



Case #12. Celestial Teas Monitors Overseas Suppliers

Do you know what's really in your tea?

Dangerously high pesticide level's found in Celestial Seasonings teas.

Celestial Seasonings, a subsidiary of the Hain Celestial Group, was founded in 1969 on the belief that all-natural herbal teas could help people live healthier lives. Today, Celestial Seasoning is one of the largest specialty tea manufacturers in North America serving more than 1.6 billion cups of tea every year and sourcing more than 100 different ingredients from over 35 countries to provide delicious, all-natural herbal teas based on company motto “*Healthy way of live*”. (Celestial Seasonings website: <http://www.celestialseasonings.com/>)

In 2013, Celestial Seasonings faced a scathing report of dangerously high pesticide levels in 91% of its tea samples, levels that exceed U.S. Federal limits. The tests, conducted by independent lab **EuroFins**, showed that 10 out of 11 varieties of Celestial Seasonings tea samples contained excess pesticides and toxins. For example, Sleepy Time Kids Goodnight Grape Tea contained 0.26 ppm of *propachlor* (420% higher than the limit prescribed by the EU for dried teas). *Propachlor* is a known **carcinogen**. According to California’s Proposition 65, Celestial’s “Wellness” tea line was found to contain traces of *propargite*, also a known **carcinogen** and **developmental toxin**.

Celestial Seasonings markets its teas as “100% natural” and touts the health benefits of each product on the label and in its extensive marketing strategy. Celestial Seasonings has denied the report and claims it has done its own testing, but refuses to release the results, citing “proprietary information”. Celestial Seasonings argue that it is confident in the safety of its products.

Reports of test results from independent labs draw the attention of many powerful organizations and actors, not least consumers. The dispute in the issue of occurrence of pesticides in Celestial Seasonings is concerning especially the whole company and the **Glaucus Research Group California, LLC**.

Glaucus Research Group is a California limited liability company that was formed to investigate claims that appear “too good to be true” in an effort to alert investors and regulators to companies misleading public disclosures and inaccurate financial statements. Glaucus Research is highly critical of Celestial Seasonings parent company Hain Celestial due to historic insider stock selling and a history of FDA (*Food and Drug Administration*) warnings. For that reason Glaucus Research is very sceptical of the company’s claims regarding the health qualities of its products.

To verify whether Hain’s consumer products could justify the healthy image cultivated by management, **Glaucus Research** decided to test its brand’s most popular tea categories using an independent third party. They purchased samplings of Celestial Seasonings teas from



online retailer and shipped them directly to **Eurofins Scientific** for testing. **Eurofins** is a worldwide analytical independent laboratory with an ISO/IEC 17025 accreditation considered as the world leader in food, pharmacological, environmental and biopharma product testing. Results showed that many of the teas contained so many pesticides that they violated US regulatory standards. And the dispute began.

Also the **American FDA (Food and Drug Administration)** and **EPA (Environmental Protection Agency)** were involved in to this case due to alleged violation of the pesticides standards. EPA is responsible for establishing ‘tolerances’ (i.e. maximum safe limits) for each pesticide based on the potential risk to human health posed by the chemical. The FDA enforces such tolerances to ensure that the nation's food supply is maintained safely at all times. It also touches the U.S. federal regulations **FDCA (Federal Food, Drug, and Cosmetic Act)**, the set of laws to oversees the safety of foods, drug, cosmetic.

Celestial Seasonings had dealt with FDA before. The FDA had sent two prior warnings letters to Celestial Seasonings for quality control issues of its tea products supplier’s practices and manufacturing processes in factories. The FDA sent the first letter on August 17, 2007 in regards to the company’s use of the sweetener **stevia** in its teas, following safety concerns raised about control of blood sugar and the effects of reproductive, cardiovascular and renal systems.

In December 2010, the FDA sent a second letter regarding manufacturing practices at the company’s factory in Boulder, Colorado. The FDA found inadequate quality control measures at its food processing facility and that the company was not keeping proper records for maintenance, cleaning and sanitation of equipment. Six types of Celestial Seasonings teas were found to be adulterated, i.e., *rendered poorer in quality because of a foreign substance*. Hain Celestial Group’s stock prices decreased immediately after the FDA sent out this letter. In these cases, the company did not explain or comment these issues to the public.

Current supply chain practices shows that Celestial Seasonings gathers raw materials world-wide, sourcing 100 different ingredients from suppliers in over 35 countries. That means it could be sometimes difficult to control the quality through the whole supply chain or to set auditing standards for faraway contractors.

Back to the issue of pesticides occurrence, the consequences of violating EPA pesticide regulation may include government-mandated seizure or recall of the offending products. However, Celestial Seasonings may initiate a voluntary recall of the teas that violates US law to avoid regulatory fines and consumer lawsuits.

As mentioned above, tests were part of a large extremely well researched report by Glaucus Research. Eurofins confirmed that many varieties of Celestial Seasonings teas contained dangerously levels of multiple pesticides. In the report, released February 21, 2013, Glaucus noted, *“It is important to note that at no time did we take custody of, touch or handle any of the tea samples. Rather, we had the products shipped directly to Eurofins from company’s website and other online retailers.”*



Celestial Seasonings spokesperson responded to the charges with a mostly “cut and paste” from the *values page* of their website, emphasizing how they apply a *rigorous testing protocol* that reinforces their strong belief that all Celestial Seasonings Teas are of high quality, safety and taste. The company had no further comment until its Facebook page was clogged with concerned consumers, when Celestial Seasonings was forced to respond further.

Celestial Seasonings claimed they had their own samples tested by an industry-leading third party **NFL (National Food Lab)** to reassure that Celestial Seasonings are still safe and quality products. **NFL’s** testing reaffirmed that Celestial Seasonings teas are safe, but declined to comment on its report, citing “confidentially.” Celestial Seasonings refuses to release the lab reports either calling it “proprietary information.” It was impossible to compare it with results of the tests conducted by Eurofins lab.

Hain Celestial spokesperson argue that an investment company that commissioned the Eurofins analysis is known to be “short seller” motivated, i.e., to spread false, incomplete and out of context information with the purpose to gain profit from a Hain Celestial stock price decline. Glaucus Reaserch could be sued for fraud if they knowingly put out a false report, but Hain has filed no such lawsuit so far.

Glaucus also encourages others – regulators and investors-- to repeat their tests and stated that “*The only way for consumers to make good food choices is if food producers are held accountable for the marketing and labelling of their products.*”

A spokesperson at the Eurofins lab where the original tests took place added “*We stand behind the results we reported to our clients.*”

Hain Celestial attorneys argued that NFL’s testing detected no pesticides in the Celestial Seasonings **brewed** teas, and NFL’s testing reaffirmed that Celestial Seasonings are safe.

John Reuther, president and lab director at the **Eurofins Central Analytical Laboratory** said that Eurofins had not been commissioned directly by Glaucus Research to analyse Celestial Seasonings tea samples, but had tested them for a third party, which had turn disclosed the results to Glaucus. John Reuther noted, according to Hain Celestial’s statement above, the fundamental differences in the way of testing tea samples occurred. The NFL tested for residues of pesticides in the **brewed** teas, whereas Eurofins tested the **dry** tea.

The results of tests of Celestial Seasonings teas undermine the healthy image cultivated by Hain’s management.

Questions:

1. **What should the company do to investigate and find out where the problem with pesticides started?**
2. **How should the company avoid the occurrence of pesticides in the future?**
3. **How should the company set the standards and auditing for its contract suppliers?**



- 4. If it is true, as Hain Celestial claims, that the unnamed “third party” that commissioned the Eurofins study is a notorious “short seller,” what can Celestial do?**
- 5. With appropriate reference to Module 12, explain how Ikea got into this situation and how it might avoid a repeat occurrence in the future.**

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