

— Eco-Innovation success story from Vietnam —

## How Eco-innovation Transformed a Vietnamese Tea Trader

**Vietnamese company Hiep Thanh used to produce and trade dried tea for Middle Eastern markets. But as it faced increasingly difficult challenges – regulatory, technical and economic – it became clear that business as usual was not an option. Through the Eco-innovation Project, and helped by new tools and expert support, the company has undergone a remarkable transformation. Here’s how Hiep Thanh became an innovative champion of sustainable development.**



For Hiep Thanh Ltd., badly-needed solutions from the Eco-innovation Project came at just the right time. Beset by multiple problems, the company couldn't find the solutions it needed to move forward.

Initially a commercial tea trader – and intermediary within the tea value chain – Hiep Thanh’s first expansion took it into uncharted territory as it invested in a tea processing factory.

Managing director Duc Pham recalls the early days of Hiep Thanh’s development:

“At the early stages of doing business, the company only operated commercial tea trading. Then, we expanded the business by investing in a tea processing factory and tea varieties – when we were faced with many difficulties relating to poor harvest practices, toxic pesticides and chemical fertilizers.”

But even as an intermediary player, the company had already been juggling with pressures from both customers and suppliers (including raw materials suppliers and service providers).

The new expansion would bring fresh, multiple challenges.

### **It never rains but it pours**

At the outset, efforts to procure raw materials for the factory depended on the fluctuating market prices of these materials. This blocked the company from controlling production cost. Setting long-term goals proved difficult.

The cost of fuel feedstocks for the tea drying machine – coal and firewood – was equally unmanageable, further increasing production costs. According to its own figures, per kilo of dried tea, Hiep Thanh consumed one kilo of coal and 1.7 kilos of wood, with electricity consumption at 50 watts.

In turn, Hiep Thanh’s use of fossil fuels posed an emissions and toxicity problem, only made worse by the use of outdated technology. By the end of 2014, CO2 emissions from coal-operated tea processing machines had reached nearly 240 tonnes per year. The company had also produced more than 40 tonnes of coal ash from its industrial process.

And finally, the massive overuse of pesticides and chemical fertilizers in tea production areas was compromising the quality of produce. This posed a new problem since foreign markets had placed criteria defining limits for chemical content in tea imports. Hiep Thanh was already facing overwhelming, cheaper competition in its target markets in the Middle East.

It all added up to the need for a new business model. One that would address Hiep Thanh’s challenges and offer a chance for growth.



### **The turning point – from trader to service provider**

Under the Eco-innovation Project, Hiep Thanh was linked with Hanoi-based non-governmental organization CCS, which promotes sustainable consumption and production across Vietnam.

Encouraged to identify problematic “hotspots” within its value chain, along with CCS and UN Environment experts Hiep Thanh began to identify solutions and develop a new business strategy which would pay environmental, social and economic dividends for the company.

The switch from business as usual to a more innovative model also began to integrate partners from throughout the value chain into the company’s new, sustainable thinking and operations.

Crucially for Hiep Thanh, the new business model meant the company would transform from a processor and trader into a processor and *service provider* for tea growing farmers and tea processing factories.

New revenue streams were developed from service fees. Hiep Thanh now provides a safe agricultural practice certification service for farmers. It provides export and commercialization services for local tea processing factories. And the company also provides clean technology transfer services for a growing client list.

## Positive energy

As for the company's tea processing stream, eco-innovation has transformed Hiep Thanh's fortunes.

Instead of using firewood and coal to heat tea-drying machines and boilers, as of May 2016, the company uses more eco-friendly biomass gasification technology, with cheaper biomass pellets and crop wastes as feedstocks (the process even produces bio-char which Hiep Thanh puts to use as an organic soil fertilizer). Now the tea-drying process is free of fossil fuel combustion, and electricity consumption per kilo of tea has been cut by 20%.

"This technology helped us save 40% in energy costs, while reducing greenhouse gas emissions by more than 50%," said Pham of the new addition.

And if the company needs inputs for their more sophisticated sencha and matcha tea processes, closer cooperation with local contracting factories means the raw materials can be pre-processed and sent straight to a central processing factory in Vinh Phuc province. This reduces transportation costs by 15% and it provides added value elsewhere in the supply chain.

This cooperation also extends to local farmers and tea growers.

Because Hiep Thanh's new business model also rests on the export of high quality, safe tea products, the company has put in place contractual agreements with growers so that cultivation and harvesting activities are controlled. The farmers use less chemical fertilizers and pesticides (in itself a welcome health-related benefit), paving the way for export to highly regulated or top-end markets. In social terms, the company's contract with the grower also ensures fair and stable remuneration for farmers.

"Although the Eco-innovation Project only lasted for two years," says Pham, "it raised our interest in doing sustainable business by applying clean technologies and through partnering with a variety of stakeholders along the product's value chain."

And in a positive sign of things to come, the Hiep Thanh director adds: "We now strongly commit to sustainable development, producing green products and taking social responsibility in order to meet the requirements of the market."

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