations for each tobacco company, as a percentage of the total quota allocation for the industry as a whole. At first glance (putting aside for the moment the notable exception of Malawi Leaf) the quota allocations appear to be relatively evenly distributed among the four tobacco companies. However, when one compares the average quota allocations over the period 2009-2011 with the market share accruing to each of the tobacco companies, one can see the distorted allocations. In particular, whilst JTI and Premium-TAMA enjoyed market shares of merely 10-15% in the case of the former and 15% in the case of the latter, their quota allocations were 23.16% and 24.49%
respectively. In other words they were allocated a disproportionately high quota for contract farming. Likewise, both AOI and Limbe Leaf, with market shares of at least 30% were given quota allocations averaging under 26%. Possible explanations for these allocations will be explored in Section 7.3.1 below, however for our current purposes suffice it to interpret these allocations as state-led first tier function definition.

Table 7.3: Percentage of Burley Tobacco Contract Farming Allocation by Company, 2009-2011

<table>
<thead>
<tr>
<th>Company</th>
<th>2009</th>
<th>2010(^a)</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>JTI</td>
<td>23%</td>
<td>24.94%</td>
<td>21.54%</td>
</tr>
<tr>
<td>AOI</td>
<td>25.83%</td>
<td>24.43%</td>
<td>27%</td>
</tr>
<tr>
<td>Limbe Leaf</td>
<td>24.83%</td>
<td>24.94%</td>
<td>27.69%</td>
</tr>
<tr>
<td>Malawi Leaf</td>
<td>1.5%</td>
<td>0.76%</td>
<td>0.08%</td>
</tr>
<tr>
<td>Premium-TAMA</td>
<td>24.83%</td>
<td>24.94%</td>
<td>23.69%</td>
</tr>
</tbody>
</table>

Source: Tobacco Control Commission and author’s calculations

(a) See (a) in Table 7.1 above

Table 7.4: Comparison of Burley Tobacco Contract Farming Allocation Shares and Overall Market Shares

<table>
<thead>
<tr>
<th>Company</th>
<th>Average Burley Tobacco Contract Farming Allocation, 2009-2011(^a)</th>
<th>Market Share</th>
<th>Over- or Under-Allocation</th>
</tr>
</thead>
<tbody>
<tr>
<td>JTI</td>
<td>23.16%</td>
<td>10-15%</td>
<td>Over</td>
</tr>
<tr>
<td>AOI</td>
<td>25.75%</td>
<td>34-35%</td>
<td>Under</td>
</tr>
<tr>
<td>Limbe Leaf</td>
<td>25.82%</td>
<td>30-35%</td>
<td>Under</td>
</tr>
<tr>
<td>Malawi Leaf</td>
<td>0.78%</td>
<td>8%</td>
<td>Under</td>
</tr>
<tr>
<td>Premium-TAMA</td>
<td>24.49%</td>
<td>15%</td>
<td>Over</td>
</tr>
</tbody>
</table>

Source: interviews; Tobacco Control Commission; author’s calculations

(a) See (a) in Table 8.1 above
7.2.5 Analysis

In terms of understanding the above examples of state-led governance of the Malawi Tobacco Value Chain, one could draw parallels to Gibbon and Ponte’s (2005) discussion of market mediation policies. Gibbon and Ponte (2005) explain the role of an interventionist state in their empirical examples as a result of “intertia”. However, we argue that in our case study, these state policies have specific objectives which relate directly to GVC concerns of governance and upgrading, and are therefore not the result of inertia.

The state interventions in pricing and quota allocations described above also do not appear to conform to those policies highlighted by the developmental state literature and discussed in Chapter 1. In particular, and although it has been argued in Section 7.1.1 of this chapter that Malawi under Mutharika did correspond to Mkandawire’s (2001) definition of a developmental state at least in terms of its ideological underpinnings, the policies concerned do not appear to correspond to those presented in our discussion of the developmental state literature. More specifically, slowing down the pace of product and process upgrading (from standard to C&T tobacco) appears counter-intuitive from the perspective of a state wishing to promote economic development.

It is perhaps useful to return briefly to our discussion of industrial policies in Chapter 1. In particular, and bearing in mind that for our purposes we are only interested in tobacco policy, in the debate between Lin and Chang (2009), Lin advocates for government playing a comparative advantage-conforming role whereby policies are put in place to address externalities, market failures, and coordination problems in order to promote a country’s comparative advantage. Chang, on the other hand, advocates for comparative advantage-defying policies whereby governments seek to create a new comparative advantage. If we take as our starting point that C&T tobacco is of higher value and that Malawi could easily have a comparative advantage in its production if the right policies were put in place, Mutharika’s resistance to the introduction of contract farming does not appear to be comparative advantage-defying or conforming. In fact, the quota allocations in particular could be interpreted as comparative advantage-resisting. This is because rather than promoting the industry as a whole and Malawi Leaf (the one state-controlled company) in particular to move towards higher value added through a focus on C&T
tobacco (as _comparative advantage-conforming_ policies would imply), the Mutharika government has done just the opposite. It has largely prevented the industry as a whole from shifting entirely to C&T tobacco and in particular Malawi Leaf has received disproportionately small contract farming quota allocations\textsuperscript{297}.

We argue that this phenomenon can be partially explained by understanding Mutharika’s main objectives in terms of tobacco policy to be price and employment. This has particular resonance with the rationales for price stabilization schemes presented by Chang (2009b, p 481):

...in countries where there is no citizenship-based welfare state or well-designed safety nets, certain ‘distortionary’ policies (such as tariff protection or a price stabilisation scheme) may be the only mechanisms that can provide income stability to small farmers. Greater income stability in the rural area may bring greater political stability, which is good in itself and also may contribute to growth by encouraging long-term investments.

Likewise the deliberate efforts by Government to increase prices and increase (smallholder farmer) participation in the Malawi Tobacco Value Chain could correspond to Khan and Gray’s (2006) _political stabilization_ in that these policies could be interpreted to constitute off-budget transfers used to placate what in Malawi is a very large group: smallholder burley farmers (nearly 20% of rural households in 2005, see Chapter 4).

This story fits quite well with the Gibbon-Ponte approach to upgrading defined as improving and/or maintaining the (profitable) position of developing country suppliers (see Chapter 1). Given the stated objective of the tobacco companies in Malawi to reduce the amount of tobacco farmers by 50%, the strict limitation on the amount of tobacco that can be procured via yield-enhancing methods that would ultimately reduce the number of farmers can be understood as a form of government-induced upgrade.

In addition to being motivated to maintain prices and employment for the reasons stated above, interviews also reveal that AHL held particular influence with regards to Mutharika’s policies on contract farming allocations\textsuperscript{298}. Without wanting to entirely

\textsuperscript{297} It is important to note that this does not constitute _comparative advantage-defying_ policy as the concept implies _creating_ a new comparative advantage, not a continuation of past patterns of production.

\textsuperscript{298} Repeated reference was made by respondents to familial and village ties between the directors of AHL, ADMARC, and Mutharika. Of course the impact and relevance of this is extremely difficult to quantify.
discount the potentially altruistic motivations for AHL’s resistance to the introduction of contract farming in Malawi, the company’s stance could also be interpreted as a form of institutional self-preservation and the influence wielded by the President as a form of rent-seeking. This is because if the entire country were to shift to contract farming, the industry would have progressively less use for an institution such as AHL which exists primarily for the purposes of auctioning tobacco\textsuperscript{299}. AHL’s position on contracted tobacco partially explains why Malawi Leaf, its subsidiary, was not given larger contract farming quota allocations.

In terms of corroborating our \textit{political stabilization} explanation of Mutharika’s pricing and contract farming interventions, it is perhaps useful to draw a parallel with his other signature policies which have been mentioned above. In particular, both Mutharika’s exchange rate policy (continuing with a fixed exchange rate despite significant IMF pressure to devalue) and his Farm Input Subsidy Programme (FISP) were maintained in order to (in part) appeal to smallholder farmers. With regards to Kwacha valuation, in a landlocked and intensely import-dependent economy without many developed export industries beyond tobacco, maintaining an over-valued currency also maintained a certain standard of living for smallholder farmers. For example, currency devaluations in the past had led to increased price of transport (through increased price of imported fuel) as well as increased price of imported farm inputs. The extent of the rural character of this policy was exemplified by the manner in which President Mutharika mobilized village chiefs and traditional authorities to publicly support the policy (popular press\textsuperscript{300}). FISP, likewise, was directly targeted at maize-producing smallholders for the purpose of increasing their food security.

\textsuperscript{299} Although during the period of fieldwork all smallholder tobacco, including contracted, had to be sold on the AHL floors (interviews; direct observation).

\textsuperscript{300} In particular articles in \textit{The Nation} and \textit{The Daily Times}. 
7.3 Upgrading

7.3.1 Functional Upgrading

The major example of functional upgrading in the Malawian tobacco industry is TAMA’s participation in Premium-TAMA - a leaf merchant which began operations in 2007 - and its factory Kanengo Tobacco Processors. TAMA originally bought into the company with a 21.25% stake, but this share was diluted as another shareholder invested in the factory through the parent company. At the time of fieldwork, therefore, TAMA had roughly a 14% stake in Premium-TAMA and 25% stake in Kanengo Tobacco Processors, one of the few tobacco processing factories in the country (interviews).

TAMA exerts its ownership rights mainly through participation on the executive boards of both Premium-TAMA and Kanengo Tobacco Processors. Premium-TAMA’s board has 8 members, two of which are TAMA representatives: the TAMA President (a tobacco farmer) and the TAMA CEO. Kanengo Tobacco Processor’s board has 5 members, including one TAMA representative: the TAMA President. Other board members include representatives from Premium Tobacco Holdings, members of senior management, other representatives from the Malawian private sector, and the largest individual flue-cured tobacco farmer in the Southern Hemisphere (based in Malawi) (interviews).

In terms of the motivations for acquiring a stake in this company, interviews reveal those which could correspond to a classic text-book case study of functional upgrading: increased value added for the farmers, economic empowerment, possibility of working closer with lead firms, long-term financial sustainability of the organisation, etc. Furthermore, TAMA’s influence within the company is viewed by stakeholders as contributing to better communication and understanding between the company and producers on such issues as pricing and technology adaptation (interviews).

However, the question that is provoked with this example of functional upgrading is: why has TAMA been able to functionally upgrade, contrary to the trend highlighted by much GVC analysis that lead firms block functional upgrading further upstream (see

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301 The factory is listed as an independent company.
Chapter 1)? To answer this question we turn to Wright’s (2000) theory on positive class compromise. In particular, Wright’s central argument - that once working-class associational power has attained certain levels that capitalists can actually realise their interests through increased levels of worker associational power - has great explicative power in that interviews reveal that one of the main motivations for Premium Tobacco Holdings to allow TAMA to buy into the Malawian subsidiary was in order to assure a secure source of supply. Quite clearly the reason that Premium Tobacco Holdings chose to engage with TAMA in this venture is that TAMA is the most developed tobacco association with the most sustainable structures and largest farmer base. In other words, it is the farmer association with the greatest level of associational power. Allowing TAMA to buy into the company in order to secure supply resonates with Wright’s (2000, p 980) explanation below:

The material interests of capitalists- their ability to sustain a high and stable rate of profit- depends upon the provision of various aggregate conditions within the sphere of exchange, and these require coordination and collective action. The solution to at least some of these coordination problems can be facilitated by relatively high levels of working-class associational power.

*Contract Farming Quota Allocations.* Returning briefly to our discussion above on the government-issued contract farming quotas, and the differing allocations between tobacco companies (see Table 7.1 above) we argue that these (mis)allocations are not a result of mere oversight on the part of government, but rather a deliberate attempt to influence the functional definition of the tobacco companies. This can be understood in the context of promoting functional upgrading in that it is an attempt on the part of government to provide a competitive edge for Premium-TAMA and JTI by creating conditions for them to more easily satisfy customer (internal in the case of JTI) demands. Government has a particular interest in promoting JTI in the hope that the company (an ICC) will establish a cigarette production plant in the country, which would constitute a functional upgrade for Malawi. Likewise, in the case of Premium-TAMA, the functional
upgrade has already occurred (as detailed above), yet Government has an interest in promoting and maintaining the success of this upgrade.

In order to understand this intervention, we return to Wade’s (1990, 2010) concepts of government “leadership” and “followership” policies, presented in Chapter 1. The former refers to major interventions (often technology-intensive) which may lead to the creation of a new comparative advantage. In the current example, if the Mutharika government were to have created a state-owned cigarette manufacturer, this would constitute a leadership policy. Followership policies on the other hand are more minor interventions where government attempts to influence the incentive structure of firms in order to encourage a certain pattern of production or industrial upgrading. Wade (1990) gives the example of the South Korean government encouraging FDI and later supporting private firms in the country’s semi-conductor industry (more on which in Chapter 1). Likewise, the Mutharika government’s contract farming quotas, and the manner in which these benefited Premium-TAMA and JTI, could be reasonably interpreted to constitute followership policies, designed to support government’s public objectives of promoting functional upgrading in the industry. Indeed, if one were to drop the more economistic and normative conceptualisation of functional upgrading in favour of Gibbon and Ponte’s (2005) “rewards structures” conceptualisation, we could argue that the government’s quota policies led to upgrading in the case of JTI and Premium-TAMA. This is because the rewards structures associated with providing C&T tobacco are greater than those associated with standard tobacco. Therefore, an incremental increase in the amount of C&T tobacco a company can provide can be understood as an incremental upgrade.

7.3.2 Product and Process Upgrading

In Chapter 1 we discussed product and process upgrading in agricultural global value chains, as well as the different ways in which agricultural products may be differentiated,
with particular reference to the “credence good” concept. Based on this discussion, in Chapter 6 we argued that C&T tobacco was differentiated from standard tobacco by its process attributes, and that C&T tobacco was of a higher value. Furthermore, the agronomical supervision and increased inputs, integral to the production of C&T tobacco, resulted in higher yields, and hence C&T tobacco should be understood as both a product and process upgrade (in the GVC-GHS terminology) and as improvement of the position of farmers (as in the GVC-GPD conceptualisation of upgrading). We also argued that the smallholder burley farmer sector as a whole was transitioning from standard tobacco to C&T tobacco, and that this transition was occurring largely at the behest of the lead firms in the Malawi Tobacco Value Chain. However, further investigation into which farmers are able to make this transition and why, obliges us to look beyond the role of lead firms and to return to Wright’s (2000) associational power.

There are a number of factors which determine which farmers are offered contracts and hence which are able to shift from standard to C&T tobacco. For example, the ability to raise cash collateral appears to be a determining factor for some leaf merchants. AOI has a screening process for contract farmer selection which, in addition to requiring cash collateral, requires a prior year of production, a valid TCC registration form, to be free of outstanding loans, and have been vouched for by the local chief (interviews).302

However, of most interest for our purposes is an examination of the extent to which the associational power of smallholder burley farmers has enabled them to undertake product and process upgrading by transitioning from standard to C&T tobacco.303 Of particular relevance is Wright’s (2000) sphere of production (presented in Chapter 1) which often concerns itself with how capital attempts to realise its interests of introducing new technologies or processes. Positive class compromise can occur in the context of workers perceiving benefits of increased job security and involvement in the design and dissemination of these technologies and processes, and capital benefitting from the ability

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302 We could therefore conjecture (although we do not have data on this) that the average contracted AOI farmer is better capitalized than the average farmer which sells tobacco to AOI via the auction system.
303 In line with our conceptualisation of the product and process upgrade from standard to C&T tobacco presented in Chapter 6, this “transitioning” is understood to be occurring on a continuum, with a series of incremental product and process upgrades located in between the two end-points of standard and C&T tobacco.
of the workers to solve coordination problems through collective action (for more on which, refer to Chapter 1).

In order to understand the extent of influence of associational power in product and process upgrading, it is useful to identify which farmers are upgrading. For example, members of NASFAM (all of whom are smallholders) were much more likely to engage in contract farming of burley tobacco than non-members. In the 2011 season, 92% of NASFAM tobacco growers sold their crops via contract (interviews). This compares to only 31.2% of the total tobacco crop being sold via contract in the same year (TCC; author’s calculations). Likewise, when comparing the types of contracts obtained by NASFAM tobacco farmers versus members of less developed associations such as Farm Produce and Phindu, one can see that NASFAM farmers are also more likely sell their tobacco via contract growing (see Tables 7.5-7.7 below).

Table 7.5: Percentage of NASFAM Burley Tobacco by Contract Type, 2011

<table>
<thead>
<tr>
<th>Leaf Merchant</th>
<th>Contract Marketing (%)</th>
<th>IPS Contract Growing (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>JTI</td>
<td>81.33%</td>
<td>18.65%</td>
</tr>
<tr>
<td>AOI</td>
<td>90.46%</td>
<td>9.54%</td>
</tr>
<tr>
<td>Limbe Leaf</td>
<td>94.13%</td>
<td>5.87%</td>
</tr>
<tr>
<td>Premium-TAMA</td>
<td>91.85%</td>
<td>8.15%</td>
</tr>
</tbody>
</table>

Source: interviews

(a) Sums of percentages may not add up to 100% due to rounding of figures.

However an important caveat to this comparison is that in the case of NASFAM, one is looking at percentage of farmers whereas the comparator is measured as percentage of tobacco. In an egalitarian sector of smallholder farmers the importance of this would be minimal. However, in a sector with significant farmer differentiation in terms of land and crop sizes, the differing units have the potential to skew the results of the comparison. Although we do not have figures for the percentage of smallholder burley tobacco farmers who sold via contract in the year 2011, we would conjecture that if anything the figure is likely to be less than the 31.2% figure above. This is because large farmers, many of whom grow via contract and may produce as much tobacco as dozens of smallholders, are likely to substantially increase this figure.
Table 7.6: Number of Farm Produce Farmers by Contract Type, 2012

<table>
<thead>
<tr>
<th>Leaf Merchant</th>
<th>Contract Marketing</th>
<th>IPS Contract Growing</th>
</tr>
</thead>
<tbody>
<tr>
<td>JTI</td>
<td>60</td>
<td>0</td>
</tr>
<tr>
<td>AOI</td>
<td>0</td>
<td>235</td>
</tr>
<tr>
<td>Limbe Leaf</td>
<td>65</td>
<td>0</td>
</tr>
<tr>
<td>Malawi Leaf</td>
<td>100</td>
<td>0</td>
</tr>
<tr>
<td>Premium-TAMA</td>
<td>270</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: interviews

Table 7.7: Number of Phindu Clubs by Contract Type, 2012

<table>
<thead>
<tr>
<th>Leaf Merchant</th>
<th>Contract Marketing</th>
<th>IPS Contract Growing</th>
</tr>
</thead>
<tbody>
<tr>
<td>JTI</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>AOI</td>
<td>1,476</td>
<td>0</td>
</tr>
<tr>
<td>Limbe Leaf</td>
<td>974</td>
<td>0</td>
</tr>
<tr>
<td>Malawi Leaf</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Premium-TAMA</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>

Source: interviews

However, the evidence presented thus far is not sufficient to argue that members of associations such as NASFAM and TAMA are more likely to engage in product and process upgrading due to their associational power (rather than other characteristics that differentiate them). However, interviews reveal that leaf merchants chose some farmers by their association membership. For example, AOI deals mainly with NASFAM, TAMA, and Phindu, as these are perceived to be more reliable (interviews). Likewise, and as explained above in the section on functional upgrading, Premium Tobacco Holdings looked to incorporate TAMA in the company specifically in order to secure a steady supply of tobacco. Furthermore, as a classic example of how the associational power of producers can benefit the tobacco companies, it is common practice for the companies to indicate to the farmer associations how much tobacco they desire and on which type of contract, and for the associations to then organise the farmers and deliver on the contracts (interviews; direct observation). This practice indicates the necessity of the
tobacco companies to deal with organised, reliable, and preferably large associations to solve coordination problems through collective action.

Of particular relevance to Wright’s (2000) class compromise in the sphere of production, TAMA has undertaken a number of initiatives to facilitate the dissemination of IPS tobacco farming and the acquisition of the technologies and practices associated with IPS. For example, TAMA has initiated 49 farmer cooperatives as a method of bringing farmers together for the purposes of training them with new technologies. Furthermore, through the TAMA structures the country is divided into 21 zones, with three elected farmer representatives corresponding to each zone. Members of the TAMA secretariat (often with tertiary education in agronomy) conduct regular field visits, in conjunction with the elected representatives, to educate TAMA members on the IPS system, the ICCs’ CSFs, and on contract farming (interviews; direct observation\textsuperscript{305}). And finally, TAMA organises conferences for its members where the IPS system is explained and practices disseminated (interviews; direct observation\textsuperscript{306}).

7.4 Conclusion

In Chapter 3 we discussed at length the drivenness of the GVCT and some of the reasons for the development of this drivenness. In Chapter 5 we discussed the territoriality of the Malawi Tobacco Value Chain, with a particular emphasis on the bifurcated nature of the end-market, and the extent to which GVC analysis provides insights into the nature of one of the end-markets. Chapter 6 analysed lead firm governance (both as drivenness and coordination) and promotion of upgrading within the

\textsuperscript{305} During my fieldwork I would often accompany TAMA officials into the field on these visits and participated in meetings with TAMA growers where the IPS system was explained and contracts were given out.

\textsuperscript{306} During my core fieldwork trip I attended a TAMA conference where guest speakers included an agronomy official from one of the leaf merchants who presented on IPS, Minister of Agriculture Professor Peter Mwanza, and President Joyce Banda.
ICC-Malawi (smallholder burley) Tobacco Value Chain. In this chapter we have continued our discussion of governance (as drivenness) and upgrading in this chain, but with a particular emphasis on the role of government and farmer associations. In particular we have partially answered the following Research Questions:

2.b Does the Malawian government play a role in driving the Malawi (smallholder burley) Tobacco Value Chain?

4.b Has the Malawian government promoted upgrading in Malawi? If so, in what form and for whom?

4.c Has farmer associational power contributed to upgrading in Malawi? If so, in what form and for whom?

With regard to Research Question 2.b, we have demonstrated that the Malawi government under Mutharika has played a role in driving the Malawi Tobacco Value Chain. In particular we have argued that through establishing statutory minimum prices and by creating a leaf merchant (Malawi Leaf) that the government has been able to have a major influence on farm-gate prices. The government’s pricing policies, in combination with both a limit on contract farming and a government expectation that leaf merchants will mop up the market, has played a major role in answering the governance questions posed by GVC analysts of how much is to be produced, who is to produce, and how the product is to be produced. Furthermore, and in line with the GVC-GPD emphasis on power relations being determined by the ability to define functions, we have argued that government has played a role in defining the functions of leaf merchants by placing limits on the extent to which they can supply C&T tobacco to their customers.

With regard to Research Question 4.b, we have argued that the Malawian government, specifically the Mutharika presidency, has promoted upgrading in a number of ways. In our discussion of government-promoted upgrading we have engaged primarily with the GVC-GPD (or more specifically the Gibbon-Ponte) approach to the concept as one focussed on identifying structures of rewards for developing country suppliers and the functional roles that improve these rewards. For example, we have argued that the
The government's limitation of contract farming (which has the potential to reduce the number of smallholder burley farmers) can be seen as a sort of upgrade in that it maintains and protects the position of many smallholder burley farmers. The government's efforts at increasing and stabilizing farm-gate prices can be interpreted in the same manner.

We have also argued that the differentiated distribution of contract farming quotas to the tobacco-buying companies represents government promotion of upgrading in two ways. Firstly, and to the extent that we can identify the ability of leaf merchants in Malawi to source and sell C&T (as opposed to standard) tobacco as an improvement in the position and rewards structures of these firms, we have proposed that the Malawi government has promoted upgrading - in the GVC-GPD sense - of Premium-TAMA and JTI. Secondly, we have argued that the government has allocated disproportionately high contract farming quotas to these two companies in order to promote functional upgrading (in the GVC-GHS sense of moving up a node of the chain). In the case of Premium-TAMA the functional upgrading has already occurred in that the company is part owned by TAMA, a farmer association. In the case of JTI, the only ICC in Malawi, the government is attempting to use incentives to promote the establishment of a cigarette manufacturing plant.

We have answered Research Question 4.c by again engaging with both the GVC-GHS and GVC-GPD conceptualisations of upgrading. In the case of the former we have argued that the associational power of TAMA farmers has facilitated their partial ownership (and hence functional upgrade) of Premium-TAMA and Kanengo Tobacco Processors. We have further argued that the associational power of farmers, in particular of NASFAM and TAMA farmers, has greatly promoted these farmers’ upgrading of production from standard to C&T tobacco. As outlined in Chapter 6, this upgrading displays both elements of (GVC-GHS) product and process upgrading as well as (GVC-GPD) a general improvement of the position of the smallholder burley farmers concerned. We have argued that this associational power has been used in negotiating contracts with tobacco companies as well as disseminating information to members on the transition to IPS tobacco farming.
Chapter 8: Conclusion

8.1 Introduction

Throughout this work we have attempted to broaden the scope of analysis beyond the firm-centrism of the GVC-GHS literature by building on the GVC-GPD variant in order to incorporate a key role for government and farmer associations. However, and for the purposes of both clarity and analytical emphasis, our chapters on the Malawi Tobacco Value Chain have been organized by theme and/or key actors in a deliberate sequence. In other words, Chapter 5 introduced the key (firm) actors in Malawi by describing the territoriality of the chain. Chapter 6 then analysed the role of the lead firms in governing the Malawi Tobacco Value Chain and promoting upgrading in it. In Chapter 7, where within a context of lead firms broadly determining the governance and upgrading in Malawi, we argued that both Government and farmer associations contributed to chain governance and upgrading. However, these contributions occurred within a framework that was still broadly determined by lead firms. For example, whilst farmer associations contributed to product and process upgrading, the introduction of C&T tobacco in Malawi was at the behest of the lead firms. Likewise, whilst Government partially defined the functions of first tier suppliers through contract farming quotas, this policy was primarily a response to lead firms, rather than Government attempting to take the industry in a new direction. Furthermore, the analysis in Chapters 5-7 has been presented in a largely static manner. Therefore, in order to complete our analysis of the Malawi Tobacco Value Chain and fully answer our research questions, we need to answer two pending questions. First, how do the findings presented in Chapters 3-7 tie together? For example, how does the role of government shape the territoriality of the Malawi Tobacco Value Chain? Second, what are the dynamic impacts of the policies of the key actors? For example, how does government policy affect firms’ regional strategies? In Section 8.2 of this chapter we will address these questions by drawing on some regional comparators. In Section 8.3 we will
discuss how our work has answered the research questions outlined in Chapter 1, as well as the broader relevance of our findings.

Our framework also raises a number of questions that could form the basis of a future research agenda for both the Global Value Chain for Tobacco in general and the Malawi Tobacco Value Chain in particular. Some potential aspects of this research agenda will be presented in Sections 8.4 (on the global tobacco industry) and 8.5 (on Malawi).

**8.2 What Does it All Mean?: The Dynamic and Regional Impacts of Key Actors**

**8.2.1 Putting Malawi in a Regional Context**

In order to better understand the role of the Mutharika government in the Malawian tobacco industry, one can draw some comparisons with the roles of other African governments in countries with important tobacco sectors\(^{307}\). Of course, given the fact that we did not conduct fieldwork in these other countries, the comparisons are more anecdotal than systematic. However, given that there are a large number of similarities between tobacco industries in these countries (more on which below), fleshing out some of the differences can still prove useful. For example, many respondents indicated that the policy framework in Tanzania was more aligned to the interests of the leaf merchant sector. Although Tanzania produces primarily FCV tobacco, the market is similar to Malawi in that it is orientated towards BC customers (PMI and JTI in particular) and in that the leaf merchant sector is dominated by three multinationals (Universal, AOI, and Premium). Likewise, tobacco farmers were grouped into “primary societies”\(^{308}\) which

\(^{307}\) Given the importance of Malawi as a regional hub for the African tobacco industry, interviews were conducted with a number of respondents, particularly in the leaf merchant sector, who were either responsible for or previously responsible for or familiar with leaf merchant operations in other African countries. The interviews with these respondents form the basis of this section.

\(^{308}\) According to interviews, primary societies contained between 50 and 500 farmers.
were in turn grouped into unions\textsuperscript{309}, which were heavily aligned with Government. Furthermore, leaf merchants and government in Tanzania appeared to have the same opposing interests as in Malawi in that the merchants wanted a limited number of highly efficient farmers whereas government wanted a greater number of farmers growing tobacco (interviews).

Given the similarity in interests and actors, the difference in policy between Tanzania and Malawi is all the more noteworthy. The Tanzanian tobacco sector is governed by a Tobacco Council, which comprises the tobacco buying companies, the unions, Ministry of Agriculture, and Tobacco Board. According to leaf merchants this Council decides policy by consensus. One of the most important policy differences is that the IPS system in Tanzania is not constrained by quota allocations as under the Mutharika presidency. In fact, tobacco in Tanzania is produced entirely via contract farming\textsuperscript{310}, with quantities and prices of tobacco being determined in advance (interviews).

However, another important difference to note is that whilst Premium Tobacco Holdings in Malawi has facilitated the upgrading of TAMA in order to maintain assurity of supply, Premium’s subsidiary in Tanzania is wholly owned and hence has not been involved in farmer functional upgrading (interviews). This begs the question of the extent to which Mutharika’s policies, in particular minimum pricing (which was introduced around the same time Premium-TAMA commenced operations) and contract farming quotas, have contributed to Premium’s anxiety about assuring supply. We would hypothesize that Mutharika’s restrictions on contract farming are particularly relevant to Premium’s inclusion of TAMA in the Malawian subsidiary. In Tanzania, with no restrictions on IPS tobacco, and Government interested in increasing the number of tobacco farmers, assuring supply is not as pressing a concern for leaf merchants.

Zimbabwe provides another useful comparator for tobacco policy. Like Tanzania, production in Zimbabwe is primarily FCV tobacco, however, like Malawi, Zimbabwe

\textsuperscript{309} According to interviews there were seven main unions at the time of fieldwork.
\textsuperscript{310} Tobacco production in Kenya, where AOI also operates, is also entirely contract farming (interviews).
operates a dual marketing system of both auction and contract farming\textsuperscript{311}. Also like Malawi there is extensive differentiation among tobacco farmers with both smallholder and estate production. Furthermore, and from the perspective of the ICCs, there are a number of compliance concerns. In particular, the issue of land ownership and the potential for production of tobacco on land which was illegally redistributed, has resulted in PMI refusing to purchase Zimbabwean tobacco\textsuperscript{312}. Also noteworthy is the fact that whilst both BAT and JTI operate in Zimbabwe, they both are vertically integrated and purchase their own tobacco directly (interviews). However a full explanation of why BAT has vertically integrated (unlike in Malawi), as well as why PMI does not participate in the Zimbabwean market (as it does in Malawi), would require further research. What is of relevance for our purposes here, is merely the fact that different (national) chain segments led by the same lead firms can take dramatically different forms, depending on the context in which they “touch down”. We believe this provides a further rationale for an approach to global value chains that explicitly attempts to theorise and analytically incorporate the role of non-firm actors.

\textit{8.2.2 Explaining Territoriality: The Malawi-Mozambique Comparison}

A particular interest for our purposes relates to one of the main findings of this research: that the end-market for Malawian tobacco is bifurcated. Although in Chapter 5 we identified the two distinct end-markets (BC and NBC), we did not attempt to explain why this market bifurcation occurred. Although attempting to explain the existence of the NBC end-market on a global scale is far beyond the scope of this work, we will attempt to offer some reasons as to why the NBC end-market had such a disproportionally strong

\textsuperscript{311} Like Malawi, Zimbabwe has a long history of using the auction system to market tobacco, which dates back to the creation of the auction floors in Southern Rhodesia in 1936 (Prowse, 2011b).

\textsuperscript{312} It is worth noting another potential explanatory factor for PMI’s refusal to participate in the Zimbabwean market: the fact that due to China’s status as market leader (purchasing 40-45% of the Zimbabwean crop), PMI is unable to enjoy the same extent of influence over the market as it does in other countries such as Malawi (interviews).
presence in Malawi. We argue that the country’s long history of producing via an auction system (as seen in Chapter 4), together with the combination of Mutharika’s contract farming quotas with the expectation that leaf merchants will mop up the market were the main causal factors. This is because the quotas limited ICCs’ acquisition of C&T tobacco, thereby dampening ICC demand for Malawian tobacco. This excess tobacco that leaf merchants were expected to buy then had to be sold somewhere, and the NBC end-market - which was not concerned with compliance issues, as demonstrated in Chapter 5 - provided a useful sales outlet. As evidence for this claim, one can compare the Malawian tobacco industry with its counterpart in Mozambique.

Tobacco production in Mozambique has a number of similarities with that of Malawi. For example, like Malawi, production in Mozambique is primarily based on smallholder burley (at the time of fieldwork, Mozambique was producing roughly 7% dark fired, 3% FCV, and 90% burley). Also like Malawi, PMI is the industry leader in Mozambique. However, of notable difference between the two countries’ tobacco sectors is that whilst Malawi’s tobacco end-market is bifurcated, Mozambican tobacco is produced almost entirely for the BC end-market. For example, whilst Universal Corporation’s Malawi subsidiary (Limbe Leaf) sells roughly 50% of its tobacco to BC customers in Malawi (see Chapter 5), in Mozambique the company\(^{313}\) sells roughly 90% of its tobacco to BC customers. Likewise, whilst BAT was reducing its tobacco purchases in Malawi due to compliance issues, in Mozambique it was the biggest buyer after PMI\(^ {314}\). The Mozambican tobacco industry is not characterised by the same end-market bifurcation as Malawi for two reasons. Firstly, because tobacco in Mozambique is produced entirely via IPS, ICCs are able to obtain the C&T tobacco they demand\(^ {315}\). Secondly, the higher costs of this C&T tobacco\(^{316}\) appear to have priced NBC customers out of the market (interviews).

\(^{313}\) Mozambique Leaf Tobacco (MLT), Universal Corporation’s Mozambican subsidiary, has a virtual monopoly on the leaf merchant sector in Mozambique. Whilst in 2011, MLT purchased 72,000 tonnes, the only competitor this author is aware of – Sonil - purchased on average 1-2,000 tonnes (interviews).

\(^{314}\) An example of upstream control by BAT can be seen in comments made by one large farmer (who engaged in both direct cultivation and in contract farming schemes with commercial and smallholder farmers) interviewed by Cramer (2003) who pointed out that he had to comply with strict regulations regarding social responsibility to satisfy BAT.

\(^{315}\) Mozambique has a long history of contract farming and concessionary schemes. For example, cotton in colonial times used the concessionary system. The cotton companies were briefly taken over by the state
Without wanting to over-extend our analytical coverage, we argue here that the effects of the roles of non-firm actors in Malawi are not confined to the Malawi Tobacco Value Chain, but rather can be seen in other chain segments, such as the Mozambique and Zambia Tobacco Value Chains. Tobacco cultivation in Mozambique occurred during Portugal’s colonial rule and in small amounts during the one-party socialist rule of Frelimo in the post-independence period. However, tobacco only began to become a significant export crop in the post-civil war period, which coincided with economic liberalisation and a shift to multi-party democracy (Hanlon, 2006). Although initially developed as part of an initiative to increase supply of burley tobacco (UC, 2013, p 5), Universal Corporation continued to invest in Mozambique as it became clear that President Mutharika was not going to comply with the demands of the ICCs, in particular with reference to shifting to an IPS system (interviews). Indeed and, surprisingly, given its relatively short history of large-scale tobacco production, PMI (2012c, p 7) lists Mozambique as among the top ten countries from which it sources tobacco. For the increase in burley production in Mozambique in recent years, see Figure 8.1 below.
Likewise, AOI had (at the time of fieldwork) recently started to develop tobacco production in Zambia as its “back-up option” in case Malawi did not comply with ICC demands on shifting to an IPS system. At the time of fieldwork AOI was purchasing roughly 16 million kgs of FCV and 8 million kgs of burley tobacco in Zambia. AOI was investing heavily in FCV (in part to satisfy Chinese demand) and was waiting to make substantial investments in burley tobacco production to see if Malawi would change policies and embrace IPS (interviews). Interviews revealed that if Malawi were to continue with the same policy of restricting IPS uptake, that Zambia would then become AOI’s main source of African burley.

The examples of Zambia and Mozambique demonstrate that the implications of (Malawian) government policies have the potential to be felt beyond merely the Malawi Tobacco Value Chain. Indeed, as seen above, Mutharika’s policies on IPS appear to

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319 Tracing the roots of the development of the Zambian and Mozambican tobacco industries to specific policies of the Malawian government has interesting parallels within the development of the Malawian
have had a profound impact on the questions of value chain governance raised in Chapter 1, in particular with regard to determining who participates in the value chain. With regard to the role of non-firm actors in the tobacco industries of other African countries, and although one would have to undertake extensive research in order to fully account for the role of farmer organizations and government in countries mentioned above, preliminary evidence does indicate that these actors do play a role. For example, the Tanzanian Tobacco Council, as stated above, comprises government, farmers’ unions, and leaf merchants (interviews). Likewise, interviews reveal that Zambia has some of the strongest farmer organisations, and that Frelimo - the governing party in Mozambique - whilst not being overly interventionist in the tobacco sector does pay particular attention to performance and will not hesitate to visit MLT in order to pressure for better performance\footnote{At the time of fieldwork MLT was contracting 110,000 farmers, which through linkages impacted upon roughly 1,000,000 people and hence represented a significant political interest for government (interviews).} (interviews).

Similarly in Mozambique, there has been much debate over the nature of functional upgrading. Mozambican tobacco leaf was initially exported to neighbouring Zimbabwe and Malawi for processing, although the government was pushing for the concessionary companies to set up processing facilities in the country\footnote{At this time, both Dimon and Stancom (prior to the AOI merger) were operating in Mozambique.}. In 2006 the government succeeded as MLT opened a US$ 53 million processing factory in Tete City which provided jobs for 1,600 workers (Hanlon and Smart, 2008, p 54). By 2009, the factory employed...
4,000 (allAfrica.com, 2009). The government later withdrew the Chifunde district concession from Dimon (which had held it for a decade) and gave it to MLT (Hanlon, 2006).

If one accepts that government and/or farmer organisations are significant actors in the segments of the Global Value Chain for Tobacco in other African countries, the relevant question for our purposes is: why have these actors pursued different policies in other African countries, thereby resulting in chain segments that look very different from that found in Malawi? The answer to this question lies partially in the importance of historical context, as presented in Chapter 4. Malawi distinguishes itself from Mozambique, for example, in that it has a long history of tobacco production, an enormously developed marketing infrastructure, and a significant proportion of smallholders dependent on burley tobacco. It is in this historical context that ICCs commenced their demands for C&T tobacco, thereby begging the question of what the impact of a shift to IPS would mean for the smallholder burley farmers who could not obtain contracts as well as for the auction system infrastructure and its employees. In Mozambique on the other hand, the tobacco sector was developed (partly) for the purposes of satisfying ICC demand for C&T tobacco and occurred in a context of essentially no pre-existing infrastructure. This helps us to understand why Malawi’s government policies appeared to be based on political stabilisation as opposed to Mozambique being primarily concerned with promoting value added.

To frame this discussion in GVC terminology, one can return to the concept of “upgrading and exclusion”, which refers to the process whereby some firms and farms are able to meet the requirements demanded by lead firms, and thereby upgrade, whilst others are not, and hence are excluded from participation in the value chain. These simultaneous processes of upgrading and exclusion are a common feature of agricultural value chains. Or as Gibbon (2001, p 350) put it, [there is] “...clearly a tradeoff between upgrading and exclusion, whose identification is one of the key elements of GCC analysis.” In Malawi, unlike in Mozambique, it is this exclusion aspect which has so preoccupied the Mutharika government. As the ICCs have demanded a shift from standard to C&T tobacco,

322 Of particular importance in this regard is the impact of the liberalisation of smallholder burley tobacco in the early 1990’s (see Chapter 4).
which would necessarily imply exclusion\(^{323}\), the Malawian government has attempted to mitigate against this exclusion through contract farming quotas and by pressing leaf merchants to *mop up the market*. In Mozambique on the other hand, given the absence of a history of auctioned *standard* tobacco production, there is no shift from *standard* to *C&T* tobacco, as the country’s sector was developed for the purposes of supplying IPS tobacco and so the political economy of tobacco production is markedly different.

### 8.3 Research Questions

Having partially addressed different parts of our research questions throughout this work, below we will draw on the analysis presented in Chapters 3-8 in order to answer our four sets of research questions, on territoriality, governance as *drivenness*, governance as *coordination*, and upgrading.

#### 8.3.1 Territoriality

Research Question 1.a: *What is the territoriality of the Global Value Chain for Tobacco? What is the territoriality of the Malawi (smallholder burley) Tobacco Value Chain? How are these connected?*

In Chapter 3 we provided an overview of the territoriality of the Global Value Chain for Tobacco. In our discussion of territoriality we described how the lead firm sector, comprised of the international cigarette companies (ICCs) was highly concentrated. In particular, the Chinese state-owned tobacco company (CNTC) and four multi-nationals (JT,

\(^{323}\) As stated earlier in this work, leaf merchant officials refer openly to the objective of “doubling the yields, and halving the number of farmers” (interviews).
PMI, BAT, and ITG) comprise nearly 80% of global market share. Furthermore, of the remaining market share not accounted for by these five companies, part accrues to large cigarette manufacturing corporations which specifically target the U.S. market. We have emphasized that, with the exception of the CNTC, these companies are all located in the U.K., U.S., and Japan and are beholden to the *shareholder value doctrine*. However, a small portion of global market share accrues to what we have termed *non-lead firm* cigarette manufacturers. These are small (private or state-owned) cigarette manufacturers which tend to have a more regional (rather than international) focus, and which do not enjoy the same amount of asymmetrical bargaining power over their suppliers as their competitors.

In Chapter 3 we also discussed the tobacco leaf merchant companies, which we have denominated as the first tier suppliers in the GVCT. We have shown that this sector is also highly concentrated, with just two companies dominating the sector on an international scale. However, we have noted that there are a number of regional and national competitors to these companies, as well as the fact that the ICCs are increasingly undertaking vertical integration in order to source tobacco leaf directly.

With regard to the tobacco farming sector (or second tier suppliers), we have shown how production has increasingly shifted from developed countries to developing countries. We have also described how this sector is highly fragmented and dispersed, with production occurring in over 100 countries. Furthermore, we have discussed various forms of market segmentation, such as by type of tobacco, curing method, and destination of tobacco (e.g. cigarettes or cigars; flavour or filler).

In Chapter 5 we discussed the territoriality of the Malawi (smallholder burley) Tobacco Value Chain. In particular, we emphasized that the burley tobacco sector was also highly fragmented, being dominated by smallholders, who farm the crop on customary land. The leaf merchant sector on the other hand, is highly concentrated, with only five companies accounting for 100% of the market, four multi-nationals accounting for roughly 92% of the market, and the top two firms accounting for up to 70%. However,
we also emphasized that the end-market for Malawian tobacco was bifurcated between Blue Chip and Non-Blue Chip customers.

In order to connect our discussions of the territorialities of the GVCT and the Malawi (smallholder burley) Tobacco Value Chain, we have used the terminology “ICC-Malawi (smallholder burley) Tobacco Value Chain”. This chain originates with the smallholder burley tobacco sector, passes through the Malawian leaf merchant sector, which is dominated by the same two companies which dominate the international leaf merchant sector, and ends with the international cigarette companies. This chain is dominated in particular by Philip Morris International, the largest ICC (excluding CNTC).

Research Question 1.b: How has the territoriality of the Malawi (smallholder burley) Tobacco Chain come to be shaped over time?

After providing a very brief historical background of the global tobacco industry in Chapter 3, in Chapter 4 we discussed at length the history of tobacco production in Malawi. In particular, we emphasized how tobacco production started in the Southern Region and then spread to the Central Region through settlers’ tenancy schemes. We also discussed how this production was encouraged by both colonial and post-colonial governments as well as some of the tensions between smallholder and estate production. Furthermore, we described how burley came to prominence in the post-war period. However, of particular interest to a study of a value chain which originates with the smallholder burley tobacco sector, is the fact that the sector did not technically exist until the early 1990s. Whilst burley tobacco production existed prior to this, and whilst smallholders in Malawi had a long tradition of tobacco production, they were not legally allowed to produce burley until market liberalisation in the early 1990s. This liberalisation was encouraged by the World Bank as a poverty-alleviation policy.

With regard to one of the defining features of the Malawi (smallholder burley) Tobacco Value Chain’s territoriality, the end-market bifurcation, we have argued in Section 8.2 of Chapter 8 that government policy has played a large role. In particular,
Malawi’s long history of an auction marketing system for tobacco, combined with government policies limiting the amount of tobacco that can be procured via contract farming, as well as government expectations that the leaf merchants will mop up the market, have all contributed to the leaf merchants in the country actively seeking out alternative sales outlets for their excess auctioned tobacco. This trend has been exacerbated by the creation of Malawi Leaf, a government-controlled leaf merchant which has been largely unable to serve the Blue Chip end-market.

8.3.2 Governance as Drivenness

Research Question 2.a: Is the Global Value Chain for Tobacco driven? If so, by who? What enables the drivers to maintain their power? How do lead firms drive the Malawi (smallholder burley) Tobacco Value Chain?

In Chapter 3 we argued that the Global Value Chain for Tobacco is driven by the international cigarette companies, the chain’s lead firms. We argued that these firms enjoyed an enormous amount of asymmetrical bargaining power over their suppliers for a number of reasons. In particular, and as commonly highlighted by GVC analysis, the lead firms sector is highly concentrated, with merely five firms controlling roughly 80% of global market share, and just one firm - Philip Morris International - controlling over a quarter of global market share (excluding the U.S. and China). Whilst the leaf merchant (first tier supplier) sector is also highly concentrated on a global scale, we have argued that the lead firms have been able to mitigate, in part, against the build-up of bargaining power in the supply base by increasingly engaging in direct procurement of tobacco leaf. Furthermore, the international cigarette companies, unlike their suppliers, focus primarily on branding and marketing. Finally, the international cigarette companies are protected by an enormous array of entry barriers. These include: the asymmetric information associated with secret blends and consumer trends, the capital and technology-intensity
of production, and the costs associated with marketing in heavily regulated environments, litigation, R&D, lobbying, and public relations.

In Chapter 3 we argued that the ICCs used their power to drive the GVCT by writing and enforcing rules and standards, such as PMI’s Agricultural Labour Practices Code, and by forcing their suppliers to shift towards procurement of compliant leaf. This form of drivenness was particularly acute in Malawi, where lead firms, in particular PMI, were transforming the industry with their demands for C&T tobacco. As demonstrated in Chapter 6, the demand for C&T tobacco meant that lead firms were defining the functions of their first tier suppliers in the Malawi Tobacco Value Chain. This is because, in order to source C&T tobacco, the leaf merchants in the chain had to massively expand their agronomy departments, develop relationships with farmers and banks, lobby government, and implement a complex and multi-tiered system of contract farming. Whilst these changes in the industry occurred at the behest of the lead firms - in particular PMI - most of the changes occurred in the leaf merchant and farmer sectors. The shift to C&T tobacco therefore, is an example of how the lead firms drive the entire chain, despite a lack of equity relations.

Research Question 2.b: Does the Malawian government play a role in driving the Malawi (smallholder burley) Tobacco Value Chain?

In Chapter 7 we argued that the Malawi government, specifically under President Mutharika, has played a major role in driving the Malawi (smallholder burley) Tobacco Value Chain. In particular, by instituting statutory minimum prices and creating a leaf merchant (Malawi Leaf), the government has played a major role in influencing smallholder burley farm-gate prices. Furthermore, the government’s pricing policies, combined with contract farming quotas limiting the introduction of IPS, and government expectation that leaf merchants will mop up the market, has allowed government to play a part in determining how much tobacco is produced, who produces it, and how it is produced. We also argued that government played a role in defining the functions of leaf merchants in Malawi by using contract farming quotas to limit the extent to which they
could transform themselves into suppliers of C&T tobacco. In Section 8.2 of Chapter 8 we argued that the effects of the Malawi government’s driving could be felt in other parts of the Global Value Chain for Tobacco. In particular, we argued that the Malawi government’s limitations on IPS production contributed to the expansion of smallholder burley production in Mozambique.

8.3.3 Governance as Coordination

Research Question 3.a: How is the lead firm-first tier supplier node of the Malawi Tobacco Value Chain coordinated? Does the coordination observed correspond to the predictions of Gereffi et al. (2005)?

In Chapter 1 we discussed two prominent interpretations of governance in the GVC literature: as driving (as seen in much of the GVC-GPD variant), and as coordination (as preferred by the GVC-GHS variant). Whilst noting and concurring with many of the critiques by the GVC-GPD of the governance as coordination concept, namely for its analytical narrowing of scope and inability to engage with chain-long dynamics, we have argued that Gereffi et al.’s (2005) theory of value chain governance still may prove illuminating if used for the very limited objective of analysing forms of coordination at the lead firm-first tier supplier node of the value chain. For this reason we set out to test the theory in Chapter 6. We did so by evaluating the three independent variables for the leaf merchant sector in Malawi, i.e. the capabilities in the supply base, the complexity of transactions, and the codifiability of transactions. However, we argued that whilst Gereffi et al.’s theory would have predicted a modular form of governance, characterized by low degrees of power asymmetries and explicit coordination of first tier suppliers by lead firms, what was observed more closely approximated the hierarchy and captive forms of governance.

We argued that the main cause for the discrepancy between the theory’s predictions and actual outcomes was the theory’s inability to differentiate the lead firm
sector. This was seen in two important ways. First, although sourcing from the same supply base and presumably basing purchasing decisions on the same set of criteria, JT decided in 2009 to source tobacco directly in Malawi by vertically integrating while the remaining ICCs (PMI, ITG, and BAT) continued to source tobacco through leaf merchants. Therefore JT coordinated its first tier supplier through the hierarchy form of governance. We also argued that JT’s decision to vertically integrate increased power asymmetries between the remaining ICCs and leaf merchants by both shrinking the ICC end-market and increasing competition in the leaf merchant sector.

The second way in which lead firm differentiation played a role in governance as coordination is seen in PMI’s role as leader of the pack. We argued in Chapter 6 that although there were high degrees of power asymmetries and explicit coordination, that transactional dependence between lead firms and first tier suppliers was mitigated against by PMI allowing other Blue Chip manufacturers to piggy-back on this company’s investments. This is seen notably in the manner in which leaf merchants attempted to codify information by collecting data on contracted farmers to demonstrate conformity to C&T standards. This codification was often done using survey templates provided by PMI yet the data served to satisfy other Blue Chip customers.

8.3.4 Upgrading

Research Question 4.a: Have lead firms promoted upgrading in Malawi? If so, in what form and for whom?

Our discussion of lead firm promotion of upgrading centred on the transition of Malawi smallholder burley farmers from standard to C&T tobacco, in Chapter 6. In this discussion we engaged with the upgrading conceptualisations advocated by both the GVC-GHS and GVC-GPD variants. In particular, we argued that the shift to production of C&T tobacco displayed elements of both product and process upgrading, emphasized by the
GVC-GHS variant. In the case of the former, and following Moyer-Lee and Prowse (2012), we argued that C&T tobacco was differentiated from standard tobacco by its credence characteristics and that the former was of higher value to the ICCs and hence resulted in higher remuneration for its producers. We also argued that production of C&T tobacco displayed elements of process upgrading such as higher yields and quality (due mainly to improved inputs and agronomical supervision).

With regard to the GVC-GPD variant’s conceptualisation of upgrading, we argued that production of C&T tobacco represented an improved rewards structure for smallholder burley farmers and hence constituted an upgrade. In particular, C&T tobacco mitigated against risk by securing outlets via contracts, cash advances for the lean season, and resulted in higher prices and overall income for producers.

Research Question 4.b: Has the Malawian government promoted upgrading in Malawi? If so, in what form and for whom?

To answer this question, we have also engaged with both the GVC-GPD and GVC-GHS variants’ conceptualisations of upgrading. With regard to the former, we argued in Chapter 7 that one of the Mutharika government’s main priorities in tobacco policy lay in price and participation issues. Bearing in mind that leaf merchants openly spoke of the transition to C&T tobacco implying a 50% reduction in the amount of smallholder burley farmers in the country, we have interpreted Mutharika’s limitations on the introduction of C&T tobacco as a form of upgrade for those smallholder burley farmers less likely to obtain contracts in the new C&T production system. Similarly, the Mutharika government’s interventions in farm-gate prices, via statutory minimum prices as well as the creation of Malawi Leaf, have been interpreted in this work as an upgrade for smallholder burley farmers in the GVC-GPD sense that it improved the position of developing country suppliers. In Chapter 7 we also drew on our discussion in Chapter 1 to argue that Khan and Gray’s (2006) concept of political stabilization helped us to partially explain the Mutharika government’s policies on pricing and contract farming. In particular
we have argued that these policies could be interpreted as off-budget transfers designed to placate or respond to an important sector of the rural population.

In Chapter 7 we also discussed the government’s differentiated allocation of contract farming quotas to the leaf merchant sector and argued that this represented government promotion of upgrading in two ways. First, and in line with the GVC-GPD conceptualisation, we have argued that disproportionately large quotas allocated to JTI and Premium-TAMA have allowed these two firms to upgrade in the sense that their position has been improved by being able to supply a greater quantity of C&T tobacco. Second, we have argued that these two companies were chosen by government for special treatment in an effort to promote what the GVC-GHS variant terms as functional upgrading. In particular, government wanted to support the functional upgrade which had already occurred in the case of Premium-TAMA (i.e. a farmer association participating as part owner of a leaf merchant), and also wanted to encourage JTI to functionally upgrade by establishing a cigarette manufacturing plant in Malawi. We have drawn on Wade’s (1990; 2010) concept of followership policies to help us understand these interventions. In other words, we have argued that government has used modest policy interventions to change incentive structures for private firms in order to encourage functional upgrading.

Research Question 4.c: Has farmer associational power contributed to upgrading in Malawi? If so, in what form and for whom?

In Chapter 7 we engaged with Wright’s (2000) concept of associational power in order to assess the role that tobacco farmers played in upgrading in the Malawi Tobacco Value Chain. In particular, we discussed the role of associational power in TAMA’s functional upgrade of participation in Premium-TAMA, as well as the role of associational power in the transition from standard to C&T tobacco. In the case of the former, we argued that the associational power of TAMA farmers was essential in that Premium Tobacco Holdings invited the organisation to participate in the Malawi subsidiary due to the company’s concerns over security of supply. We therefore argued that TAMA’s large
size and ability to solve collective action problems such as organizing a large number of smallholder farmers into various contract arrangements helped Premium-TAMA resolve its security of supply concerns. With regard to the transition to C&T tobacco, we argued that farmer associations, and particularly the more organized and better-endowed ones such as TAMA and NASFAM, played a large role in assisting their members to upgrade into the new form of tobacco production. In particular, these organisations negotiated contracts and disseminated information to members on the new system. Furthermore, some leaf merchants used farmer association membership as a criterion for contract farmer selection.

8.3.5 Contributions of the Research

We believe that this work contributes to the empirical literature on both the global tobacco industry in general, and the Malawian tobacco industry in particular, as well as to the literature on global value chains. With regard to the empirical literature, this work has contributed an extensive analysis on the entry barriers of international cigarette companies as well as on the relations between these companies and tobacco leaf merchants. In particular, we have shown how compliance concerns of cigarette multinationals such as PMI have caused dramatic changes in the operations of leaf merchants in Malawi, as seen in the massive expansions of agronomy departments. In addition to demonstrating how compliance and traceability concerns are transforming the Malawian tobacco industry, we have also provided detailed information on the two end-markets for Malawian tobacco.

In terms of contributions to the GVC literature, firstly we have contributed to the empirical coverage of the GVC literature by covering a new chain. We have also expanded upon the GVC-GPD variant in order to incorporate a more prominent role for the state in our analysis. We have done this by drawing on selected concepts in the developmental
state literature, however with the very limited scope of using them to analyse GVC governance and upgrading. Therefore, instead of juxtaposing the analytical pre-eminence of the role of the lead firm with that of the state, we have attempted to incorporate both in a coherent framework which analyses the role that both actors play in governing (driving) and promoting upgrading in the chain. Likewise, we have built on attempts of others, in particular Selwyn (2007; 2012) and to a lesser extent Riisgaard (2009), to analytically incorporate a role for actors at the supply end of the value chain. Like Selwyn, we have drawn on Wright’s (2000) *associational power*. However, whilst Selwyn used the concept to analyse the role of organized (hired) labour, we have analysed the role of farmer associations.

Finally, we have contributed to the existing debate on the usefulness of Gereffi et al.’s (2005) theory. Whilst we agree with many of the critiques of this theory offered by the GVC-GPD variant, we have sought to test the theory on its own terms. Our finding that the theory did not accurately predict the outcomes observed in our case study constitutes a critique of the theory from a somewhat different angle. This is because one of the main reasons we offer for the theory’s inaccurate predictions - the theory’s inability to differentiate the lead firm sector - is notably different from the more prominent components of the GVC-GPD critique, e.g. the theory’s failure to engage with the big picture.

8.4 Areas for Future Research: Global Tobacco Industry

Although in this work we have attempted to take a holistic approach by building on the GVC-GPD variant in incorporating the role for lead firms as well as other actors within Malawi, there are still a number of areas for future research which would enrich our understanding of the global tobacco industry, and potentially lead to an expansion of our analytical framework. Two questions about the global tobacco industry are of particular
interest. Firstly, what has contributed to the formation of the ICCs’ CSFs? Secondly, what will the impact of the developing global trends in tobacco regulation be on the value chain?

8.4.1 Shaping the Value Chain

In Chapters 3 and 5 we established that the ICCs were particularly concerned with traceability and integrity of the crop, especially with regard to issues of child labour, NTRM, and GAP. We offered some potential explanations for this with regard to public relations pressure and the *shareholder value doctrine*. However, undertaking a more comprehensive study of what drives these CSFs would constitute an interesting area for further research. Although we have critiqued the GVC literature in Chapter 1 for often failing to incorporate consumption and the influence of consumption on value chains, our own analytical approach is not very developed with regard to the retail node of global value chains. Undertaking research into the formation of ICC CSFs could thereby necessitate an expansion of the framework in order to incorporate a role for consumer preferences\(^{324}\), and public relations motives, among other things. Although access to developed country regulations (more on which below) would be somewhat straightforward, a potential difficulty in this research agenda would be gaining access to ICC sources. If my experience with JTI in Malawi is anything to go by, this node of the value chain is extremely secretive and guarded.

The role of China and its growing importance, as both a major consumer market and an influential player in international trade, has been highlighted in Chapter 1. Likewise, it was pointed out in Chapter 3 that the world’s largest cigarette company is the (state-owned) China National Tobacco Corporation (CNTC). Indeed in 2010 this company made more profit than the combined total of PMI, BAT, and Altria (Tobacco Journal, 2012c). And although the CNTC has played a minor role in Malawi, it has been mentioned in this

\(^{324}\) Particularly in relation to certain regulations (more on which below).
chapter the important role that China is playing in other African countries such as Zambia and Zimbabwe. Therefore, acquiring a greater understanding of the role of China in general and the CNTC in particular, in the Global Value Chain for Tobacco would constitute another area for future research. Of particular interest is understanding the extent to which Chinese competition influences the CSFs of the ICCs. A better understanding of the CNTC’s CSFs and of how and why these differ from those of the ICCs would also enhance our understanding of the global tobacco industry. And understanding the extent to which differences in the nature of tobacco industries between countries which are geared primarily towards satisfying Chinese demand and those orientated towards ICC demand, would also enrich our comprehension of lead firm governance of the Global Value Chain for Tobacco.

Another area ripe for investigation is the trade in illicit tobacco products. As BAT (2012, p 40) states:

Illicit trade in the form of counterfeit products, smuggled genuine products and locally manufactured products on which applicable taxes are evaded, continues to represent a significant and growing threat to the legitimate tobacco industry.

The same source goes on to estimate the illicit trade to represent 12% of consumption.\footnote{PMI (2012a, p 5) estimates it at 10% of consumption (600 billion units).} For the share of illicit cigarettes in selected markets, see Figure 8.2 below.
8.4.2 Regulation

There have been a number of developments on the regulatory front in the global tobacco industry which have the potential for greatly altering the balance of power between different actors in the Global Value Chain for Tobacco. As many of these regulatory trends were merely starting to establish themselves at the time of writing\footnote{As this subsection is focused on trends, rather than specific events, it is based on regular consultation of tobacco industry press over the course of the PhD, in particular, \textit{The Tobacco Journal} and \textit{The Tobacco Reporter}. This sub-section is based on numerous articles from these journals unless specifically stated otherwise.}, we do not have a full understanding of their impacts. However, investigating the impact of these trends on the governance of the Global Value Chain for Tobacco would constitute a particularly interesting future research agenda.

The \textit{Framework Convention on Tobacco Control (FCTC)}, which was discussed in Chapter 3, appears to be gaining momentum in recent years. Indeed, even Malawi was
considering acceding to the treaty (Mwanza\textsuperscript{327}, interview). The FCTC is particularly relevant for our purposes for two reasons. Firstly, because its focus partially (and explicitly) addresses issues of concern to GVC analysis such as branding. This can be seen for example in advertising restrictions prescribed by the treaty (for more on which, refer to Chapter 3). Secondly, Article 17 of the treaty specifically addresses finding economically viable alternatives to tobacco production for farmers (WHO, 2003). Also, if the FCTC is successful in its stated goal of reducing demand for tobacco, this would presumably have an exclusionary impact on tobacco producers (although not due to upgrading as per Gibbon, 2001). Therefore, the extent to which shifting to a viable alternative, or inter-sectoral upgrading as per the GVC-GHS terminology, is facilitated through an international treaty, could constitute a future line of enquiry with regard to the role of governments in the value chain.

One particularly interesting development on the international regulatory front is the move towards \textit{plain packaging}. This refers to a regulation whereby cigarettes must be sold in packs of a single (usually unappealing) colour, free of any images except graphic health warnings, and where the brand name is depicted in uniform block letters. With this measure the different brands are essentially indistinguishable. Plain packaging is encouraged by the FCTC. Indeed, WHO (2013, p 20) states:

\begin{quote}
Parties should consider adopting plain (or generic) packaging requirements to eliminate the advertising and promotional effects of packaging. Product packaging, individual cigarettes or other tobacco products should carry no advertising or promotion, including design features that make products more attractive to consumers.
\end{quote}

Plain packaging has notably been introduced at the end of 2012 in Australia. The regulation required 75\% of the front and 90\% of the back of cigarette packs to be covered with health warnings (JT, 2012, p 59). However other countries (such as the U.K. and New Zealand) have also considered its introduction. Plain packaging is of particular interest to the GVC literature in that with plain packaging regulators attack the cigarette companies’

\textsuperscript{327} Professor Peter Mwanza was the Minister of Agriculture during the period of fieldwork.
greatest asset: branding. One possible consequence is that consumers will place a greater emphasis on price rather than brands. Another possible consequence is that the quality of the tobacco in the cigarettes will become more important as the latter will become distinguishable more by intrinsic characteristics than by psychological ones, i.e. a shift in emphasis of quality from symbolic to material (Daviron and Ponte, 2005).

If plain packaging is to become the norm, this would provoke a number of important research questions:

1. How does this influence the type of tobacco demanded by ICCs?
2. How will ICCs continue to differentiate their products?
3. How will ICCs continue to distinguish themselves from non-ICC competitors, such as those NBC buyers of Malawian tobacco?
4. How will plain packaging impact the CSFs of ICCs?
5. In particular, if the importance of branding is decreased, what will be the impact on ICC concerns for traceability and crop integrity?

To the extent that plain packaging, and similar initiatives which decrease the prominence of branding and product differentiation, lead to a commoditisation of cigarettes, the results of this could be significant for Malawi, and for tobacco growers more generally. If commoditisation leads to an increase in demand for lower priced products, PMI will be particularly affected by this in that its product mix is heavily oriented towards the premium categories (PMI, 2012a, p 48). Given the importance of PMI in Malawi (as explained in Chapter 6), the impact of commoditisation on PMI and the effect this has on PMI’s role as industry leader in Malawi, could constitute another area of future research.

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Another regulation which could be classified in this same category is the recent display ban in the U.K., for more on which see (The Guardian, 2012). This U.K. initiative follows on from similar legislation in Iceland (2001), Thailand (2005), Ireland (2009), and Norway (2010) (Tobacco Journal, 2012b). Display bans are encouraged by the FCTC (WHO, 2013, p 20).

For example, on the subject of plain packaging, the Chief Executive of the International Tobacco Growers Association writes:

…it is not at all clear which impact it will have on consumption but it will have a sure impact on prices, as prices will become one of the few noticeable features distinguishing different brands. Price wars will thus follow and, at the bottom of the supply chain, we will surely feel the squeeze (ITGA, 2013, p 6).
Another trend in tobacco regulation is banning additives and flavourings in cigarettes (Brown and Snell, 2011), which is premised on the notion that additives and flavourings that make cigarettes more palatable attract (especially youth) smokers. This is particularly relevant for burley tobacco in that, unlike FCV, burley is considered to be unpalatable without additives and/or flavourings. Given that China is a mainly FCV-consuming country, the impact of additive and flavouring bans in developed countries could be enormous for burley-producing countries. Future research in this regard would entail investigating the extent to which ICC demand for burley tobacco is influenced by these regulations, as well as determining which burley-producing countries are most impacted by the shift in demand. There is additionally considerable scope for investigation into the impact of further flavouring and additives restrictions on the global leaf merchant sector. For example, Universal Corporation (2013, p 32) states:

...given our global presence, we also have the ability to source different types and styles of tobacco for our customers should their needs change due to regulation of ingredients.

To the extent that increased additives and flavourings bans result in increased demands of ICCs on their leaf merchant suppliers (with regard to major and rapid changes in sourcing origins and types), will this lead to a process of differentiation at the leaf merchant sector, whereby those firms most able to respond to the new demands increase their market share while their regional/national competitors are marginalised?

_E-cigarettes_, or “E-Cigs”, and other products developed to replace conventional cigarettes, is another important development in the industry. Most ICCs are now producing some form of electronic cigarettes\(^{330}\) which simulate the effects of smoking a tobacco cigarette through the vaporisation of liquid nicotine. This segment of the industry appears to be growing exponentially. In fact, some analysts suggest that global sales could total US$ 1 billion in 2013 and that consumption could even surpass that of tobacco

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\(^{330}\) For example, BAT acquired CN Creative, an e-cigarette company in 2012. This came on the heels of the creation of Nicoventures, for the purpose of developing non-cigarette nicotine products (BAT, 2012, p 6). Likewise PMUSA and RAI announced that they would commence sales of e-cigarettes in the U.S. market in the summer of 2013 (Tobacco Reporter, 2013).
cigarettes by 2023 (Tobacco Reporter, 2013). One area to research is how these products will be regulated\textsuperscript{331}. However, of blatantly obvious importance for studies of the Global Value Chain for Tobacco, is that E-cigs do not contain tobacco. Although, it appears that the demand for tobacco would not be eliminated as tobacco would still be used for the purpose of extracting nicotine. Future research in this area would investigate the difference in demand patterns for tobacco used for nicotine extraction and tobacco used for cigarette production.

Another aspect of the shift in focus of ICCs away from conventional cigarettes and towards replacement products which is relevant to our discussion is the implication for the level of entry barriers. Anecdotal evidence suggests that non-conventional nicotine products, or “Next Generation Products” (NGP), may require more capital-intensive production\textsuperscript{332}. This could increase the already high level of entry barriers at this node of the chain.

### 8.5 Areas for Future Research: Malawi

In addition to investigating the impact of the developments on the regulatory front of the global tobacco industry on Malawi, there are also a number of areas which require further investigation in order to provide a richer analysis of our case study, as well as in order to understand the impact of recent policy initiatives. Of particular importance is the major change in tobacco policy that was brought about by the death of President Mutharika in April, 2012 and the inauguration of his Vice-President, Joyce Banda. As our period of study was limited to the Mutharika presidency we have not discussed policy changes implemented by the Banda presidency. However, given that my core fieldwork

\textsuperscript{331} This has already sparked debate within regulatory circles, in particular with regard to E.U. proposals that E-cigs should be sold and regulated in pharmacies.

\textsuperscript{332} For example, in announcing future expenditure on NGP factories in Europe of over US$ 600 million in the next three years, PMI (2012a, p 36) notes that “This expenditure will be close to double the level of a conventional cigarette factory of equivalent output.” To put the US$ 600 million figure in perspective, it is worth noting that PMI spent a total of US$ 3.7 billion on tobacco leaf in 2011 (Chapter 5; PMI, 2012b).
trip was conducted shortly after President Banda came to power (see Chapter 2), I was able to gather enough information on policy changes to identify an outline of a future research agenda.

8.5.1 President Joyce Banda and Changes in Tobacco Policy

President Mutharika originally chose Joyce Banda as his running mate for his re-election in 2009 after falling out with his former Vice-President. However, soon after coming to power, Banda and Mutharika also had a falling out, which resulted in Banda leaving Mutharika’s Democratic Progressive Party (DPP) and forming her own People’s Party (PP). Although she continued to officially hold her post as Vice-President, she was essentially an opposition politician. When Banda took over the presidency in April of 2012, it was therefore not a great surprise that she soon announced a number of significant policy departures from the Mutharika presidency. Whilst a full exposition of these policy differences is beyond the scope of this work, we argue that in the context of a political environment where political parties are not clearly distinguished by political ideology that many of Banda’s policies appear to be driven by the desire to represent a significant contrast to Mutharika’s policies. These included a devaluation and subsequent float of the Malawi Kwacha and an increase in contract farming quotas to up to 80% of the Malawian tobacco market (popular press).

With regard to tobacco policy, another major difference between the Mutharika and Banda presidencies appears to lie in the level of public confrontation between

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333 The following discussion, unless explicitly stated otherwise, is based on daily readings of two of the national dailies, The Nation and The Daily Times, during the three fieldwork trips to Malawi.

334 It is interesting to note, however, that although the contract farming announcement represented a major shift in tobacco policy, that Banda did not (initially) remove many of the key (tobacco industry) government figures from the Mutharika era. Most notably, Mathabwa continued as CEO of AHL, Peter Mwanza continued as Minister of Agriculture (although he was eventually removed), and Bruce Munthali continued as CEO of the TCC (direct observation). It is also interesting to note that Banda announced publicly that the reason for the shift to IPS was “as a response to some of the negative effects of the FCTC...” (The Nation, 2012). However our analysis would suggest that the policy was implemented in response to pressure from the ICCs and their threat of leaving Malawi, rather than pressure from the FCTC.
government and tobacco companies. Indeed, in an interview with Minister of Agriculture Professor Peter Mwanza, the minister extolled the benefits of working together with stakeholders in the industry, cited a number of meetings he was holding with tobacco company executives, and even went as far as to suggest that there were no major differences in terms of objectives of tobacco companies and government: indeed all stakeholders shared the objectives of eliminating child labour and protecting the environment (Mwanza, interview).

With regard to the 80/20 proportion of IPS/auction tobacco, the Banda presidency decided not to allow a full implementation of IPS immediately for a number of reasons. Firstly, the 80% cap on IPS tobacco allows for a transition and sort of testing of the IPS system, in order for government to evaluate whether it deems IPS beneficial to the country. Secondly, the 20% figure for auctioned tobacco allows room for new buyers (who may not want to purchase via contract) to enter the market (Mwanza, interview). It is interesting to note that the minister gave the example of new potential buyers coming from Asia as a motive for the 20% figure, rather than current NBC buyers such as Eastern Tobacco Company of Egypt. However, the minister did imply that if Government deemed the IPS system to be beneficial to the country that it foresaw increasing the quota to 100%.

One of the important issues raised with regard to the implementation of an 80% quota for IPS tobacco is the necessity of a relevant regulatory framework. Indeed, at the time of fieldwork, the Banda presidency was in the process of developing a regulatory framework, and was looking to include the major stakeholders (tobacco companies, farmer associations, etc.) in its development. The government did give some indications that contract farming could be based on a system of zoning whereby tobacco buying companies would each be responsible for a different geographic zone of the country (Mwanza, interview). If implemented, zoning (of IPS tobacco, as opposed to non-zoning of IPS tobacco) has the potential to greatly decrease competition and hence impact seriously on farmgate prices.

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This is compared to the many public disagreements between President Mutharika and the tobacco industry, especially with regard to pricing, contract farming, and the deportations of industry executives (see Chapter 7).
One area for further research lies in understanding what led to the dramatic change in tobacco policy. Our analysis suggests that Banda understood the threat to the viability of the Malawian tobacco industry of continuing to limit the introduction of IPS tobacco, and hence abruptly changed the quotas in order to preserve the industry. However, understanding the role of non-lead firm actors (e.g. BWIs) in this decision, as well as the role of political stabilization, or other motivating factors, would require further investigation.

8.5.2 Impact on Chain Governance and Upgrading

In Chapter 7 we argued that Mutharika’s contract farming quotas, minimum prices, and the expectation that leaf merchants would *map up the market*, all contributed to state-led chain *drivenness* of the Malawi Tobacco Value Chain. In particular, we argued that these policies contributed to determining who was participating in the value chain as well as defining functions of first tier suppliers. Banda’s policy shift would appear to represent an important decrease in the extent of government chain *driving*, as barring interference from government, lead firms appear to define the functions of their first tier suppliers (as seen in Chapter 6). However, understanding the impact of the quota change on the balance of power between ICCs and government would require further research.

In Chapter 7 we also argued that Mutharika’s contract farming quotas represented a form of Wade’s (1990, 2010) followership policies in that the quotas were allocated in such a manner that Premium-TAMA and JTI received disproportionately large quotas, which we have argued was designed in order to encourage functional upgrading336. Government wanted TAMA’s upgrade into the leaf merchant sector to succeed in the case of Premium-TAMA and hoped that special treatment would result in the construction of a cigarette factory in the case of JTI (see Chapter 7). However, the fact that IPS quotas have been increased dramatically would lead us to believe that the extent to which government can use quota allocations to influence tobacco companies has consequently decreased.

336 We also argued that these policies did lead to upgrading in the Gibbon-Ponte conceptualisation.
Therefore, a resulting area for further research is twofold: to identify the extent of proportionality of the new quotas; and to examine whether or not quotas are used as a tool to promote upgrading. Logically following on from this is the question of how, if it all, the Banda government will promote upgrading within the sector (more on which below).

Also of interest with regard to upgrading is the extent to which the massive reduction in and potential elimination of IPS quotas may influence TAMA’s functional upgrade (through participation in Premium-TAMA). In other words, if Premium-TAMA is able to shift its customer base to orientate itself more towards the BC end-market, could this be considered a form of upgrade for TAMA farmers? If so, would these farmers receive real economic benefits from the increased value added associated with selling to BC customers?

Finally, with regard to the impact of the shift to IPS production on upgrading, is the issue of the consequences for smallholder burley producers. This issue is twofold. First, what will happen to those smallholders unable to obtain contracts? Second, once the system has shifted entirely to IPS, and leaf merchants no longer see a need to use remunerative compensation packages neither to entice farmers nor to lobby government, will the benefits associated with IPS production decrease? In other words, will IPS still be considered an upgrade for smallholder burley producers?

8.5.3 Impact on End-Market Bifurcation

In Chapter 5 we argued that the end-market for Malawian tobacco was bifurcated, with one end-market being dominated by BC (lead firm) international cigarette companies and the other end-market being dominated by NBC (non-lead firm) cigarette manufacturers. In Section 8.2 of this chapter, we have argued that the existence of the bifurcated end-market for Malawian tobacco can partially be explained by the fact that Mutharika’s contract farming quotas and expectations that leaf merchants would mop up the market meant that leaf merchants had to find an alternative sales outlet for cheaper non-compliant tobacco. NBC customers such as Eastern Tobacco Company of Egypt provided just this outlet. However, we have also argued in Section 8.2 of this chapter that
Mozambique’s orientation towards BC customers and consequential production of IPS tobacco has priced many NBC customers out of the market. Therefore, an important research question is: to what extent will expansion of IPS quotas in Malawi change the current bifurcated end-market for Malawian tobacco? And following on from this, what will be the consequences for Malawi Leaf, which exists primarily to satisfy demand of NBC customers?

8.5.4 Impact on Farmer Associations and Their Associational Power

Interviews reveal an apparent consensus among leaf merchants with regard to the role of farmer associations after Malawi has transitioned to an IPS-based system. Leaf merchants see the associations continuing to provide a collective voice for farmers but decreasing their involvement on the physical side of tobacco operations as these will be mostly taken over by leaf merchants. For example, whilst organisations such as TAMA will continue to negotiate contracts with buyers on behalf of their members, as well as provide a political voice for the purposes of dialogue with government, they will most likely decrease their involvement in such things as transportation and extension services (interviews).

Tobacco associations, on the other hand, do not necessarily agree with the reduced role that leaf merchants want to ascribe to them under an IPS system. There does appear to be some consensus in the industry, however, that the associations should continue to exist for the purpose of providing a political voice for farmers. However, associations tend to see this voice as one which speaks out against exploitation by tobacco buying companies (interviews). An important research question that arises from this discussion is: what will the role of farmer associations be under a predominantly IPS system of production in Malawi and what will the consequences of this role be for the associational power of farmers? Following on from this, one would want to investigate the influence of this associational power on governance and upgrading in the Malawi Tobacco Value Chain.
There appears to be some consensus among interview respondents that one example of farmer associational power – ARET - will continue to play an important role in the new system, particularly in certifying seeds and technologies. However, some respondents implied that ARET needed significant support from the tobacco buying companies in order to remain relevant (interviews). Likewise, ARET sees its role in technology development and dissemination as remaining relevant or even increasing under the IPS system. In particular, given the CSFs of the ICCs, issues such as chemical residues, levels of carcinogens, and nicotine levels become increasingly important for ICCs. As a research institute with relevant laboratories and equipment, ARET could become a key player in aiding Malawi to meet the CSFs of the ICCs (interviews).

Likewise, ARET will likely continue its role in determining the costs of production which form the basis upon which minimum prices are established, as well as training leaf technicians which will then go on to work at the tobacco companies (see Chapter 7). ARET also sees its role - at least in the short term - as providing extension services for the farmers that produce the 20% of tobacco not included in the IPS tobacco quota (interviews). One line of further research is to investigate the impacts of the IPS transition on ARET. If the relevance of ARET in the Malawian tobacco industry changes, what will be the impact of this on the associational power of tobacco farmers?

8.5.5 Other Developments

There are two other important government initiatives which have occurred since the completion of fieldwork, which merit mentioning here. These are the announcement of a public-private partnership (PPP) with Nyasa Manufacturing, a cigarette producer, and the opening of a commodities exchange by Auction Holdings Limited. Both of these

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337 At the time of fieldwork there had been no indication that President Banda intended to dismantle the minimum pricing policy put in place by her predecessor.

338 For more on this, see The Nation (2013).
initiatives could be understood as a sort of government-promoted upgrade: functional in
the first case and inter-sectoral in the second.

Nyasa Manufacturing (which was mentioned in Chapters 6 and 7, yet has been largely
absent from our analysis due to its miniscule production levels, the fact that it does not
correspond to the BC end-market, and the fact that it was glaringly absent from nearly all interviews with industry stakeholders) is a Malawian cigarette company. President Banda’s government has recently indicated an intention of entering into a PPP with the company by facilitating finance for an expansion which could result in an increase in productive capacity (potentially to a point of utilising 15% of Malawi’s tobacco) and employment (potentially from 200 to 600 people) (http://mwnation.com/business-news-the-nation/20506-malawi-tobacco-firm-ready-for-ppp). If Nyasa Manufacturing were to reach a point where it was purchasing 15% of Malawi’s tobacco, it would potentially become the biggest buyer after PMI. This would provoke a number of research questions relating to the level of bifurcation of the Malawian tobacco market, as well as to the role of government in driving the chain and promoting upgrading.

The other major development - the introduction of a commodities exchange under AHL339 auspices - is almost a textbook definition of inter-sectoral upgrading (see Chapter 1). Utilising the well-developed infrastructure of AHL for the purposes of providing a marketing outlet for non-tobacco crops would appear to go a long way in addressing what various respondents indicated (in interviews) to be the largest impediment to diversification out of tobacco: a lack of marketing infrastructure. Further investigation into this initiative could be centred on the impact on governance in the chain as well as on the extent of inter-sectoral upgrading.

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339 An article in the Nyasa Times (2013) estimated that AHL had invested US$ 10 million in the commodities exchange.


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Appendices

CHAPTER 2 APPENDICES

Appendix 2.A: Respondent Rosters

Table 2.A.1: Respondents List Preliminary Fieldwork Trips

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Table 2.A.2: Respondents List Core Fieldwork Trip

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