

A person wearing a red shirt is shown from the chest down, holding a large bunch of fresh, green tea leaves. Below their hands is a woven bamboo basket filled with more tea leaves. The background is a lush green tea plantation. A white network of dots and lines is overlaid on the entire image, creating a digital or interconnected feel.

# Driving improvements in wages and working conditions in the tea sector



# Foreword



This report was authored by NewForesight. NewForesight is a strategy consultancy specialized in sustainability and market transformation. NewForesight seeks to drive innovation in the field of sustainability. Over the past years we have worked with companies, sector initiatives and platforms, standards organizations, governments, donors, and investors to push the decent work agenda, through our work measuring wage gaps, developing wage improvement strategies to close the gaps, convening the stakeholders required, and developing practical tools for partners to make it actionable closing the wage gap.

At NewForesight we believe that today's deep-rooted sustainability issues can only be solved with market-driven solutions. To create change that lasts, sustainability needs to be an integrated part of sourcing and the entire supply chain. But for this to happen, one needs to thoroughly understand the business case for companies. At NewForesight we do precisely that: We understand not just the sustainability issues on the ground, but also how it impacts and is impacted by supply chains and markets. We understand the intricacies of supply chains and the inherent differences across market segments. We have a deep understanding of the market dynamics and develop solutions that fits within the economic reality and competitive nature of companies.

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## 1 Introduction

### 1.1 The context of this report

**This report is one of three in a research series on the challenge of improving wages and working conditions in different sectors, including tea, coffee, and banana.** The reports seek to contribute to a better understanding of the state of work in these selected sectors and supply chains, identifying opportunities for social dialogue and stakeholder actions that offer a way forward for progress on decent work.

This research series is intended to advance understanding on the context of working conditions and wage improvements in selected supply chains to feed into the knowledge base for social dialogue setting of adequate minimum wages, statutory or negotiated. The reports are undertaken as part of an ILO project on *Indicators and methodologies for wage setting* supported by the Ministry of Foreign Affairs of the Netherlands – and Rainforest Alliance is one of its collaborating as partners.<sup>1</sup> The aim of the project is to support the capacity of government and social partners to negotiate and set adequate wages and to enable committed industry-wide initiatives or enterprises to leverage better wages for the lowest-paid workers.

### 1.2 The purpose of this report

**The purpose of this report is to examine how market dynamics affect working conditions in the tea sector with a focus on wages, and to formulate suggestions on which wage improvements are needed, who should drive them, and how.** This report provides an overview of the working conditions of tea workers with a focus on how systems dynamics affect the payment of better wages and improved working conditions. A set of leverage points and recommendations are identified to trigger wage improvements in the sector. Just as there is no single issue or actor responsible for the issues facing tea workers, the solution requires similarly broad involvement and buy-in of the entire sector. These can be used by committed sector-wide stakeholders as a launchpad for discussion and action.

### 1.3 The methodology of this report

Figure 1 The four forces driving sector sustainability<sup>2</sup>



Source: NewForesight (2018)

**The drivers shaping prevailing working conditions of tea workers cannot be understood by focusing on isolated causes or a single set of actors.** Prevailing wages and working conditions in the tea sector are driven by systems dynamics which together shape and reinforce wages and working conditions for tea workers.

**There are four main forces that determine the root causes for labour conditions in tea supply chains.** These also can be used to identify the leverage points for change. These are:

**Production:** Production forces refer to the conditions for being a successful producer, including the barriers to entry and market success. These conditions influence how producers organise operations (including the workers they hire, level of mechanisation, etc.), the producer business case, and the capacity to pay for the costs associated with wages and working

<sup>1</sup> ILO. (2020). *Indicators and Methodologies for Wage Setting*. Available online at: [https://www.ilo.org/wcmsp5/groups/public/---ed\\_protect/---protrav/---travail/documents/project\\_documentation/wcms\\_736786.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_protect/---protrav/---travail/documents/project_documentation/wcms_736786.pdf)

<sup>2</sup> NewForesight (2018). "The Secret Ingredients of Effective Sector Strategies: How to Leverage a Sector's Shape and Market Forces". *NewForesight Insight Series*. [Accessed at <https://www.newforesight.com/wp-content/uploads/2018/04/NFC-Insight-Shapes-and-Forces-The-secret-ingre.pdf>]

conditions. Key dimensions of production include the organisation of the production base, factors affecting the producer business case, and the implications for workers.

**Labour market:** Labour market forces refer to the dynamics and workforce characteristics which influence outcomes related to wages and working conditions. Key dimensions of labour market include the types of jobs available for workers, characteristics of the labour force including gender, informality, age and education and skill levels, prevailing contract and wage structures, and the structure of the labour market, including opportunities for alternative livelihoods.

**Enabling environment:** Enabling environment forces refer to the actors, institutions, laws, policies, regulations, and infrastructure which shape the mandatory and voluntary conditions under which producers and workers operate. Key dimensions of enabling environment includes the influence of the national institutional and regulatory environment including the national minimum wage, the quality of social dialogue, and voluntary initiatives including certification and industry-wide activities, on workers.

**Markets:** Market forces are shaped by supply and demand. Consumer product preferences and market demand for sustainability shape the incentive structure for producers about which markets to target and whether to pursue quality and sustainability. Key dimensions of market dynamics include value chain pricing, consumer demand preferences, sourcing archetypes, and the connection to working conditions.

#### 1.4 The structure of this report

The structure of this report is as follows:

1. Chapter II examines three of the four forces—**the production, labour market and enabling environment drivers**—that shape working conditions in the tea sector. It will break down the capacity for producers to pay decent wages and ensure adequate working conditions based on the requirements to succeed in the market, the structure of the labour market, including the types of workers and their key socio-economic characteristics, and the enabling environment which shapes the mandatory and voluntary standards that affect working conditions. The outcome of this section is an understanding of the main non-market factors influencing workers' conditions and wages.
2. Chapter III will explore the fourth and final category—**market drivers**—and how these interact with other dynamics to influence wages and working conditions. Sector sourcing models are defined and are used to examine the relationship between sourcing practices and conditions for workers.
3. Chapter IV combines the findings in Chapters II and III to **identify improvement levers** in the tea sector that can contribute towards improved wages and working conditions. It will target leverage points within the influence of key stakeholders, including governments of major producing and importing countries, the social partners, the private sector, civil society and certification agencies. The outcome of this will be **a set of possible recommendations**, accompanied by best practice examples, that can be used as input for social dialogue and a high-level improvement agenda for discussion and action among key stakeholders in the sector to bring about positive change for workers.
4. The annex contains a **deep dive into the Indian context—one of the five ILO project's pilot countries**—to illustrate and investigate the drivers, trends and hypotheses explored in the report on the workforce of a major tea producer. It will look in-depth at the major production and labour market dynamics of the Indian tea sector, describe the implications on tea worker wages and working conditions, and analyse the link between market dynamics and conditions for tea workers.

## 1.5 Glossary

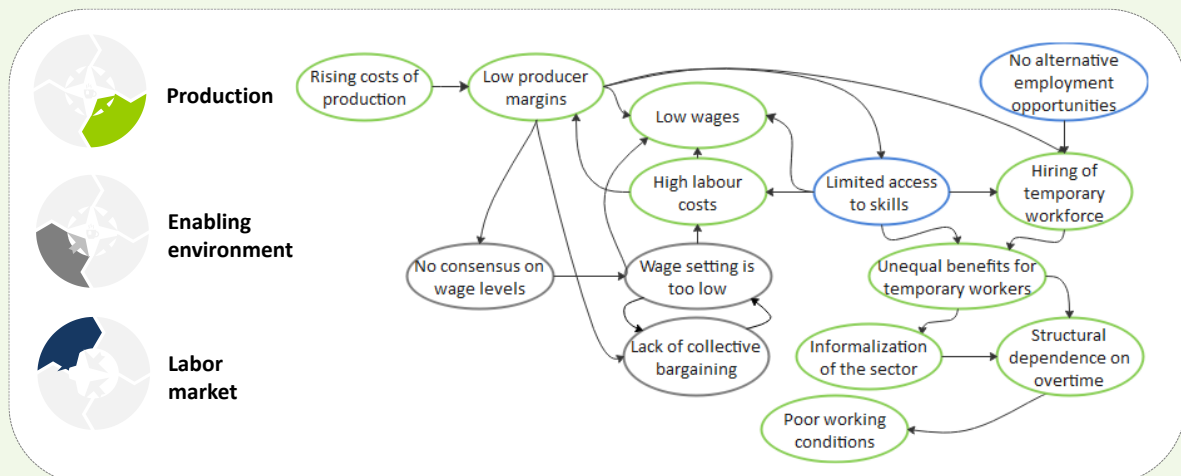
Concept	Description
<i>Formal, permanent workers</i>	<ul style="list-style-type: none"> <li>• Full-time, registered workers who work in the organised tea sector (i.e. large-scale estates).</li> <li>• Remain hired throughout the year, not only during plucking.</li> <li>• Can be either salaried or daily wage earners</li> <li>• Might be represented by labour unions who enter into negotiations with the employer</li> </ul>
<i>Formal, temporary workers</i>	<ul style="list-style-type: none"> <li>• Temporary, registered workers who work in the organised tea sector (i.e. large-scale estates).</li> <li>• Hired when the permanent workforce does not suffice, usually in the plucking period.</li> <li>• Paid on a day-to-day basis.</li> <li>• Might be represented by labour unions who enter into negotiations with the employer</li> </ul>
<i>Informal workers</i>	<ul style="list-style-type: none"> <li>• Unregistered workers who work in the smallholder tea sector.</li> <li>• Payment depends on the employer (proportion of cash or in-kind)</li> <li>• Not represented by labour unions</li> </ul>

## 2. Production, labour market and enabling environment drivers of working conditions in the tea sector

### Key takeaways

- ✓ **An unsustainable business case for tea producers means low capacity for improving wages:** with smallholder tea growers having high labour costs relative to margins and plantation employers struggling to afford the higher costs of salaried labour.
- ✓ **The trend of hiring temporary workers is a response to this trend in both smallholder- and estate-based tea production models,** which enables employers to cut costs. Furthermore, there is a growing number of informal smallholders who hire workers largely outside of the regulatory system.
- ✓ **In some countries, there is a gap between the wages and working conditions of permanent, temporary and informal workers:** given contract insecurity and a lower compensation package for these workers.
- ✓ **Labour scarcity is not driving a countervailing effect on low wages:** including because of barriers to labour-saving technologies and upskilling as well as alternative livelihood strategies.
- ✓ **Wages are on average in line with minimum wage levels:** but compliance with minimum wages remains a challenge in certain places, and the lack of social dialogue and market incentives for driving up wages means these wages are set at relatively low levels compared to the needs of workers and their families.
- ✓ **Social dialogue has strong potential to improve working conditions:** with successful examples of wage change in cases where there has been industry-wide collaboration on wages.

Figure 2 Root cause analysis of tea workforce: producer, enabling environment and labour market drivers



\*The boxes are colour coded to correspond to the type of driver (green for production, grey for enabling environment, and blue for labour market)

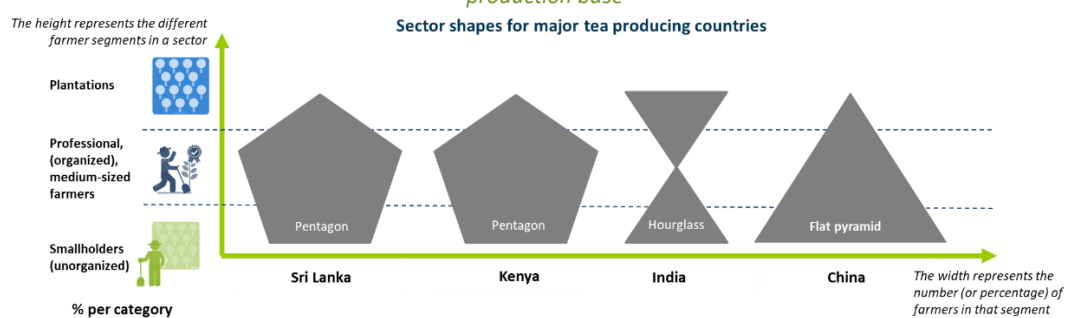
## 2.1 Production-level drivers of prevailing wages and working conditions in the tea sector

### An unsustainable business case for tea producers and the consequences for workers

**Millions of tea growers and workers are involved in global tea production.** Tea production is estimated to employ 13 million workers worldwide.<sup>3</sup> Workers in the tea sector either own the means of production (self-employed farmers) or earn wages (employees).<sup>4</sup> There is also a third category of labour on smallholder tea farms: unpaid family workers who neither own the means of production nor are compensated. The largest producer of tea globally is China, followed by India, Kenya, and Sri Lanka. These four countries also employ the largest number of workers. China and Kenya have particularly large workforces because they have higher numbers of smallholder tea farms producing tea. Furthermore, in some countries (such as Kenya), smallholders who grow their own tea often work as informal wage employees on larger estates to complement their income. Data with further segmentation to differentiate between worker types is difficult to obtain.

**There are two primary production systems in the tea sector: smallholder tea holdings and large-scale estates managed by vertically integrated tea companies.** Historically, leading global tea brands have had vertically integrated operations from owning tea plantations to tea packing. Tea plantations control the growing, labour and quality associated with green tea leaf production as well as the processing of tea into 'made tea'. The plantation model has undergone important shifts in recent years, which has altered the production base's organisation in major tea producing countries (see Section 0). As shown in Figure 3, while India has a roughly equal split between large plantations and smallholder tea growers, most Sri Lankan and Kenyan tea is produced by smallholders, although plantations still play an important role. In China, almost all tea is produced by smallholder growers.

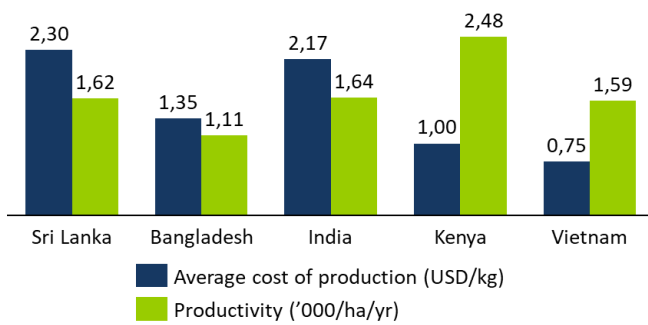
Figure 3 Structure of workforce composition in the four largest tea producing countries and share of production per production base



<sup>3</sup> Basic (2019). Assam Tea Value Chain Study. Available online at: [https://lebasic.com/wp-content/uploads/2019/10/BASIC\\_Assam-tea-Value-Chain-Study\\_October-2019.pdf](https://lebasic.com/wp-content/uploads/2019/10/BASIC_Assam-tea-Value-Chain-Study_October-2019.pdf)

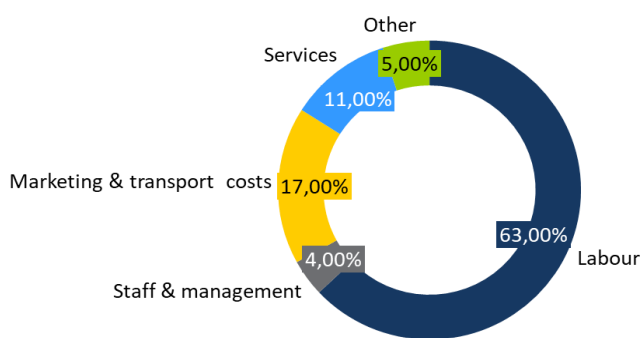


Figure 5 Average cost of production (incl. processing) and productivity across major tea producers



Source: For India: Expert interview, 2019; other countries: Tea Research Institute of Sri Lanka 2015

Figure 4 Breakdown of production costs in the Sri Lankan tea estate sector



Source: Global Living Wage Coalition (2015)

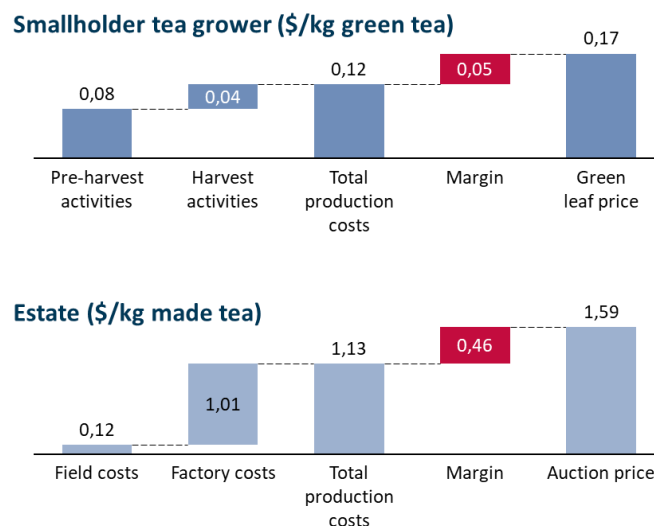
Tea is a labour-intensive crop, with labour making up a significant portion of production costs. Costs of production are a major challenge across producing countries, especially in a context of depressed retail prices. Figure 5 shows that countries with low average productivity are particularly challenged to remain competitive as production costs have an inverse relationship with productivity. Workers' wages constitute the highest proportion of farm costs for both estates and smallholder tea growers. An example from Sri Lanka's estate sector is shown in Figure 4, with labour costs making up 63% of overall production costs. As labour costs are a decisive factor in their overall profitability, producers facing downward pressure on prices are incentivised to reduce these costs.

Production costs and the link to wages and working conditions

The capacity for employers to improve wages depends on their employer margins. Employers with higher margins have a greater ability to pay adequate wages, even though, in practice, higher margins do not always

translate into higher wages. A comparison of producer margins in different country contexts highlights differences between employer types. As shown in Figure 8, in Malawi smallholder growers make a significantly lower margin than plantation employers. Typically, the model of labour used on smallholder tea farms enables farmers to keep labour costs low by employing labour flexibly. Most workers are informal, hired on a temporary base and paid hourly wages. Low farmer margins give poor incentives for employers to change these working practices and improve wages.

Figure 6 Comparison of farmer margins in the Malawian smallholder and estate tea sectors

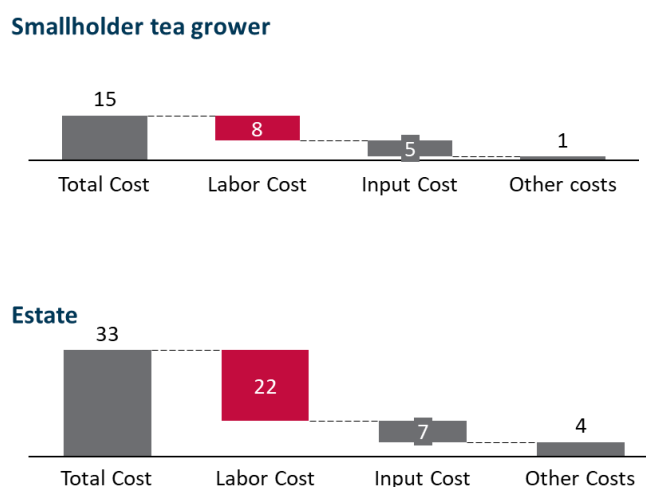


Source: USAID (2018)

**Research in India shows a situation with significantly higher costs for plantation employers than smallholder farmers.** Plantations have higher economies of scale and, in theory, are

more profitable because of their participation in value-added activities in the supply chain, such as green leaf processing into made tea. In India, where the proportion of plantations is the highest, the green leaf production cost of plantations is almost twice that of smallholder growers, largely because of higher labour costs. As workers are formal and employers are mandated to provide additional social provisions and in-kind benefits to workers beyond their base pay, costs are up to 2.8 times higher on plantations than on smallholder farms.

Figure 7 Comparison of green leaf production costs on smallholder tea farms and tea plantations in India



Source: Data from Ethical Tea Partnership (2019)

**Some estates are turning to hire a temporary workforce in some tea producing countries such as India to compensate for low margins.**

In principle, plantations spending more on their employees means a higher compensation package for workers. However, to compensate for growing costs, employers are incentivised to make downward adjustments to wages and working conditions. This pressure on margins is increased by the steadily rising number of informal smallholders in India, who account for most supply growth over the past decades. This supply growth has resulted in lower prices and smaller margins, making workers in estates worse off. Furthermore, workers in informal smallholder systems are likely even less protected since informal smallholders operate largely outside the regulated system.

**Even despite labour shortages, there is little effort to retain workers and upgrade skills in many tea producing countries.** Mechanisation is one avenue being used to reduce labour dependency and upgrade skills and productivity. Mechanisation can improve profitability, reduce the size of the workforce, and upgrade the skills of remaining tea workers. This creates the conditions for improved employer margins and higher wages for fewer workers. However, the introduction of mechanisation has run into several problems. These have been related to (1) adoption—due to high costs, and notably in Kenya, strong worker resistance because of job loss concerns<sup>5</sup>; (2) skills—due to lack of training and upgrading of skills, as shown on smallholder farms such as in Sri Lanka<sup>17</sup>; (3) working conditions—such as health and safety issues for operators, as well as cumbersome logistics for operating and repairing machines, shown in India<sup>18</sup>, and (4) profitability and quality—due to the lower quality grade of mechanically plucked green leaf. At present, mechanisation is a stopgap measure rather than a transformative one in the tea sector.

## 2.2 Labour market drivers of prevailing wages and working conditions in the tea sector

**As noted by the ILO in its report on Decent Work in Global Supply Chains<sup>6</sup>, the rise of global supply chains has been accompanied by use of forms of employment which may not be compliant with labour legislation.**

Intensified competition, dependency on subcontracted operations, and more layers of complexity in global supply chains means that control over working conditions and wages is more diffuse. The complexity of global supply chains has created difficulties in ensuring coherence in decent work across types of workers and has contributed to governance gaps, of which the tea sector is an example (see section 2.3 on enabling environment).

<sup>5</sup> Maina, J. And Kaluli, K. (n.d.). Assessment of Mechanical Harvesting of Tea and its Viability for Use in Kenya. Jomo Kenyatta University of Agriculture and Technology.

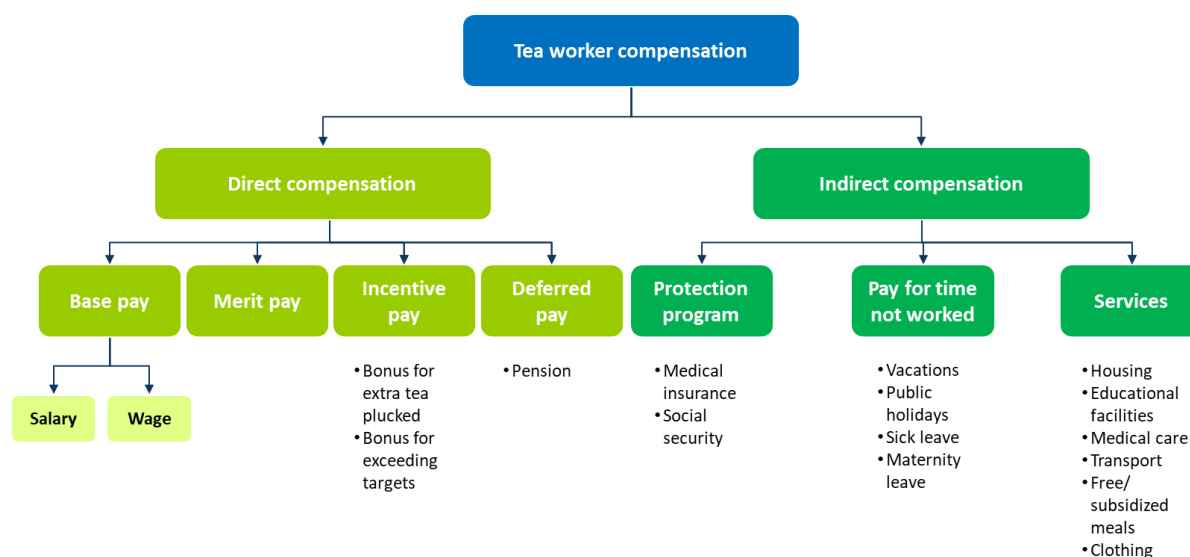
<sup>6</sup> ILO (2016). Decent Work in Global Supply Chains. International Labour Conference, 105th Session, 2016. Available online at: [https://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---relconf/documents/meeting\\_document/wcms\\_468097.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meeting_document/wcms_468097.pdf)

This is why, at its 104th Session (2015), the International Labour Conference adopted the Transition from the Informal to the Formal Economy Recommendation (No. 204). Recommendation No 204 provides a clear threefold objective to member States: (1) to facilitate the transition of workers from the informal to formal economy while respecting fundamental rights; (2) to create and preserve sustainable enterprises in decent jobs in the formal economy; and (3) to prevent the informalisation of formal economy jobs.

### The shift towards informal work and its impact on wages and working conditions

**In the tea sector, the structure of worker payment can consist of (1) direct (cash) compensation; and/or (2) indirect (non-cash) compensation (see Figure 8).** Direct compensation in the tea sector is a base wage plus bonus payments for exceeding production targets. Indirect compensation consists of additional benefits, including social security and in-kind benefits. In the tea sector, these non-wage benefits often make up a substantial proportion of wages, although the extent depends on the context. Compensation structures differ per tea worker type, with formal, permanent, and most temporary workers receiving both direct and indirect compensation, while informal workers, and in some cases also formal temporary workers, mostly receive only a daily wage and no or less additional benefits. This makes both temporary and informal workers cheaper to hire but transfers additional risks to these workers.

Figure 8 Types of employee compensation in the tea sector



**The low margins result in a rise of the temporary (non-permanent) workforce.** Also, the rise of informal, smallholder-based production models puts more pressure on prices given that their cost of production is usually lower than for large-scale estates. In smallholder-dominated production models, most workers are hired as informal seasonal labourers and paid a daily wage. They are usually not protected by any legal system as they operate outside the formal sector. In estate-based tea sectors such as India and Sri Lanka, plantation employers have traditionally hired permanent employees. However, the small margins perceived by producers have led estates to hire more temporary workers. According to some reports, increasingly, temporary workers are hired to replace permanent, salaried employees.<sup>7</sup> In India, for example, there has been an increase in the temporary tea sector workforce from 222,061 workers in 2006 to 405,695 in 2016.<sup>8</sup> These structural employment shifts have consequences for the needs of a changing profile of tea workers.

<sup>7</sup> Lama, S. (2019). Casualisation and Tea Plantation Labour in India: Does Fair Trade Ensure 'Fairness' in a Plantation System. In Panneer S., Acharya S., Sivakami N. (eds). Health, Safety and Well-Being of Workers in the Informal Sector in India. Springer: Singapore.

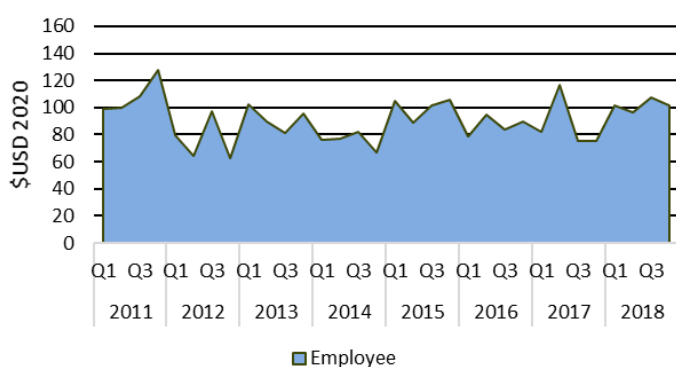
<sup>8</sup> India Ministry of Commerce and Industry. (2019). Tea Gardens. Available online at: <https://pib.gov.in/PressReleasePage.aspx?PRID=1578137>

**Temporary workers are sometimes not eligible for the same in-kind benefits and social protections as their permanent counterparts.** In some contexts, employers are not obliged to pay for in-kind benefits or extend protections to temporary workers. In Sri Lanka, permanent estate workers are entitled to housing, childcare and healthcare,<sup>9</sup> and in Malawi, workers receive meals, housing, education, funeral expenses and medical services.<sup>10</sup> In-kind benefits are also extensive in the Indian tea sector.<sup>11</sup> In India, although the law does not actually differentiate between temporary and permanent workers in the regulations mandating provisions of in-kind benefits, some studies found that many employers only provide benefits to permanent workers.<sup>12</sup> As a result, temporary workers appear to have a lower compensation despite doing the same work as permanent workers. However, these observations are refuted by the India Tea Association, which argues that temporary workers in India are entitled to nearly the same benefits as permanent workers.<sup>13</sup>

#### Working hours and the link to working conditions and the informal economy

**Another key issue in the tea sector with relevance to decent work is the reliance on excessive working hours, which translate into lower hourly wages.** In the tea sector, the 48-hours per week limit is often exceeded. Two key drivers of excessive working hours in the sector are the unsustainable producer business case explored in the previous section combined with seasonal variation.

Figure 9 Seasonal variation in monthly earnings for employees in the Vietnamese tea sector



Source: Pinedo Caro (2020)

**This is particularly an issue for temporary workers who receive lower wages for hours worked and are also at risk of overtime work during the high season and being idle during the low season.** For example, time-series data from the tea sector of Viet Nam shows that there are seasonal fluctuations between average weekly hours worked in the low and high season from between 25 and 65 hours per week<sup>14</sup>. While 65 hours per week well exceeds the limit on working hours in ILO standards, working only 25 hours is likely to put workers far below an adequate weekly/monthly wage. Figure 9 shows the resulting wage fluctuation

for workers in Viet Nam. This finding is supported by other sources. For example, local research from West Java in Indonesia found that tea workers experience up to a 30% drop in wages in the low season.<sup>15</sup> In India, temporary workers work very long hours in the high season to exceed targets and earn bonus pay to compensate for months

<sup>9</sup> Global Living Wage Coalition (2014). Living Wage for Sri Lanka. Focus on Estate Sector. Available online at: <https://www.globallivingwage.org/wp-content/uploads/2019/07/Sri-Lanka-Living-Wage-report.pdf>

<sup>10</sup> Global Living Wage Coalition (2014). Living Wage for Rural Malawi with a Focus on Tea Growing Area of Southern Malawi. Available online at: [https://www.globallivingwage.org/wp-content/uploads/2018/05/LivingWageReport\\_Malawi.pdf](https://www.globallivingwage.org/wp-content/uploads/2018/05/LivingWageReport_Malawi.pdf)

<sup>11</sup> Basic (2019). Assam Tea Value Chain Study. Available online at: [https://lebasic.com/wp-content/uploads/2019/10/BASIC\\_Assam-tea-Value-Chain-Study\\_October-2019.pdf](https://lebasic.com/wp-content/uploads/2019/10/BASIC_Assam-tea-Value-Chain-Study_October-2019.pdf)

<sup>12</sup> Colombia Law School. (2014). The More Things Change: The World Bank, Tata, and Enduring Abuses on India's Tea Plantations. Available online at: [https://web.law.columbia.edu/sites/default/files/microsites/human-rights-institute/files/tea\\_report\\_final\\_draft-small.pdf](https://web.law.columbia.edu/sites/default/files/microsites/human-rights-institute/files/tea_report_final_draft-small.pdf)

<sup>13</sup> India Tea Association, letter to Oxfam India, sent on October 2019

<sup>14</sup> Pinedo Caro (2020) available at: [https://www.ilo.org/global/topics/wages/projects/WCMS\\_765135/lang-en/index.htm](https://www.ilo.org/global/topics/wages/projects/WCMS_765135/lang-en/index.htm)

<sup>15</sup> Ethical Tea Partnership and Oxfam (2013). Understanding Wage Issues in the Tea Industry: Report from a Multistakeholder Project. Available online at: <https://www.ethicalteapartnership.org/wp-content/uploads/Understanding-Wage-Issues-in-the-Tea-Industry.pdf>

of no income later in the year.<sup>16</sup> Work in the tea sector for temporary workers is often a combination of structural dependence on overtime work during the high season and lack of income from tea during the low season. This means that temporary workers experience the double disadvantage of having fewer paid working days and lower pay for days worked.

#### Labour market scarcity and the connection to workers

**The possibilities for wage improvements are also conditioned by dynamics in the labour market, with labour scarcity giving workers the potential for higher bargaining power.** Acute labour shortages and absenteeism have been reported on both smallholder tea farms and plantations in many key producing countries, notably Sri Lanka and India. The reason for shortages is a reluctance to engage in the tea sector relative to other employment opportunities because of its perceived lack of dignity as well as its low wages.<sup>17 18</sup> Hence, to attract more workers into the tea sector, employers would need to offer more attractive wages and working conditions. As a result, labour scarcity is a potential lever to drive wage and working conditions improvements as tightness in the labour market gives workers more bargaining power. However, the measures being used to deal with labour scarcity are limited in their ability to drive wage and working conditions improvements. Despite labour shortages, there is little effort to retain workers and upgrade skills in many tea producing countries. Mechanisation is one avenue being used to reduce labour dependency and upgrade skills (see above).

**Creating a smaller pool of skilled professional workers within a mechanised sector could help improving wages, but this must be part of an integrated suite of actions to avoid increased insecurity, sector risk, and hazardous labour conditions.** Efforts to introduce mechanisation as a potential improvement avenue requires accompanying skills programmes, health and safety protocols, targeted efforts to address gendered barriers to mechanisation, and investment in alternative opportunities to mitigate potential worker redundancy. Moreover, a smaller number of workers with increased structural power is not a standalone driver of working conditions improvements. For example, in Kenya, varying regional working conditions on smallholder farms was found to be partially a function of workers' improved bargaining power, given high perceived risks for informal workers withdrawing their labour. However, it found that other dimensions, including the associational power of workers shaped by the level of worker dispersion, access to information, and worker organisation, were important additional explanatory variables of variations in conditions.<sup>19</sup> The strategic use of labour withdrawal requires high organisation, which is complex in contexts with high numbers of unorganised tea workers.

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<sup>16</sup> Tata Institute of Social Sciences (2019). Decent Work for Tea Plantation Workers in Assam: Constraints, Challenges and Prospects.

<sup>17</sup> ILO (2018). Future of Work for Tea Smallholders in Sri Lanka. ILO Country Office for Sri Lanka and the Maldives.

<sup>18</sup> Mercy Corps (2017). Risk and Resilience in Assam's Tea Industry. [Accessed at [http://okapia.co/uploads/projects/attachment/1133918129Okapi\\_MercyCorps\\_Assam-Report\\_October2017-FINAL.pdf](http://okapia.co/uploads/projects/attachment/1133918129Okapi_MercyCorps_Assam-Report_October2017-FINAL.pdf)]

<sup>19</sup> Riisgard, L. And Okinda, O. (2018). Changing Labour Power on Smallholder Tea Farms in Kenya. In Competition & Change, Vol. 22(I).

### Definitions

**Minimum wage:** The ILO has adopted several Conventions and Recommendations on the subject of minimum wages. The latest one being the Minimum Wage Fixing Convention 1970 (no. 131), which encourages ILO member States to establish a system of minimum wages that offers a broad scope of application and is based on the principle of full consultation, or direct participation, of social partners (see the ILO minimum wage policy guide).

Minimum wages have been defined as the minimum amount of remuneration that an employer is required to pay wage earners for the work performed during a given period, which cannot be reduced by collective agreement or an individual contract.

According to ILO Convention No.131, minimum wages should be set at levels that take into account the needs of workers and their families as well as economic factors, such as levels of productivity and the need to maintain high levels of employment. This can explain why a minimum wage may not fully satisfy the needs of workers and their families.

**Living wage:** The notion of a living wage appears at each of the key moments in the history of the International Labour Organization, starting with the Preamble of the ILO Constitution in 1919 that included the goal to ensure “the provision of an adequate living wage”. The Declaration of Philadelphia in 1944 included a call for “minimum living wages”. The notion of a living wage was, however, never made the subject of an ILO Convention or Recommendation, only the concept of a minimum wage (see Reynaud, 2017).

The prime promoters of living wages are now the Global Living Wage Coalition (GLWC) and its members: Fairtrade International, GoodWeave International, the Rainforest Alliance, and Social Accountability International (SAI), in partnership with the ISEAL Alliance.

The GLWC defines a living wage as the remuneration required for a standard workweek in a particular place sufficient to afford a decent standard of living for the worker and her or his family. Elements of a decent standard of living include food, water, housing, education, health care, transportation, clothing, and other essential needs including provision for unexpected events.

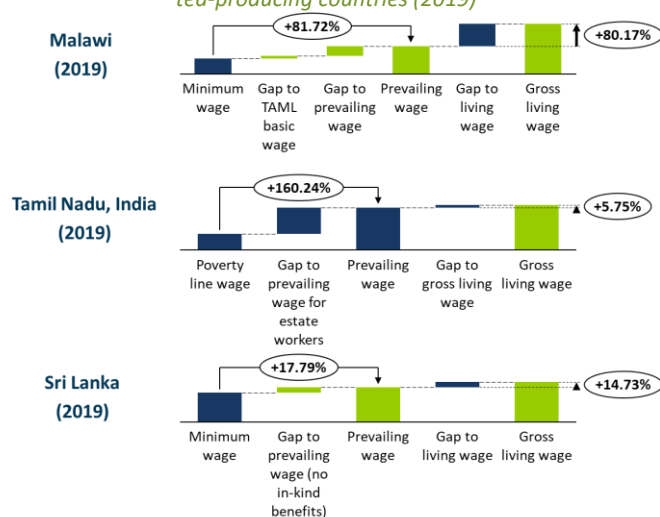
**Poverty line:** As a lower alternative to a living wage, various poverty measures are used to define a minimum level of living standard. A poverty line offers a benchmark for minimum needs and is usually based on the cost of basic requirements for adequate nutrition and other non-food essentials such as clothing and shelter (ILO, 2017). However, poverty line measures do not take into account the level of decency in the basic requirements and therefore often offer a lower standard of living than other wage definitions.

**A positive enabling environment can be a strong counteracting force to downward wage pressure.** The enabling environment influences wages and working conditions through several avenues. The following categorisation of governance or compliance approaches in the enabling environment relevant to promoting decent work is adapted from the ILO 2016 report on decent work in global supply chains:<sup>20</sup>

- **Public governance/compliance** is concerned with the institutions, policies and systems of governance which regulate working conditions and wages. The prerogative of ILO member States is to ensure adequate national wage-setting and enforcement as well as ratification and compliance with international labour standards, such as stated in ILO Conventions including the Minimum Wage Fixing Convention of 1970 (No. 131);
- **Private compliance** includes private compliance initiatives (PCIs) to issues related to wages and working conditions fostered by private actors such as enterprises and certification agencies. Given the limitations of individual PCIs, there has been a proliferation of sector-wide initiatives that bring together private supply chain actors to establish a pre-competitive agenda with decent work as central to doing business. The better voluntary self-regulatory initiatives tend to incorporate the fundamental ILO Conventions into their guidelines and standards;
- **Social partners' initiatives** comprise the interaction between social partners, including representatives of workers and employers, or their organisations. These actors implement joint governance schemes based on negotiation between workers and employers.
- **Multilateral initiatives:** consist of international institutions mostly comprised of member States who are involved in establishing policy-making related to global supply chain governance. Key frameworks are the ILO MNE Declaration, the UN Guiding Principles on Business and Human Rights, the Guidelines for Multinational Enterprises of the OECD, and EU Directives and mechanisms.

**Drivers in the enabling environment are important explanatory variables for differences in wage outcomes for workers in different country contexts.** Studies comparing prevailing wages with legal minimum wages across major origins have generally found that prevailing wages are in line with or exceed minimum wages. To monetize the wage that is required to ensure the worker can cover basic necessities, several benchmarks have been developed, such as the living wage (by the Global Living Wage Coalition (GLWC)).<sup>21</sup>

Figure 10 Comparison of minimum wage and prevailing wage in key tea-producing countries (2019)



Source: Global Living Wage Coalition, various (2019)

<sup>20</sup> ILO (2016). Decent Work in Global Supply Chains. International Labour Conference, 105th Session, 2016. Available online at: [https://www.ilo.org/wcmsp5/groups/public/---ed\\_norm/---relconf/documents/meeting\\_document/wcms\\_468097.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meeting_document/wcms_468097.pdf)

<sup>21</sup> For more information on the methodology, managing partners and members, and studies done by the Global Living Wage Coalition, see <https://www.globallivingwage.org/>

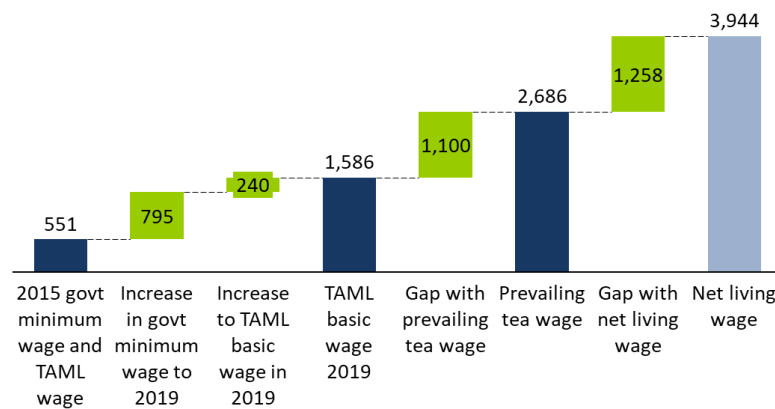
**The GLWC living wage studies focused on the tea sector in Malawi, Tamil Nadu in**

**India, and Sri Lanka found a prevailing wage exceeding, on average, the minimum wages by a range of between 17% and 160%.** On average, two of these, Tamil Nadu and Malawi, have prevailing wages that are significantly above the minimum wage. One of the attributions for this is a strong institutional environment and social dialogue efforts that have been successful in driving up wages in the tea sector.<sup>22</sup>

**However, national minimum wages are not necessarily a benchmark for wages that are sufficient for ensuring workers can earn enough to sustain their livelihoods (e.g. 'living wages').** According to ILO Convention No. 131, member States should use tripartite social dialogue to establish minimum wages that provides for the needs of workers and their families and takes into account economic factors. In the GLWC studies shown in Figure 10, all the reports find that prevailing wages fall short of the living wage benchmark defined in the studies as enabling workers and their families to meet their basic needs. To take a specific example, as explored in greater detail in the case study on India in Section 5, institutional wage-setting is significantly variable across India. The tea worker wage in Assam is lower than the government national floor wage and much lower than the minimum wage for tea workers in Southern states.

**However, a strong enabling environment can have a key influence on driving up wages.** A deeper look at the Malawi case highlights the critical importance of social dialogue on wages and working conditions. Until 2015, the basic minimum pay set by the Tea Association of Malawi (TAML) tracked the government minimum wage. This link broke following the set-up of the Malawi Tea 2020 Revitalisation Program—an industry-wide initiative involving several key government and industry stakeholders. This was set up to focus on improving wages in the

*Figure 11 Wage ladder in the Malawian tea sector over time since the Malawi Tea 2020 Program*



*Source: IDH Sustainable Trade (2020)*

Malawi tea industry in 2015. Since its inception, the TAML basic wage has outpaced the rural minimum wage, leading to a 60.5% gap between the two in September 2019. This was significantly narrowed one month later when the government minimum wage increased by 40%, possibly influenced by the TAML wage.<sup>23</sup> Prevailing wages have continued to increase, and the gap between prevailing and the wage benchmark defined by the partnership has continued to narrow.

<sup>22</sup> Barge, G. Et al. (2018). Living Wage Report: Rural Nilgiris, Tamil Nadu, India – Context Provided by Tea Estates. *Global Living Wage Coalition*. [Accessed at [https://www.globallivingwage.org/wp-content/uploads/2020/06/LW-Report\\_Nilgiris\\_2018.pdf](https://www.globallivingwage.org/wp-content/uploads/2020/06/LW-Report_Nilgiris_2018.pdf)]

<sup>23</sup> Malawi Tea 2020. (2020). Update on Living Wage and Actual Wages of Tea Workers. Available online at: <https://www.malawitea2020.com/uploaded/2020/03/Wages-Committee-Report-final-version-002.pdf>



In sum: the production, labour market, and enabling environment for improving wages and working conditions in the tea sector

**The conclusions from this chapter are the following:**

1. **There is a poor business case for producers and limited capacity for higher wages.** Employers in both the plantation and smallholder sectors have little wage absorption capacity due to a poor business case. Smallholder tea growers have high labour costs relative to margins, while plantation employers struggle to afford the higher costs of salaries for permanent workers.
2. **Although workers in many tea sectors are paid in line with the statutory minimum wage, common issues are the use of temporary contracts, unequal compensation, and work insecurity.** Employers make downward adjustments to cope with price pressures with implications for wages and working conditions. There are barriers to labour saving technologies such as mechanisation as well as concerns their success could drive job losses without support packages for redundant workers.
3. **Strong social dialogue has had significant positive impacts on wage-setting in some key tea producing countries.** Successful examples from the sector show that effective social dialogue has a high potential to change working conditions in the sector. Mainstreaming this success requires strong market incentive structures for doing so.
4. **Adequate minimum wages are an important instrument for achieving decent work and reducing inequality.** Poorly designed minimum wages, by contrast, can put workers' well-being at risk, undermine effective implementation, and risk encouraging informality.<sup>24</sup>

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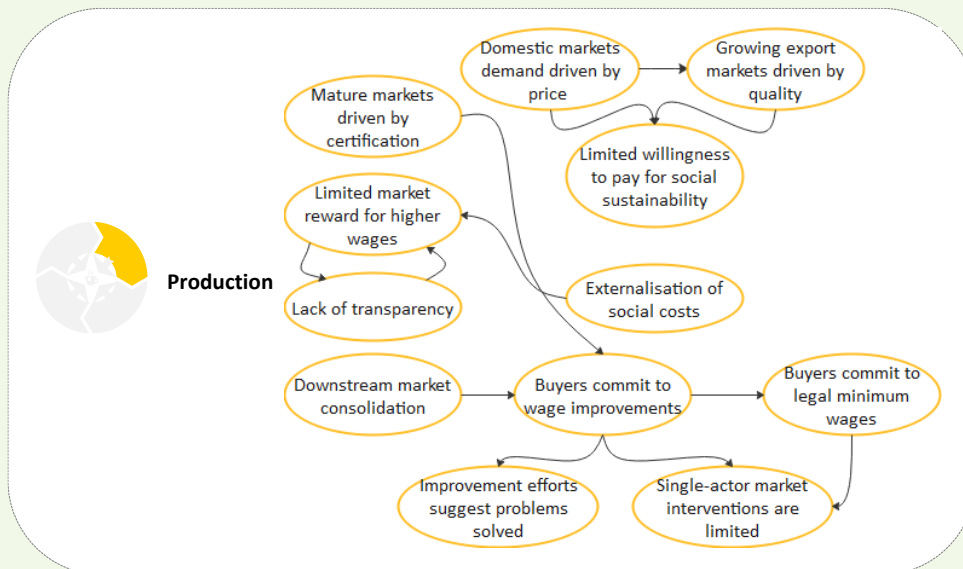
<sup>24</sup> ILO Minimum wage policy guide, [https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms\\_570376.pdf](https://www.ilo.org/wcmsp5/groups/public/---dgreports/---dcomm/---publ/documents/publication/wcms_570376.pdf)

### 3. Market level drivers of working conditions in the tea sector

#### Key takeaways

- ✓ **Consumption trends are pulling in two opposite directions:** with a commoditization trend underway in growing markets and a premiumisation trend in developed markets.
- ✓ **The domestic markets in Asia-Pacific countries are driving the bulk of current and forecasted demand:** the main product segment in demand by these consumers is low-value bulk tea.
- ✓ **These market trends have given rise to three principal sourcing models in the tea sector:** (1) lower-grade bulk tea for the mass market; (2) value-added packaged tea; and (3) premium orthodox specialty tea.
- ✓ **The tea sector is divided into two broad sub-sectors which cater to these sourcing models:** with vertically integrated multinationals with plantations and processing operations, and the second is independent smallholder tea growers; with the latter on the rise.

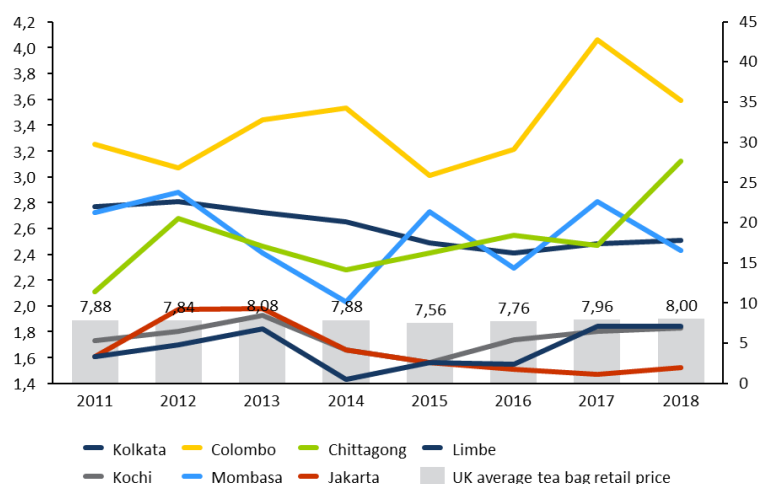
Figure 14 Root cause analysis of tea workforce: market drivers



\*The boxes are colour coded to correspond to the type of driver (green for production, grey for enabling environment, and blue for labour market)

There is a growing price wedge between the price paid by consumers and the price received by producers, which contributes to downward wage pressure. Sections 0 explored the context of production costs in many tea producing regions, putting pressure on employer margins. At the market-level, this dynamic interacts with a long-term trend in the tea sector of falling prices and structural over-supply.<sup>25</sup> As a result, tea prices in most major auction centres have either stayed stagnant or fallen globally. With the exception of a temporary price spike in 2005, prices have experienced a downward trend between 1960 and 2020 and, as a result, are 40% lower than in 1960.<sup>26</sup> Throughout these years, the cost of production has remained equal or increased, putting increasing pressure on profit margins.

Figure 12 Average global tea prices (all origins) at major tea auctions (left axis) and UK retail prices (right axis) (GBP/kg)



Source: Sri Lanka Tea Board (2020)

### Consumption markets and the drivers of sustainable production

Whether this price crunch translates into lower wages for workers depends on the legislative environment but also on the market incentive for quality and sustainable production. Firstly, producers need to earn sufficient margins to be able to pay workers a decent wage. This can be done by (1) selling quality products to earn a premium, (2) securing long-term demand through superior terms, or (3) making long-term investments to capitalise on market opportunities. All of these gives producers more absorption capacity for paying higher wages. Secondly, producers need to be incentivised to translate this capacity to pay higher wages into actually doing so. In addition to the labour market and enabling environment drivers explored in the last section, in the market, the major driver shaping this incentive structure is consumer demand. The current trends in the tea sector show a highly differentiated consumer market in terms of product demand with key shifts underway:

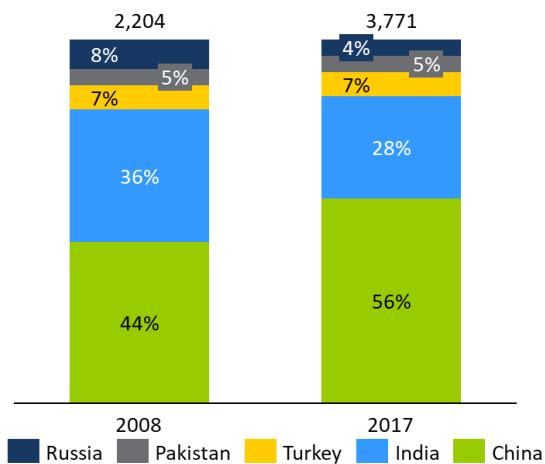
- *Higher consumer incomes in emerging markets driving the bulk of market demand.* Only 31% of world tea production is traded internationally. China and India are the world's largest producers at 43% and 22% of the global market, respectively, as well as the largest consumers supplying their domestic markets.<sup>26</sup> These markets are responsible for the majority of global market growth with the strongest demand for low-cost bulk tea. Domestic markets, such as in India, are very price-sensitive, and there is limited willingness to pay for more costly sustainable tea, although there are expectations that consumers could develop more sustainable options over time.<sup>27</sup> The Chinese market behaves slightly different, with more differentiated tea and higher prices.

<sup>25</sup> Mohan, S. 2018. *Value Chain Upgrading for Competitiveness and Sustainability: A Comparative Study of Tea Value Chains in Kenya, Sri Lanka and Nepal*. Switzerland: International Centre for Trade and Sustainable Development (ICTSD).

<sup>26</sup> Basic (2019). *Assam Tea Value Chain Study*. Available online at: [https://lebasic.com/wp-content/uploads/2019/10/BASIC\\_Assam-tea-Value-Chain-Study\\_October-2019.pdf](https://lebasic.com/wp-content/uploads/2019/10/BASIC_Assam-tea-Value-Chain-Study_October-2019.pdf)

<sup>27</sup> International Institute for Sustainable Development (2020). *Global Market Report: Tea*. Sustainable Commodities Marketplace Series 2019. Available online at: <https://www.iisd.org/sites/default/files/publications/ssi-global-market-report-tea.pdf>

**Figure 13** Changes in tea consumption across key geographies (million kg)



Source: ITC Annual Bulletin of Statistics, 2019

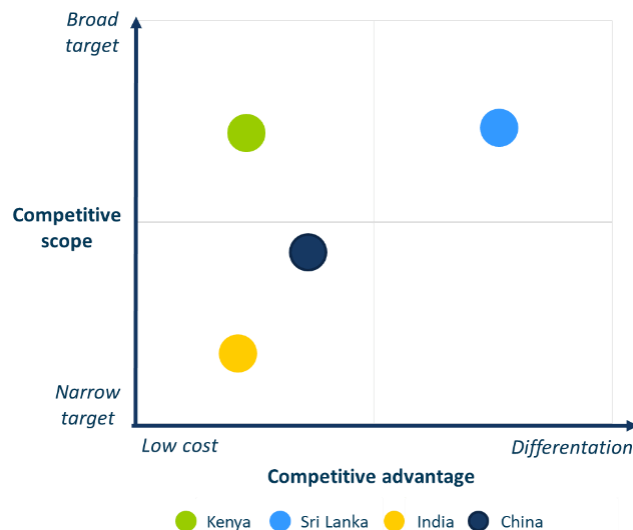
is a focus on quality with willingness to pay a premium. However, sustainability and certification are not currently in demand.<sup>29</sup>

➤ *Lower consumption growth expected in the traditional European tea markets.* Kenya is the largest international exporter, followed by China, Sri Lanka, India, Vietnam, Indonesia, Malawi, and Uganda.<sup>28</sup> The largest European importing countries behind the USA are the UK and Germany. These are increasingly demanding certified tea, with most certification schemes having standards around payment and treatment of workers. However, per capita consumption is declining as competition from other beverages intensifies. Major declines were experienced between 2007-16, including in the Netherlands (-39.7%), the UK (-23%) and France (-23.6%).

➤ *Against the backdrop of this decline is a geographical shift in consumption with rising demand in the Middle East, Africa, and North America.* Pakistan is the largest import market, with Egypt, Morocco, Iran and Turkey other notable growing markets. In these markets, there

**The implications of these market trends on workers are squeezed employer margins combined with partial market incentives to pay for improving working conditions.** A low value commodity with little market incentive for sustainability and quality in major growth centres creates a market incentive to externalise social costs at the expense of worker livelihoods. The extent to which this is true depends on the key consumer markets served by each leading tea producer, which is shown in Figure 14.

**Figure 14** The competitive advantage strategies pursued by leading tea producing and exporting countries



<sup>28</sup> Basic (2019). Assam Tea Value Chain Study. Available online at: [https://lebasic.com/wp-content/uploads/2019/10/BASIC Assam-tea-Value-Chain-Study\\_October-2019.pdf](https://lebasic.com/wp-content/uploads/2019/10/BASIC_Assam-tea-Value-Chain-Study_October-2019.pdf)

<sup>29</sup> International Institute for Sustainable Development (2020). Global Market Report: Tea. Sustainable Commodities Marketplace Series 2019. Available online at: <https://www.iisd.org/sites/default/files/publications/ssi-global-market-report-tea.pdf>

	Main export markets	Key trends
<b>India</b>	<ul style="list-style-type: none"> <li>The domestic market is the main market at 80% of production</li> <li>The export market makes up the other 20%. Top export destinations are Russia (37%), Middle East (33%), Europe (16%)</li> </ul>	<p>The bulk of tea (90%) is made through the Crush-Tear-Curl (CTC) processing method. This is the bulk of tea that ends up on the domestic market.</p> <p>The export market price is insufficient to incentivize value-added production on a larger scale. Expensive Orthodox varieties constitute only 8.4% of production.</p>
<b>Sri Lanka</b>	<ul style="list-style-type: none"> <li>The main markets are Turkey (13%), Russia (12.3%), Iraq (13.8%), and other Middle East (23.7%) (3.7%), Japan (2.5%)</li> </ul>	<p>Sri Lanka is a world leader in high quality and branded tea exports. Active government policymaking has encouraged upgrading into value-added tea products (e.g. tea bags, packets), quality improvements through training farmers, improving factories, and product recognition (e.g. Lion Logo brand).</p> <p>Over 57% of its products are in value-added form, and these fetch a premium on world markets. The export destinations pay a premium for Sri Lanka's quality tea.</p>
<b>Kenya</b>	<ul style="list-style-type: none"> <li>Diversified export markets across the Middle East, EU and Africa</li> <li>Top 5 export markets are Pakistan (37%), Egypt (17%), UK (9%), UAE (7%) and Sudan (5%)</li> </ul>	<p>Black tea in bulk constitutes around 85% of Kenya's tea exports. However, almost all of Kenya's tea production is already VSS compliant.</p> <p>There is limited value addition in key markets served by Kenyan tea value chains (primarily Pakistan, Egypt and the UK). Purple and Orthodox have not benefited from market traction, and specialty teas are relatively small in volumes (~15%).</p>
<b>China</b>	<ul style="list-style-type: none"> <li>Domestic market is the main market at 86% of production</li> <li>The export market makes up the other 14%. 70% are to developing country markets, led by Morocco at 17%</li> </ul>	<p>The bulk of China's tea is consumed domestically, mostly as green tea. High-end green tea is sold in the domestic market at a higher price than the export price because of locally-recognized brands and geographical specification.</p> <p>The export price of Chinese tea is lower than other exporting countries because it caters to developing country markets.</p>
<b>Malawi</b>	<ul style="list-style-type: none"> <li>South Africa, the UK, the USA, Kenya and the Netherlands are the major export destinations for Malawian teas</li> </ul>	<p>Black tea from Malawi is of low quality. However, there is a significant proportion of certified tea from Malawi due to the preferences of its buyers in the UK, US and EU.</p>

Source: India Tea Board (2019). Sri Lanka Tea Board. (2018); East African Tea Trade Association (2018); Intergovernmental Group on Tea (2016); International Institute for Sustainable Development (2020)

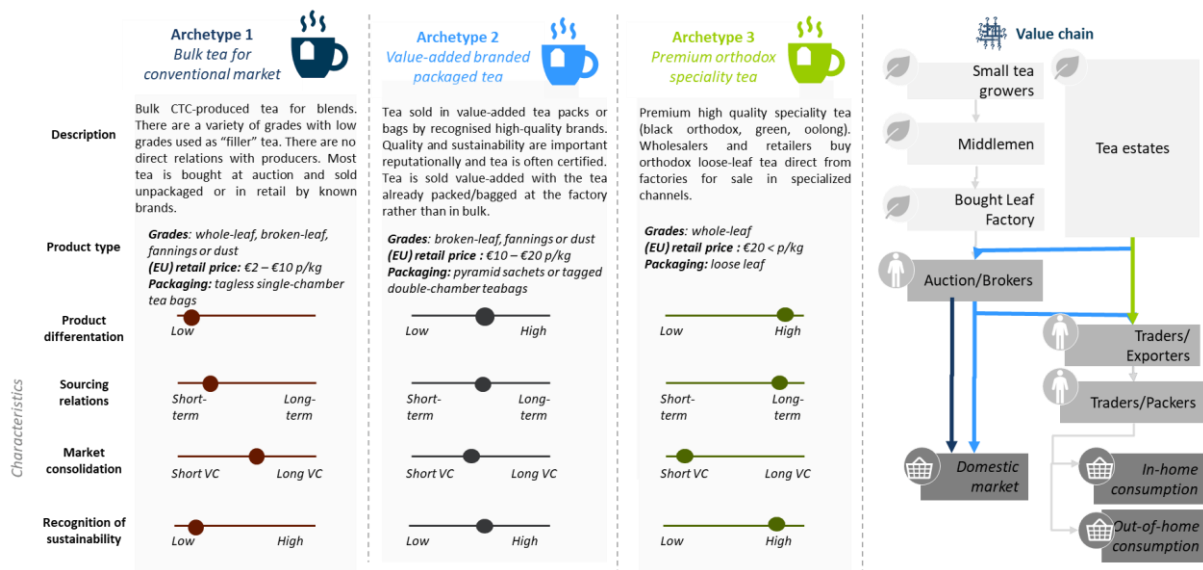
**Countries which have higher value-added product segments and/or where sustainability is in demand are more likely to have the market incentive to drive improvements in wages and working conditions.** However, the extent to which this functions in practice depends on two drivers. Firstly, if powerful market players have the ability and/or willingness to transfer higher value in the supply chain to the worker-level. Secondly, what sustainability measures these actors are putting in place to ensure sustainability and their effectiveness.

Committing to improvements in wages and working conditions: from competitive advantage to sourcing models

**The landscape for sustainability is defined by the sourcing models that tea producers choose to adopt to cater to their key demand segments.** The different tea consumer markets have different preferences for price and expectations for quality and sustainability. **Error! Reference source not found.** identifies three broad sourcing archetypes ranging from bulk tea for mass markets to premium quality tea for niche markets. In theory, sourcing models that focus on differentiated products, long-term sourcing relations, short value chains, and high importance on sustainability have positive implications for workers. This is because they enable buyers to sell tea products at a higher price, cut out middlemen and increase upstream value capture, all of which increase

absorption capacity for higher wages. Moreover, certification and greater traceability and transparency create the requirements and accountability systems to make sure value transfer to workers happens.

Figure 15 Main sourcing models in the global tea sector



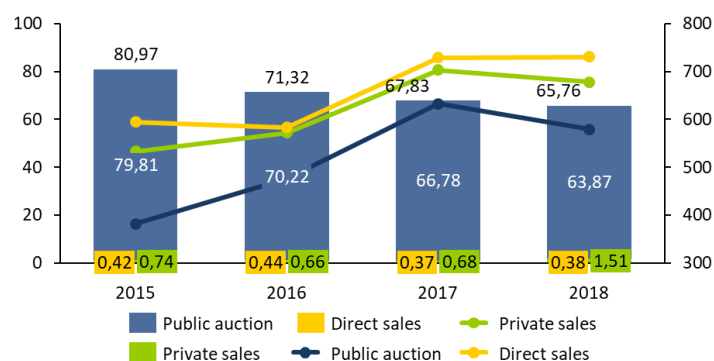
Source: Adapted for tea sector from IDH (2020)

The three sourcing archetypes can be described as follows:

- **Conventional.** Conventional, low-quality bulk tea which is often produced using the Crush-Tear-Curl (CTC) method. This tea is the cheapest to produce, travels through long value chains with little transparency, and is destined for low-cost bulk markets, mostly via the auction system. This remains the most prevalent sourcing model driven by domestic markets in China and India. This sourcing model builds in lower value appropriation.
- **Value-added branded and packaged tea.** This segment consists of higher quality blends which is sold for a higher price due to improved buyer profit margins due to value-added packaging and branding. This sourcing model comes with higher quality and transparency expectations, and sustainable certification is often a prerequisite. The segment has been growing in recent years with the increasing proportion of value-added tea as a percentage of global exports.

- **Premium orthodox specialty tea.** Orthodox tea is for the high-end segment of the tea market. It is handpicked tea with a higher price tag than CTC tea thanks to its superior quality, consumer willingness to pay, and higher cost of production. Trade management systems to monitor and address traceability issues are commonly used, as is certification. A comparison between the volumes and price points in different sales channels in Sri Lanka is shown in Figure 16.

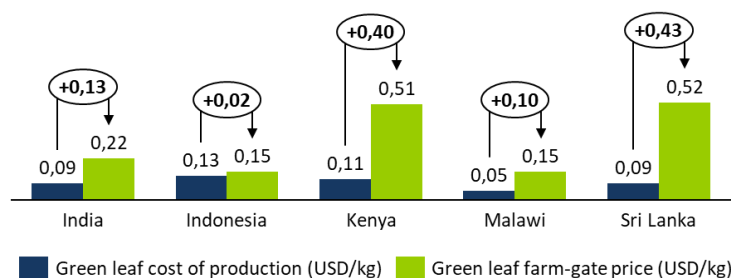
Figure 16 Annual tea sales in Sri Lanka by type and price



Source: Sri Lanka Tea Board (2020)

**Market actors adopting sourcing models focused on lower value products have less bandwidth to price-wage improvements into their product offerings.** Short of regulatory intervention, market dynamics in the tea sector make pricing in worker wage improvements a negative competition driver when there is limited value appropriation in the supply chain. In sourcing model 1 (conventional tea), where quality and sustainability is not a major demand driver, market actors need to compete heavily on price, which encourages a market dynamic of externalised costs.

Figure 17 Comparison of costs of production and farm-gate price in tea producing countries



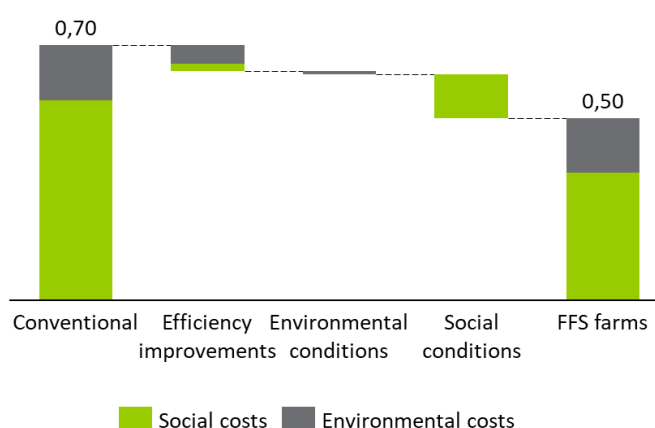
Source: Sri Lanka Tea Board (2020)

As shown in Figure 17's comparison of smallholder margins across tea producing countries, countries focused on lower value-added sourcing models (e.g. India, Indonesia, and Malawi) have lower farm-gate prices compared to Sri Lanka. Although countries with stronger enabling environments, especially in terms of regulations and social dialogue, can mitigate downward wage pressure to some extent, ultimately, there is a ceiling to wage increases when value chain pricing is structurally low. Upstream actors with squeezed margins have little absorption capacity for improving wages.

**However, there are opportunities for market actors to increase wages indirectly through value appropriation focusing on higher value sourcing models and efficiency improvements.** Actors along the supply chain need the capacity to be able to pay workers adequate wages. Market actors can increase the likelihood of driving improvements at the worker-level through improving business profitability. Avenues for this are: (1) Increasing wages indirectly through focusing on higher value (quality) sourcing models; and (2) purchasing practices that cut out supply chain inefficiencies (e.g. via more direct sourcing), facilitate greater value transfer to upstream actors, and remove price competition that drives collective externalisation of social costs.

**Increasing wages through productivity improvements to increase quality and/or efficiency can help to add value upstream, but this is neither a guarantee of sufficient wage levels nor value transfer to workers.** There is evidence that market actors who stimulate productivity improvements can unlock a trickle-down effect toward improving working conditions. For example, in Kenya, a public-private partnership effort by Unilever, the Kenyan Tea Development Agency and IDH focused on farmer efficiency improvements set up Farmer Field Schools (FFS) to train farmers in good agricultural practices. On average, it found that FFS farms were more profitable and able to reduce wage underpayment from 29% to 16% of total externalized costs.<sup>30</sup>

Figure 18 Comparison of externalised costs in Malawi between conventional and FFS farm



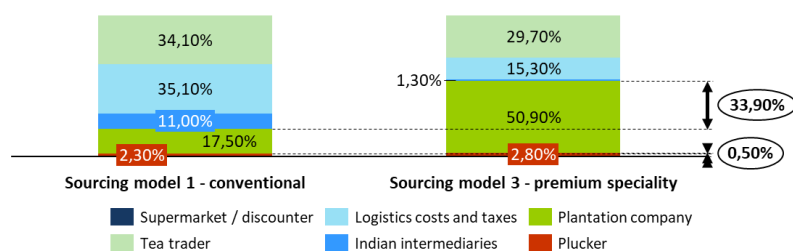
Source: True Price (2016)

**However, efficiency improvements are only a partial solution to improving worker wages.** In most cases, relying on efficiency gains is not sufficient to increase worker wages to a level that covers the basic needs of workers and their families. For example, in the Kenyan study mentioned above and shown in Figure 18, efficiency

<sup>30</sup> True Price (2016). The True Price of Tea from Kenya. Joint Report by IDH and True Price. Available online at: <https://trueprice.org/the-true-price-of-tea-from-kenya/>

improvements enabled some reduction of wage underpayment. However, further closing the wage gap to meet workers' daily needs was not possible given the lack of ability for producers to increase wages further given their low margins. At the worker-level, efficiency improvements are similarly a partial solution. Work intensity is already an issue for tea workers in many contexts, and increasing workload further to close wage gaps is often both insufficient when wages are structurally low and undesirable given it would significantly increase already high workloads.

Figure 19 Relationship between sourcing model and value distribution based on retail price (per 100g)



Source: Rosa-Luxemburg-Stiftung (2019)

**Beyond efficiency, evidence of value-added sourcing models combined with good sourcing practices such as higher upstream value distribution is an important step—but not a guarantee of better wage conditions.** Shorter value chains and long-term sourcing relations can help market actors to build value through cutting out intermediaries and enhancing supply chain inefficiencies. Combined with commitments to

lower end buyer margins and ensure fairer value distribution upstream, these can create the conditions for improved working conditions. An example from the Darjeeling region of northern India shows these sourcing relations in practice. In the conventional sourcing model (corresponding to model 1 in Figure 19, where bulk, low quality tea is sold at a lower price point), traders capture most value (34.1%) while pluckers receive just 2.3% of the retail price.<sup>31</sup> This can be compared to value distribution in the second sourcing model focused on sourcing high-end tea in a short value chain. In this sourcing model, the buyer committed to transferring 50% of the value to the producer. This model results in a significant uplift of 33.9% to the producer value share of 50.9% of the product price, giving producers a greater absorption capacity for improved wages. However, there was only a marginal increase in value flowing to workers (an increase of 0.5%) compared to the conventional sourcing model.

**Without a critical mass of buyers initiating similar purchasing practices, market interventions cannot be effective in a structural sense.** Producers need higher margins for a majority of their production, and thus good sourcing relations from a majority of buyers, to be able to lift the wages of the workforce. Moreover, there needs to be sufficient transparency and concrete value transfer mechanisms to enable buyers to both monitor and enforce value transfer to the worker-level. This explains the limited effectiveness of this single-buyer intervention on raising the wages of workers in that supply chain.

**To ensure that benefits reach workers, and avoid these challenges, buyers have committed to certification schemes; however, this is insufficient as a sole driver of improved working conditions.** Certification is driven by market demand for sustainability. At present, demand for voluntary sustainability standard (VSS) compliant tea has grown in the tea sector, primarily driven by market demand in Europe and the USA. In 2016, it accounted for 19.4% of total tea production to the certification standards of Fairtrade, Organic and Rainforest Alliance. Certification seeks to ensure compliance with wages defined through the law or collective agreements and ensure worker representation. However, it is important to manage expectations about what certification can achieve. A literature review of certification standards noted that leading standards active in the tea sector have key limitations.<sup>32</sup> For example, they cannot command worker representation in formal representative bodies and

<sup>31</sup> Rosa-Luxemburg-Stiftung (2019). "Fine Teas for Starvation Wages: Tea Exports from Darjeeling To Germany".

<sup>32</sup> Intergovernmental Group on Tea (2018). *Fostering Sustainability In Tea Production And Trade: Assessing The Impact Of Certification Schemes On Farm Income, Inclusive Rural Development And Market Access*. FAO. Available online at: <http://www.fao.org/3/MW523EN/mw523en.pdf>



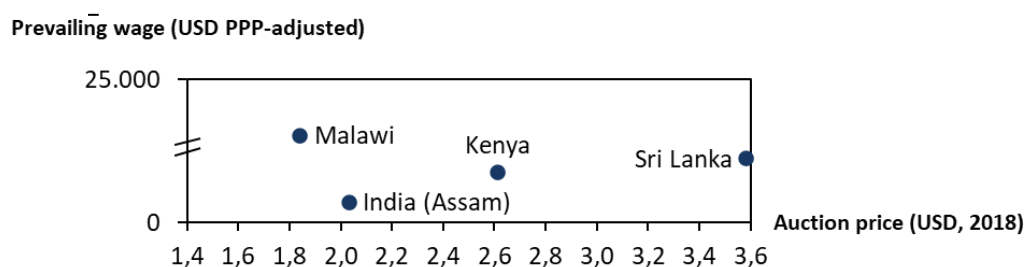
lack enforcement mechanisms for increasing wages beyond compliance with legal minimums.<sup>33</sup> When wages are set too low, or enforcement mechanisms are weak, certification has limited power to drive structural changes for workers. There is a lack of strong market pull to go beyond certification and legal compliance given the lack of transparency, awareness and demand to improve working conditions.

### The limitations of what market actors can do to drive wage improvements

**There are limits to what market actors can do; worker improvements demand engagement with institutional actors and other supply chain stakeholders to have a structural impact on workers.** Short of regulatory enforcement or wider industry collaboration, worker improvements through the market depend on (1) improving supply chain efficiency; (2) depending on first-mover companies to instil better sourcing practices; and (3) ensuring strong incentives for blenders and retailers to adopt sustainable sourcing practices based on market demand. However, as shown above, relying on these market-only interventions to improve wages are not sufficient to lift the wages of the tea workforce.

**Evidence from the tea sector shows that higher prices are essential, but not the only decisive variable driving improved working conditions.** Although prevailing wages are lowest in India (Assam), followed by Kenya and Sri Lanka, which follows the trend in auction prices, Malawi has an auction price lower than all other countries but a prevailing wage that is far higher. The Malawi case highlights the importance of industry-wide efforts and social dialogue in driving improved wages and working conditions. Although sourcing models have a role to play, the most effective change comes from industry-wide action to raise the floor on wages and share the costs and risks of doing so.

Figure 20 Average auction prices and prevailing wage selected tea producing countries  
Figure 21 Global market shares of major buyers



Source: Based on data from Global Living Coalition, various (2019); and Sri Lanka Tea Board (2020)  
Note: PPP adjustments use latest data available from the World Bank data bank (2018)

In sum: the market drivers for improving wages and working conditions in the tea sector

The conclusions from this chapter are the following:

1. **It is important to understand both what market actors can and cannot do to ensure value transfer to workers.** Major buyers have a large influence on working conditions in the supply chain. Market actors have influence over the sourcing model they adopt, which has an impact on the business case of other actors in the chain. This is related to the price they pay for tea, the sourcing relations they adopt, and the commitments they make to affecting workers. This can have significant positive influences on improving wages and working conditions.
2. **However, relying on improving market efficiency is a partial solution to increasing wages.** Farm- and work-level improvements can help to close the gap somewhat between prevailing wages and wages that meet the needs of workers and families. However, even where farmer- and worker-level improvements can be made, the level of improvement needed for wages is too high to absorb.

<sup>33</sup> Fair World Project (2016). Justice in the Fields. A Report on the Role of Farmworker Justice Certification and an Evaluation of the Effectiveness of Seven Labels. Available online at: <https://fairworldproject.org/wp-content/uploads/2016/10/Justice-In-The-Fields-Report.pdf>

3. **There are promising examples of committed buyers intervening to influence fairer conditions at the upstream level, but there are limits to what individual buyer can do to alter structural dynamics in the supply chain.** Although buyers can make commitments to good purchasing practices and higher value transfer upstream, single-actor interventions are not able to increase wages at the worker-level in a structural way. Market actors lack a value transfer mechanism to ensure improvements in workers' wages.
4. **However, buyer action in the supply chain is only effective as part of an industry-wide movement with the mechanisms in place to ensure and monitor value transfer to the worker-level.** Market actors are pivotal for triggering wage improvements in the supply chain. Buyers can make strong commitments to improving wages through their sourcing practices and commitments to fairer value chain distribution. However, the most successful examples of wage improvements in tea have been from sector-wide initiatives that share the costs, risks, and opportunities to ensure better working conditions.

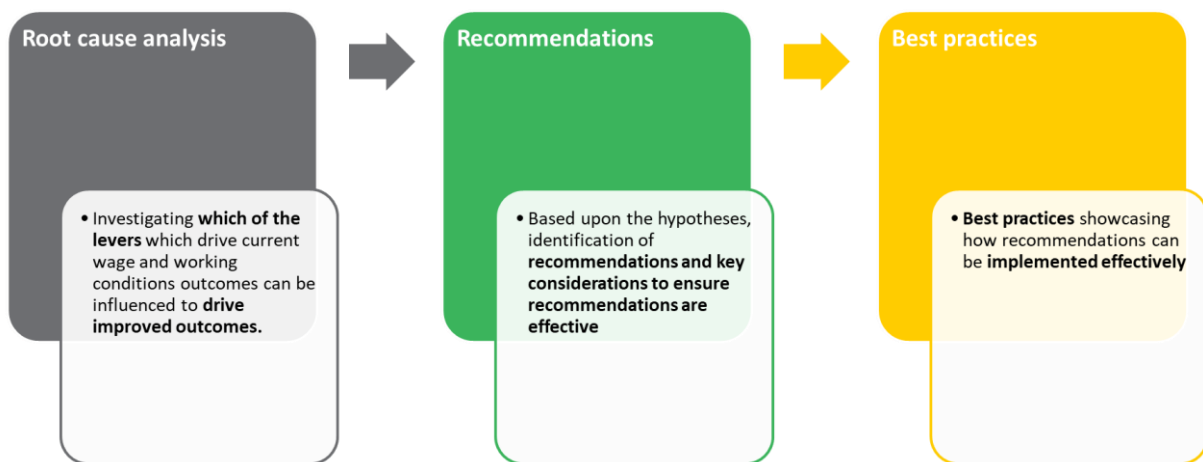
#### 4. Identifying improvement levers for the tea sector

##### Key takeaways

- ✓ **Solutions to improve wages and working conditions in the tea sector should span across three agenda areas:** these are how much money is needed to deliver wage and working conditions improvements, who or what will pay for these improvements, and how this money and these improvements will be delivered.
- ✓ **A root cause analysis of potential improvement levers within the tea sector highlights key actions which can be taken to bring about structural change:** This action areas together provide a potential way forward for proposing how much, who pays, and how these improvements are realized in the tea sector.
- ✓ **The summary of these action areas include:** sustainable sourcing practices, effective compliance with labour law; support for skills upgrading, higher transparency, due diligence frameworks, improved social dialogue, coordinated wage benchmarks linked to social dialogue and collective solutions for wage transfer mechanisms.

Translating the root cause issues into possible recommendations and best practices can be the basis of a potential improvement agenda, agreed through social dialogue, for driving better wage and working conditions. A visual depiction of the recommendations framework to structure this section is shown in figure 29.

Figure 22 Recommendations framework



To unlock improvements in wage and working conditions, the focus should be on improvement levers that can influence three critical agenda areas. Building on learnings in the garment sector<sup>34</sup>, improving wages and working conditions requires finding solutions to the following (see figure 30):

- **At what level should wages be set to deliver decent living conditions to workers and their families in the sector?** To avoid action on wages being stymied by the search for the “perfect benchmark”<sup>35,34</sup> a

<sup>35</sup> Fair Wear Foundation (2018). “Living Wages: An Explorer’s Notebook. Piloting Living Wages In Garment Factories”. [Accessed at <https://api.fairwear.org/wp-content/uploads/2019/10/Fair-Wear-Explorers-Notebook.pdf>]

good place to start is looking at which approaches and benchmarks already exist. Most important is the process by which actors around the table discuss, agree, use, and consistently update these to ensure they evolve in line with changing conditions. A related question is what should be the level of an adequate minimum wage, statutory or negotiated, through collective bargaining? In finding an answer to this question, governments and social partners should consider the needs of workers and their families as well as economic factors, as emphasized in ILO Convention No.131.

- **Who or what will pay for these improvements?** Money for paying higher wages and investing in working conditions improvements must come from somewhere. The options are one or multiple actors in the supply chain or the enabling environment paying more, or indirect surpluses made through efficiency gains or cost savings. The actor(s) or mechanisms must be able to afford the improvements without unsustainably compromising their margins.
- **How will money be paid to workers to ensure the money ends up in worker's pockets?** Non-transparent supply chains and compounding price effects make it difficult to ensure money goes to workers. Mechanisms are needed to enable distribution and verification of payments.

The improvement analysis is shown below with some initial ideas and suggestions that may serve as inputs for social dialogue and the development of an agreed framework highlighting areas that can be influenced to trigger wage improvements. Given the closely interconnected causal loops, only by tackling multiple rather than isolated root causes across the supply chain can these improvements be delivered. Figure 25 builds on the root cause analyses presented in previous sections by highlighting core levers driving prevailing conditions which can be influenced by key stakeholders in the tea sector. The expected results of these changes are shown in figure 26, highlighting the intended impacts on working conditions in the tea sector.

Figure 23 Intended impact of improvement levers on casual loops driving working conditions in the tea sector

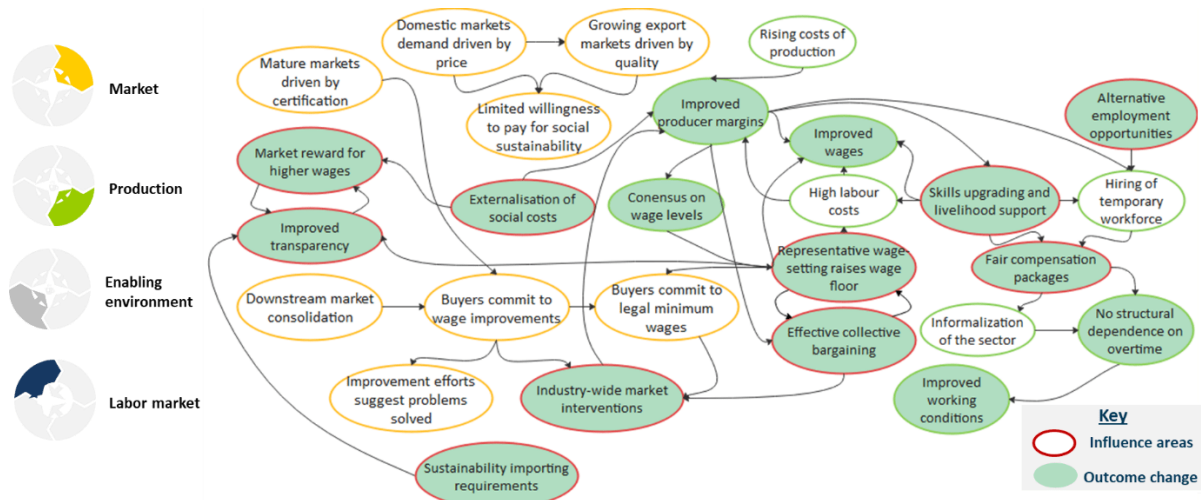
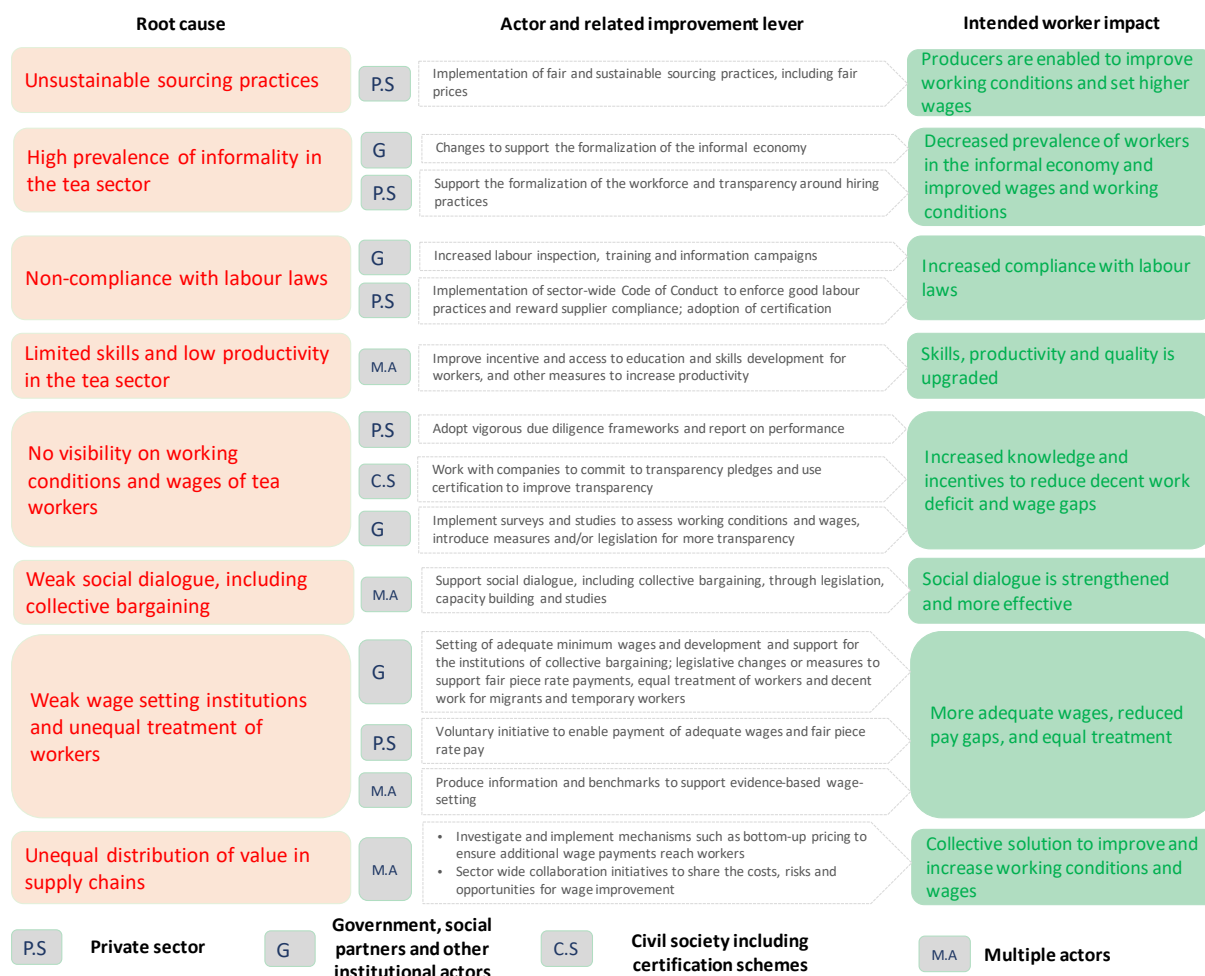


Figure 24 Relationship between root cause, improvement lever, and intended impact on tea workers



#### 4.1 Possible recommendations and best practices

**All stakeholders in the tea sector – particularly supply chain actors – are strongly urged to ensure that their operations and suppliers’ operations comply with the UN Guiding Principles on Business and Human Rights, as a bare minimum.** In what is one of the most comprehensive overviews of business attitudes in Europe to date, the European Commission recently released a study on due diligence requirements through the supply chain. The study found that only a third of the surveyed companies are conducting broad-ranging due diligence – based on the framework set out in the UN Guiding Principles – in relation to their environmental and human rights impacts arising in their operations and supply chains.<sup>36</sup> The Guiding Principles should be at the core of any business dealings and sustainability programs within the coffee sector and any other agricultural sectors.

**The following recommendations and best practices are proposed to provide insights and inspiration for driving wage improvements in the tea sector.** Importantly, many of the recommendations are not new nor profoundly innovative. The tea sector is faced with a set of root causes that perpetuate the challenges of low wages and poor working conditions. Many—if not all—of these issues have been highlighted numerous times before (many of which are referenced throughout this report), yet progress on many basic issues remains elusive. Without tackling these root causes, systemic change will not prevail.

<sup>36</sup> European Commission (2020). Study on due diligence requirements through the supply chain. Available online: <https://op.europa.eu/de/publication-detail/-/publication/8ba0a8fd-4c83-11ea-b8b7-01aa75ed71a1/language-en>.

**The following recommendations should be considered a package, not a menu.** Ensuring sustained change necessitates tackling all the root causes. One actor tackling one root cause will be insufficient. All relevant stakeholders need to be involved to tackle the impediments in the market, in production, in the enabling environment, and the workforce.

**The recommendations apply to all key stakeholder groups.** The three key groups of stakeholders — *Governments, social partners and other institutional actors / the private sector / Civil society, including certification schemes* — have a specific role to play as well as limitations to what they can do. In line with these, they can make certain commitments and enact recommendations to further progress on decent work in the tea sector.

#### *Governments, social partners and other institutional actors*

- **Actors:** This includes governments of major producing countries (e.g. India, China, Kenya), governments of importing countries (e.g. EU), government agencies (e.g., GIZ, IDH) and social partners (workers' and employers' organisations e.g. Indian Tea Association, Tea Association of Malawi).
- **Role:** Institutional actors are responsible for legislating and enforcing labour standards and creating a conducive environment for decent work through social dialogue.
- **Limitations:** Institutional actors are not always able to enforce compliance given the limited capacity of labour administration, inspection and remediation systems. Representative social dialogue can be difficult given the complexity of global supply chains and the sometimes weak capacity of social partners. Governments and social dialogue partners have to balance competing interest, with a primary incentive being the market pull for progress on decent work.
- **The requirement commitment:** to create a level playing field through industry-wide collective bargaining and/or by creating and enforcing legislation, such as adequate minimum wages, that makes decent work a rule-based requirement of doing business.
- **The recommendations:** (1) support the formalization of the informal economy (2) increase labour inspection, training and information campaigns (3) implement surveys and studies to assess working conditions and wages and introduce measures and/or legislation for more transparency (4) reform of wage-setting to ensure equal worker treatment and minimum wages that takes into account the needs of workers along with the economic factors;; (5) support to social partners to increase their capacity to negotiate wages and working conditions.

#### *Private sector*

- **Actors:** The key private sector actors are large tea packers/blenders (e.g. Unilever, Tata Global Beverages, Twinings, James Finlay, who make up a combined 20% market share)
- **Role:** As set out in the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, enterprises are responsible for compliance with applicable laws and respect for international labour standards across operations. Companies have developed private governance approaches to ensure compliance, including single-buyer initiatives as well as sectoral partnerships such as the Ethical Tea Partnership.
- **Limitations:** Private initiatives can help to increase capacity for compliance. However, even industry-wide action cannot institutionalise decent work or ensure strong industrial relations.
- **The required commitment:** to comply with labour legislation in a transparent manner and make progress on decent work, a norm-based requirement for doing business, and link to and encourage institutional change on decent work.
- **The recommendations:** (1) adopt sustainable sourcing practices that protect human rights; (2) develop a sector-wide code of conduct which enforces decent work principles and supports social dialogue, (3) improve access to upskilling in partnership with institutional actors and (4) adopt due diligence frameworks and report on their human rights performance; (5) commit to voluntary initiatives to enable payment of adequate wages.

#### *Civil society including certification schemes*

- **Actors:** Key certification schemes in tea (e.g. Fairtrade, Organic and Rainforest Alliance) and NGOs active in the tea sector (e.g. Oxfam)

- **Role:** Social labelling schemes are verification systems for social performance, which are used by companies. Their role is to provide a visible way for companies to communicate and consumers to know about the conditions under which products were produced.
- **Limitations:** Certification schemes set standards around how products are produced and potentially pay premiums, collect data on product flows, give data assurance, and have traceability systems to provide proof of origin. Certification systems can improve standard stringency, enforcement, and transparency around system elements but are limited in their impact on the non-certified supply chain and to incentivise further progress on decent work.
- **The required commitment:** to ensure certification standards on decent work are stringent and enforced, and support efforts that link to and encourage institutional change on decent work.
- **The recommendations:** (1) promote transparent tea supply chains. 2.) help support accountability systems on value transfer to workers.; (3) advocate for policy reform.

Table 1 Possible recommendations and best practices for triggering wage improvements in the tea sector

Root cause tackled	Lead actor	Action	Expected worker impact	Best practice example
<i>Unsustainable sourcing practices</i>	Private sector	<p><b>Training and preferential sourcing practices to incentivise the adoption of sustainable purchasing practices:</b> This can involve:</p> <ol style="list-style-type: none"> <li>(1) Train company staff to understand the impact of purchasing practices on working conditions;</li> <li>(2) Channel greater value upstream, including through direct sourcing where possible, to ensure producers capture a portion of the product price that enables them to internalise social costs;</li> <li>(3) Tea packers incentivise good practices by buying more from suppliers who are proactive in raising labour standards or have good practices, such as support for unionizing.</li> </ol>	<p><b>Reform of purchasing practices</b> The sourcing decisions and purchasing practices adopted by companies are consistent with ILO Conventions on wages and working conditions. Moreover, there are incentive and reward systems in place to encourage suppliers to go beyond fundamental compliance with basic standards towards best practices on decent work.</p>	<p><b>Teekampagne’s purchasing practices</b> were able to have a significant impact on improving value transfer along the supply chain. Teekampagne committed to sustainable purchasing practices by:</p> <ol style="list-style-type: none"> <li>1. Being one of few tea traders to make import volumes public;</li> <li>2. Publicly disclosing its own price calculations;</li> <li>3. Using direct sales for supply chain efficiency and cost cutting by removing intermediaries;</li> <li>4. Using the cost savings to guarantee the producer a 50% share of the final price.</li> </ol>
<i>Non-compliance with labour laws</i>	Government, social partners and other institutional actors as well as the private sector	<p><b>Labour inspection</b> The enforcement of minimum wages falls within the scope and responsibilities of labour inspectorates. There are a number of indicators to assess the capacity of labour inspection systems, including: the number of inspectors, the number of inspections undertaken, and the number and amount of penalties imposed in practice. The effectiveness of labour inspection will also depend</p>	<p><b>Compliance with minimum wages can be increased through targeted and reinforced labour inspection</b></p> <p><b>Transparency and action on violation of labour laws</b> Brands and retailers have an accurate and fair indication of the situation of workers with transparent monitoring of payslips and cash-in-hand. Workers have the ability to understand and challenge compensation and any deductions.</p>	<p><b>Better Than Cash Alliance by McLeod Russel</b> is a partnership set up by the world’s largest tea production company in Uganda involving local mobile network operators (MNOs) and the UNCDF Mobile Money for the Poor Program (MM4P) to move its worker payroll from cash to mobile payments and reduce the costs of cash delivery. It surveyed workers to understand their pain points and priorities and offered trainings to simplify the enrolment process for workers.</p>



		<p>on whether inspectors are properly trained.</p> <p>Labour inspectors must be able to access enterprises subject to inspection, to inspect wage records and other documents, and conduct interviews with workers and management. Labour inspectors should be able to issue warnings or open administrative procedures so that they can impose penalties in cases of non-compliance.</p> <p><b>Develop Sector Code of Conduct for Good Labour Practices.</b> A code of conduct helps align business partners around expectations for ethical business practices.</p> <p>The Code of Conduct should – as a minimum – be compliance-based, adhering to the eight fundamental ILO Conventions on child labour, forced labour, discrimination, and freedom of association to secure the fundamental principles and rights at work. Where applicable, the Code should be complemented by other workplace rights covered by the Universal Declaration of Human Rights, or the OECD Guidelines for Multinational Enterprises on employment and human rights. Lastly, the code should comply with relevant local labour laws.</p>		<p><b>&amp;Wider</b> is used by audit platforms, certification systems, global brands, and suppliers to collect anonymous survey results and build capacity to improve workplace and sourcing practices. Its Engage tool offers a bidirectional channel for workers and management, including employer notifications about worker data, and worker reporting of incidents, suggestions, feedback, and complaints, with options for anonymity.</p>
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		<p>Companies are also encouraged to incorporate norm-based standards into the Code of Conduct to support, for example, a Living Wage.</p> <p>Specifically, with respect to wages in the tea sector, measures should include:</p> <ol style="list-style-type: none"> <li>(1) closing governance gaps that permit unequal treatment and compensation packages for different types of workers;</li> <li>(2) assessment and auditing of in-kind benefits and their quality;</li> <li>(3) auditing payslips and making wage calculations transparent and understood by workers;</li> <li>(4) introducing digital solutions for pay monitoring</li> <li>(5) introducing tools for worker-level feedback and reporting on wages and working conditions</li> </ol>		
<i>Limited skills and low productivity of workers</i>	Multiple actors	<p><b>Improve access to upskilling and quality</b></p> <p>The private sector, in collaboration with civil society organisations, can create sustainable livelihoods for tea workers who stay within or transition out of the sector as a long-term collaborative undertaking. It requires action on multiple levels:</p> <ol style="list-style-type: none"> <li>(1) Upskill workers in the tea sector to create skilled labour pools (including on the use of technology) and improve productivity and efficiency, including through gender-specific interventions</li> </ol>	<p><b>Skills and quality upgrading</b></p> <p>Skilled, productive workers, trained in the use of technologies, support the transition to good employment opportunities over low-skilled, low-cost work. Ensuring alternative livelihoods for other workers and sustainable livelihood strategies for temporary workers is needed to ensure these workers are not left behind.</p>	<p><b>The Ethical Tea Partnership’s Community Empowerment Programme</b> supports tea communities with bottom-up participatory interventions that involve stakeholders across tea communities to help them design and implement their own action plans. These have included <b>addressing youth employment:</b> through government-run vocational skills training and <b>improving access to education for children.</b></p> <p><b>The Appropriate Scale Mechanisation Consortium (ASMC)</b> developed a ‘lean’ gender technology assessment toolkit to understand gendered barriers to mechanisation uptake. Based</p>

		<p>(2) Ensure access to education and vocational training for youth to impart them with employable skills beyond tea to support limited employment opportunities within tea</p> <p>(3) Support income diversification beyond tea for the growing temporary labour force</p>		<p>on this, it developed approaches to empower women through technologies, such as through targeting women with fee-for-service arrangements, working with women's groups, and dialogue to address socio-cultural norms related to gendered labour.</p>
<p>No visibility on wages &amp; working conditions of tea workers</p>	<p>Multiple actors</p>	<p>Traceable and transparent sourcing NGOs can lead initiatives to encourage publicly disclosure of sourcing information in an accessible way to enable transparency and traceability from leaf to cup.</p> <p>Certification schemes are encouraged to bring transparency to working conditions, such as through explicit requirements for transparency on wages, for example, certification schemes can:</p> <p>(1) Create explicit standard requirements for certified companies to commit to higher wage benchmarks, measure and report progress, and requirements to make progress towards closing gaps, thus enabling the accountability that is currently missing on <i>value transfer to workers</i></p> <p>(2) Publicly disclose company progress with wages and enforce consequences for non-compliance</p> <p>(3) Explore the introduction of additional impact claims for products which are certified as compliant to higher wage payments.</p> <p>To address the growing number of temporary and informal workers in the tea</p>	<p>Transparent tea supply chains Allows consumers to make informed sourcing decisions and provides key data to feed into collective wage action in the sector.</p> <p>Due diligence frameworks Creates a level-playing field for wage and working condition improvement and provides a clear market signal for sustainable production with a new competitive floor.</p>	<p>Traidcraft: "Who Picked My Tea" Campaign led to the UK's six big tea brands comprising 67% of the tea market publishing full sourcing lists from their estates in Assam publicly online.</p> <p>Rainforest Alliance 2020 Certification Programme on Living Wages requires certified farms to improve transparency around wage payments and improvements, with requirements to:</p> <p>(1) Use the Rainforest Alliance Salary Matrix Tool to measure wage data and establish the size of the gap towards a living wage benchmark;</p> <p>(2) Annually track payments made to all workers and transparently report on progress;</p> <p>(3) Implement a wage improvement plan if there is a wage gap with the benchmark. At a minimum, wages need to rise with inflation.</p>

		<p>sector, civil society and private actors should support formalisation of workers, in line with the objective of ILO's Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).</p> <p>Introduction of due diligence frameworks to adhere to companies' human rights obligations.</p> <p>Companies are strongly encouraged to adopt vigorous due diligence frameworks. Due diligence frameworks can be a powerful risk management tool of the internal operations, as well as supply chain partners' capacity, systems, policies and processes adhere to the relevant human rights obligations of companies.</p> <p>Due diligence requirements may be coupled with transparency legislation requiring companies to report on labour risk and violations in supply chains. Such legislation would require companies to establish greater traceability and transparency of their sourcing, especially pertaining to working conditions which, in turn, would ensure greater materiality of labour violations.</p> <p>Transparency legislation could also ensure more transparency for stakeholders and the general public, ensure verification and greater credibility around studies, strengthen scientific cooperation, and support greater communication around labour risk.</p> <p>Mandatory due diligence requirements can create a level playing field, legal certainty, a harmonization across national jurisdictions and enable supply chain</p>		
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		actors to increase leverage in their relationships with business partners. This would create expectations on supply chains to secure the fundamental rights of workers in relation to wages and working conditions and provide a clear market signal for sustainable production with a new competitive floor.		
<b>Weak wage setting institutions and unequal treatment of workers</b>	Multiple actors	<p><b>Reform wage legislation and implement adequate minimum wages.</b> Governments are responsible for ensuring enforcement of legislation and fundamental rights at work by ensuring policy coherence, including equal treatment of workers in national labour legislation.</p> <p>In the tea sector, attention should be paid to action on the following issues, for which the ILO can offer technical support and capacity building:</p> <ol style="list-style-type: none"> <li>(1) Ensuring fair valuation of in-kind benefits (see best practice) consistent with ILO Convention No.95 . This could include regulations to set in-kind benefits at market rates or to cap in-kind benefits where reliance on in-kind benefits diminishes worker control and results in inadequate working conditions;</li> <li>(2) Improve transparency by requiring employer record-keeping of expenditure on non-wage benefits. This should also require that workers are informed about expenditure and pay deductions in a uniform and</li> </ol>	<p><b>Balanced compensation which covers all workers</b> In-kind benefits are set in accordance with international labour standards and norms. Expenditure is uniform, transparent, and communicated to workers who understand and challenge the under-valuation of in-kind benefits and/or underpayment of wages.</p> <p>The number of workers in unregulated, informal work is reduced in tea supply chains.</p> <p><b>Consensus on tea sector floor wage</b> Streamlines and channels fragmented efforts into coordinated wage-setting efforts. Enables representative and contextualised discussions, agreement and buy-in on target wage levels.</p>	<p><b>A global review of countries paying in-kind benefits as a partial payment of wages</b> identifies the principal ways that countries regulate payment in-kind. This cross-country comparison of practices can be used as input for reviewing and modifying wage legislation to harmonise in-kind benefits across countries.</p> <p>The study identifies the following regulatory methods used by different countries:<sup>37</sup></p> <ul style="list-style-type: none"> <li>• Capping in-kind benefits</li> <li>• Amount set in law</li> <li>• At or below market rate</li> <li>• At or below cost to employer</li> <li>• Amount equal to hours at the minimum wage rate</li> <li>• Amount increases with wage</li> <li>• Set by a judge when parties do not agree</li> <li>• Set by independent experts</li> </ul> <p><b>ILO technical assistance on minimum wage setting</b> through the use of methodology to assess the needs of workers and their families as well as economic factors in order to inform a balanced and evidence-based wage fixing.</p> <p><b>Other initiatives to strengthen information on wages includes:</b></p>

<sup>37</sup> Anker, R. and N. Anker. (2017). In-Kind Benefits as Partial Payment of Wages: A Review of Laws Around the World. In: Living Wages Around the World. Available Online at: <https://www.elgaronline.com/view/9781786431455/chapter16.xhtml>

		<p>transparent manner, and that grievance mechanisms are in place to report violations;</p> <p>(3) Harmonise labour legislation to ensure that it does not discriminate between types of workers with respect to benefits and entitlements. This should be accompanied by a broader strategy to prevent informalisation of workers in line with the ILO's Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204).</p> <p>(4) Adopt adequate minimum wage systems, statutory or negotiated, which take into account the needs of workers and their families as well as economic factors</p> <p><b>Information to support adequate wage setting</b> Governments should be urged to adopt adequate minimum wages, as called for in the ILO Centenary Declaration for the Future of Work adopted in 2019. Such adequate minimum wages should take into account economic factors as well as indicators of the needs of workers and their families.</p> <p>In the absence of adequate statutory minimum wages, the tea sector is strongly encouraged to support the development of Collective Bargaining Agreements (CBAs) to integrate needs-based salary as the minimum standard.</p>		<ul style="list-style-type: none"> <li>• Fair Wear's Wage Ladder tool allows companies and factories to compare current wage levels to various benchmarks as input for negotiations with <b>workers</b> and management over an appropriate wage floor.</li> <li>• Rainforest Alliance and IDH Salary Matrix is a self-evaluation matrix where companies can determine worker remuneration and performance with respect to living wages which can be used for discussion and action to address gaps.</li> <li>• Living Wage Advocacy Initiative (LIWIN). The LIWIN is a pilot project in Ecuador and Ghana supported by Fairtrade International and the World Banana Forum. It seeks to reach national consensus on living wage benchmarks which can be fed into wage negotiations and wage-setting interventions.</li> </ul>
<p><b>Weak collective bargaining and social dialogue</b></p>	<p>Multiple actors</p>	<p><b>Improve social dialogue, including tripartite social dialogue and the support</b></p>	<p><b>Collective bargaining is representative and effective</b></p>	<p><b>Malawi Tea 2020</b> is a multi-stakeholder partnership that aims to support workers and farmers to earn a living wage and income. It has</p>

		<p><b>of industry-wide collective bargaining agreements.</b></p> <p>Any social dialogue should be in line with the Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144).</p> <p>Wage benchmarks, such as Living Wages can serve as a useful input into social dialogue.</p> <p>The ILO could offer guidance on minimum requirements in line with ILO Conventions and Recommendations and the MNE Declaration, and potentially build capacity, and offer technical advice for implementation and follow-up.</p> <p>Finally, tea blenders/packers and governments of tea producing countries can join forces to train workers in support of Freedom of Association or Collective Bargaining Agreements. This can increase the ability of workers to organize themselves effectively.</p>	<p>Social dialogue promotes consensus building and democratic involvement among the main stakeholders to secure workers' fundamental rights and improve wages and working conditions over time.</p>	<p>agreed on a living wage benchmark to pursue in coordinated sector improvement activities towards progress on decent work. Malawi 2020 has succeeded in closing the gap between tea wages and the living wage and the tea sector's first ever social dialogue agreement between employers and workers.</p> <p><b>ACT Initiative on living wages in the garment industry</b> is the first commitment of its kind between a global union and major apparel brands to support living wage increases by linking national industry-wide collective bargaining to the purchasing practices of brands. This goes beyond bargaining, which usually takes place at the level of the individual factory.</p> <p>The MoU signed between IndustriALL, and ACT companies expresses an explicit commitment to industry bargaining to achieve living wages. ACT companies work with suppliers and IndustriALL affiliated unions to develop a coordinated plan of action for living wage negotiations, including the development of contractual mechanisms that support suppliers to implement negotiated wages. The ACT Initiatives also involves a commitment to joint approaches towards adequate minimum wages.</p>
<p><i>Unequal distribution of value in supply chains</i></p>	<p>All actors</p>	<p><b>Bottom-up pricing and wage transfers</b></p> <p>Companies may negotiate a suitable target wage benchmark, which they compare against current wage data to determine the amount a single or collective of buyers is required to finance a wage increase.</p> <p>Based on a value chain analysis of the prices paid along the value chain, companies can then reach a fair commodity (tea) price that allows producers to pay a living wage (or the suitable wage benchmark) for tea</p>	<p><b>Collective payment of higher wages</b></p> <p>Companies, suppliers and workers collaboratively agree on target wage levels, and companies absorb wage increases based on transparent and open costing. This enables buyers to share costs and risks with other buyers to bridge wage increases.</p>	<p><b>Fair Wear Labour Minute Costing approach</b> uses payroll data to calculate the total cost of increasing wages to a living wage level measured against the time it takes to make each garment to calculate a brand's share of higher labour cost, thus enabling brands sourcing from one factory to share responsibility for higher wages. Fair Wear research has published guidance on how two key problems can be overcome: (1) the compound price escalation effect of financing wage increases; and (2) adhering to competition law.</p>

		<p>workers, while enabling them to cover their cost of production.</p> <p>This fair commodity price mechanism enables buyers to make contributions to a living wage payment based on share of production bought.</p>		<p><b>Malawi Tea 2020 Price Discovery Model</b> is a concept model developed by the coalition to bridge the living wage gap, which (1) determines a sustainable floor range; (2) assesses what buyers need to contribute to bridge the living wage gap; (3) diverts buyer uplift and savings from favourable payment terms to the living wage payment; (4) disburses funds through a horizontal or vertical model with auditing to verify distribution.</p>
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#### 4.2 Next steps: Ways to implement the recommendations

It is not sufficient to only know *what* needs to be done. The next question is, therefore, *how* the solutions mentioned above can be implemented.

**Single-stakeholder platforms will not be sufficiently effective to offer sustainable solutions. Rather, multi-stakeholder participation and social dialogue is required.** Existent single-stakeholder platforms, such as the producer-driven **India Tea Association** or the **Small Tea Grower Associations** in India, benefit from joining forces in multi-stakeholder initiatives such as the **India Road Map Group** or in Sri Lanka, the **Road Map 2030**. In other countries, such as Kenya and Tanzania, such nationally based multi-stakeholder initiatives are yet non-existent. Conversely, the buyer-driven, globally active **Ethical Tea Partnership** (ETP) may benefit from inviting producer-representatives to the organization. Finally, the **Global Tea Coalition**, a newly created initiative by the ETP and IDH, the Sustainable Trade Initiative, may potentially form the first truly global platform where all stakeholders convene.

**The level at which solutions need to be implemented differs per recommendation.** Most recommendations benefit from taking a pre-competitive, sector-wide approach. Agreeing upon sustainable sourcing practices that are traceable and transparent, creating a sector Code of Conduct, or embedding living wage benchmarks into collective bargaining, and social dialogue all are activities that require full sector participation. However, other recommendations such as reforming national wage legislation or collectively agreeing on target wage levels may be more effectively implemented on national level multi-stakeholder initiatives.

**Governments, social partners, civil society and the private sector, need to complement each other in creating and sustaining multi-stakeholder initiatives.** Whereas governments are the designated actor to set-up and drive multi-stakeholder initiatives, they may often be subject to capacity constraints. An example is Kenya, where capacity issues restrained the government to set-up such a multi-stakeholder platform. In India, the Tea Board currently plays a significant role in the India Roadmap Group. However, state policies aimed at reducing the size and resources of the Tea Board may limit their role, putting the continuation of the India Roadmap Group at risk. To compensate for these government capacity constraints, industry and civil society need to bring in financial and knowledge support to catalyse these multi-stakeholder initiatives.

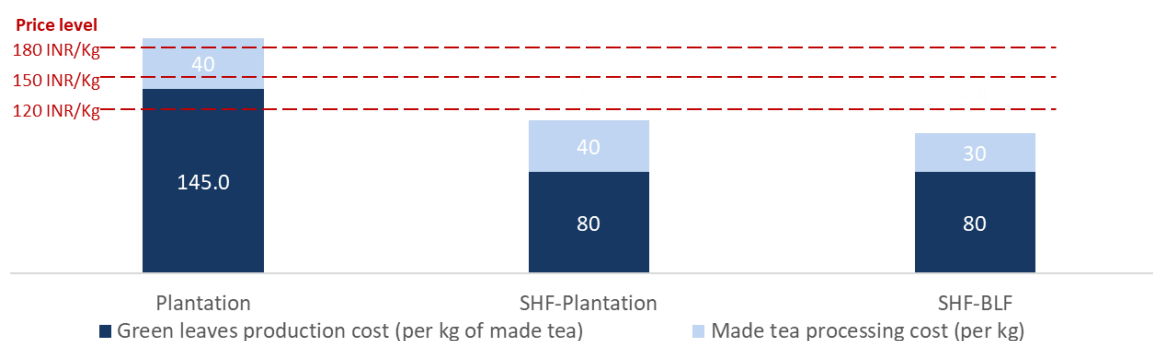
**Finally, the implementation of a multi-stakeholder initiative should best be preceded by a robust analysis on the risks & long-term dynamics of all stakeholders.** Experience from the multi-stakeholder Malawi Tea 2020 Program has shown that one should be informed about the way the industry responds to declining prices. Industry actors should be equipped to meet their sustainability commitments not only in times of favourable prices but also through more difficult economic times to prevent them from walking away from commitments they have agreed to.

## 5. Annex<sup>38</sup>

### 5.1 Production-level drivers affecting working conditions in the Indian tea sector

The India example highlights the global tea sector trend towards relative informalisation, with a rising number of informal, smallholder production compared to formal, large-scale tea estate production. Although the organized, large-scale tea estates are not declining in absolute terms, their *relative* share in Indian tea production is declining: the significant increase in Indian tea production from ~800 million kg (1970) to 1,300 million kg (2020) is almost entirely driven by an increase of informal, smallholder producers.<sup>39</sup> Smallholders thus account for the majority of supply growth, resulting in declining prices and structurally squeezing profit margins for both smallholders and plantations. In both plantation- and smallholder-based production, profitability is therefore limited (see Figure 25). Poor quality tea generates low prices, which put pressure on profit margins. Smallholders in particular work with inefficient production structures which fail to reduce costs.

Figure 25 Total cost of made tea at different market price levels for plantations, smallholder-plantations, and smallholder-bought leaf factories



Source: Data from Ethical Tea Partnership (2019)

Furthermore, across formal estates, there is a growing dependence on temporary workers (as opposed to permanent workers)<sup>40</sup>. With this prevalence of temporary work, an in-depth look at the contractual and wage structures that accompany each type of worker highlights the disadvantages facing temporary workers. Workers in the Indian tea sector are paid daily monetary wages, which are determined by state-set daily minimum wages. In addition, workers receive in-kind benefits under the Plantation Labour Act (PLA), which is the most important piece of labour legislation in India in the tea sector. The plantations covered by the PLA make up approximately 50% of India's total tea production. Although the PLA does not distinguish between permanent and temporary workers in terms of in-kind benefits, some reports claim that the almost universal industry practice is to deny in-kind benefits to temporary workers<sup>41</sup>, although this is disputed by the International Tea Association.<sup>42</sup> An overview of the key differences in contract structure and wages between both worker types is shown in the following table.

<sup>38</sup> The data for this chapter is primarily related to workers in the Assam region of India which is the largest tea-growing area producing over 50% of India's tea according to the Indian Tea Board (website checked 14-9-'20).

<sup>39</sup> NewForesight subject matter expert, interview conducted 29 October 2020

<sup>40</sup> Tata Institute for Social Sciences (2019) Decent Work for Tea Plantation Workers in Assam: Constraints, Challenges and Prospects.

<sup>41</sup> Colombia Law School Human Rights Institute (2014). 'The More Things to Change. The World Bank, Tata, and Enduring Abuses on India's Tea Plantations.

<sup>42</sup> India Tea Association, letter in response to Oxfam India, sent October 2019

Table 2 Comparison of contract and wage structures of permanent and temporary tea workers in the Assam region of India

	Permanent workers	Temporary workers
<b>Contract structure</b>	<ul style="list-style-type: none"> <li>Workers have a permanent contract governed by the terms of the Plantation Labour Act (PLA), which stipulates working hours, entitlements, regulations and other benefits.</li> </ul>	<ul style="list-style-type: none"> <li>Workers are day labourers and are paid on a daily basis. If temporary workers work for more than 240 days of work in a year, they are entitled to permanent status and a range of in-kind benefits. To avoid this, management sometimes cycles through different groups, with each worker hired for up to 6 months at a time.</li> </ul>
<b>Cash wages</b>	<ul style="list-style-type: none"> <li>Plantations mostly pay minimum wages, but this differs per region. In West Bengal and Assam, wages are fixed in tripartite negotiations with employers, unions and the state.</li> <li>Alongside base wages, the PLA states that workers should receive a bonus of 8-20% of annual wages.</li> </ul>	<ul style="list-style-type: none"> <li>Temporary workers are most often paid the same daily rate as permanent workers. This is despite the fact that permanent workers also receive a non-wage component from employers, which temporary workers do not always receive, according to some reports (see “in-kind benefits” below).<sup>43</sup></li> </ul>
<b>Piece rates</b>	<ul style="list-style-type: none"> <li>The wages set for the tea sector are typically determined based on piece-rates. ‘Plucking rates’ are set through industry-wide agreements in collaboration with, and signed off by, workers and the unions they are represented by,<sup>44</sup> and have increased between 2013-17.</li> <li>Higher targets are set unilaterally by management for other non-plucking activities. According to some studies, many workers are unable to meet targets and either accept the loss of half a day’s wage as a penalty or seek help and share the day’s wages.<sup>45</sup> This is, however, disputed by others, who claim these plucking targets are often achieved as they have been set in agreement with the workers.<sup>46</sup></li> </ul>	<ul style="list-style-type: none"> <li>Temporary workers work for a maximum of 6 months a year and try to pluck as much as possible, so they earn extra money in the months they are employed.</li> </ul>
<b>In-kind benefits</b>	<ul style="list-style-type: none"> <li>Under the PLA, employers are required to provide housing, sanitary facilities, water, medical facilities, creches for infants and primary schools for children. In Assam and West Bengal, there are two additional benefits of concessional rations and firewood.</li> </ul>	<ul style="list-style-type: none"> <li>Although the PLA does not distinguish between permanent and temporary workers with benefits, some studies claim they are often denied many of these benefits.<sup>49</sup></li> <li>A major part of the expenditure of temporary workers is therefore incurred on providing these basic needs for themselves, especially housing facilities.</li> </ul>
<b>Unionisation</b>	<ul style="list-style-type: none"> <li>On tea plantations, there is low worker participation in unions, especially female workers. There are also allegations of unequal representation between employers and workers. Finally, there is a monopoly of one union that has the right to collectively bargain in Assam.</li> </ul>	<ul style="list-style-type: none"> <li>As it is difficult for temporary workers to organise, this has had the impact of eroding the strength of trade unions.</li> </ul>

<sup>43</sup> Tata Institute for Social Sciences (2019) Decent Work for Tea Plantation Workers in Assam: Constraints, Challenges and Prospects.

<sup>44</sup> Expert interview, conducted 28 October 2020.

<sup>45</sup> Colombia Law School. (2014). The More Things Change: The World Bank, Tata, and Enduring Abuses on India’s Tea Plantations. Available online at: [https://web.law.columbia.edu/sites/default/files/microsites/human-rights-institute/files/tea\\_report\\_final\\_draft-smallpdf.pdf](https://web.law.columbia.edu/sites/default/files/microsites/human-rights-institute/files/tea_report_final_draft-smallpdf.pdf)

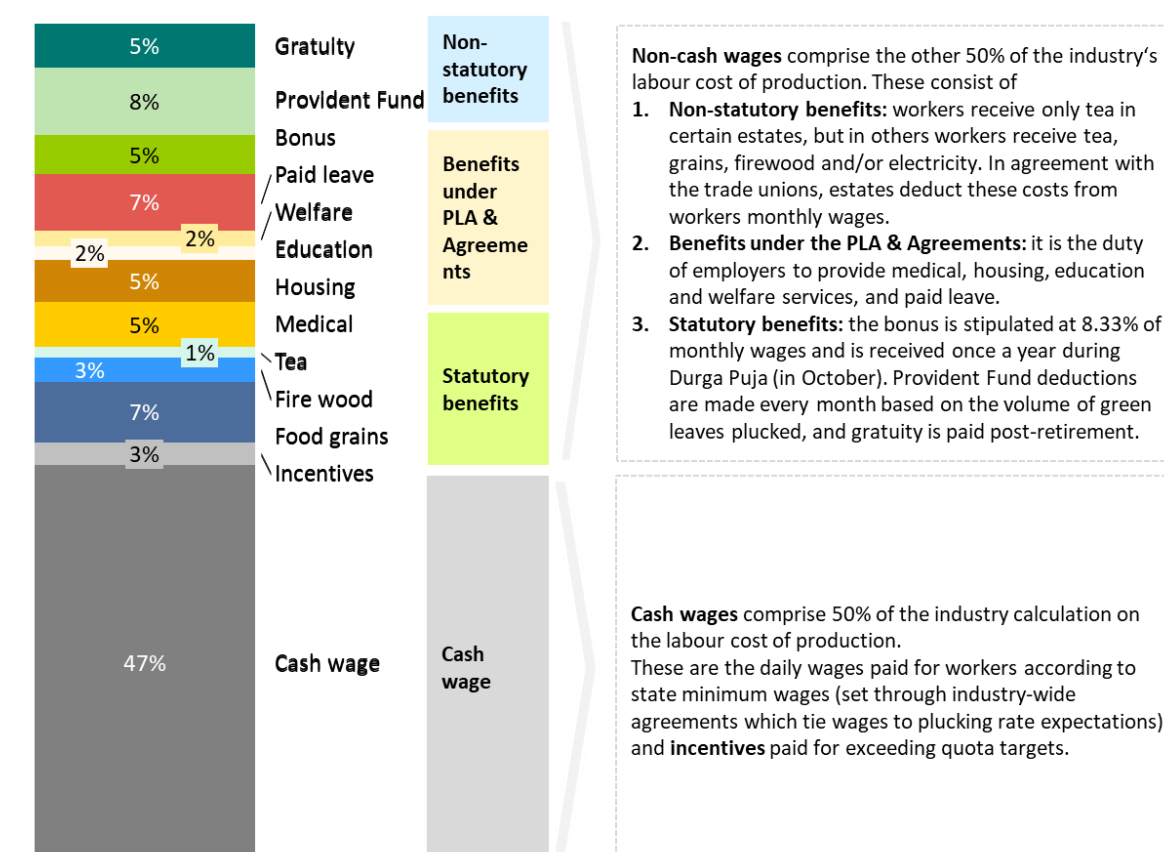
<sup>46</sup> India Tea Association, letter in response to Oxfam India, sent October 2019

## 5.2 Labour market drivers affecting working conditions in the Indian tea sector

The issue that is important to tackle in the Indian tea sector is the hiring of temporary workers under equal conditions, which is a result of the pressure on employers to minimise labour costs. Amending this disparity in costs requires closing the cost gap by changing the incentive structure to hire temporary workers. This requires both regulatory reforms to ensure temporary workers receive equivalent protections as well as market conditions that give producers a sustainable business case to comply.

The wage structures associated with permanent and temporary workers differ, and this has key implications on the incentive structure for employers. Employers in the tea sector are increasingly relying on low cost temporary (casual) workers. On plantations, the share of resident workers is decreasing in favour of casual workers, with an estimated 50% of workers being hired as casual workers in the sector. Figure 26 shows a breakdown of industry costs calculations for hired labour. 47% of total labour costs comprise of cash wages which is uniform between permanent and temporary workers. The other 53% of the labour cost is for non-cash benefits, which are, for the most part, provided more to permanent workers than temporary workers, according to some studies<sup>47</sup>. There is thus a cost saving for employers hiring temporary workers.

Figure 26 Industry calculation of labour costs (based on Assam region)



Source: Tata Institute of Social Sciences (2019).

However, beyond closing the gap between permanent and temporary workers, there are issues related to the quality of non-cash benefits provided to permanent workers. 20% of the industry cost of labour protection is spent on the social provisions mandated under the PLA (see Figure 26). These non-wage benefits are justified as compensation on the basis that they reduce the burden for workers to spend on basic provisions. However, this is often not sufficient to meet workers' necessities. The value of non-cash benefits can be analysed based on the

<sup>47</sup> Tata Institute of Social Sciences (2019)

quality of services provided. A study from Assam shows that temporary workers spend a comparatively higher amount of their income on basic provisions. However, it also shows that permanent workers spend on categories that are supposed to be provided under the PLA, such as medical (5%), housing (5%), fuel (5%) and education (4%). Similarly, data on worker bonus expenditures shows that both temporary and permanent workers use their bonuses to cover basic necessities, including food purchases (61%), clothing (80%), and education (29%).

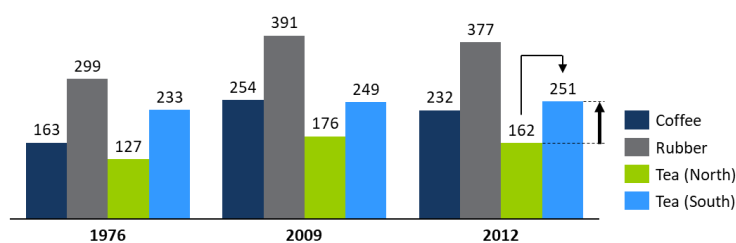
**In the Indian tea sector, there is a problem associated with labour shortages both from absenteeism and insufficient labour supply, but there are barriers to this being a mechanism to help drive up wages.** Absenteeism is a major problem in Indian tea production. A key reason for absenteeism is that workers take up earning opportunities outside of tea to supplement low wages.<sup>48</sup> However, employers are currently limited in their mitigation options. Mechanisation is a tool to reduce labour dependency, but its uptake is currently limited in India due to lack of skills, affordability and the lower quality of mechanized plucking. There is also a lack of alternative work opportunities for youth which means that workers do not have strong bargaining power to improve wages at present.

### 5.3 Enabling environment drivers affecting working conditions in the Indian tea sector

#### Wages in the tea sector have fallen behind other sectors.

India has a complex minimum wage system with an estimated 1,709 different rates across India. India's national floor-level minimum wage (NFLMW) is non-binding, and states have the right to fix and revise wages. Although nominal and real wages have increased over time in India, wage levels in tea have not kept pace with other plantation sectors, while divergences between tea workers across India have increased (see Figure 27).

Figure 27 Comparison of real average daily wages across Indian plantation sectors in different decades (INR/day)

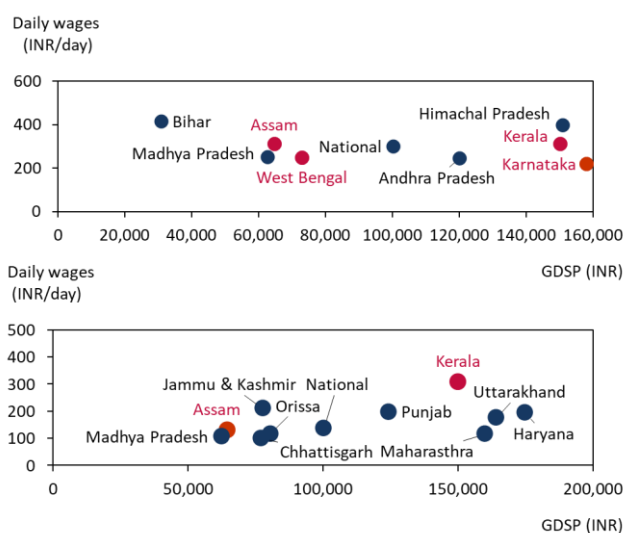


Source: ILO (2018)

#### Discrepancy in wages can only partially be explained by the level of state economic development.

As shown in Figure 28, while there is a moderate correlation between states with higher economic development and higher wages for workers, there is considerable variation. Despite low growth, some states have witnessed growth in wages. Bihar, for example, has one of the lowest per capita incomes but pays the highest state daily wages for permanent workers; while Maharashtra has high levels of economic development but pays rural temporary workers among the lowest wages.

Figure 28 State daily wages for rural permanent (graph 1) and temporary (graph 2) workers by gross domestic state product



Source: Based on data from ILO (2018)

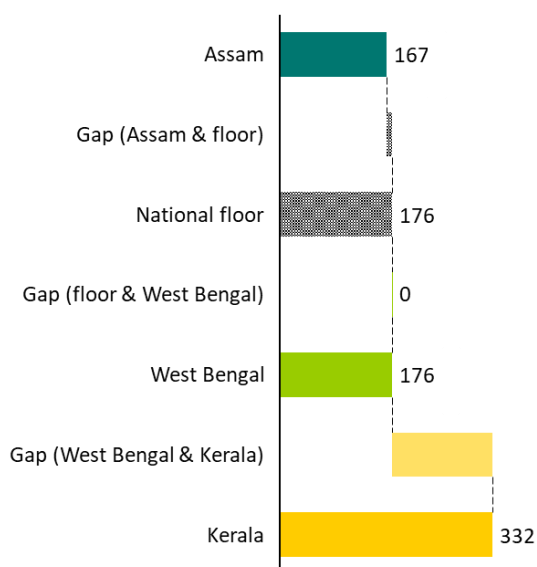
#### As differences in economic growth performance are only partial explanations of wage levels, institutional factors such as minimum wage policies and wage setting mechanisms play an important role in determining wages for workers.

States with more representative and diverse numbers of unions have been able to structurally improve worker wages and conditions in India's tea sector. As shown in Figure 29, Southern tea producing states with

<sup>48</sup> ILO (2018). Improving Conditions in Tea Plantations in Assam. Market Systems Action Research. Available online at: [https://www.ilo.org/wcmsp5/groups/public/---ed\\_emp/---emp\\_ent/---ifp\\_seed/documents/publication/wcms\\_619601.pdf](https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_619601.pdf)

relatively stronger institutional environment have significantly higher wages than those in India's Northern tea producing states<sup>49</sup>. This shows the importance of social dialogue and worker representation as a mechanism to ensure improvements in working conditions. Nevertheless, even workers in Southern states have struggled with deadlocked negotiations in their efforts to raise wages. The institutional environment is a necessary but not sufficient driver of wage improvements in the tea sector.

Figure 29 Daily wages (INR) and the institutional environment across key tea producing regions in India



In **Assam**, the tea worker minimum wage is lower than the national floor level minimum wage (NFLMW), state minimum wage for unskilled workers in all 'scheduled employments' and the lowest among all tea producing regions. Although plantation workers are charged union dues every month, many workers are not aware of their membership. There is a monopoly of one union—the Assam Chah Mazdoor Sangha (ACMS)—which is discredited by the global union of plantations for being unrepresentative, implementing management policy and

In **West Bengal**, tea worker wages are the same on average as the NFLMW. There is a fragmented landscape with 22 active unions. However, in Darjeeling, the DTDPLU is the sole union on 70 out of 87 plantations. Recent years have seen shifting dynamics within plantations with positive developments given the organizational power of DTDPLU. However, the DTDPLU is still reported to have weak negotiating power as despite high unionization, it participates in group negotiations with 22 regional unions.

In **Kerala**, wage rates are much higher than the NFLMW as well as the state minimum wage. Unlike the Northern states, state minimum wages are mandated by the state and adjusted for inflation twice a year. In Kerala, there is a high rate of unionisation. There are 3 main trade unions (AITUC, INTUC and CITU) as well as UPASI—South India's plantation union. However, despite a stronger institutional environment, power imbalances have resulted in deadlocked negotiations and debates among workers within their own trade unions.

**Particularly in the North, working conditions are limited by compliance with legal minimums; several wage benchmarks in the tea sector suggest these are too low to enable workers to reach a decent standard of living.**

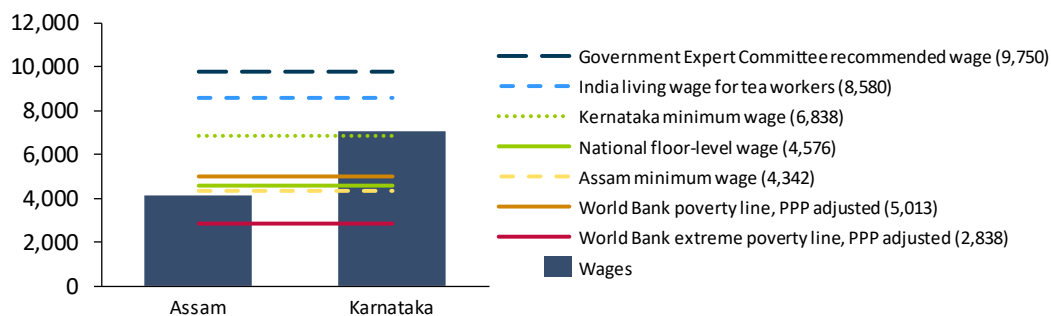
Alongside the national floor wage minimum wage and state minimum wages, several wage benchmarks have been calculated in the Indian tea sector to determine what may constitute a living wage. Data shows a gap between current wages and all these benchmarks. For example, the wage benchmark set by a Government-appointed Expert Committee in 2019 as input for the Central Advisory Board on Minimum Wages is 9,750 INR/month<sup>50</sup> against a far lower national floor level minimum wage. It should be noted that these comparisons

<sup>49</sup> The wages of tea garden workers were decided at a bipartite level between CCPA (Consultative Committee of Plantation Associations), a management unit and ACMS (Assam Chah Mazdoor Sangha) for the Brahmaputra Valley and between CCPA and BCMS (Barak Chah Mazdoor Sangha) for the Barak Valley. It is to be noted that the memorandum of settlement provided the rate as Rs. 137 for Brahmaputra Valley. The Government of Assam in 3rd July, 2018 vide a notification increased this rate by an interim amount of Rs. 30 making the total wage at Rs. 167. Similarly a bipartite MoS provided the wage rate at Rs. 115 for Barak Valley and the above Govt. notification increased it by Rs. 30 making the total wage amount at Rs. 145.

<sup>50</sup> Ministry of Labour and Employment, Government of India. (2019). Available online at: [https://labour.gov.in/sites/default/files/Committee\\_on\\_Determination\\_of\\_Methodology.pdf](https://labour.gov.in/sites/default/files/Committee_on_Determination_of_Methodology.pdf)

do not always fully account for the in-kind benefits that workers receive, as defined by the Plantation Labour Act, which may cover some of the costs for a decent living.

Figure 30 India wage comparison with various benchmarks (INR/month/FTE)



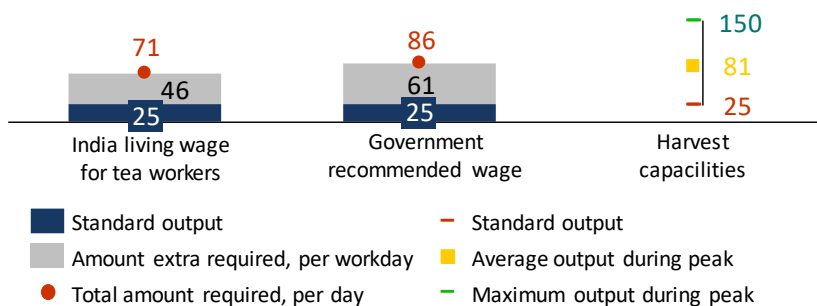
Source: Data from India Tea Board (2020); Ministry of Labour (2019)

**Notwithstanding the above, the institutional environment in India will be subject to change in upcoming years.**

In 2020, the Indian parliament approved a new code of wages as part of its wider legislative reforms. The new laws have integrated the Plantations Labour Act (PLA) of 1951, which means the PLA will be repealed once the new laws enter into force. The new code has put in-kind benefits under the definition of wages and limited to a cap of 15% of total wages. It may arguably reduce the cost-burden for plantation workers, reduce the currently existing double social service provision, and address the different treatment of permanent and temporary workers.<sup>51</sup>

**To stimulate improvements in wages, stronger market incentives are needed to demand wage improvements that cover all types of workers in the tea sector.** Strengthening workers' bargaining power is more likely to happen when there is a strong commitment across the supply chain to improving wages. Change requires all

Figure 31 Daily total and over-kilos required to reach higher wage levels



Source: Tata Institute for Social Sciences (2018); India Tea Board (2020)

supply chain stakeholders having the incentives and business case to absorb these increases. At present, producers have squeezed margins, and without structural reform, they are limited in what they can do to effect these changes. At present, there is no widespread market demand for wage improvements, given price consciousness in major growth markets, willingness to pay for quality over sustainability, and reliance on certification where sustainability demands do exist. Although worker livelihoods should not be conditional on market rewards, the most realistic and actionable way to strengthen their associational power is to make wage improvements a necessity for market success. Market demand for change would be a strong catalyst for enabling environment change to support improvement of working conditions.

#### 5.4 Market level drivers affecting working conditions in the Indian tea sector

**Market actors are key to trigger wage improvements given current dynamics in the Indian tea sector.** There is low absorption capacity for improved wages at the production level, leading to low wage and often poor working conditions. Workers lack bargaining power to change these conditions because of the labour market and enabling environment forces, lack of alternative employment opportunities, and strong social dialogue. As explored in the

<sup>51</sup> Subject matter expert, interview, conducted 13 Nov 2020, and Economic Times, 2020, <https://economictimes.indiatimes.com/news/economy/agriculture/govt-to-repeal-plantation-labour-act-tea-industry-concerned/articleshow/73586167.cms?from=mdr>

previous section, market-level drivers of improving working conditions should be the effect of increased value appropriation or instilling good sourcing practices, including committing to certification.

**In terms of enhancing productivity as a solution, the average worker in Assam will not be able to reach the monthly government-recommended wage (9,750 INR/month/FTE), even in peak season.** Indeed, a worker



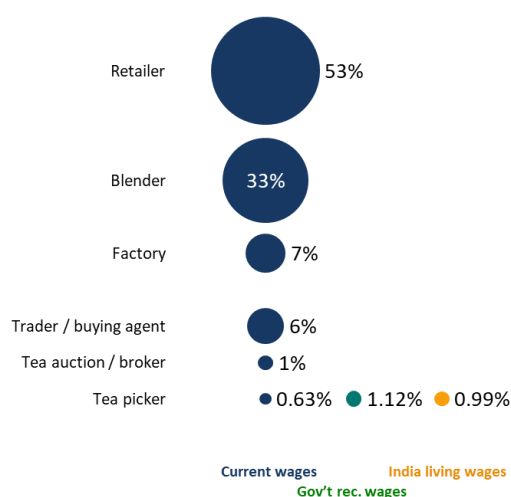
would need to pick 86 kg a day (61 “over-kilos”, kilos above the daily standard of 25 kg)<sup>52</sup> to receive sufficient productivity bonuses to reach the government recommended wage. This can be compared to the average amount harvested during peak season at 81 kg (5 over-kilos), with the highest feasible amount recorded being 150 kg. These amounts seem impossible to reach for the average worker throughout the year, therefore the wage gap is enhanced outside peak season. In order to reach the wage benchmarks presented in Figure 30, workers need to be paid a higher standard cash wage.

**While wage improvements cannot be borne by plantation companies or realised through improved worker efficiency alone, retailers can absorb higher wages of tea workers with marginal price increases.** Plantation employers are facing a squeeze on margins. The significant wage gap makes it both unattainable and undesirable for workers to make up this gap through incentivization payments. For retailers to absorb the costs of wage improvements, paying the government expert committee recommended wages would require 0.008 GBP/kg retailed tea extra of the final retail price — less than a pence — to be transferred to workers.

However, when devising such a system around absorption of wage improvements, one should be careful with

*Table 3 Value distribution implications along the supply chain under wage improvement scenarios*

*Figure 32 Average share of price margins along the tea supply chain in Assam*



Source: Tata Institute for Social Sciences (2018); India Tea Board (2020); Pinedo Caro (2020) [unpublished]

the potential effects of margin escalation. Margin escalation occurs when the higher price paid to employers/companies results in an excessively higher price for buyers or consumers further downstream the value chain. Margins can especially escalate when employers/companies do not pass on the *absolute* price/wage differential but a percentage. This has, for example, been the case with Fairtrade Premiums paid to cocoa products. Therefore, should a system be set up in which retailers absorb the costs of wage improvements, one should take these factors into consideration.<sup>53</sup>

In sum: improving wages and working conditions in the Indian tea sector

**Pricing wage improvements into the value chain is possible with a low impact on the value chain, but actors need a strong business case to do so.** Given the

Wage benchmark level (INR/month/FTE)	Share of retail price	Increased share of retail price	Increase equivalent to GBP/kg tea
National floor-level wage (4,576 INR) <sup>54</sup>	0.63%	0.00%	N/A
India living wage for tea workers (8,580 INR) <sup>55</sup>	1.0%	0.36%	£ 0.006
Government expert committee recommended wage (9,750 INR) <sup>56</sup>	1.1%	0.50%	£ 0.008

<sup>52</sup> The standard output is 25 kg and bonuses are paid for any over-kilos plucked (2 INR per kg for up to 30 kg daily and 2.30 INR per kg for plucking up to 35 kg).

<sup>54</sup> Trading-economics (2019), <https://tradingeconomics.com/india/minimum-wages#:~:text=In%20the%20long%2Dterm%2C%20the,according%20to%20our%20econometric%20models,> and India Briefing (2020), <https://www.india-briefing.com/news/guide-minimum-wage-india-2021-19406.html/>

<sup>55</sup> Department of Economics of the Indian Institute of Technology (2014)

<sup>56</sup> Report of the Expert Committee on Determining the Methodology for Fixing the National Minimum Wage (2019, 24), [https://labour.gov.in/sites/default/files/Committee\\_on\\_Determination\\_of\\_Methodology.pdf](https://labour.gov.in/sites/default/files/Committee_on_Determination_of_Methodology.pdf)

downward pressure on producers' business case, downstream actors have the most bandwidth to pay for the costs of wage improvements. However, the solution requires further cost- and risk-sharing in the supply chain around wages on multiple fronts. This is required to ensure that producers pass on price increases to workers, the labour market enhances bargaining power for workers, the enabling environment sets a new floor on working conditions, and the market rewards sustainable behaviour.

In sum: the potential for driving wage and working conditions improvements in the tea sector

The conclusions from this section are the following:

- 1. Producers are facing pressure on their business case.** This has resulted in large-scale tea plantations to cut costs, hiring more temporary labour at the expense of permanent labourers, and compensating on the quality of in-kind benefits. The pressure on costs is further exacerbated by the growing number of smallholder tea farmers in India, who account for majority of supply growth, thereby reducing tea prices even further. Workers on the informal, smallholder tea farms operate outside the Indian legal system. They are therefore not protected by the Plantation Labour Act, and pressure on wages and labour conditions may be even stronger here. Although labour scarcity is an issue in the sector, the lack of upskilling and alternative employment opportunities constrain potential positive consequences for workers.
- 2. Minimum wages are generally complied within the sector, but they are the result of wage-setting that has been done without strong social dialogue —particularly in Northern tea producing states. Instead, they have been the function of the current PLA structure.** Comparison of minimum wages within India as well as to several wage benchmarks suggest a need for higher wages. Comparison of Northern and Southern tea producing states show there is significant potential for social dialogue to drive positive improvements if the current PLA was revised.
- 3. There is limited capacity to absorb wage improvement costs through worker efficiency or single-actor interventions in the supply chain.** The quotas which tea workers are subject to are already high, making improved worker efficiency an insufficient solution to wage increases without deeper reform, such as mechanisation. Few powerful actors at the downstream end of the supply chain compete to set retail prices. Although buyers have the potential to sell value-added products and indirectly improve wages by transferring a greater share of price increases to workers, one buyer acting alone cannot exert structural change.
- 4. The most potential for triggering wage improvements is by blenders and retailers absorbing the marginal costs that are needed to internalise the social costs of sustainable production.** A marginal increase in supply chain costs are required to do so. The important levers for translating this potential into reality are sector-wide collaboration to pay for wage improvements and value transfer mechanisms to ensure workers receive higher wages.

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<sup>56</sup> Report of the Expert Committee on Determining the Methodology for Fixing the National Minimum Wage (2019, 24), [https://labour.gov.in/sites/default/files/Committee\\_on\\_Determination\\_of\\_Methodology.pdf](https://labour.gov.in/sites/default/files/Committee_on_Determination_of_Methodology.pdf)