

Sustainability Issues in the Tea Sector

A Comparative Analysis of
Six Leading Producing Countries



Sanne van der Wal

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Tea is the second most popular drink in the world, after water. For a number of developing countries it is an important commodity in terms of jobs and export earnings. Tea production is labour intensive and the industry provides jobs in remote rural areas. Millions of livelihoods around the world depend on tea picking and processing. However, as with many other agricultural commodities, real primary producer prices have fallen dramatically over the last three decades. Low prices are affecting the sustainability of the tea sector, with working conditions and the livelihoods of plantation workers and small-scale farmers in tea producing countries under pressure. Meanwhile, tea trade and distribution is dominated by a few international companies that benefit from stable retail prices.

In this report, SOMO is presenting for the first time ever a more detailed and comparative analysis on social, economic and ecological conditions in the tea sector in 6 of the most important tea-producing countries: India, Sri Lanka, Vietnam, Indonesia, Kenya and Malawi. The research is based on an extensive field study of civil society organisations in these countries, thus providing a unique perspective on this sector. The report also presents an overview of trade, production and stakeholders in international tea supply chains, and makes recommendations to various stakeholders for improving conditions, particularly for plantation workers and tea smallholders the most vulnerable in the tea industry.

The study found that working conditions for pickers are often poor, with low wages, low job and income security, discrimination along ethnic and gender lines, lack of protective gear and inadequate basic facilities such as housing and sometimes even drinking water and food. At the same time there is no possibility for tea plantation workers to improve working conditions because trade unions are ineffective or absent and/or are not representing them because most of them are temporary workers. While tea production by smallholders is growing worldwide, their situation is often problematic because the prices they are paid for fresh tea leaves tend to be below the cost of production, among other factors. The sector's environmental footprint is considerable, with reduced biodiversity as the result of habitat conversion, high energy consumption (mainly using logged timber) and a high application of pesticides in some countries.



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Colophon

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Acronyms

ADB	Asian Development Bank
ABF	Associated British Foods PLC
BLF	Bought Leaf Factory
BSCI	Business Social Compliance Initiative
CIS	Commonwealth of Independent States
COC	Code of conduct
CPDA	Christian Partners Development Agency
CSO	Central Statistical Organisation
CSR	Corporate Social Responsibility
CTC	Cut, Torn and Curl
CTTA	Calcutta Tea Traders Association
DTI	Dutch Tea Initiative
DFID	Department for International Development (UK)
EATTA	East African Tea Traders Association
EIA	Environmental Impact Assessment
ETI	Ethical Trade Initiative
ETP	Ethical Tea Partnership
FAO	Food and Agriculture Organization of the United Nations
FDI	Foreign Direct Investment
FLO	Fairtrade Labelling Organizations International
HACCP	Hazard Analysis and Critical Control Points
HUL	Hindustan Lever Limited
IFAT	International Fair Trade Association
IFOAM	International Federation of Organic Agriculture Movements
ISO	International Organization for Standardization
KDHP	Kannan Devan Hills Plantations Company Private limited
KTDA	Kenya Tea Development Agency
KTGA	Kenya Tea Growers Association
KUSSTO	Kenya Union of Small-scale Tea Owners
KVK	Krshi Vigyan Kendra
IPEC	International Programme on the Elimination of Child Labour
IPM	Integrated Pest Management
ISO	International Organization for Standardization
ITA	Indian Tea Association
ITC	International Tea Committee
MARD	Ministry of Agriculture and Rural Development (Vietnam)
MATECO	Malawi Tea Company
MNCs	Multinational Companies
MTA	Mombasa Tea Auction
NEMA	National Environment Management Authority

PDS	Peerumade Development Society
PTPN	State plantation corporation in Indonesia
RA	Rainforest Alliance
SMEs	Small and Medium Entreprises
STA	Smallholder Tea Authority (Malawi)
STECO	Smallholder Tea Company (Malawi)
STGT	Smallholder Tea Growers Trust (Malawi)
TBK	Tea Board Kenya
TCC	Tea Collection Centres
TCC	Tropical Commodity Coalition
TMCO	Tea Marketing Control Order
TSHDA	Tea Small Holdings Development Authority
UPASI	United Tea Planters Associations of South India
VINATEA	The Vietnam National Tea Corporation

Executive summary

To date detailed and recent information on social, ecological and economic conditions in tea sector worldwide is scant or lacking. Indeed, it became clear from dialogue between Dutch NGOs aiming to improve conditions in tea supply chains and tea packers in the Netherlands that there is little common understanding on the outstanding sustainability issues in this sector.

This study set out to identify critical issues and to assess social, economic and ecological conditions in the tea sector in six leading producing countries from the perspective of sustainable development and poverty eradication. Case studies were conducted in Vietnam, Sri Lanka, India, Indonesia, Kenya and Malawi. The study aims to contribute to a more sustainable tea sector by presenting a comparative analysis of such issues and conditions and by making recommendations to different stakeholders.

Sector profile

Global tea production reached 3.5 million tons in 2006. While tea is produced in more than 35 countries, only a handful - China, India, Sri Lanka and Kenya - are responsible for almost three-quarters of production. More than half of the world's tea is produced in China and India alone.

Worldwide, the sector provides employment to millions of people. Tea production and export is a vital part of the economy for producing countries in terms of employment in remote and poor rural areas. However, for countries such as Kenya and Sri Lanka which export most of the tea they produce, and which together control 40 percent of world exports, tea trade is also important within the economy as a whole.

Almost 56 percent of all tea produced worldwide is consumed locally. And while world tea production doubled over the past 3 decades, demand is lagging behind, creating a situation of oversupply.

Social issues

Working conditions are often generally poor. The majority of workers have no job security but are trapped in low-paid temporary labour with little or no prospects of finding a better job in the region. Being a seasonal labourer means no income when you are ill, pregnant or otherwise unfit to work. It often also means less pay and fewer social benefits such as medical care, housing, education and pensions. Yet

there are clear indications that their numbers are rising mostly because of increasing smallholder production that relies on family and temporary labour only.

Wages for plantation workers, the majority of the workforce in this sector, are generally low. Wages for workers on large plantations were found to be mostly above or at minimum-wage levels in Sri Lanka, Kenya, Malawi and India. In Indonesia, however, temporary/seasonal workers on large plantations are often paid around or below minimum-wage levels. And because piece rates are lower, workers on smallholder tea gardens are often paid less than those on large estates, in all the countries studied (except Vietnam). Because piece rates are also common for seasonal workers on large plantations in Malawi, Indonesia and Kenya (also for permanent workers) income fluctuates with the season, strength and aptitude. Minimum wage levels are often set too low in the countries studied and are not sufficient to support a worker and his/her family.

Independent trade unions are non-existent, corrupt or ineffective, which means that workers have little or no power to bargain collectively and/or otherwise to defend their rights except to some extent in Sri Lanka and India. Because temporary workers are not unionised, they are not represented and have little possibility to change their working conditions. In addition, increasing casualisation of work also means weaker unions.

Tea picking is hard work and workers often have to protect themselves from work-related injuries at their own expense. Pesticides are often applied without proper protection. Back pains, fractures from falling and respiratory illnesses are common, while medical care is not always adequate. In Sri Lanka and India, malnutrition on tea estates is still a big problem which leads to all kinds of medical problems including in some cases infant death and starvation. Many plantation communities in these countries have inadequate access to basic facilities such as drinking water, sanitation and electricity.

Discrimination along both gender and ethnic lines is widespread. Women are subject to sexual harassment in Kenya and Malawi and have fewer or no possibilities for promotion in most of the countries studied. The housing situation is often bleak, especially in Sri Lanka, Kenya and Malawi. Houses for plantation workers tend to be overcrowded in Kenya and are sometimes in bad condition (eg. leaking roofs and in need of repainting). There are indications that child labour is being addressed on the large estates in Malawi and Kenya. While the literature claims that it is endemic, it could not be observed directly during the research and was reported only on smallholder farms in Malawi. The current situation regarding the extent of child labour in the countries studied therefore remains uncertain.

Environmental issues

The environmental impacts of the industry are considerable. There is significant biodiversity loss when high biodiversity areas such as forests are converted to tea plantations. Along with habitat conversion, logging for firewood to process tea, in particular, has caused extensive deforestation in countries such as Kenya, Sri Lanka, Malawi and India. Energy consumption for tea processing is also high which is aggravated by often inefficient and outdated machinery. In some countries, such as India, Sri Lanka and Vietnam, abundant application of pesticides is also negatively affecting the local and wider environment (water pollution, reduced soil biodiversity).

Economic issues

Tea is “ready to drink” when exported by producing countries, but the downstream stages such as blending, packing and marketing are the most profitable. This part of the value chain is controlled by a handful of multinational tea packers and brokers, which as a result can considerably influence world prices. While real prices for tea on the shop shelves remained stable, average real auction prices in the years 2000-2005 were roughly half of those in the eighties. This has led to uneven value distribution along the supply chain.

Smallholders

While tea is traditionally a product from large plantations, also known as estates, smallholders are becoming increasingly important in the industry as well. In Sri Lanka and Kenya for example they are responsible for about 65 and 62 percent of total production respectively. In these countries they have received considerable government support. The cultivation of tea is attractive to small farmers because tea provides work and income throughout the year, requires relatively little investment, and the risk of complete crop failure is small. Small farmers may sell their green leaves to collectors, plantations or processors. Problematic issues for smallholders include low farm gate prices, poor extension services, limited market channels, poor access to credit and low level of farmer organisation. In general workers on small-scale farms have lower wages and less benefits than workers on large plantations.

Forces of hindrance and advancement

Producers, smallholders and other stakeholders in the tea sector in the countries under review indicated that the costs of production have been clearly rising. They pointed mostly to higher costs for labour, fuel and electricity. Other factors raising production costs that were identified in the case studies include mismanagement, age

of tea bushes, high overhead costs, bad agricultural practices, low labour productivity, climate change and dilapidated infrastructure leading higher transportation costs.

As a result of factors such as increasing primary production costs, falling prices and globalisation that has facilitated increased trade and enhanced competition between tea exporting countries, the tea sector is seeing restructuring take place, especially in India with estates being abandoned and closed, which often has dire consequences for plantation communities. The plantation model, which in India and Sri Lanka is governed by strict plantation labour laws, is considered burdensome in terms of the costs of production. The costs of production on smallholder tea farms have remained relatively lower than on the estates primarily because there are many hidden family labour costs, and also because the smallholders do not have to bear any social costs. Consequentially the smallholder production model has become more attractive and important in these and in the other tea producing countries reviewed (Malawi excepted)¹. The growth of smallholder tea production worldwide could present sustainability challenges precisely because regulation in this subsector is less strict and farming practices may be less environmentally friendly. But also, in the longer term, as a result of the difficulty of including these producers in export-oriented supply chains with increasing quality, social and environmental demands. This is because smallholder models also present challenges in terms of lower traceability, quality and continuous supply.

Along with the effects of restructuring and changing modes of production capturing value added in tea supply chains, increasing quality and dealing with food safety standards such as Hazard Analysis Critical Control Point (HACCP) and Maximum Residue Levels (MRL) present a challenge in varying degrees for the tea producing countries studied. Because the implementation of such private and public standards that are mostly set by Western-governments, can raise costs without necessarily raising income or increasing market share, they are often seen as non-tariff barriers in producing countries. Especially Sri Lanka but also India and Kenya have been more successful than the other countries reviewed in capturing value added by among other things exporting tea in tea bags, tea in packets and instant tea.

Corporate Social Responsibility (CSR) has not received much attention to date in the tea sector, either in producing or consuming countries, when compared to the banana or coffee sectors, for instance. In the case studies it was found that at the producing country level, more advanced CSR policies and practices have remained confined to a few big plantation companies. And awareness among other industry actors and stakeholders, such as workers, unions and smallholders, of the benefits and the concept of CSR is low. However it is also clear that CSR is increasingly becoming a focal point in the industry. For instance, while there are currently a number of CSR

¹ In this country there were no figures or indications available for changes in the number of tea smallholders

initiatives active in the tea sector, including the Ethical Tea Partnership (ETP), Rainforest Alliance (RA), Fair Trade (FLO and IFAT) and Organic (IFOAM), other well-known CSR initiatives such as Utz Certified, SAI (SA 8000), BSCI and GlobalGAP (formerly EurepGAP) have plans to expand their services into the tea sector and are exploring ways to do so through pilot schemes and negotiations with private parties. Unilever, the biggest tea company worldwide, also announced in 2007 that by 2015 all of its Lipton brand tea will be (RA) certified.

1 Introduction

Tea is the second most popular drink in the world, after water. For a number of developing countries it is also an important commodity in terms of jobs and export earnings. Tea production is labour intensive and the industry provides jobs in remote rural areas. Millions of livelihoods around the world depend on the production of tea. For a number of tea exporting countries, including world champion exporters Kenya and Sri Lanka, tea is a critical source of foreign income. However, as with many commodities, producer prices have fallen dramatically in recent years. If corrected for inflation, world market prices for tea in the period from 2000 to 2005 were half what they were in the 1980s. And as production costs have not been falling at the same rate and have increased lately, this has obviously put pressure on profitability in the industry. There is evidence that this in turn has negatively affected working conditions and the livelihoods of plantation workers and small-scale farmers in tea producing countries.

The most important cause for decreasing prices is a persistent situation of oversupply on the international market. There is fierce competition between a number of producing countries for market share, by expanding production. Another reason is uneven value distribution. The tea supply chain tends to be complex, with many actors, producers, collectors, traders/brokers and packers involved. However, the buying and retailing end of the market is dominated by a handful of multinational companies that are still profiting from stable retail prices. In contrast with other agricultural commodities such as coffee, cocoa, soy, oil palm or fruits such as bananas, pressing issues from a sustainable development and poverty eradication perspective have received much less attention. Along with other stakeholders such as producers, officials and consumers, multinational tea packers (companies that sell often branded tea blends in bags or packets to consumers) have a clear responsibility to address these issues, and their strong position in the market gives them the opportunity to do so. This study therefore has a special focus on the concept of corporate accountability or corporate social responsibility (CSR).

Background

Falling producer prices, that resulted in a deep crisis in India in particular, sparked the formation in 2004 of the Dutch Tea Initiative (DTI) a coalition of Dutch NGOs that aims to improve social, ecological and economic conditions in the tea sector. In 2008 the DTI has merged with coalitions centred around the coffee and cocoa sector and is now called the Tropical Commodity Coalition (TCC)². To do this effectively, detailed

information is needed on conditions in the supply chains in the various countries. This would make it possible to present stakeholders such as multinational tea packers, intergovernmental and other policy makers and consumers clear evidence of problematic conditions related to aspects such as falling producer prices. It was felt that presenting such information and detailed analyses of influencing factors could bring about change for the better in the tea supply chains.

Research by the Centre for Research on Multinational Corporations (SOMO)³ for the TCC indicated that detailed information on the social, ecological and economic conditions in the supply chains in the most important tea-producing countries is scant or lacking. Indeed, it became clear from dialogue between the TCC and tea packers in the Netherlands, where the research report was presented, that companies are also not always well informed about the critical and potentially critical issues in their supply chains.

Aims

As a TCC member and as an organization with a great deal of experience with similar research in other sectors, SOMO took the initiative to coordinate, facilitate and conduct a global tea research programme together with research partners in most of the major tea producing countries: Indonesia, India, Sri Lanka, Vietnam, Kenya and Malawi. One important aspect of this research (and advocacy) project is that, as much as possible, the same research framework is applied to the aforementioned tea-producing countries. This approach allowed for a comprehensive comparison of the findings of various case studies. Because the study was carried out in the most important tea producing countries, focussing on both smallholder and large-scale production for export and domestic consumption, it is possible to pinpoint most of the critical issues that are relevant to the sector both internationally and locally and to address and make recommendations with regard to addressing these issues accordingly.

This comparative international report is the result of this venture, but not the end. We hope this research will enable positive change in the sector by raising awareness, making recommendations and facilitating multi-stakeholder dialogue and loose national and international networks of civil society organisations in both producing and consuming countries whose capacity has been built in the process. A similar case study in China will be conducted this year. Others may follow later. Comments and reactions are welcomed by the author.

² DTI members included Oxfam Novib, India Committee Netherlands, FairFood, BothEnds and SOMO. The Tropical Commodity Coalition is a broader group of Dutch NGOs that also include HIVOS, Solidaridad, Oikos, FNV and CNV.

³ SOMO, Profound & India Committee of the Netherlands, *Sustainabilitea*, March 2006, < http://www.somo.nl/html/paginas/pdf/Sustainabilitea_2006_NL.pdf>

Methodology

The international comparative tea research project started after ample consultation with various stakeholders from tea-producing countries, including at two international workshops, which brought together various stakeholders in Darjeeling (organised by SOMO and Partners in Change in September 2006) and Amsterdam (organised by SOMO and the TCC (DTI) in Amsterdam July 2007). This consultation, together with a pilot study in Indonesia conducted from June to November 2006, led to the development of a research framework that allows for detailed analyses and comparison of findings across countries.

Studies were conducted in the 6 of the most important tea producing countries: Indonesia, India, Sri Lanka, Vietnam, Kenya and Malawi. The research consisted of desk research and extensive field research that was carried out mostly in April and May 2007. After the findings were presented and discussed in workshops with national stakeholders, most of the case studies were wrapped up in March - April 2008. The reports from these country studies are published by the organisations that conducted the research in their countries and are publicly available in English. Summaries of each of the case studies were drafted by the steering group and can be found in the annexes.

The research was coordinated and guided by the steering group that was set up for this project, consisting of consultants and researchers from SOMO (Sanne van der Wal and Joris Oldenzijl), FAKT (Franziska Krisch) and Partners in Change (Shatadru Chattopadhyay).

The aims of the case study research can be summarised as follows:

- To identify critical issues in the tea sector (production, processing, export, trade and production regulations) from the perspective of sustainable development and poverty eradication
- To assess social, economic and ecological conditions of tea production and trade, and the impacts of the industry on sustainable development and poverty eradication.
- To identify and assess the various CSR initiatives/schemes and quality systems active in the tea industry throughout the value chain, and to analyse the role and responsibility of global tea market players, including identification of key influence points for responsible practices
- To analyse opportunities and bottlenecks for the tea industry (production, processing, (retail) packing) and to make recommendations to various stakeholders on how to improve conditions in the (global) tea supply chain

Each country study focussed on both the national tea sector level and on specific producers in a specific region. At the sector level, in addition to an assessment of production, trade and economic characteristics, an overview was provided of the legal

framework, private sector initiatives and CSOs active at the national level. In the case studies at least, two large estates, two small estates and two tea processing factories and packing/trading companies were sampled and profiled.

As already indicated above, one important aspect of this research project is that it explicitly - though not exclusively - aims to address issues within the global tea supply chain through the notion of corporate social responsibility (CSR). Care was therefore taken to include production units in the sample that supply key multinational tea packers and (their) key international CSR certification schemes.

Interviews were conducted with stakeholders from all important stakeholder groups, from producers to managers and officials. To assess the working and living conditions of the workers in the fields or factories, focus group and individual interviews were conducted for each production unit sampled. These interviews were mostly conducted off-site and without the knowledge or consent of the management, in order to ensure an unbiased impression of these conditions and to gain the trust of the workers without jeopardising their position.

This project is not only about research and advocacy but also about capacity building. Tea is produced in some of the world's poorest countries and regions. More often than not the capacity of civil society in these countries to address issues and promote change through lobbying or other strategic interventions, such as influencing and/or reflecting on CSR business codes and the implementation and verification thereof, is limited. The research partners are all non-governmental organisations, which were selected not only for their research capacity and experience with the sector but also for their interest and their capacity to follow up on the research by working on the recommendations. Be it through their special interest in empowering a specific target group (small farmers), promoting human rights or CSR in general. Their research capacity was also built through research assistance and guidance from the steering group.

Information about SOMO

The report is published by the Centre for Research on Multinational Corporations (SOMO), an independent non-profit research institute that advises non-governmental organisations and trade unions in the Netherlands and worldwide. SOMO researches multinational corporations and their international context. By exposing unfair practices and systems, SOMO seeks to contribute to the struggle against exploitation, poverty and disparity, and to provide means for achieving sustainable economic and social development and a globalisation based on justice.

The objectives of SOMO are:

- Changing through knowledge building: SOMO's research is directed at inducing change. The research and analysis and alternatives SOMO puts forth

contribute to the policy advocacy of NGOs and the policy development of international organisations, government and business.

- Strengthening civil society: SOMO brings fragmented available knowledge together and stimulates and coordinates cooperation between organisations. In addition, SOMO trains local organisations in the South. Policy influence: SOMO organises workshops, public meetings and lobby activities in order to influence government policies. SOMO wants the voice and development needs of the South to be brought to the front of Northern policy making that regulates corporations.
- The research and activities of SOMO focus on: corporations, sectors and supply chains in an international context, Corporate Social Responsibility and international trade and investment.

Funding and acknowledgement

The international comparative tea project was made possible with generous funding from the Netherlands Ministry of Foreign Affairs and co-funding by Oxfam Novib.

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Structure of the report

This report is structured as follows:

- Chapter two: profiles the tea sector with an overview of among others the value chain, world wide production and trade
- Chapter three: will be looking at some of the most pressing social, environmental and economic issues in tea-producing countries
- Chapter four: will be discussing forces of hindrance and advancement for a sustainable tea industry
- Chapter five: presents conclusions and recommendations to various stakeholders

2 Sector profile

2.1 Tea production and processing

Tea comes from an evergreen bush (the *Camellia Sinensis*) which grows at a fairly high altitude. Tea bushes mature for commercial exploitation 5 to 7 years after being planted and can remain productive for over 100 years. Tea grows in tropical and subtropical regions of the world. Tea production originated in Southeast China more than three thousand years ago and spread widely over the world especially in Asia and Africa. First to countries in Asia, such as Vietnam, Japan, Bangladesh and Taiwan. Later, from the 19th century on, tea was introduced by the British in India, Sri Lanka, and by the Dutch in Indonesia. Commercial production in Africa started in former British colonies such as Kenya, Tanzania and Malawi well into the 20th century.

Production of green leaf, the term used for fresh unprocessed tea leaves, is labour intensive. Planting, pruning and most of the picking (plucking) is done manually. In many areas, tea can be picked all year round. The fresh leaves or flushes - "two leaves and a bud" for high quality tea - of the tea bush are plucked and collected into baskets or bags which the pickers, often women, carry on their backs. Full baskets are taken to collection points where they are weighed. The collected tea is then transported rapidly to a nearby processing plant, which in the case of large estates is usually located on the premises. To prevent loss of quality, green leaf must be processed as soon as possible, and in any case within 12 hours after harvesting.

The types of teas are distinguished by the processing they undergo. The two main types are black, or fully fermented tea and green tea which is unfermented. Green tea accounts for only about 27 and 7 percent of world global production and trade respectively while black tea accounts for almost all of the rest⁴. Other types of tea are oolong and post-fermented (Puerh) tea which are produced mainly in China and represent only 6 percent of global production. And there is white tea which is produced in only minute quantities.

Tea processing involves the drying and crushing of leaves. This leads to controlled fermentation (enzymatic oxidation) of the liquor present. There are two main methods of black tea production orthodox and CTC (*crushed*-torn-curved or also referred to as *cut*-torn-curved). Both largely mechanised processes, involve withering (reducing moisture), rolling, oxidation and drying. In the CTC process however leaves are cut and rolled in several, special ways. Both orthodox and CTC teas come in different grades (qualities) that are based on the size of the processed and dried leaves, which

⁴ International Tea Committee (ITC), Annual Bulletin of Statistics 2007 (calculations SOMO)

is determined by their ability to fall through screens of specific meshes. In general CTC grades are more granulated or powder-like in appearance and orthodox tea looks more like twisted flakes or longer leaf (particles). CTC gives a higher 'cuppage' (almost twice) for the same quantity of tea, and therefore a stronger liquor. Orthodox tea is lighter and retains more (distinct) aroma. In green tea production the natural fermentation process is halted by first drying (heating or steaming) the freshly picked leaves before further processing (rolling, drying). Tea quality and price are determined on the basis of liquor, aroma/ flavour and leaf appearance (grades). The processed factory tea (referred to as "made tea" in the industry) is sold in packets and chests.

2.2 Worldwide production, exports and consumption

Table 1: Global tea production and exports in 2006 (in metric tons and as percentage of total)⁵

Country	Production	Share	Export	Share
China	1,028,064	0.29	286,594	0.18
India	955,907	0.27	200,866	0.13
Sri Lanka	310,822	0.09	314,915	0.20
Kenya	310,607	0.09	313,721	0.20
Turkey	142,000	0.04	5,500	0.00
Indonesia	140,049	0.04	95,339	0.06
Vietnam	132,000	0.04	106,000	0.07
Japan	99,500	0.03	1,681	0.00
Argentina	80,000	0.02	70,723	0.04
Bangladesh	53,265	0.02	4,794	0.00
Malawi	45,010	0.01	41,962	0.03
Uganda	36,726	0.01	32,699	0.02
Tanzania	31,348	0.01	24,132	0.02
Iran	20,000	0.01	6,000	0.00
Taiwan	19,345	0.01	1,962	0.00
Other	128,157	0.04	64,920	0.04
Total	3,532,800		1,571,808	

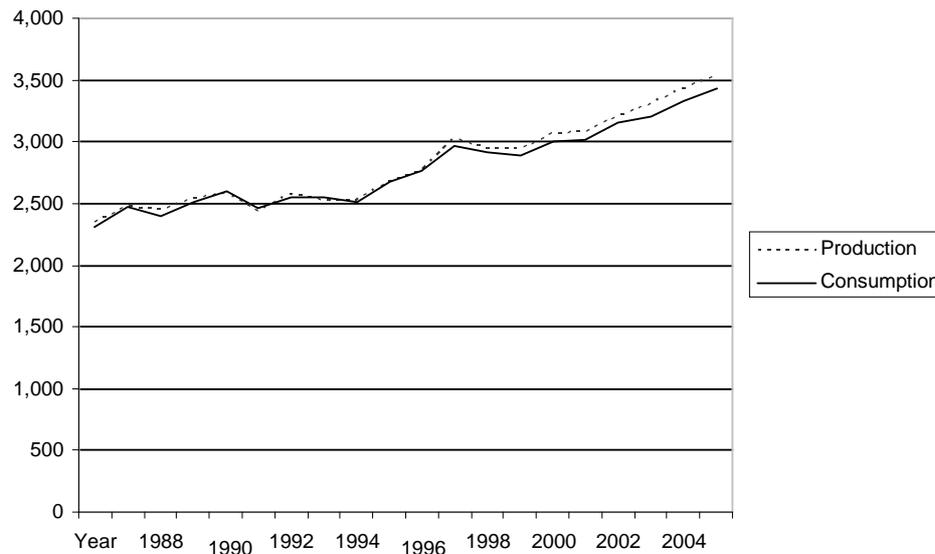
Source: SOMO based on Annual Bulletin of Statistics 2007, International Tea Committee (ITC)

Global tea production reached 3.5 million tons in 2006. While tea is produced in more than 35 countries, only a handful - China, India, Sri Lanka and Kenya - are responsible for almost three-quarters of production. More than half of the world's tea is produced in China and India alone. Other important producers are Turkey, Vietnam and Indonesia (see table 1).

⁵ Export figures include re-exports, therefore export figures are sometimes higher than production figures, for example Sri Lanka & Kenya

World tea production has grown by 51 percent over the last 20 years and doubled over the last 3 decades⁶. Demand is lagging behind, however, creating a situation of oversupply (see figure 1). The competition for market share is therefore fierce. While Indian and Sri Lankan production grew moderately by 18 and 12 percent respectively over the last decade, Vietnamese, Kenyan and Chinese production increased by 153, 67 and 41 percent respectively.

Figure 1: Global tea Production and consumption from 1986 to 2006 (in metric tons)⁷



Source: Annual Bulletin of Statistics ITC 2007 adapted by SOMO

2.2.1 Consumption

Almost 56 percent of all tea produced worldwide is consumed locally (see also table 1)⁸. Consumption⁹ in India and China, for example, represents 81 and 73 percent of the total tea production of each of these countries¹⁰. However, many other (leading) producing countries, such as Kenya, Sri Lanka, Indonesia and Vietnam, export most of the tea they produce. In African tea producing countries, such as Malawi and Uganda, that export more than 93 percent of production, many people cannot afford to buy tea.

⁶ Calculations SOMO based on ITC 2007 & FAOstat 2007

⁷ Export figures include re-exports, therefore export figures are sometimes higher than production figures, for example Sri Lanka & Kenya

⁸ ITC 2007, p54

⁹ Figures are corrected for re-exports

¹⁰ Calculation SOMO based on ITC 2007

In countries such as China, Vietnam and Indonesia, most people prefer green teas. Local production is also dominated by green teas. In all other markets, black teas are the most popular. In general, more leafy teas are considered of higher quality, and are particularly appreciated in premium loose tea markets, such as Germany and Japan. CTC is ideal for tea bags. Tea bags are preferred by consumers in among others the USA, UK and the Netherlands. In many countries ready to drink tea products such as "ice tea", lemonade with tea extracts, or bottled tea are increasingly popular as well.

2.2.2 Exports

The world's leading tea exporters in terms of volume are Sri Lanka and Kenya, which together control 40 percent of world exports. In terms of value, however, the exports of Sri Lanka are substantially higher than those of its close competitor. Other important exporters are China, India, Vietnam and Indonesia. This kind of concentration is not unusual for many agricultural commodities from developing countries. There are differences in teas that countries export. Teas produced in Sri Lanka are mainly of the orthodox type, accounting for almost 95 per cent of the total production. Indonesia, Vietnam and China also export mainly orthodox teas, and apart from China, mostly black teas. India, Kenya and Malawi on the other hand produce mainly CTC used primarily in tea bags.

Just 7 countries import half of all the tea traded internationally (by volume, corrected for re-exports). In descending order of importance, these are the Russian Federation (11.3 %), the UK (9.2), Pakistan (8), USA (7.4), Egypt (5.4), Iraq (4.5) and the United Arab Emirates (3.8). If country groupings are used, continental European¹¹ country imports are roughly as important as those of the USA (7.8) which are roughly twice those of the CIS countries (ex-RF)(4.1)¹². Figure 2 below gives an illustration of the importance of various regions for producing country exports.

¹¹ ex-UK and ex-CIS

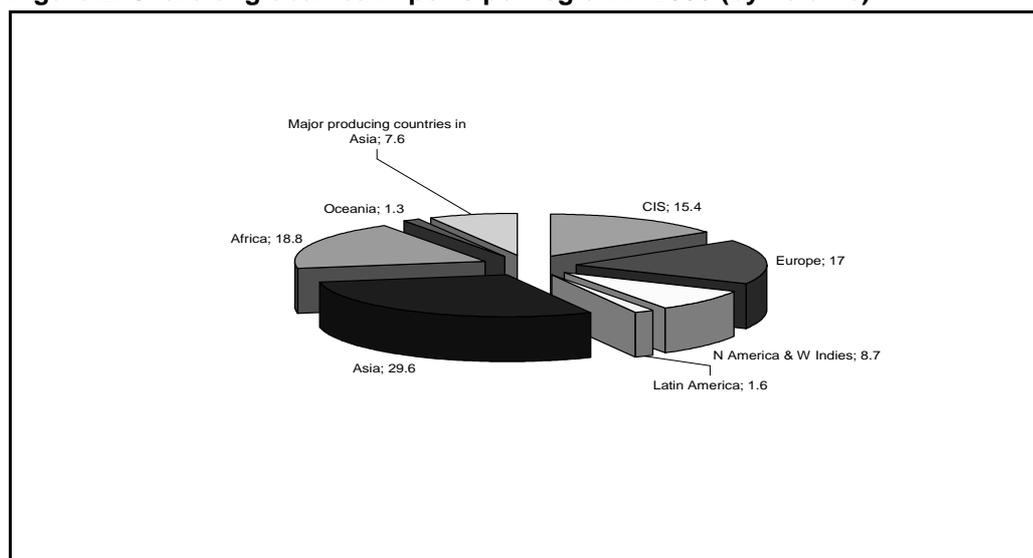
¹² ITC 2007, p81

Table 2: Value of global exports of leading producing countries in 2006 (in 1000 USD)

Country	Value
Sri Lanka	830,880
Kenya	655,997
China	537,907
India	382,550
Indonesia	134,515
Vietnam	115,000
Malawi	49,121
Argentina	48,905
Uganda	36,000
Tanzania	32,970
Japan	27,510
Taiwan	14,500
Turkey	6,300

Source: Annual Bulletin of Statistics ITC 2007

Figure 2: Share of global tea imports per region in 2006 (by volume)¹³



Source: SOMO based on Annual Bulletin of Statistics ITC 2007

To briefly outline some recent trends: while overall imports grew by 22 percent over the last decade, imports from non-producing Asian countries and North America (including West Indies) have been growing by 43 and 52 percent respectively. On the

¹³ Europe excluding CIS

other hand imports into the UK have decreased, and those of other European countries remained stable¹⁴.

With such buyer power in the hands of some importing countries, it is not surprising to find the same countries in the list of the most popular export destinations of the some of the most important exporters. The slight difference in trade flows between tea importing and exporting countries, however, reflects preferences for kinds of teas, quality, prices and origins. Middle-Eastern countries, especially UAE, Syria and Iran, continue to be the major importers of Ceylon (Sri Lanka) tea, for example, absorbing almost 51 per cent of the exports. CIS countries are the second largest importer, absorbing approximately another 25 per cent¹⁵. The CIS also absorbs roughly a quarter of all of India's tea exports, but the Middle East is not as important as it is for Sri Lanka, and in this region Iraq stands out as the most important export destination. The UK accounts for about 11 percent of Indian exports. The biggest clients of Kenyan tea, in descending order of importance, are Pakistan, Egypt and the UK, Afghanistan and Sudan¹⁶. Two thirds of all Malawi exports are divided between the UK (39%) and South Africa (28%). Other important destinations for Malawi tea are Kenya (for re-export), Pakistan, USA, and Europe (ex-UK)¹⁷. Vietnam's black tea is mostly exported to Pakistan, India, and Russia, its green teas go primarily to Taiwan and China¹⁸. The most important destination regions/countries for Indonesia's mainly orthodox bulk black tea, in descending order of importance, are the CIS, the UK, Pakistan and Malaysia¹⁹.

2.2.3 Importance of tea for producing country economies

Worldwide, the sector provides millions of jobs. The Indian tea industry is the second largest employment provider in the organised manufacturing sector giving direct employment to 1,258,800 families in the estates. However, there are almost the same number of people who also work as casual workers or in the smallholdings and hence the industry indirectly generates employment for another ten million people²⁰. If indirect jobs are included, an estimated 3 million people, or ten percent, of the population make their living in the Kenyan tea sector²¹. In countries such as Vietnam and Indonesia, as well, more than respectively 400,000 and 350,000 people are working directly in this sector. Tea production and export is therefore a vital part of the economy for producing countries. There are differences, however, in how it plays a part. In India, China, Vietnam and Indonesia, tea production is more important in

¹⁴ Adapted by SOMO based on ITC 2007

¹⁵ SustainabilityTea, Report on the Sri Lankan Tea Industry (Institute Of Social Development Kandy, April 2008)

¹⁶ ITC 2007, p66

¹⁷ Calculations SOMO based on ITC 2007, p67

¹⁸ Comparative international research on the tea sector in Vietnam (Hanoi: Centre for Community Empowerment, 2007)

¹⁹ ITC 2007

²⁰ S. M. Kadavil, Indian Tea Research (Partners in Change, April 2008)

²¹ The Kenya Tea Board, <www.teaboard.or.ke>

terms of employment in remote and poor rural areas, but to a lesser extent in the economy as a whole. In other countries, however, the sector is also economically important at the national level, and forms a crucial source of foreign exchange. Kenyan and Sri Lankan tea exports, for example, were worth more than USD 655 and 830 million respectively in 2006²² (see also table 2). Tea exports contribute 3% to the gross domestic product (GDP) of Sri Lanka and Kenya, and 2 % to that of Malawi (see table 3)²³.

Table 3: Importance of tea exports earnings for selected tea-producing countries in 2006 (in USD)

	Kenya	Sri Lanka	Malawi
GDP in billion USD	21.2	27.0	2.2
Agriculture share of GDP	27.9	16.4	35.5
Tea exports as share of GDP	3.1	3.1	2.2

Source: SOMO based on Annual Bulletin of Statistics ITC 2007 and World Bank country data 2006²⁴

2.3 Market structure

A wide range of actors are involved in transforming the tea leaf on a bush to the tea in the consumer's cup (see figure 3). It all starts with the workers and smallholders working in the tea fields to pick and collect the tea leaves. Workers are employed by large-scale tea plantations, where tea has traditionally been produced. Smallholders sometimes also employ workers, however. Large plantations, also known as estates, can be larger than 8,000 hectares. By focussing solely on the production of tea, these companies can benefit from economies of scale. Such large plantations are often (still) part of a chain of plantations owned by large corporations such as Tata Tea, Unilever/Hindustan Lever, John Keells Holding Ltd and James Finlay. Tea manufacturing takes place either in estate-based or (bought) leaf factories (private or collectively owned factories which buy up green tea, process it and sell it). Estates also buy tea directly from smallholders for primary processing in their factories.

Technically, growers cultivating up to 10-12 hectares of tea are considered small growers, although the definition may vary from country to country. Smallholders are an important factor in the industry. In the leading exporting countries, Sri Lanka and Kenya, for example, they are responsible for about 65 and 62 percent of total production respectively²⁵. In the last 10 years, there has been phenomenal growth in the smallholder sector as compared to the traditional organised tea sector in terms of area planted and production. The cultivation of tea is attractive to small farmers because tea provides work and income throughout the year, requires relatively little

²² ITC 2007

²³ GDP, World Bank 2007, <www.worldbank.org> (April 2008)

²⁴ GDP is in current (April 2008) USD

²⁵ Committee on commodity problems, intergovernmental group on tea (FAO), Traceability supply chains and smallholders: case studies from India and Indonesia, (December 2006) Nairobi, Kenya

investment, and the risk of complete crop failure is small. Small farmers may sell their green leaves to collectors, plantations or processors. With increasing costs of production and unattractive world market prices, the smallholder tea production model has become popular in India as well. Large companies such as Unilever and Tata Tea are divesting their primary large-scale tea production in this country. Strict plantation labour legislation that does not apply to smallholders also contributes to the unpopularity of estate production with such companies in India (see also chapter 3 and 4).

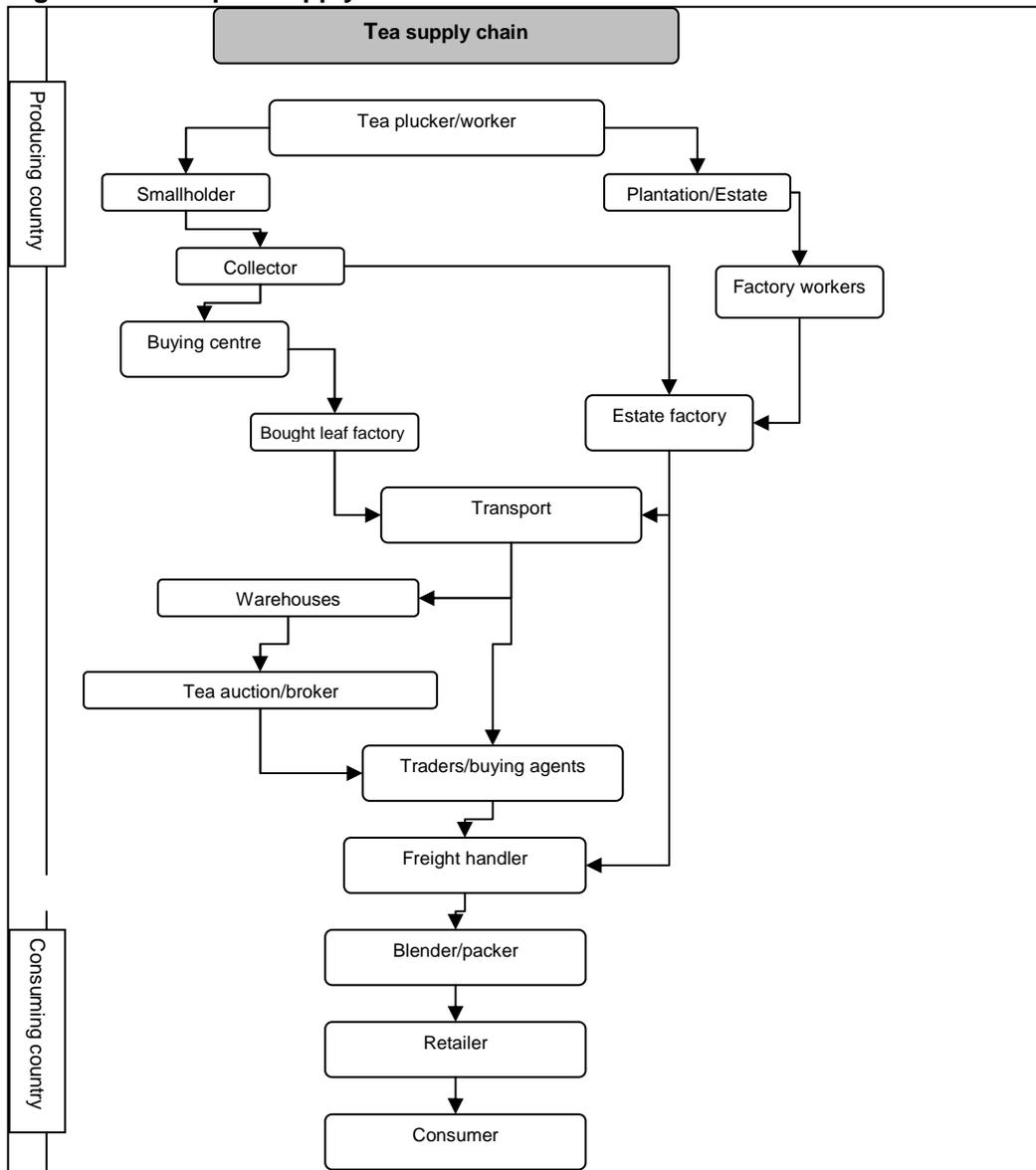
Roughly 70 percent of global tea production is traded at auctions²⁶. The rest is effectuated through private sales. Nowadays, the main auction centres are in India (Kolkata and Kochi), Sri Lanka (Colombo) and Kenya (Mombasa). The latter is also the auction centre for many other African tea producing countries. Some other important tea-producing countries, such as China, Argentina and Turkey, do not have an auction system.

The tea chain can be characterised as a vertically integrated production chain (companies controlling various production stages upstream and downstream), in which direct links between manufacturers and producers are common. The main tea packers, Unilever (brands Brooke Bond and Lipton) and Tata Tea (brand Tetley), are key players in the consumer market. They dominate the trade, have a strong influence on transport companies, and source part of their supplies from their own plantations. This practice is different from other commodity chains, such as those for coffee or cocoa, in which companies only operate in a specific part of the production chain.

Tea is usually exported at a relatively early stage in the supply chain (see figure 3). Plucking and primary processing (withering, rolling, drying, grading, bulk packaging...) is carried out in producing countries, while blending, packaging and marketing, the most lucrative part of the tea trade, is mostly carried out by the tea companies in buyer countries. The largest proportion of the profits therefore do not accrue to the tea-producing countries, but are made abroad.

²⁶ Traidcraft Exchange, A fair cup, 2007
<<http://www.responsible-purchasing.org/downloads/AFairCup.pdf>>

Figure 3: Tea export supply chain



Downstream of the supply chain, concentration is extremely high: 90 percent of Western tea trade is controlled by seven multinational companies; 85 percent of world production is sold by multinationals.

At the global level, four companies dominate the tea trade²⁷:

- Unilever (Brooke Bond, Lipton/Unilever Trading Company UTC, UK – the Netherlands)

²⁷ SOMO

- Van Rees (trader/blender, supplying many packers, part of Deli Universal Corporation, Netherlands)
- James Finlay (trader, producer, packer, UK)
- Tata Tetley/Stansand (producer, trader, packer, UK)

The Jakarta Tea Auction, for example, is dominated by Lipton (Tea Buying Department of PT Unilever Indonesia), which buys 70% of all tea auctioned, and the Dutch exporter L. Elink Schuurman, which buys up to 20% of the tea sold. Unilever is currently buying around 12% of the world's black tea supply making it the world's largest purchaser of black tea²⁸.

Concentration is also high in the retail market at the national level. The top three packers, for example, have a 60% share of the tea market in the United Kingdom, 67% in Germany and 66% in Italy. In the Netherlands, one company, Sara Lee, controls 65 percent of the market²⁹.

Important tea packers worldwide include:

- Unilever (Lipton is a very strong brand with a world market share of 10%)
- Tetley (Tata Group)
- R. Twinings (Associated British Foods)
- Ajeepay Group (Typhoo tea)
- Ostfriesche Tee Gesellschaft OTG: major German company which also has activities outside Germany.
- Teekanne: major German company, one of the oldest German traders
- Sara Lee International (Pickwick is the main brand on the Dutch market)

The market leaders are fighting to maintain market share and stimulate demand through innovation and advertising. Their emphasis is on the supply of relatively low-quality bulk tea. They operate on the basis of their high degree of flexibility, their buffer stocks and their speculative transactions. The flexibility of the companies is enhanced by deliberately reducing differences in quality. To a certain degree a degeneration and adaptation of tea qualities has been going on all over the world. Many tea qualities have become interchangeable and are bought where they are cheapest³⁰: a typical "English tea" blend for instance can contain teas from many different sources (producers) in more than 6 different countries.

There is however also a growing market for speciality and higher-quality teas (e.g. single country blends, white and green teas, special pyramidal packaging, organic and fair trade teas) that the same market leaders sometimes also cater to and develop. Groups of consumers in countries such as Japan and Germany are traditionally interested in loose high-quality, single-estate or origin teas.

²⁸ Unilever website, "Unilever commits to sourcing all its tea from sustainable ethical sources", (25 May 2007) <<http://www.unilever.com/ourcompany/newsandmedia/pressreleases/2007/sustainable-tea-sourcing.asp>>

²⁹ SOMO

³⁰ Oxfam, The tea market, a background study, 2002

3 Critical issues in the tea sector

As in many other tropical commodity sectors all is not well in the tea industry. The areas in which tea is produced are some of the most beautiful in the world, but also some of the poorest. The contrast between wide mountain panoramas with luscious green tea fields and the sometimes miserable conditions for workers and smallholders can be striking. In this chapter, we will be looking more closely at some of the most pressing sustainability problems in tea-producing countries. The focus will be especially on those issues affecting the workers and smallholders who are the most vulnerable people in the tea sector.

3.1 Social issues

3.1.1 Low wages

Throughout the decades the often large tea plantations have benefited from low cost local or migrant labourers. The wages are often still very low; often around minimum wage levels, although this does not normally constitute a living wage in tea-producing countries. The cost of labour represents about 55³¹ to 73³²% of made tea production costs (tea processing factory gate price not retail price). Picking makes up approximately 75% of these costs³³. Pickers' wages are therefore under pressure when market prices for tea go down.

Many workers, and temporary workers in particular, (in Kenya and Indonesia, for example) are paid at a piece rate, with a fixed price per kilogram of green leaf picked. The result is that worker income varies according to factors such as skill, working hours, health, strength and high and low season. Secondary labour provisions such as education, medical care, accommodation and food are sometimes provided or are included in the total wage of estate workers. All these factors make it difficult to gauge average wage levels and whether they are “living wages”.

In most of the countries studied, permanent workers have a better income than the seasonal plantation workers who represent the majority of workers. Also it seems that seasonal labourers on large plantations are in turn better paid than those on smallholder farms, where piece rates are often lower. The wages of Indonesian tea pickers for instance are below (seasonal) or around (permanent) the minimum wage level. Minimum wage levels in Indonesia often do not provide a worker and family with

³¹ L. Kabiru, Kenyan Tea Sector (Kenyan Human Rights Commission, May 2008)

³² SustainabiliTea

³³ Oxfam

a decent standard of living³⁴. The result is that workers need to supplement their income with other jobs and that they often cannot afford to send their children to secondary school.

If daily targets of 33.5 kilo are met on Kenya's large plantations, workers earn roughly 3 dollars a day. This is about two-and-a-half times the minimum wage for unskilled employees in the agricultural sector of USD 35 (2,536 shillings) per month³⁵. The minimum wage does not, however, provide a decent standard of living for a worker and family³⁶. The field research revealed pay slips showing wages for pickers that were about USD 50 (low season) and up to 100 per month (high season). As in Indonesia, temporary workers on Kenyan smallholder farms are paid less than those on large plantations. This is the result of large plantations paying about USD 0.093 (KES 6.30) per kilo of green leaf, while at small farms this might range from USD³⁷ 0.059 - 0.074 (KES 4 to 5) only. This means that picking the average 15 kilograms a day would result in a wage of about 1.10 USD a day³⁸.

In Malawi, the daily wage in the tea industry is between USD 0.70 and USD 1.6 for plucking green leaves, which compares to a legal minimum wage of USD 0.39 a day³⁹. Minimum wage rates do not provide a decent standard of living for a worker and family in Malawi⁴⁰. The workers complained that wage were insufficient? In Sri Lanka, workers on both smallholder farms and large plantations are paid USD 2.80 (RS 300, this includes a number of benefits) a day. On the face of it, this seems a reasonable wage at present, but workers and unions are claiming that these collectively bargained wages are not paid appropriately.

In India workers on smallholder gardens get paid at much lower rates than at the estates and they have hardly any rights compared to their plantation counterparts. The wage rates of tea garden workers that fall under the plantation labour act (estates) are generally fixed through bipartite agreement between the representatives of employers and employees of the tea gardens and ranged from approximately USD 1.19 (RS 49, inclusive food grain) in Tiripura to USD 1.90 (RS 78) in Kerala in 2007. However, in Kerala, the settlement wages are being fixed at minimum wage levels as stipulated under the Minimum Wages Act of the State. It is reported that workers on smallholder farms in Kerala are often paid below minimum wage levels.

³⁴ V. R. Kustanti & T. Widiyanti, Research on the supply chain in Indonesia (Business Watch Indonesia, 2007)

³⁵ US Dept of State, Country Reports on Human Rights Practices, Kenya, 11 March 2008
<<http://www.state.gov/g/drl/rls/hrrpt/2005/61579.htm>>

³⁶ Ibid.

³⁷ Conversion of the US dollar at Kshs. 67.8 to USD 1

³⁸ Report on Research on the Small-Scale Tea Sector in Kenya (Nairobi: Christian Partners Development Agency, May 2008)

³⁹ Malawi Tea Research Project (Malawi CARER, May 2008)

⁴⁰ US Dept of State, Country Reports on Human Rights Practices, Malawi, 8 March 2006
<<http://www.state.gov/g/drl/rls/hrrpt/2005/61579.htm>>

3.1.2 Housing

On the large tea estates, workers – permanent but often also temporary workers - live on the plantation in houses provided by the plantation company as long as they have work. The housing situation is often far from ideal, however. On the large estates in Kenya, for example, such as those of Unilever and James Finlay⁴¹, estate houses tend to be overcrowded especially during peak season and are sometimes in deplorable condition (see boxed text). Moreover, their allocation is riddled with allegations of corruption, tribalism and sexual harassment.

Overcrowded tea estate houses

House sharing is currently particularly common on Kenya's large estates, and the situation becomes bleak when the production of tea is high and 'seasonal' labourers are employed. The magnitude of the problem was best exemplified by a Unilever worker who had worked for the company for about 24 years. She explained that families had in the past each been allocated a two roomed house, but that due to shortages in housing, casual workers now have to share two-roomed houses and there are times that up to six workers share the same house. A temporary worker for Unilever noted that, "you can imagine living with someone you have (a) character clash with, you are squeezed between harsh working conditions and harsh conditions at home, this is not easy for many people, (and) in fact housemates fight in this estate everyday about things as trivial as that someone used all the salt or sugar."

Living conditions in Sri Lankan and Malawian estates are also sometimes poor and unsanitary. A domestically owned large plantation company in Malawi, Conforzi Plantations, made only one pit latrine available for almost a hundred people, for example. In Sri Lanka, most tea workers live in housing units called "lines". These are usually rooms in old barracks that are sometimes overcrowded, mostly do not have access to (piped) drinking water and lack proper sanitation facilities. There are programs to build 160,000 units of new housing on the estates that need to replace old structures, and to add to the total of 200,000 units counted in 2004⁴², although progress has been slow. Only about 52% of the estate households have access to mains electricity, while more than 74% of the total population of the country enjoys this facility⁴³. In India the workers covered in the large plantations examined all had basic facilities such as housing, drinking water and sanitation available.

⁴¹ Note: In all cases controversial practices revealed by the field research that were associated with specific companies the information was reviewed by the companies in question on the country level. This pertains mostly to Indonesia and Kenya. Without exception all of the findings were denied. The issues pertaining to Unilever in these countries were also reviewed by the international management. This led to a in the end much similar but more subtle response. See: Sanne van der Wal & Roos van Os, "Unilever Overview of controversial business practices in 2007", SOMO, Amsterdam, May 2008

⁴² SustainabiliTea

⁴³ SustainabiliTea

3.1.3 Health and safety

Tea plucking is difficult, hazardous work. Workers are on their feet for hours on end, carrying tea-collecting baskets on their backs; back problems are therefore common. The uneven terrain and sometimes steep slopes on which tea is picked raises the risks of accidents and as a result fractures due to falling (from height) are quite common. In addition they are exposed to harsh weather conditions (hot, cold, wet), pesticides, mosquitoes and other insects, and poisonous snakes. ILO studies have revealed that two categories of illnesses - respiratory and water-borne diseases - account for 60 to 70 percent of the diseases affecting tea plantation workers⁴⁴.

The distance from modern health facilities remains a problem for plantation workers. Most large estates in Kenya, Indonesia, Malawi and Sri Lanka offer health care to employees and their families. However, these services range from estate hospitals that are better equipped than state hospitals down to “only” having an ambulance on hand. In Malawi, a lack of medicine and qualified personnel was noted in some estates, but as in Sri Lanka ambulances were available on all the estates surveyed.

HIV/AIDS is a very serious problem in the tea sector in Malawi and Kenya. In Malawi it has decimated the national labour force and has raised the household dependency ratio. Out of a population of 12.3 million, almost one million people in Malawi were living with HIV at the end of 2005⁴⁵. Some tea companies such as Unilever Kenya run a comprehensive HIV/Aids program⁴⁶.

Plantation workers in Sri Lanka are among the most economically deprived and therefore the most vulnerable to disease and ill health. Malnutrition resulting from insufficient and low-quality food is widespread. As a result, low birth weight is increasingly a problem in the smaller private and smallholder estates. The levels for maternal and infant deaths are declining but continue to be high. Child and infant mortality rates are often more than twice the national average. The tea sector in India is also facing numerous problems (see boxed text).

In Malawi, many workers interviewed complained about the poor standard of the free lunch in the field. On many estates, the food offered is always maize flour and beans and due to a lack of plates, this food is offered in unhygienic plastic packs which bear a high risk of spreading diseases.

⁴⁴ B. Sivaram, ILO website, “Productivity Improvement and Labour Relations in the Tea Industry in South Asia” <<http://www.ilo.org/public/english/dialogue/sector/papers/proschem/proasia5.htm>> (10 June 2008)

⁴⁵ G. Pembrey, Avert website, “History of the AIDS crisis in Malawi” <<http://www.avert.org/aids-malawi.htm>> (10 June 2008)

⁴⁶ Unilever website, “Tea Popular Beverage” <http://www.unilever.com/Images/es_2003_Tea_A_Popular_Beverage_tcm13-5309.pdf> (10 June 2008)

Dying of hunger

The crisis as a result of low market prices in the tea sector has probably affected India most. Ever since the onset of the crisis at the end of the nineties, many tea estates have been closed or abandoned because they were deemed to be unprofitable or not profitable enough. This tea sector restructuring has caused great misery for the plantation community. Today there are still heartbreaking reports of hundreds of people dying of hunger on tea estates that have been abandoned or closed⁴⁷. The former workers and their families on these estates have no food, drinking water, electricity or health care. They are trapped on the estates where their families might have toiled for generations because alternative jobs are very limited in the tea-growing regions. Causes for the crisis include a sharp drop in producer prices, lack of investment in and mismanagement of plantation estates, and rising labour costs⁴⁸. Some estates have recently been reopened⁴⁹.

Pickers often protect themselves from injuries such as cuts, bruises and sun burn by putting on gloves, boots, aprons and hats. In Indonesia, the government estates and the smallholders' gardens do not provide such equipment. Pickers therefore have to acquire such equipment at their own expense. In Indonesia, Sri Lanka and Malawi, protective clothing, such as masks to protect oneself from inhaling pesticides when applying these chemicals, are often not provided or used. Workers in Sri Lanka report severe respiratory as well as skin problems due to such unprotected application.

In India and elsewhere, workers in tea gardens are often isolated from mainstream society and interaction with mainstream society is very low. The low rate of literacy and deprived health status among workers always stood as major constraints in giving them access to major health, educational and development initiatives and programmes of the state government and other organisations.

3.1.4 Discrimination and gender

As mentioned earlier historically, the opening up of tea and other plantations worldwide has been built on unskilled migrant labour. Generations on, tea plantation workers are still discriminated against because of this historical context. Most of the workers on Indian tea plantations for example are from migrant, marginal and tribal communities. In Sri Lanka, the vast majority of tea estate workers are “tea Tamils”

⁴⁷ “India’s malnourished tea workers”, BBC News, 2 October 2007
<http://news.bbc.co.uk/2/hi/south_asia/7022794.stm> (10 June 2008)

⁴⁸ Action Aid, Tea break, a crisis brewing in India, May 2005
<http://www.actionaid.org.uk/wps/content_document.asp?doc_id=884> (10 June 2008)

⁴⁹ A. Talwar, D. Chakraborty and S. Biswas, Study on Closed and Re-opened Tea Gardens In North Bengal, September 2005,
<<http://www.iufdocuments.org/www/documents/PKMS-IUFstudy.pdf>> (10 June 2008)

who are isolated even within their own community as the indigenous Sri Lanka Tamils consider them to be 'second class citizens'⁵⁰.

In Kenya there are also serious problems with discrimination. Most workers interviewed in Kenya⁵¹ report that promotion and employment in tea estates are largely determined by ethnicity. The violence in Kenya at the time of the 2007 elections illustrates that this aspect can lead to serious ethnic and political tensions. The majority of the country's tea is produced in the western part of Kenya. This is the part of the country most affected by the violence. Thousands of people working in the tea industry have left the plantations following threats by local residents, who told them to leave for their ancestral homes or risk attack. At least 14 people were killed on Unilever's plantations in the country⁵². Apart from political antagonism, local Kalenjins reportedly feel disadvantaged because the migrant ethnic group (Kisii) that came to pick tea live in better conditions than them⁵³.

Another form of discrimination which can be seen on tea plantations is gender discrimination. In producing countries, such as Malawi, Indonesia and Kenya the supervisors are almost always men. Yet in most countries women do most of the fieldwork on tea plantations. Women are the favoured workers on tea estates, because they are considered better pickers and are more docile and tied to the plantation (child and/or family care). It should be stressed that in Africa, discrimination also often takes the form of sexual harassment. Women workers are asked for sexual favours in exchange for favours by superiors, and refusal can lead to repercussions, such as being allocated too much work or being sent to work in lonely or dangerous plucking zones.

3.1.5 Representation of Workers

In Malawi, Kenya, Vietnam and Indonesia, trade unions are either absent, compromised or ineffective. The high and increasing level (see below) of casual workers in this industry adds to this problem, because they are not unionised at all. In Malawi, for instance, there are no effective trade unions, there is no opportunity for workers to bargain collectively, and most of the workers in the field are employed on a temporary basis (hence are not unionised).

On the large estates surveyed in Kenya, one of the major complaints of the workers was that inefficiency of the union had led to a lack of effective worker representation. The branch of the Kenya Plantation and Agricultural Workers' Union (KPAWU) in the area surveyed turned out to have no work plan, no transportation and no direct access to funds. Most of the workers interviewed for the study were not aware of their

⁵⁰ Oxfam

⁵¹ Kabiru

⁵² "Kenya's tea city Kericho hit by tribal violence", The Daily Telegraph, 8 January 2008

⁵³ "Kenya's tea farms weather political violence", Reuters, 13 January 2008

rights at the workplace nor of the activities of their union. At one of the James Finlays estates, there were also reports of workers being sacked because they participated in a strike and that workers were scared to take up leadership in the event that they would be targeted, as their former colleagues had been.

Union tradition is still very weak in the Indonesian tea sector. While some companies might support union activity, companies normally intervene to ensure that union leaders are loyal to company management. For instance when unions were formed, the union executives on state plantations were elected by company management.

There are no independent trade unions in Vietnam; they are all affiliated to the Vietnam General Confederation of Labour under the leadership of the Communist Party and maintain cooperative relations with state and other socio-political organisations. About 20 unions belonging to the Vietnam National Union of Agricultural and Rural Development Workers are active in the tea industry. In most tea companies, the chairman of the trade union is also the vice-director. This union functions well in terms of organising social activities (staff retreats, paying visits to sick workers, etc.) but there is concern, however, whether trade unions are really representing the rights of the workers.

Although the plantation workers in the Indian tea sector are highly organised, there may be strong rivalry between the various unions on the tea plantations, which is not always to the advantage of the workers. Labour unrest is not always sustained and often turns out to benefit the management. The 'elected' union leaders do not always represent the interests of the plantations workers. Plantation workers generally belong to the lowest socio-economic groups, while union leaders are often 'outsiders' from the middle class. In India and Sri Lanka, plantation workers often originate from specific ethnic, tribal and/or lower caste groups, which makes their position even more vulnerable.

3.1.6 Casualisation of Labour

Smallholder tea gardens rely solely on casual (and family) labour, although the majority of the workers on large estates in most of the countries studied were also temporary. One important reason for this is that tea work is often seasonal, in other words the amount of work available may vary from month to month but also from year to year, depending on climatic conditions. Apart from offering flexibility, however, temporary workers are also popular because they tend to be cheaper than permanent workers. *Casualisation of labour* is a major concern, because workers are not guaranteed job security (contracts) and other benefits that permanent workers accrue, such as pension rights and access to medical care for their children.

Life of a temporary picker in Pangheotan, Bandung, Indonesia

Ninin⁵⁴, a 24-year-old woman, starts her day at 6.30 am. She puts on her boots and hat and picks up the tea collecting basket, all of which she had to buy herself. Ninin is a temporary picker at PT. Perkebunan Nusantara VIII (PTPN VIII) Panghetoan, Bandung, the largest tea plantation and exporter in Indonesia. Its clients include among others Unilever, Twinings and Sara Lee (Pickwick).

Ninin has been working at the plantation for only one year. As a temporary picker, her monthly earnings depend on the amount of tea she picks, leaving her without a fixed wage. She normally picks 20 to 25 kg of tea leaves a day, earning her 3 to 4 US dollar cents for each kilogram she collects. This would give her an average daily income of USD 0.86, which is about USD 23 a month. Many times, however, she does not receive the full amount, for instance if she buys rice on credit from the company's estate shops. Mother of a six year old, she works for additional income to supplement the monthly salary of USD 44 of her husband, who works as a weed picker on the same estate. The total monthly income of the family many times does not cover expenses. Daily food expenses for her child may be as high as USD 1, while Ninin herself needs nutritious meals as well to keep herself picking continuously during the day.

"Tea pickers eat a lot, five times a day is normal," she observed. The first picking session is from 07.00 to 09.30, with the first weighing session starting at 09.30. The second session is from 10.00 to 12.00, with the second weighing at 13.30. Pickers normally take the weighing sessions to eat.

Pickers who have become permanent workers receive fixed monthly wages, and facilities such as housing, healthcare, pension and children's education tuition fee. The monthly wage of permanent pickers is about USD 55. By contrast, Ninin is only entitled to bonus and annual holiday benefits. She is free to take any day off, notifying the estate master is sufficient. Taking a day off always reduces her monthly wage, however. Permanent pickers often also need to look for additional income, for instance by providing motorbike transport services, called *Ojek*, earning about USD 1.90 per day.

"It is difficult here to become a permanent worker. For this you need to have a lot of money," Ninin said when asked when she could get a permanent contract. "After 10 years one of my friends has finally become a permanent picker, but sometimes it takes others only 2 years," she added. How was that possible? "I don't know such things. If you have money, it's easy. As for me, the most important thing is that I have a job to support my family⁵⁵."

Each permanent worker is obliged to meet the daily minimum target of 35-45 kg. Non-permanent workers are divided into groups, each with a maximum target, which varies from day to day. For instance, Ninin is in a group of twenty with a target of 200 kg, which the group should meet but should not exceed. Permanent and non-permanent workers always work on different locations, each being supervised by a different estate master.

⁵⁴ Not her real name

⁵⁵ Ninin is referring to a case in which a picker bribed the supervisor for a permanent status.

The estate management of Unilever and James Finlay Kenya acknowledged that for a number of years they had not been hiring permanent workers but had instead relied extensively on temporary labour. Companies have been using a loophole in the previous labour legislation that did not explicitly state the employment duration of temporary workers. This loophole encouraged the companies to retain temporary workers for periods as long as six years. Most workers interviewed had worked for more than 3 years at the plantations without any of the letters of appointment to which they were entitled. And when they did get the formal documents, these were often flawed.

In Indonesia, half of the workers in the fields and the majority in tea estate factories and in packing plants, such as those of Unilever, are non-permanent. In Malawi, as well, most of the workers on the estates studied were temporary.

3.1.7 *Child labour and child work*

According to the literature the use of child labour in tea-producing countries is common, especially on smallholder tea plantations. Due to financial need and a lack of nursery or educational facilities, women plantation workers are often obliged to take their children to the plantation. It is difficult to pin down the number of child labourers in different tea producing countries, however, and the data available is generally not very recent.

A Unicef report from 2002 concluded that more than 30% of the tea pickers in Kenya were under the age of 15⁵⁶. A pilot study on child labour in the tea sector in Malawi found that child labour is widespread, although hard data on the exact number of children working in the tea sector was not available⁵⁷. On the tea plantations in East Java, Indonesia, many children work to help their parents meet their daily targets or to earn some extra money⁵⁸. Between 100,000 and 500,000 children are employed illegally in Sri Lanka, according to unofficial estimates, many of them on tea plantations⁵⁹. In 2002, IPEC conducted an assessment of tea estates in Tanzania, and found that children were working without proper protective clothing, that they were working on average eight hours, were exposed to toxic herbicides, and that sexual harassment of girls took place⁶⁰.

⁵⁶ Both Ends, Thee, een gouden drankje met een bijzondere nasmaak, 2004

⁵⁷ L. Eldring, Investigating child labor in the tea sector in Malawi, (Institute for Applied Social Science, Norway, 2003)

⁵⁸ ILO-IPEC website, "Worst Forms of Child Labour"
< <http://www.ilo-jakarta.or.id/iloippec/whatipecworstforms.htm> > (08 April 2005)

⁵⁹ Equiterre website, "In search of fair trade tea; the conventional tea trade all the way from China: a well-traveled plant" < <http://www.equiterre.qc.ca/english/fairtrade/tea.html> > (11 April 2005)

⁶⁰ International Programme on the Elimination of Child Labour (IPEC) Safety and Health Fact Sheet Hazardous Child Labour in Agriculture, TEA, Published by ILO, March 2004, Geneva

According to official estimates there were 12.6 million working children under 14 years in India in 2001,⁶¹ out of a total child population of 250.2 million. Most of the working children in India are either in agriculture or cultivation, with only a few in manufacturing⁶². However according to the Indian Ministry of Labour, there were officially no longer any children working on tea plantations in India in 2007⁶³. While there have been efforts to eradicate child labour nationally (such as government programmes) it seems unlikely that child workers have vanished from the tea estates altogether, particularly with the current tea crisis that continues to affect the national industry⁶⁴. In addition, while it is possible that the phenomenon may have been addressed effectively to a large extent, it is apparent that to some extent tea plantation children have found work elsewhere, in housekeeping, for instance⁶⁵.

No child labour was directly observed in the countries studied, nor was it reported directly by the workers or smallholder interviewed. In Kenya and Malawi there are indications that large estates have been dealing with the problem effectively. In Indonesia, however, while children of 13 to 15 may be working in the plantations to earn a living, they are no longer considered child labourers because they are married. In India, also, 12 to 14 year-olds may legally work in the plantations⁶⁶. In countries such as Malawi, birth registration is not mandatory, so it is difficult to tell someone's age. Child labour is common on Malawian smallholder family farms⁶⁷.

3.1.8 Gender and declining workforce

As mentioned above, most of the workers in the tea sector are pickers and the majority of these are female. They have often had very little education, but they have the skills for picking tea leaves, handed down by the previous generations. In Sri Lanka, for example, the country's male literacy rate is 95%, while among the plantation males it is 88%. The female literacy rate is 91%, while among the plantation women it is 75%⁶⁸. In Indonesia, where the plantation women have often only been to junior high school, they have to look for jobs for additional income for their family, but there are very few job opportunities in the area. So they acquiesce in working in the field, accepting the very low wages.

⁶¹ <<http://www.forbes.com/forbes/2008/0225/072.html>>

⁶² S. Lahiri 'Child labour in Indian tea production in times of crisis' unpublished study for India Committee of the Netherlands (2007)

⁶³ India Committee of the Netherlands website, "Kinderarbeid in tijden van crisis in de thee industrie in India" June 2007 <<http://www.indianet.nl/0706thee.html>> (April 2008)

⁶⁴ S. Lahiri 'Child labour in Indian tea production in times of crisis' unpublished study for India Committee of the Netherlands (2007)

⁶⁵ India Committee of the Netherlands website, "Kinderarbeid in tijden van crisis in de thee industrie in India" June 2007 <<http://www.indianet.nl/0706thee.html>> (April 2008)

⁶⁶ Ibid.

⁶⁷ Malawi Tea Research Project (Malawi CARER, May 2008)

⁶⁸ SustainabilityTea, Report on the Sri Lankan Tea Industry (Institute Of Social Development Kandy, April 2008)

In Sri Lanka, in spite of all the legal measures to protect worker welfare, it is clear that plantation work is no longer attractive. The labour situation on the plantations has gone from one of surplus to deficit, with an annual decline of 10 – 20% of the workforce. This poses considerable problems for the tea sector in this country? In parts of India, such as Darjeeling, labour shortage is becoming a problem as well, and it is mainly women who stay behind. Men try to find work outside of the plantation if they get the chance.

3.2 Environmental Issues

3.2.1 Habitat conversion

Habitat conversion is seen as the main harmful environmental impact of tea production⁶⁹. The reason being that the habitat for cultivation is often located in more rugged and remote areas, which tend to be those with the highest biodiversity. Converting such habitats leads to species reduction and due to the slope of the land, among other things, considerable soil is lost before the plantations are fully established to protect the soil. However even when a plantation is established soil erosion can be high. If a forest is replaced with a tea plantation, the same surface area may lose from 20 to 160 tons of earth each year⁷⁰. In countries such as Kenya, Uganda and India, extensive forests were cleared for tea production⁷¹.

3.2.2 Energy use

Tea processing is energy intensive. Withering, drying, grading and packing tea requires 4 to 18 kWh per kg of made tea, which compares to 6.3 kWh for a kilogram of steel. Different types of feedstock and energy are used, such as firewood, oil, natural gas, electricity and sometimes hydroelectricity depending on the country and area. Roughly 85 percent of the total energy used is thermal energy, while the rest is in the form of electricity for the machines⁷². The environmental impact of tea processing depends on such factors as the use of renewable/renewed feedstock and the energy efficiency of the machinery. Drying, the most energy-intensive phase of tea processing, is mainly carried out using firewood from natural forests⁷³. In some regions of India, for instance, the use of firewood has caused extensive deforestation.

⁶⁹ J. Clay, *World Agriculture and the Environment* (Washington DC, Island Press, 2003)

⁷⁰ Equiterre, in search of fair trade tea; the conventional tea trade all the way from china: a well-traveled plant, date unknown < <http://www.equiterre.qc.ca/english/fairtrade/tea.html> > (11 April 2005)

⁷¹ Clay

⁷² Asian Institute of Technology, *Small and Medium scale Industries in Asia: Energy and Environment Tea Sector*, 2002, <http://www.serd.ait.ac.th/smi2/SMI/roadmap/Publications/Project_Publications/ARRPEEC2/Tea_Report.pdf> (10 June 2008)

⁷³ Clay

Tree logging for the tea sector is also a serious issue in Sri Lanka⁷⁴, Malawi and Kenya. By using high-sulphur rubber wood, the tea industry in Sri Lanka has caused high acid pollution. Some estates, for example in Sri Lanka and Kenya have initiated tree planting schemes for feedstock. Energy efficiency is often low because the machinery used is often old and because energy costs represent only a small portion of total production costs (30 percent at factory level⁷⁵) not much attention has been given to this aspect.

3.2.3 Agrochemical use

Different agrochemicals are used throughout the growing cycle on tea plantations to protect tea bushes and to enhance productivity. The types and amounts of pesticides (herbicides, insecticides and fungicides) and fertilisers applied will vary considerably between and within countries. Tea is often produced in monoculture and plantations therefore lack natural enemies and protection by diversity to pests. Therefore sometimes large amounts of pesticides are used to control for pests. For example crop loss is 14 to 50 percent in extreme cases in India. To combat pest attacks in this country a huge quantity of pesticides finds its way to the industry and this has led to indiscriminate use instead of integrated pest management⁷⁶.

Soil fertility is negatively affected by the same plot being used continuously for a single crop and by erosion, which is magnified because tea is often grown on slopes. Both inorganic and organic fertilisers are applied to compensate for this loss. This all leads to a negative spiral in which increasing amounts of agrochemicals are needed in order to maintain production in inverse proportion to the decreasing soil quality. This is especially a problem in older production sites such as in India, where estates are sometimes more than 100 years old⁷⁷.

The application of agrochemicals that are listed as hazardous and toxic has negatively affected the local and wider environment: (severely) reduced soil biodiversity and water pollution harming aquatic life and animals and people who depend on the rivers for water. There are studies showing that as much as 70% of soil life has been lost on tea plantations as compared to nearby natural habitat, especially in areas accessed by workers and machinery⁷⁸. Some of the tea gardens use pesticides, or did so until recently, which are banned in developed countries,

⁷⁴ Forestry and Environment students, University of Sri Jayewardenepura website, "Fuel wood availability, collection and uses in Sri Lanka", 03 August 2007 <<http://forestrystudents.blogspot.com/2007/08/fuel-wood-availability-collection-and.html>> (11 June 2008)

⁷⁵ S. Jayasekara & A. Anandacoomaraswamy, Free bioenergy, fertility and soil-water conservation in tea plantations, <http://www.nri.org/projects/biomass/conference_papers/free_bioenergy_and_fertility_in_tea_plantations.pdf> (10 June 2008)

⁷⁶ Kadavil

⁷⁷ Clay

⁷⁸ Clay

such as DDT^{79,80,81}. There are indications that usage is more pronounced in Asia (India, Sri Lanka but also China, Vietnam⁸² and Nepal⁸³) than in Africa. Because of high pesticide residue levels, exports from various Asian countries are occasionally restricted⁸⁴. In Malawi tea smallholders are often too poor to afford pesticides.

3.3 Economic issues

3.3.1 Uneven value distribution

The tea value chain comprises all the stages from green leaf production through conversion into a bulk packaged product available for blending and sale to consumers. Value is added to the tea leaves at each stage of the supply chain, each with associated costs (see also figure 4). This includes the cost of plucking and sorting, factory packing, internal transport, warehousing, sales charges (auction and direct), freight, insurance, interest, blending and packaging and retailers' sales costs. In general across (agricultural) commodity sectors most added value is created downstream in the higher processing and retail stages of a supply chain. The tea value chain is no exception to this rule. While tea is "ready to drink" when exported by producing countries, the downstream stages such as blending, packing and marketing are the most profitable. This part of the value chain is controlled by a handful of multinational tea packers and brokers, which as a result can considerably influence world retail and producer prices.

It is difficult to get detailed information on margins in the supply chain or a detailed breakdown of the retail price. Packers and retailers are not keen on sharing these details because it is sensitive information from a competition perspective. The price of tea is, however, transparent at auctions and on the supermarket shelves. As rough indication, for every dollar spent on ordinary black tea (English blend) on the Dutch retail market, 15 cents (15%) was spent on buying it at the auction⁸⁵. For reference, in India this is roughly 36 cents⁸⁶. Altrmercato, an Italian fair trade company, is

⁷⁹ "Pesticide, lead found in city tea", Shanghai Daily, 11 August 2007, <http://www.shanghaidaily.com/sp/article/2007/200708/20070811/article_326819.htm>

⁸⁰ Clay

⁸¹ Oxfam

⁸² Comparative international research on the tea sector in Vietnam (Hanoi: Centre for Community Empowerment, 2007)

⁸³ A.N.S. Thapa, Concept Paper on Study of Nepalese Tea Industry - Vision 2020 -, March 2005 <<http://www.nepaltea.com.np/VISION-2020.pdf>> (10 June 2008)

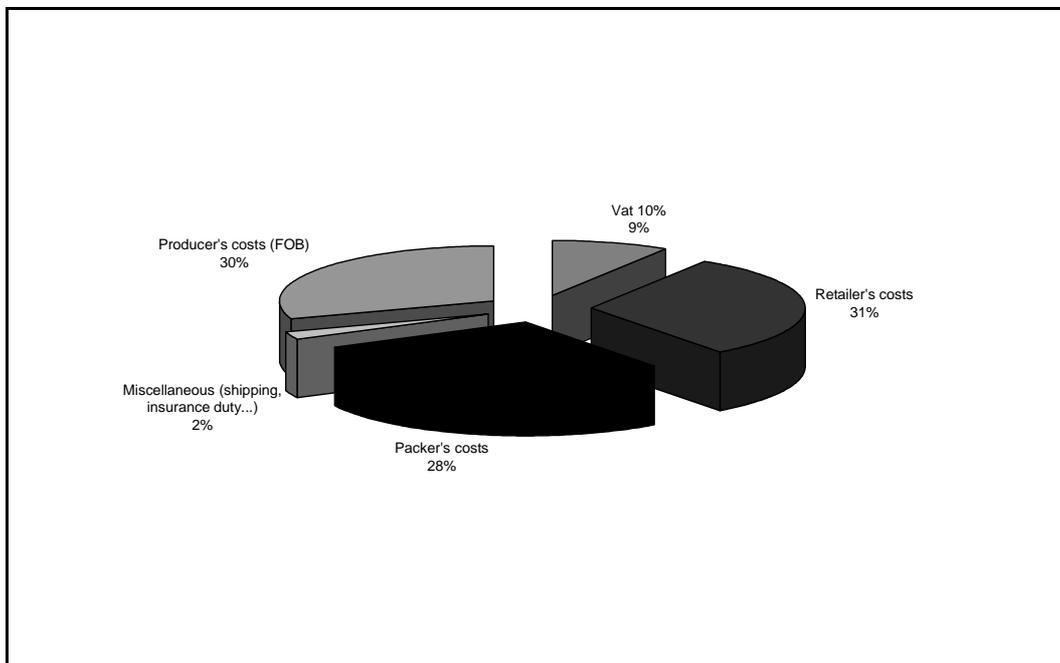
⁸⁴ Economic Research Service/USDA, Amber Waves, Food Safety Improvements Underway in China, November 2006 < <http://www.ers.usda.gov/AmberWaves/November06/PDF/FoodSafety.pdf>> (11 April 2006)

⁸⁵ Calculations SOMO: according to the Dutch Tea board the price of a regular English tea blend was 9.50 euros per kg in 2006 (11.88 USD). The average auction price that year was for the same blend was roughly USD 1.75 based on average national auction prices (ITC 2006) for a typical blend with the following composition Kenya (0.4), Indonesia (0.2), India (0.1), Sri Lanka (0.1) and other countries (0.2).

⁸⁶ Kadavil

transparent about the breakdown of the retail price (see figure 4). Out of every dollar spent on Sri Lankan organic fair trade black tea in Italy,⁸⁷ 30 cents accounts for the free on board price which includes the price paid to the producer and the costs of local transport and taxes of tea in Sri Lanka. Assuming that miscellaneous costs such as shipping, insurance and duties that were incurred in importing this tea are similar to that of regular tea, it follows for mainstream Dutch tea that at least 74 percent of the retail price is divided between tea packers and retailers⁸⁸. Value distribution along the supply chain would vary with such factors as to whether the product is a premium or ordinary tea (blend) and whether it is a branded, value or private-label product. If the average retail price for tea is used as a reference, for example, rather than the “cheap” average English tea blend, the auction price only accounts for 8 cents⁸⁹.

Figure 4: Breakdown of retail price along the value chain for Fairtrade Organic tea



Source: Altromercato, adapted by SOMO

⁸⁷ Altromercato website, “Te nero Bopf, prezzo trasparente”

<<http://www.altromercato.it/it/prodotti/ALI/A02/101/506/000041>> (14 February 2008)

⁸⁸ Netherlands VAT for tea is 6%. In reality shipping cost could be much lower, but FOB prices are higher than auction prices and are highest of all countries in Sri Lanka. For this estimate the high FOB value addition in Sri Lanka was used as reference.

⁸⁹ Average Dutch retail price for tea was USD 21,63 per kilo source: Vereniging van Nederlandse Koffiebranders en Theepakkers (VNKT), Jaarverslag 2006, October 2007, <http://vnkt.nl/content/index2.php?option=com_content&do_pdf=1&id=134> (10 June 2008)

3.3.2 Falling prices

It should be stressed that the auction share of the retail price as depicted above is a *relative* share. It may be relatively low, but in addition that same share has lost its purchasing power on world tea markets over the years. Figure 5 shows real prices (world market prices corrected for inflation) for selected tropical commodities. While real prices for coffee and cocoa have plummeted even more, average real tea prices in the years 2000-2005 were roughly half of those in the eighties and 30 percent lower than in the nineties⁹⁰. World market tea prices are mostly under pressure because of a situation of oversupply: global production is outpacing consumption (see figure 5). In addition the cost of production of made tea has increased due among other things to increasing fuel prices and increased labour costs⁹¹. At the same time, however, real retail prices over the last two decades have remained constant⁹². In other words, while the real cost of tea has remained the same for consumers, sourcing costs for retailers and packers have gone down, as has the income for producers.

Since 2006, however, (nominal) tea prices have picked up and FAO predictions are that they will continue to do so. Factors such as the general increase in cost of production and especially growing consumption in China and a slump in Kenyan tea production due to this country's post election crisis have been identified as causes for prices rising by a fifth in two years⁹³. Improved world market prices are a good sign for tea producers. However, in light of increasing production costs, such as soaring oil prices and higher labour costs, it remains to be seen whether it will give producers more room to breathe. Additionally, the US dollar is the standard currency at some of the world's most important tea auctions, such as Kenya. Depreciation of the dollar against local currencies such as the Kenyan shilling⁹⁴ then negatively effects increasing prices in dollars. Finally, unlike falling prices, tea companies are claiming that higher world market tea prices will be passed on to consumers⁹⁵. Hence the producers' and the packers' share could remain unequal.

⁹⁰ Calculations by SOMO, based on figures from FAO, State of commodity markets, 2006, <<http://www.fao.org/docrep/009/a0950e/a0950e00.htm>> (10 June 2008); The prices are deflated with the Manufacturing Unit Values which gives a broad indication of inflation. Purchasing power may differ per country depending on among others domestic inflation and the exchange rate of the local currency against the dollar.

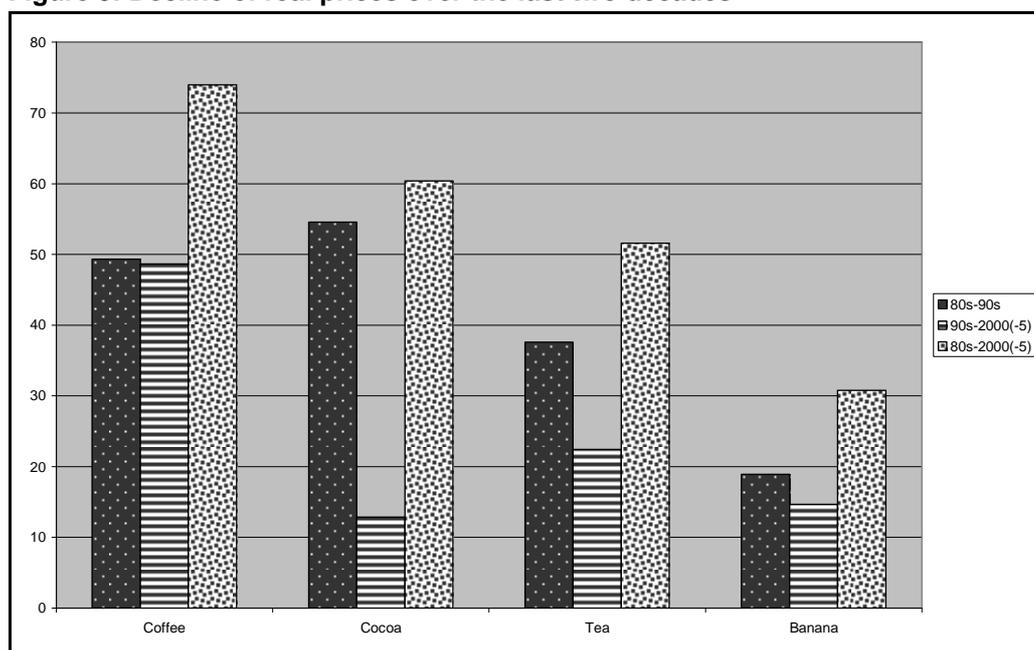
⁹¹ For instance: Committee on commodity problems intergovernmental group on tea (FAO), Current Market Situation and Medium Term Outlook, , December 2006, <<ftp://ftp.fao.org/docrep/fao/meeting/011/j8332e.pdf> > (10 June 2008)

⁹² Referring to UK retail prices, source: LMC International, Tea Supply Chain UK impact Unilever, <http://www.inttea.com/download/Tea_Supply_Chain_UK_Impact_Sandy_Morrison.ppt> (10 June 2008)

⁹³ "China's growing taste for tea forces up the price of our daily cuppa", Times Online, 16 February 2008 <http://business.timesonline.co.uk/tol/business/industry_sectors/consumer_goods/article3378647.ece> (April 2008)

⁹⁴ Central Bank of Kenya website (KS 61.6733/1 USD) <www.centralbank.go.ke> (8 May 2008) & ITC 2007 (KS 72.10/ USD in 2006)

⁹⁵ "China's growing taste for tea forces up the price of our daily cuppa",

Figure 5: Decline of real prices over the last two decades

Source: SOMO, adopted from FAO, state of commodity markets 2006

3.3.3 Concentration in buying power

As has been outlined in chapter 2, there is a great deal of concentration at the buying end. A handful of companies dominate trade and retail sales. There are indications that these companies have been influential in keeping world market prices low. In India there is consensus among various stakeholders, including buyers, that there is a high degree of collusion that prevails in auctions in order to keep the price down⁹⁶. As auction prices are reference prices for private sales, lower auction prices result in lower prices in private/direct sales. It is also highly likely that Unilever - which on its own accounts for more than 70 percent of Indonesian tea exports - influences prices in this country⁹⁷. Only six companies reportedly account for two thirds of the tea traded at the Mombasa auction, where most African tea producing countries trade their tea⁹⁸. In 2005, the situation regarding alleged collusion was deemed so bad that the Kenyan National Chamber of Commerce called for the elimination of tea auctions⁹⁹. The Kenyan Government had found that the big buyers were reported to

⁹⁶ Kadavil

⁹⁷ Kustanti

⁹⁸ "Tea Auction's Big Guns Now Have To Play With KTDA", The Nation (Kenya), March 2, 2004

⁹⁹ Agritrade website, Tea: Executive brief, February 2007

< http://agritrade.cta.int/en/commodities/tea_sector/executive_brief> (April 2008)

be sharing out lots between them instead of bidding against each other competitively for each lot of tea sold at auction^{100,101}.

3.3.4 Smallholders

There is an overlap in the economic, environmental and social issues affecting smallholders and large tea producers. However there are also a number of factors that uniquely bedevil the smallholder sub-sector. This section will be looking briefly at some of the most of important of these, including low farm gate prices, poor extension services, poor access to credit and low level of farmer organisation.

Limited market channels

Small tea farmers are mostly price takers. With the exception of individual small farmers in Vietnam they only produce green leaf not made tea in the countries studied. They may sell their green leaves to middlemen, plantations or processors. After picking the leaf, they need to get their produce to a processing factory as quickly as possible, in order to prevent loss of quality. In many cases, however, they have only one or limited number of outlets for their produce. This could be due to a lack of transportation, or that there is only one factory in the area to process their tea.

Institutional support for smallholders

As already mentioned in chapter 2 smallholders are increasingly important for tea production around the world. In all the countries in the study, there is or was institutional support to develop this sub-sector. For example, smallholders in Kenya and Sri Lanka are supported through (former) dedicated government institutions such as The Tea Small Holdings Development Authority (TSHDA) in Sri Lanka and the Kenya Tea Development Agency (KTDA). There are also programmes and projects, which are sometimes also funded by multilateral financial institutions such as the World Bank or Asian Development Bank, that provide all kinds of extension services, training, loans and material. In Kenya, this has resulted in a tremendous growth of smallholder tea production from barely 2 percent of national production in 1963 to 60 percent in 2005. This support in the form of the KTDA has been privatised and, unlike in all other countries, smallholders have legally become the co-owners of their assets, including the processing plants. In India and Vietnam, many small farmers sell their tea to private or co-operative tea processing factories, also known as 'bought leaf factories'. In Vietnam, construction of these factories was facilitated by government incentives for SMEs. Over the last decade alone, tea production has doubled in Vietnam. Apart from this SME incentive programme this rise in production can be attributed to a massive (generic) promotional campaign by the government-run marketing agency VINATEA and an ADB programme to raise the incomes of small-scale farmers through development of tea and fruit.

¹⁰⁰ T. Lines, Sustainable Livelihoods for Indian Tea Workers, May 2006 <
<http://www.tomlines.org.uk/userimages/TeaTraidcraft.pdf>> (10 June 2008)

¹⁰¹ Agritrade

In Kenya for example almost all smallholder tea is processed and sold by the Kenya Tea Development Agency (KTDA) that has 56 collectively owned tea factories in the tea districts of the country. In Malawi a similar institute the Smallholder Tea Authority was dismantled in 2000 (see also boxed text). Now smallholders sell their tea only through large plantations with factories. The ones that are in so called out-grower or extension service schemes with these companies are contractually compelled to sell their tea to these companies only.

Low level of organization and representation

The information flow and sharing of market demands such as quality, price, sustainability and good farm practices within the sub-sector in most countries studied is poor and in some cases lacking completely. This means that farmers are often unaware of for example auction prices or quality demands that are relevant for fixing the price of green leaf. This further undermines their bargaining power. Price formulation by a single or limited number of buyers such as in Vietnam, Kenya and Malawi is not transparent and does not involve effective smallholder governance.

The low level of organization through for instance co-operatives and other dedicated institutions in the smallholder sector is common to all countries studied. This hinders their effective representation at important institutions, knowledge and skill sharing and ultimately their bargaining position. In Kenya, that theoretically has the most organized smallholder tea sector in the world, smallholders are not organized effectively. Smallholders indicated that their union the Kenya Union of Small-Scale Tea Owners (KUSSTO) is not effective, that they are not represented at the Tea Board Kenya (TBK), the East African Tea Traders Association (EATTA) nor at the Mombasa Tea Auction (MTA) where most of the smallholder tea is sold. And representation of smallholder tea at the Kenya Tea Development Agency (KTDA) through regional directors is ineffective or compromised¹⁰². In Malawi smallholders, that account for only 7 percent of production, are not organized nor (effectively) represented in national tea institutions.

In India there is a limited group of tea smallholders that may be organized in many different ways from co-operatives to self help groups. The latter for instance were initiated by the Indian tea board for the improvement of quality and enhancement of the productivity of the existing tea areas such as the states Assam and Kerala. However while some of these organisations are effective in for example improving farm practices and quality through sharing of information or improving tea collection they generally have limited their role to the initial phase of production and are mostly incapable to move up further in the value chain.

¹⁰² Report on Research on the Small-Scale Tea Sector in Kenya (Nairobi: Christian Partners Development Agency, May 2008)

Low farm gate prices

Except for Vietnam in all countries studied small scale farmer indicated that prices for green leaf are low (see table 4). For instance in Malawi green leaf prices are fixed by the large private companies at USD 0.082 per kilo. The price does not discriminate for quality or fluctuates with current world market prices. Farmers claim that this price is below the cost of production and because of the fixed price there is no incentive for them to produce better quality green leaf. Hence most of the farmers surveyed grow other crops as well to supplement income. Poverty among smallholders was evident some small-scale farmers interviewed wore rags and could not afford even shoes.

In India and Indonesia almost all cultivators interviewed reported that they are unable to meet the high cost of production. As a result in Indonesia they frequently come to the last solution, sell their land or change to more profitable commodities. Also in Kenya low payments for green leaf to smallholders were beginning to negatively affect production. This was evident in some areas in Vihiga district where tea farms are being neglected and in some extreme cases tea bushes uprooted. A report on the smallholder sector in 5 states in India by the Indian Tea Board indicates that only in Assam were prices for green leaf above the cost of production in 2005, in the remaining states they were all well below production costs¹⁰³.

The price paid by the agents of private processing factories (Bought Leaf Factory's, BLF) to the small growers is based on the auction price fetched by some 'representative' factories. However, there is no formal list of these 'representative' factories and there are no disclosures made on how the green tea price for the period is arrived at. The small growers do not have any control over green leaf prices, and the price fluctuation in the auctions directly and immediately affects the price realised by them. Most of the BLFs sell their first-grade quality tea to the direct market at a higher price and sell the poorer quality tea at the auctions. As a result the factory only pays the average auction price for all the tea leaf procured from the smallholders.

In Vietnam there is the unusual situation that supply of green leaf is lower than demand because of excessive tea processing capacity. As a result farmers are presently in a good bargaining position. However because the unprofitability of the tea factories this situation is likely to change in the future. Vietnamese farmers are neither prepared nor organized to meet such a challenge.

¹⁰³ Kadavil

Table 4: Indicative prices for green leaf from smallholders in 2007 (in USD)

Country	Price
Sri Lanka	0.34
Kenya*	0.21
India	0.13
Indonesia	0.12
Malawi	0.08

Source: case studies adapted by SOMO, *2005

Land rights

Lack of title deeds for cultivable land for tea cultivation is a major concern for small tea segments in India. The absence of title deeds there prevents small-scale cultivators from registering with the Tea Board thereby failing to avail themselves of subsidies and financial assistance under various schemes of the Tea Board and other financial institutions. In Indonesia the industry has also been plagued by conflicts over land as well. Two recent cases occurred in Bengkulu, Sumatra and West Java. In the first case, a private-owned estates PT Agro Tea illegally acquired 105 hectares of protected forest and land of coffee (and vanilla) growers. In the second, PTPN VII was in conflict with the locals over the land it used¹⁰⁴.

Lack of extension services, poor farm practices and logistics

Another important issue is the lack of extension services. Extension services provided by KTDA to small scale farmers in Kenya are reportedly insufficient. Fertiliser prices that were imposed were considered too high and the amount supplied often excessively higher than the amounts needed. The sporadic poor services at the Tea Collection Centres (TCC) and the Tea Factories negatively affects tea quality and incomes for farmers. Critical issues range from poor transportation affecting tea quality, poor tea sacks resulting in loss of tea, too few staff at the TCCs resulting in farmers having to wait for long periods and/or, not being served at all due to fraud and theft.

In India tea smallholders often face similar problems. It was observed that as a result of low prices and a lack of proper training and awareness on the part the cultivators they fail to maintain their gardens properly. This in turn leads to deteriorating quality. In some regions especially a lack of transport facilities and a long distance from gardens to factory are detrimental to the quality of leaves. It was also noted in India that large-scale conversion of forest land to tea cultivation, and measures to correct ecological imbalance and other environmental problems, are sometimes not addressed by smallholders and the Government¹⁰⁵.

¹⁰⁴ Kustanti

¹⁰⁵ Kadavil

The case studies in among others Malawi and Indonesia also revealed examples of the importance of extension services. Smallholders in these countries that received extension services from private companies such as assistance and training in farm practices and access to credit and fertiliser were able to significantly increase the volume of green leaf produced.

Workers becoming out-growers

In Sri Lanka, converting workers to independent out-growers is an increasingly popular method of cutting labour costs. In this system, a plot of land is allocated to a worker family working on an estate. They are given fertiliser and other technical assistance to manage this tea-growing land. From then on, they are paid for the green leaf supplied to the factory, at a price decided by the company. This is cheaper for the estates, because they can avoid paying the benefits that workers are entitled to through the collective bargaining agreement applicable in this sector. Although the system was implemented in some government and private tea estates, it was opposed by the trade unions. They fear that this will negatively affect the wellbeing of the workers, among others, due to an increased workload that could intensify child and family labour in the tea industry. Reports from the “employee-owned” tea plantation Kannan Devan Hills Plantations Company Private limited (KDHP) in South India that was formerly owned by Tata Tea indeed indicate that the workload has increased for workers after they became the collective owners¹⁰⁶.

¹⁰⁶ Kadavil

4 Forces of hindrance and advancement

In this chapter we will be looking at some of the forces of hindrance and advancement for a sustainable tea production in the countries studied. As elsewhere in the report, the focus is primarily on those forces or factors that have been covered by the various case studies. As it is difficult to discuss effects without causes and vice versa, most of the causes have at least been identified in earlier chapters, but will be elaborated on here.

4.1 High cost of primary production

Producers, smallholders and other stakeholders in the tea sector in the countries under review indicated that the costs of production have been clearly rising. They pointed to higher costs for labour, fuel and electricity. In Indonesia, for example, fuel costs doubled for producers when fuel subsidies were cut in 2005¹⁰⁷. Large estates in Kenya, in particular, have identified the high cost of labour as one of their key challenges. Labour costs constituted about 43% of total costs in 1999, whereas this figure had risen to about 55% by 2006. On a comparative note, the costs of labour increased out of step with the rate of inflation: wages rose by 175% and inflation by about 70% between 1996 and 2007¹⁰⁸. Other challenges that were noted by the tea industry in this country included serious climate changes that had reduced tea production, dilapidated infrastructure leading to an increase in costs of production including transportation, and unreliable energy supplies resulting in high costs¹⁰⁹.

The case studies as such did not collect quantitative data on the cost of production overtime, so it was not possible to illustrate these rising costs. It is possible to compare the indicative cost of production across the countries studied, however. As can be seen in figure 6, the costs of production in Sri Lanka are considered to be the highest among tea-producing countries¹¹⁰. The costs of production in India are also relatively high, while those in the other countries - especially in Indonesia - are much lower.

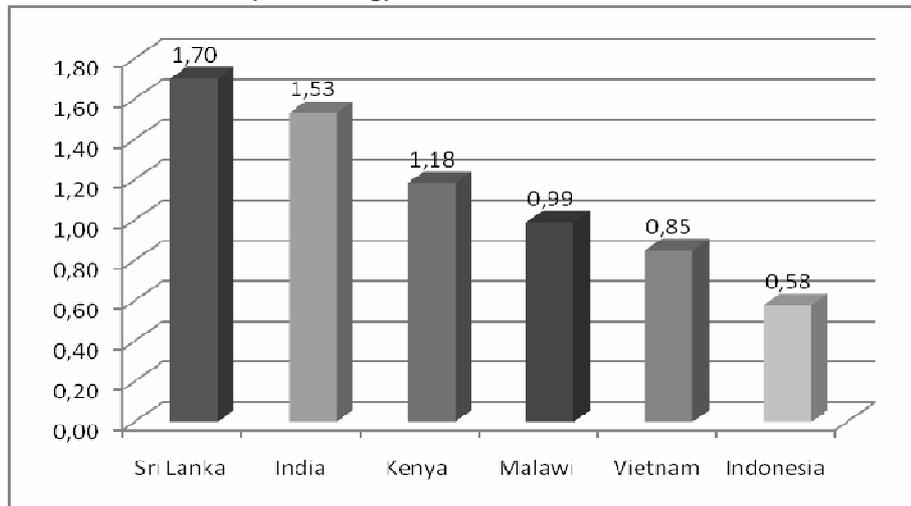
¹⁰⁷ BBC News website, "Indonesia clashes over fuel hike" 1 October 2005, <<http://news.bbc.co.uk/2/hi/asia-pacific/4296320.stm>> (10 June 2008)

¹⁰⁸ Kabiru

¹⁰⁹ Kabiru

¹¹⁰ SustainabiliTea

Figure 6: Indicative cost of production for made tea in various tea-producing countries (in USD/kg)



Source: SOMO based on various sources¹¹¹

One factor which is closely related to the cost of production is, of course, productivity in terms of volume per hectare which is affected by aspects such as climate, soil fertility and labour productivity. Productivity in Sri Lanka (1,611 kg/ha) is lower than in India (1,690) and Kenya (2,235)¹¹². Kenya started producing tea relatively recently, for instance, compared to India and Sri Lanka. As a result, the tea lands of Kenya are more fertile and much less affected by pests and diseases. There is also a poor bush stand per unit area, due to a large percentage of old seedling tea, which is also less productive. And although the lie of the lands in India and Sri Lanka are similar, greater attention is paid to soil conservation and fertility improvement in India. In-filling was also carried out more regularly in India than in Sri Lanka. Field and factory worker productivity is also considered low. All these factors have affected productivity.

Productivity declined in India from 1996 to 2005, and in the large estates in Kenya from 1998 to 2006, as well as in parts of Sri Lanka (e.g. Deniyaya and Uda pussellawa). Rising costs/lower productivity can have negative consequences on social and environmental aspects of production if these costs cannot be forwarded downstream to buyers (see chapter 3). In India, for example, the impact of social benefits on the large estates works out at about 5-8 per cent of the total costs. Overall, labour costs comprise around 60% of total costs in this country. The profitability of the industry at the current level of prices, both in the local and

¹¹¹ The average was calculated of three sources in the literature: ITA, Indian Tea Scenario 2004 (2003 figures) in J. John (CEC), "Prelude to International Tea Conference", 12-14 December 2005, <<http://www.teaday.org/contents/India.pdf>> (10 June 2008); Tanzania Tea Competitiveness Study (2007), TECHNOSERVE (unpublished?) in Report on Research on the Small-Scale Tea Sector in Kenya and figures from SustainabiliTea

¹¹² SustainabiliTea

international markets, does not provide the way to meet this cost. However, the cost of production is also increasing as a result of mismanagement, age of the bushes, high overhead costs and bad agricultural practices¹¹³.

4.2 Changing modes of production and restructuring

Developing countries are the hubs of tea production, but most of the income is generated in the often-developed countries that consume tea, through blending, packaging, and distribution (see also chapters 2 and 3). As a result of factors such as increasing primary production costs, falling prices and globalisation that has facilitated increased trade and capital flows, the tea sector is seeing restructuring take place, especially in India with estates being abandoned and closed, which often has dire consequences for plantation communities. In India, large multinationals such as Tata and Unilever are moving out of production (see boxed text) to focus on more profitable tea activities.

The plantation model, which in India and Sri Lanka is governed by strict plantation labour laws, is considered burdensome in terms of the costs of production relative to low producer prices. Consequently the smallholder production model has become more attractive and important in these countries. The costs of production on smallholder tea farms have remained relatively lower than on the estates primarily because there are many hidden family labour costs, and also because the smallholders do not have to (legally) bear any social costs (eg. provident funds, gratuity, insurances) for their family or hired labour. Productivity in terms of volume per hectare could, however, certainly be higher in the smallholder sector. Large plantations generally outperform smallholders in terms of volume per hectare. Smallholder yields in Indonesia are 750 kg/ha, compared to 1996 kg/ha for plantations, for example, and in Kenya smallholder yields are 1,840 kg/ha and plantation yields 2,328 kg/ha¹¹⁴. In Sri Lanka, however, the productivity of smallholders is substantially higher than that of the corporate sector with around 1,853 and 1,459 kg/ha respectively.

Alongside the growth in more traditional smallholder models, such as the co-operative and private processing factories popularly known as Bought Leaf Factories and out-grower systems, India has seen the rise of alternative plantation models such as employee-owned plantations and plantations with participatory management. Some of these have seen a clear increase in productivity¹¹⁵.

Methods of tea production are also changing in Malawi, Indonesia and Vietnam, albeit to a lesser extent. In Malawi, all smallholders are dependent on the private sector for

¹¹³ Kadavil

¹¹⁴ Report on Research on the Small-Scale Tea Sector in Kenya & Kustanti (calculations SOMO)

¹¹⁵ Kadavil

their output, after supportive state institutions such as the STA (Smallholder Tea Authority), MATECO (Malawi Tea Company), Smallholder Tea Growers Trust (STGT) and Smallholder Tea Company (STECO) were wound up. In Vietnam, the number of state-owned companies is decreasing and the number of private companies increasing. In 1999 state owned tea plantations accounted for half of the volume produced while in 2002 they accounted for only a third. Tea is not considered a high priority crop by the government anymore, it was recently taken of the list of five “strategic” agricultural products. In Indonesia, half of the total national production in volume is still produced on government estates. The government seems to have lost interest in the sector, however, and is focusing on more strategic commodities such as oil palm. The area planted on government estates is declining, as is production. The smallholder sector is expanding slightly, however, and production grew by half between 1995 and 2005¹¹⁶.

The growth of smallholder tea production worldwide could present sustainability challenges precisely because regulation in this subsector is less strict and farming practices may be less environmentally friendly. But also due to lower traceability, quality and continuous supply (see standards section below).

Exit of the giants: divesting primary production

Some of the largest companies in the Indian tea sector are divesting all their tea plantations. These companies want to focus on the retail end of the supply chain, where most of the profits in the tea sector accrue. Hindustan Unilever Limited (HUL) and Tata tea, which dominate the Indian retail tea market with a 60% share of branded tea sales in 2005, were significant employers in the tea sector, owning plantations with thousands of workers¹¹⁷. However Unilever divested all its plantations in 2006, laying off 12,000 workers, and Tata is looking to do the same and so far has shed 24,000 jobs. These estates are either sold to other plantation companies or are sometimes continued independently following an employee buy-out, as in the case of Kannan Devan Hills Plantations Company Private limited (KDHP). Interestingly, large plantation companies such as McLeod Russel are seeing interest in expanding their production: they bought large plantations from HUL in Assam to become the largest tea plantation company. They claim it will help them better control prices through their bigger hold on supply and by becoming a “one stop shop” for tea¹¹⁸.

4.3 Capturing value added

Depending on the definition of value added, some countries have been more successful in capturing it than others. In all these cases below, value added means

¹¹⁶ Kustanti

¹¹⁷ Asian food worker website, “Unilever & Tata Tea: Pruning Workers, Reaping Profits” 21 September 2007 <<http://asianfoodworker.net/india/070921tea.html>> (10 June 2008)

¹¹⁸ Kadavil

the share of tea that is not exported in bulk. Non-bulk tea includes tea in tea bags, tea in packets and instant tea. For instance, of the total quantity of Sri Lankan tea exports, about 40% is in value-added form, which is considered to be high, compared to figures from other tea-exporting countries¹¹⁹. In India, for instance, this is only 14%,¹²⁰ of which 3% is in the form of exports of tea bags. In terms of value, however, this is 30% and 10% respectively. Older figures from the International Trade Center (2002) also indicate that, with 6 and 7 percent of total volume exported respectively, Indonesia and Vietnam are much less successful than both Sri Lanka and India in this respect¹²¹. FAO figures looking at value added from 1991/1993 to 2001/2003 indicate that only Sri Lanka and Kenya were successful in both capturing higher unit prices and increasing their market share for value-added tea¹²².

Dilmah

Dilmah is an example of a company from a tea-producing country that has been successful in capturing consumer retail tea markets overseas. The tea it exports is produced, processed and packaged in Sri Lanka and successfully marketed in and exported to 90 countries worldwide. Based in and originating from Sri Lanka, Dilmah is a brand of tea being marketed as a 'single source' Ceylon (Sri Lanka) tea. In this, it is attempting to distinguish itself from the larger tea brands, that mostly blend tea which originates from various countries worldwide. The brand has existed since 1985 and claims to be among the top ten largest tea brands in the world.

The Dilmah brand is owned by the MJF group, named after its founder Merrill J. Fernando. The group owns various tea packaging and export companies and is the majority shareholder in a plantation company, creating a vertically integrated tea business. The group also has a strategic alliance with two other large plantation companies. The packaging and production divisions of the group are: Ceylon Tea Services, which exports bagged tea under the Dilmah brand, MJF exports Ltd. which sells tea in bulk to traders and blenders and MJF Teas Pvt. Ltd., specializing in the Soviet States, where it markets and sells retail tea under the Dilmah brand. Other activities of the group include spas, tourist resorts and a charitable foundation.

According to their website, the MJF group itself employs approximately 800 people, while there are 25,000 employees working at plantations which supply and/or are owned by the group. The three plantations produced an estimated 23,000 tons of tea in 2003, of which the group exported 8,000 tons.

Source: Dilmah website www.dilmah.com (14-12-2006)

¹¹⁹ SustainabilityTea

¹²⁰ ITC 2007 calculations SOMO

¹²¹ Kustanti

¹²² Committee on commodity problems, intergovernmental group on tea (FAO), Upgrading in the International Tea Sector: A Values Chain Analyses, 20 - 22 July 2005 <<http://www.fao.org/docrep/meeting/009/j5315e.htm>> (10 June 2008)

The figures above also give some indication, however, that tea-producing countries have so far been relatively unsuccessful at capturing greater value added by becoming active in the more lucrative aspects of overseas tea supply chains, such as blending (tea in bags is mostly blends), branding and distribution. In general, and as is the case with most consumer-ready processed foods, tea is processed in or near target markets¹²³. Factors affecting the geography of processed foods include tariff escalation (which makes imports of processed foods more expensive than unprocessed food, see below), transportation costs and varying national consumer preferences.

Transportation costs seem to be an important factor. Shipping tea in consumer tea bags is much less cost effective than in bulk. Processing and packaging of tea is therefore more economical in places and regions that are closer to key importing markets. Marketing capacity also seems to be an important barrier to capturing greater value added. Selling branded or bagged tea in overseas markets requires high investments and skills in local promotion and distribution, among other things. To date, only a few producers in developing countries, such as Dilmah (see boxed text) and Tata tea (through acquisition of Tetley), have been able to independently capture market share in developed country markets.

Tariffs and tariff escalation becoming less important

Tariff escalation is a system through which an importing country protects its processing or manufacturing industry by setting lower duties on imports of raw materials and components and higher duties on finished products. Tariff escalation was important in the recent past¹²⁴ and traditionally could have hindered tea producing countries capturing more value added, but it now has become a relatively minor issue. In the EU and USA, for example, tariffs are non-discriminatory and nil. Many tea-producing countries protect their markets with - often high - tariffs on (bulk) tea, ranging from as low as 2.5% on black tea in Japan (the country produces mostly green tea) to 145% in Turkey¹²⁵. However, apart from in Japan and India, tariffs are usually applied equally to all tea products. While some major tea-importing countries, such as the CIS countries and Saudi Arabia, apply tariff escalation to tea bags. In other countries this applies mostly to instant tea only. Trade in instant tea represents only a fraction of the total world tea trade¹²⁶. Some analysts point out that because highly-priced tea bags may contain up to 21 teas from different sources that tariffs in general not only hinder South-south trade but also the possibility to capture more value added through blending¹²⁷.

¹²³ See for instance: The Profit Behind Your Plate, Critical Issues in the Processed Food Industry, SOMO, December 2006 and SOMO (Sustainability, 2006)

¹²⁴ See for instance: Commodities and Trade Division (FAO), Tariff escalation in agricultural commodity markets, 2003 <<http://www.fao.org/docrep/005/y4852e/y4852e02.htm>> (10 June 2008)

¹²⁵ ITC 2006

¹²⁶ ITC 2007

¹²⁷ Committee on commodity problems (2005)

Tariffs and tariff escalation are becoming less important hindrances in capturing value added in overseas markets (see boxed text). Increasingly it seems that a delicate and complex mix of tax breaks, energy, transportation and sourcing costs, and infrastructure “offered” by countries determines where tea is packed (see boxed text).

Outside of packing and distributing tea (overseas), value can be added in tea-producing countries between auctions or farm gates and shipping. For instance, the Colombo tea auction centre is one of the largest in the world and on average it trades about 5-6 million kg of tea weekly. Colombo auction prices are the highest worldwide (about US \$ 1.80-1.90 per kg of made tea), as are the FOB (free on board) prices (about USD 2.63 per kg). Therefore 28 percent of the value addition (FOB minus auction price) occurs after the auction, in the form of broker, transportation and insurance costs, and in particular the 15% VAT imposed on all tea sold since 2005.

Attracting FDI for value-added tea production

The export processing zone EPZ authority in Kenya has been encouraging packing companies to pack locally by offering incentives such as duty-free importation of packing materials and equipment. However despite these incentives, major players in the global tea sector such as Unilever have no intention to relocate their packaging of tea to Kenya. Or in the words of the Unilever Kenya management “shipping tea bags from Kenya was like shipping air”. Instead Unilever has its third largest tea packing facility in Dubai where the company enjoys benefits such as tax breaks, better infrastructural facilities and is closer to some of its target markets. Currently, a third of this tea hub’s production is exported to more than 45 countries in the world, including Eastern Europe and Canada¹²⁸. However there are also examples of tea producing countries that are successful in attracting or expanding their packed tea exports. For instance Unilever’s Lipton factories in Australia and Vietnam have been closed down and relocated to Indonesia,¹²⁹ and Tata closed its Australian factory in order to serve Australian, Polish and Russian tea markets from its Sri Lankan joint venture packaging company¹³⁰.

Adding value this way is of course important for state revenues and profitable for (domestic) actors further down the supply chain. They may not be supportive in generating higher income for producers, however. Moreover national policies are also sometimes not very conducive to creating value added in the tea supply chain either. For instance, up to early 2007, the main barrier to the development of the downstream industry in Indonesia was the imposition of the value-added tax of

¹²⁸ Unilever website, “Unilever Arabia, one of the region’s leading suppliers of fast-moving consumer goods, has announced the completion of a two-year expansion plan of its Jebel Ali-based Lipton Tea factory”, 1 August 2006, < <http://unileverlebanon.com/our-company/news-media/pressreleases/2006/liptonexpands.asp> >

¹²⁹ Kustanti

¹³⁰ Euromonitor website, “All the tea in India”, 30 March 2004
<http://www.euromonitor.com/All_the_tea_in_India> (10 June 2008)

10%¹³¹, which applied to value-added products only. Thus regarding stakeholders in this country also lamented a lack of investment incentives and consistent governmental support.

4.4 Diversification

Apart from the changing scenario of production and increased focus on value added through intensifying brand products and markets, the tea industry has also witnessed the new business model of the major companies in tea plantation, which is diversification of crops. The highly volatile price and fluctuation of international markets has forced the companies to develop new business models to survive in the industry. Companies have initiated new projects for diversification of products, developing the retail market and nature-based tourism in and around their tea gardens. Many tea smallholders in Malawi and Kenya grow other crops as well, in order to avoid dependence on fluctuating income from tea. In Indonesia state plantations often already are growing multiple crops, such as rubber, cassava, oil palm, coffee and cocoa, alongside tea.

Diversification at Tata Tea

In Sri Lanka, Tata Tea has focused on expanding market share in consumer marketing, improving productivity, enhancing the quality of products and services, and sustaining the growth of company. The company also decided to diversify into export agriculture crops and other vegetables. Pilot projects were successfully implemented on the Carolina estate, where pepper, vanilla, cardamom, areca nut, passion fruit and cinnamon are being cultivated. Unproductive land growing seedling tea and uncultivated land on their estates in the Lindale region have been utilized to cultivate potatoes. The additional advantage gained from diversification is not only the resultant improvement in land productivity but also the fact that it addresses the issue of excess labour. In India, Tata Tea has plans to start farming pigs, catfish and fruit and vegetables via cooperatives in their tea gardens, to supply the proliferating retail chains.¹³² These initiatives are introducing new ventures into non-tea areas in existing tea estates in Assam and West Bengal.

4.5 Standards

Public and private standards for quality, food safety, traceability and sustainability are increasingly important in the tea sector. This is the result of factors such as increasing competition, globalization, regovernance (new vertical and horizontal arrangements and changing power relationships in the supply chain) and ethical, ecological and food safety concerns of consumers and buyers. In Sri Lanka, for example, producers

¹³¹ Kustanti

¹³² Kadavil

are seeing a clear increased demand for “Food Factory Concepts” and certification systems, such as Hazard Analysis and Critical Control Points (HACCP), ISO¹³³ 22000 and ISO 9001:2000. To achieve such certification, factory modernization and/or process automation are essential, which require capital infusion and which may add to production cost.

Because the implementation of private and public standards can raise costs without necessarily raising income or increasing market share, they are often seen as non-tariff barriers. For example, stakeholders in Indonesia identified the Ethical Tea Partnership (CSR initiative), Maximum Residue Level (MRL), Hazard Analysis Critical Control Point (HACCP)¹³⁴, International Standard Phytosanitary Measures (ISPM) 15/Wood Pallet Certification and the Bioterrorism Act (TBA) as non-trade barriers. There was also grave concern that the imposition of HACCP in European markets since 1 January 2006 would have a negative impact on tea exports to European markets¹³⁵. Requirements stipulating very low levels of pesticide residues (MRLs) in made tea, especially from European Union (EU) Countries and Japan, are to some extent also seen as a non-tariff barrier for export of tea from Sri Lanka.

Traceability

Traceability is increasingly important for ensuring food safety and quality but also ensuring sustainability aspects (e.g. organic, fair trade). Various forms of traceability are possible and operational. For example, in fair-trade and organic systems, the chain of custody requirements ensures traceability. That means that all operators must be certified/registered to handle certified produce and information about the original producer is stored throughout the chain. Traceability is generally possible in the tea sector, to a certain extent. For instance, batches sold through auctions include information on who has produced the tea. If these are plantations that only process their own tea, then traceability does not pose a problem. Traceability is difficult and costly, however, if plantation factories also buy green leaf from other producers, such as smallholders, in order to process it in their factories. This applies equally to independent factories that source tea from smallholders who might have their teas mixed at tea collection centres or by collectors. As a result, increasing traceability requirements could lead to further restructuring in the tea supply chain.

While these developments can be seen as challenges and marketing opportunities for some, they may have serious repercussions for less resourceful or organized supply chain actors, such as smallholders, whose importance in world tea production is

¹³³ ISO (International Organization for Standardization) is the world's largest developer and publisher of International Standards. ISO is a network of the national standards institutes of 157 countries, one member per country, with a Central Secretariat in Geneva, Switzerland, that coordinates the system.

¹³⁴ Hazard Analysis Critical Control Points. It is a Food Safety methodology that relies on the identification of Critical Control Points (CCPs) in food production and preparation processes. Closely monitored CCPs will ensure that food is safe for human consumption.

¹³⁵ Kustanti

clearly increasing. For instance, some analysts have pointed out that multinational tea companies are increasingly contracting with larger agro-processing firms, which are able to effectively coordinate deliveries and quality standards from small farmers through effective supply chain management, as is happening in Indonesia. This trend may result in increased selectivity amongst suppliers and may lead to a reduced supplier base (see also boxed text)¹³⁶.

4.6 Quality

In a number of tea-producing countries, decreasing quality is an issue. So far Sri Lanka is the only tea exporting country which strictly adheres to a minimum product quality standard (the ISO 3720) for all tea exported. However, plantation managers who were interviewed feared that the industry will be compelled to switch to mechanical tea picking, due to the labour shortage, which would have a negative impact on the quality of tea produced and consequently on the image of 'Ceylon tea' as one of the best in the world. They also added that the implementation of mechanization practices (see boxed text) will not be that straightforward on Sri Lankan plantations, considering the terrain.

In Vietnam, as demand for green leaf is outstripping supply, farmers pay little attention to quality plucking. This may result in a deteriorating quality of Vietnamese tea, which already has a mediocre reputation on the international market, where it is used mainly as filler tea. Tea processing factories are facing difficulties in quality control and have a low utilisation of new technology. In general tea processing quality is far behind the rest of the world¹³⁷.

Mechanization

In a number of tea-producing countries, jobs, in the sector are under pressure from the increased use of automated picking. In Indonesia, for example, one state-owned plantation is expected to shed 60 percent, or about 2360, of its pickers because of the picking machines it has acquired. A number of other large plantations have announced that they are going to use automated picking or have already implemented it. In Kenya, announcements by trade union leaders and government representatives of many thousands of job losses as a result of the introduction of automated tea picking created a lot of unrest and led to a (peaceful) strike. Industry representatives however claim these numbers are far-fetched. They point out that less than 3% of the tea estates were suitable for mechanization, because machines could only be used on flat terrain and mostly for green tea only which must be taken to the factory less than an hour after plucking to ensure that the leaves do not start to ferment.

¹³⁶ J. Neilson & B. Pritchard, Traceability supply chains and smallholders case studies from India and Indonesia, 29 November – 1 December 2006, <<ftp://ftp.fao.org/docrep/fao/meeting/011/j8316e.pdf>> (10 June 2006)

¹³⁷ Comparative international research on the tea sector in Vietnam

In India there are no measures to maintain high-quality leaf in small tea segments. The recent mushrooming of Bought Leaf Factories (BLF) in some parts of the country has led to the domestic market being flooded with inferior quality tea. Smaller players are offering this tea at lower prices. While the newly-opened BLFs have better processing machinery¹³⁸ and hence can produce better tea, their performance is mainly influenced by the quality of the green leaves from the small growers. The leaf agents often mix different grades of green leaves before selling it to the BLF. The process of mixing different grades of green leaves also reduces the price of the leaf. As a result, BLFs receive low quality leaf to produce made tea. However, as competition between BLFs has been high recently, they never strictly monitor leaf standards. In addition it is reported that most of the BLFs resort to adulteration while producing made tea. Some BLFs use a wild root, or a variety of potato to adulterate made tea. The waste left after tea production at the big estate factories is reportedly also taken to the BLFs. The use of such inferior products to increase the volume of tea directly affects the quality and increases the supply of made tea within a short period in a particular locality. Market analysts say that the poor quality tea produced by these players not only affects domestic price levels, but also damages the quality perception of the Indian tea in export markets. Another factor affecting many regions, especially Dibrugarh, is a lack of transport facilities, which combined with long distances from gardens to the factory is also detrimental to the quality of leaves.

In Indonesia, the government estates that supply the bulk of tea for export are strict in maintaining tea quality. Nevertheless, inconsistent quality of the Indonesian tea is one of the factors seen as undermining its competitiveness in world markets. The government, and some private estates, are buying from a limited number of smallholders. In some cases, the government has quality improvement programs for these smallholders. The quality of smallholder tea does not have a good reputation, at least according to some of the key stakeholders interviewed¹³⁹. Indeed, the vast majority of small tea growers in Indonesia continue to sell to traditional green tea factories at a quality below export requirements¹⁴⁰. While low quality as such was not mentioned as an issue in Malawi, it was an issue among smallholders interviewed, who claimed that there was no incentive to produce better quality tea leaf because there is a standard price for all smallholder tea.

4.7 Corporate Social Responsibility

As shown in chapter 3, there are a number of key concerns in this sector from a sustainable development perspective. To date, these concerns have not always been well documented, nor have they received wide attention in the media. Exposure has been much higher for other agricultural commodities such as coffee, cocoa and

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¹³⁹ Kustanti

¹⁴⁰ Neilson

bananas. This is probably an important factor in explaining why the concept and implementation of Corporate Social Responsibility (CSR)¹⁴¹ has not received as much attention and gained as much importance in this sector in terms of certified volume, for example, as in some other commodity sectors. Social, economic and environmental issues are, however, now emerging as focal points for the tea industry. In the context of increasing competition, occasionally weak legislation and weaker enforcement, packing companies are increasingly trying and/or claiming to get a better grip on these issues through CSR. The reason for adopting CSR policies can vary widely from gaining greater market share, reacting to client demands, consumer or shareholder expectations and pressure from regulation to preventing brand reputation damage.

CSR can have different forms in the tea sector. On the one hand, it can be a set of policies that includes charity, business integrity, social (workers' welfare), environmental and sometimes economical principles that individually guide mostly large plantation and packing companies, such as Tata Tea, James Finlay and Unilever. On the other hand, CSR can be a system of policies and practices offered by CSR initiatives that guide members and/or producers collectively. As can be seen in the boxed text, many leading tea-packing companies have both in-company CSR policies and participate in or source from collective CSR programmes.

In the case studies, it was found that CSR is still rather underdeveloped at the national level. In Sri Lanka, for example, the awareness level of the stakeholders on key benefits of adoption of CSR strategies is low. However, some of the companies have increasingly begun to understand the benefits of quality certifications and are also trying to benefit from CSR schemes such as the Ethical Tea Partnership (ETP) and Fair Trade (FLO). Tea companies have also signed up to initiatives such as UN Global Compact, and there has been an increase in their developmental activities within the communities, particularly in the area of philanthropy. Companies that have more advanced CSR policies include the larger tea companies such as James Finlay, Tata Tea, Hayles group and Dilmah tea. However, workers and trade unions feel that there has been no attempt to involve them in these processes and they have not been trained to use the opportunities available through the codes to protect labour rights.

¹⁴¹ In this report we use the following definition: *CSR is a process whereby a company assumes responsibility, across its entire supply chain, for the social, ecological and economic consequences of the company's activities, reports on these consequences, and constructively engages with stakeholders.* CSR Frame of Reference (drafted by a coalition of Dutch NGOs and trade unions)
< <http://www.mvo-platform.nl/files/Publicaties/MVO%20referentiekader%20UK.pdf>.>

Current and emerging CSR initiatives in the Tea Sector

As in other commodity sectors, there are a number of CSR initiatives aimed at improving conditions in the tea supply chain, offering their services to tea packing companies and producers. Initiatives that are currently active include the Ethical Tea Partnership (ETP), Rainforest Alliance (RA), Fair Trade (FLO and IFAT)) and Organic (IFOAM). However, other well-known CSR initiatives such as Utz Certified, SAI (SA 8000), BSCI and GlobalGAP (formerly EurepGAP) have plans to expand their services into the tea sector and are exploring ways to do so through pilot schemes and negotiations with private parties.

The Ethical Tea Partnership is the only initiative to focus solely on the tea sector, while all the others are active in certification of other commodities. It is also the most important initiative in terms of volume. Almost all large tea traders and packers are members of ETP, including Sara Lee, Unilever, Tetley (Tata tea group) and R. Twining & Company (ABF). These companies source most or all of their tea from 676 estates (no smallholders are currently included) that are currently monitored by ETP¹⁴². IFOAM currently has the second-largest coverage, with 30,000 ha of tea plantations worldwide. RA Alliance, the newcomer in tea, currently has certified 8,000 ha of (Unilever) tea plantations. In 2007, 5,413 tons (corresponding to roughly 3,000 ha) were sold as FLO certified¹⁴³.

ETP is active in 10 countries, and apart from Vietnam in all the countries covered by this research¹⁴⁴. At the end of 2006, FLO International worked with 79 tea producer organizations in 13 countries in Africa, Asia, and Latin America. All the case study countries were covered, apart from Indonesia¹⁴⁵. To date, Rainforest Alliance has only been active in Kenya. There are a number of differences in the aims of the initiatives¹⁴⁶. ETP, for example, aims to improve the social conditions within the existing supply chains of mainstream market players. Fairtrade, on the other hand, has been specifically set up to address disadvantaged producers and workers by setting up alternative trade chains. IFOAM focuses primarily on environmental aspects and organic farming, while Rainforest Alliance covers both social and environmental aspects.

The picture is similar in India. CSR strategies have not yet been widely adopted. The CSR practices have remained confined to a few big tea companies such as Unilever, Tata tea and large plantation companies such as McLeod Russel. CSR is still generally equated with philanthropy and is not integrated into core business strategy. The workers who are important stakeholders in the value chain often have no knowledge of the trade initiatives and CSR in international standards. In the emerging

¹⁴² Ethical tea partnership website, Performance, Global Overview, <http://www.ethicalteapartnership.org/pages.asp?page_id=79&parent_id=23> (16 May 2008)

¹⁴³ Fairtrade website, Products, "Tea", <<http://www.fairtrade.net/tea.html>> (10 June 2008)

¹⁴⁴ Ethical tea partnership

¹⁴⁵ FLO-cert website, Operators, <<http://www.flo-cert.net/flo-cert/operators.php?id=10>> (18 May 2008)

¹⁴⁶ For a comprehensive analysis of these initiatives see "*Continuous improvement of sustainability performance in tea producing countries, CSR initiatives in the tea sector*" by AIDEnvironment which was commissioned by a consortium of the Dutch tea sector and civil society organizations (to be published shortly, June 2008))

new model of the tea industry, small tea growers with low returns from the tea are hardly in a position to address issues of CSR as it adds to the costs of production. The initiatives of small growers, such as Peerumade Development Society (PDS) in Kerala which is involved in fair trade, are exceptions¹⁴⁷. Apart from systems such as organic and fair trade, in which a number of producers are active, there are also a limited number of programmes and initiatives from NGOs, (inter)governmental organisations and industry organisations that are trying to improve the situation for tea workers and smallholder communities¹⁴⁸.

In Vietnam, CSR is the exception. To date, no social certification schemes, such as the Ethical Tea Partnership, have been active in Vietnam. Fair Trade has been introduced only recently. Since January 2008, a 100% Vietnamese owned Fair Trade company has started to export green and jasmine teas, which are produced and processed to EU organic standards and traded according to FLO criteria. There are also a few other companies exporting organic tea. In some provinces, tea farmers have formed IPM (Integrated Pest Management) clubs as part of programmes provided by the Ministry of Agriculture and Rural Development (MARD). The result is what they refer to as 'clean tea' by domestic standards, but which do not receive international recognition.

In Indonesia, CSR has not gained much attention to date either. Except for stakeholders in a few export-oriented companies, most actors in the tea sector know little about it. CSR is still at the level of debate among the managements of large tea companies, who interpret it as incidental, philanthropic activities, instead of structural well-managed programs directed at the core business level. CSR initiated by multinationals receives little response from stakeholders because standards are created in a top-down fashion and do not lead to fairer prices or to large-scale sustainable development of the tea sector. CSR is relegated to fulfilment of procedural requirements¹⁴⁹. 50 sites are monitored by ETP¹⁵⁰. The case study in Malawi did not provide specific information on CSR policies but 22 sites are monitored by ETP and 3 by FLO.

In Kenya, some large tea estate companies, such as James Finlay and Unilever Tea are implementing various aspects of CSR. Both are also monitored by the Ethical Tea Partnership (ETP). Unilever Tea production in Kenya is also certified by the Rainforest Alliance, the certification process commenced in 2007. James Finlay is producing some of its tea under Fairtrade and RA¹⁵¹ as well¹⁵². CSR policies and

¹⁴⁷ Kadavil

¹⁴⁸ Ibid.

¹⁴⁹ Kustanti

¹⁵⁰ ETP

¹⁵¹ Finlay website, Environment News, Finlays earns sustainable agriculture certification from Rainforest Alliance <<http://www.jamesfinlay.co.uk/our-values/news?node/317>> (10 June 2008)

¹⁵² FLO-cert

practices are to some extent also visible in the small-scale tea industry in Kenya. For instance while the KTDA does not have a (comprehensive) CSR policy that pertains to tea farmers and their communities, 10 out of 56 of its factories are Fairtrade certified. In the four years the factories have been certified, this has generated USD 3.6 million in Fairtrade price premiums on top of what the smallholders involved would normally have earned. This, however, only represents around 0.2 percent of smallholder export value in 2006¹⁵³. KTDA is also involved in a programme funded by DFID (United Kingdom's Department for International Development) together with Unilever (its largest client, sourcing 40 percent of KTDA's tea) aimed at improving the sustainability of the tea smallholder sector¹⁵⁴.

¹⁵³ Calculations SOMO

¹⁵⁴ "Top buyer to help Kenya improve tea productivity", Business Daily (Nairobi), 9 June 2007, <http://www.bdafrica.com/index.php?option=com_content&task=view&id=1685> (18 May 2008)

5 Conclusion and recommendations

The case studies yielded a wealth of information on the tea sector in the countries studied. Tentative conclusions are presented below that are based on the findings presented in this report. While this seems justified it should be noted that it is a difficult task to generalize and compare findings within countries already, let alone generalise and compare findings between countries. For instance, in India more than 5 different states, each with a number of distinct regions, together produce roughly 20 times more tea than the two principal tea-growing regions in Malawi. Moreover, neither this report nor the discussion below capture all the information or even the subjects presented in the case studies. For this, the reader is referred to the case study reports, which are published separately by the organisations that conducted the research, and/or the summaries thereof. After the conclusions, a number of more across-the-board recommendations are presented to various stakeholder groups.

Conclusion

As a result of overproduction, real-world market tea prices fell by roughly half from 1980 to 2005. This has put producers under pressure to lower the cost of production. While there are no figures available on the cost of production over time, historic productivity figures indicate that the average yield per hectare increased by a third during the same period (1980-2005)¹⁵⁵. Because wages, that account for the largest share of production cost, have undoubtedly increased over this period as well it is clear that the profitability in the industry is under serious pressure¹⁵⁶. Meanwhile, tea trade and distribution is dominated by a few international companies that benefit from stable retail prices and, together with retailers, capture more than three quarters of the retail price in Northern countries.

There was little baseline data or evidence available to compare the situation over time in the countries studied, so it cannot be said that conditions have generally deteriorated over time as a result of factors such as falling world market prices. With the evidence available, however, it seems undeniable that the tea sector in the countries studied – with the possible exception of Vietnam - has been going through very difficult times.

Low world market prices and high production costs have taken their toll in tea-producing countries, by putting working conditions under pressure (eg increased

¹⁵⁵ SOMO based on FAOstat 2008

¹⁵⁶ Already in 1984 a publication discusses a crisis in the tea industry in South India as the consequence of high cost of production and low prices. G. K. Tharian, "Historical Roots of the Crisis in the South Indian Tea Industry", *Social Scientist*. v 12, no. 131 (April 1984) p.34

casualisation, lack of investments in plantation community welfare, inadequate health and safety conditions) and affecting modes of tea production (eg. increased smallholder, out-grower models, employee buy-out production models). These developments seem to have plunged India - above all out of the countries studied - into a well-documented major tea crisis. A radical restructuring of India's tea sector is taking place, which has resulted in, and is still resulting in many tragic situations for plantation workers and their families.

The Sri Lankan tea sector is also seeing many changes, with a rise in smallholder production, plantation workers becoming out-growers and an increasing labour shortage. At the same time, the situation for many tea plantation communities in this country remain bleak. In contrast to India, Sri Lanka has, perhaps, so far been able to withstand more major restructuring because it fetches both the highest tea prices among tea-producing countries and because it is more successful than others in exporting more value-added tea products. Another factor maybe that restructuring in Sri Lanka has taken place to a large extent already prior to that in India. Already before 1998 the production of black tea processors that out-source green leaf production had tripled relative to the two preceding decades while the production from vertically integrated processors declined and their number dropped sharply¹⁵⁷. It is no coincidence, however, that both Sri Lanka and India have the highest production costs in the tea industry. This in turn is the result of various factors: older and therefore lower-yielding tea bushes, and in Sri Lanka low labour productivity. It also seems that the industry in India and Sri Lanka - more than in the other countries studied - has impacted the environment negatively through high agrochemical usage and deforestation. Of all the countries studied, only Sri Lanka and India have serious and active unions Apart from the fact that they might not always function very well either their traditional role is also being undermined by the restructuring in the tea sector in these countries because there is no place for them in expanding smallholder and out-grower production models.

Moving east we see a somewhat distinct picture in Indonesia and Vietnam. In terms of production, the tea industry in Indonesia is stagnating, while in Vietnam it is booming. In both countries, however the tea sector, is not considered a priority commodity (anymore) by the governments that traditionally have an important stake in this industry through government estates among other things. The reason for this is that exports/production of other agricultural (plantation) commodities such as rubber, oil palm and sugar cane (in Indonesia) and coffee, peppers and cashew nuts (in Vietnam) are more lucrative.

Compared to their Asian neighbours, both countries have so far not been very successful in moving up the value chain. And while production costs seem low, so are the average market prices captured. Compared to other countries, wages in

¹⁵⁷ D. Herath & A. Weersink, Vertical Coordination Changes in the Sri Lankan Tea Industry: Transaction, Management, and Production Costs, Paper prepared for presentation at the American Agricultural Economics Association Annual Meetings, Montreal, Canada, July 27-30, 2003

Indonesia are in general relatively low, due to low piece rates, among other factors. The case study in Vietnam did not yield many details on working conditions but at least income for tea farmers is relatively high compared to other crops such as rice, apparently also when compared to smallholder farmers in other countries, because green leaf prices are relatively high. There are indications that application of pesticides is relatively high in Vietnam in comparison with other countries.

The findings from the tea sector case studies in Africa reveal a different emphasis. Kenya is a tea exporting super power, with only Sri Lanka exporting as much tea worldwide. Its closest competitor is much more successful in terms value-added exports, however, and commands higher prices for its tea. On the other hand, production cost in Kenya are relatively lower, productivity is higher and production is growing at a faster rate than in Sri Lanka and, for instance, India. Similarly to Sri Lanka, the Kenyan government has played an important role in developing small scale tea production.

While wages on large estates in Kenya and Malawi are above minimum-wage levels when daily targets are met, income is lower during the low season or when people are less fit or equipped to meet the targets. Also, as the majority of workers are temporary, they are not unionized, have fewer social benefits and are receive no income when they are ill or the estates do not need them. In Kenya, wages on smallholder estates are below minimum wage levels. In both countries, minimum wage levels do not constitute living wages. Among the countries observed, Malawi probably has the smallest and maybe the most marginalized smallholder sector in both absolute and relative terms. Although small-scale tea farmers in all countries reviewed claim that the prices for green leaf do not cover the cost of production, prices seem to be the lowest of all in Malawi. Government support for smallholders in this country has been mostly dismantled. However in contrast to Kenya the privatized Smallholder authority did not survive. And they are hardly organized. Sexual harassment and HIV/aids is more prominent among plantation communities in Kenya and Malawi than in the other countries studied.

Along with the effects of restructuring and changing modes of production, capturing value added in tea supply chains, increasing quality and dealing with food safety standards such as Hazard Analysis Critical Control Point (HACCP) and Maximum Residue Levels (MRL) present a challenge in varying degrees for the tea producing countries studied. In Sri Lanka, for example, producers are seeing a clear increased demand in such “Food Factory Concepts” and quality certification systems. To comply with such demands, factory modernization and/or process automation are essential, which require capital infusion and again might add to the cost of production. Because the implementation of private and public standards, can raise production costs without necessarily raising income or increasing market share, they are often seen as non-tariff barriers in at least a number of the countries surveyed. Especially Sri Lanka but also India and Kenya have been more successful than the other countries reviewed in

capturing value added by among other things exporting tea in tea bags, tea in packets and instant tea.

Corporate Social Responsibility (CSR) has not received much attention to date in the tea sector, either in producing or consuming countries, when compared to the banana or coffee sectors, for instance. In the case studies it was found that at the producing country level, more advanced CSR policies and practices have remained confined to a few big plantation companies. And awareness among other industry actors and stakeholders, such as workers, unions and smallholders, of the benefits and the concept of CSR is low. However it is also clear that CSR is increasingly becoming a focal point in the industry. For instance, while there are currently a number of CSR initiatives active in the tea sector, including the Ethical Tea Partnership (ETP), Rainforest Alliance (RA), Fair Trade (FLO and IFAT) and Organic (IFOAM), other well-known CSR initiatives such as Utz Certified, SAI (SA 8000), BSCI and GlobalGAP (formerly EurepGAP) have plans to expand their services into the tea sector and are exploring ways to do so through pilot schemes and negotiations with private parties. Unilever, the biggest tea company worldwide, also announced in 2007 that by 2015 all of its Lipton brand tea will be (RA) certified.

It is probably no coincidence that Sri Lanka and Kenya, the leading exporters globally, also have the highest share of smallholder production, at least among countries studied. The smallholder model is on the rise in all countries except for Malawi, for which no figures or indications were available. While economic theory has it that economies of scale are most advantageous in cutting the costs of production which can be seen in many agricultural bulk commodity chains, in the tea sector a contrasting development is evident. Tea growing requires little investments. An important factor in this development seems to be the labour intensity of the industry which greatly affects the costs of production. Smallholder production is increasingly viable because the costs of production are often lower than for large estates. This is because small scale farmers can rely on cheap family labour and because this subsector is less regulated than the plantation sector. In terms of hired labour this means, among other things, that they can pay lower piece rates for seasonal labour¹⁵⁸ and do not have to cover costs for all kinds of social benefits to which workers are sometimes entitled on large estates. Smallholders in India and Sri Lanka, for instance, can evade strict plantation labour laws. It can be argued that Kenya and Sri Lanka as a result of increased smallholder production have become more competitive on the world tea market.

However the growth of smallholder tea production worldwide could present sustainability challenges precisely because regulation in this subsector is less strict and farming practices may be less up to international standards. Hence or in addition,

¹⁵⁸ Piece rates are equal on both large estates and in smallholders estates in Sri Lanka (at least in theory) hence the comparative advantage for smallholders in terms of hired labour lies solely in not having to pay social costs.

most smallholder models also present challenges in terms of lower traceability, quality and continuous supply. Currently the vast majority of tea production that is certified or audited is from plantations not from smallholders (cooperatives). To include this subsector in export-oriented supply chains with increasing quality, social and environmental demands will present many difficulties. But even for CSR to be beneficial to the entire industry will prove to be a considerable challenge. That is because the leverage of the concept seems currently restricted. More than half of all tea produced is being consumed locally and only roughly a quarter¹⁵⁹ of total exports go to countries that in general are showing some interest in CSR. All that being said it is to be hoped that CSR, just like tea, does not need to steep for too long to reach its full flavour in the tea industry.

Recommendations

The case studies all make a number of recommendations that mostly deal with the issues in their respective countries (see annex). Below we will present some of the more across-the-board recommendations for the various stakeholders.

Tea-producing companies should:

1. Adopt and implement CSR policies that improve social, economical and environmental conditions on and in the vicinity of the plantation or factory
2. Allow for multi-stakeholder monitoring and verification of the social, economical and environmental standards adopted
3. Provide support to small tea growers through technical, financial and marketing assistance for market access and quality improvement
4. Enable and facilitate sustainable tea production at supplying smallholders by paying higher prices and engaging in long-term buying commitments with producers that produce tea sustainably
5. Not lobby to dilute existing labour legislation which protects workers in the tea industry, on the grounds of declining returns.

Tea-trading and packing companies should:

1. Enable and facilitate sustainable tea production by paying higher prices and engaging in long-term buying commitments with producers that produce tea sustainably and offer technical and advice where needed
2. Adopt and implement CSR policies that are ambitious but take into account local realities
3. Conduct multi-stakeholder monitoring and verification of the social and environmental standards on the tea estates from which tea is procured
4. Take responsibility for conditions throughout the entire tea value chain and in particular where they have more influence.

¹⁵⁹ The share of combined exports into the EU and the US

5. Provide support to small tea growers through technical, financial and marketing assistance for market access and quality improvement

Governments should:

1. Consider and adopt schemes that allow for management of tea (over)supply internationally and nationally (eg. export quotas, minimum quality standards)¹⁶⁰
2. Investigate and counterbalance monopsonies nationally and internationally (eg. through competition policy)
3. Provide technical and marketing assistance to the small and marginalized farmers, including in the area of crop diversification
4. Provide credit schemes and debt management services to the plantations
5. Ensure that labour laws are not violated on the large plantations
6. Procure tea that is produced according to high social, economical and environmental standards
7. Strengthen the position of small tea growers by offering technical and marketing assistance, credit schemes and debt management services
8. Create a conducive climate for CSR at the national level
9. Create a conducive climate for value added sustainable tea production at the national level
10. Facilitate the creation and empowerment of small producer organisations

NGOs should:

1. Provide technical assistance and other commercially oriented support, including quality-improvement training, sales and marketing skill building, support of participation in trade shows
2. Train small-scale tea growers on social, economic and environmental aspects, and improve their understanding of the tea value chain.
3. Encourage tea companies (producers and traders) to implement effective and meaningful CSR policies and standards that are adapted to realities in tea-producing countries.
4. Press for harmonization of CSR and quality standards
5. Support for broad-based rural development, including the development of local processing capacity and producer associations, and measures to improve credit and risk management facilities.
6. Monitor the implementation of CSR policies and standards in tea producing countries
7. Raise awareness on critical issues in the tea sector
8. Support and empower civil society groups in tea-producing countries that raise awareness of and address critical issues in the tea sector at the national level
9. Devise strategies on how to support marginalised groups such as tea workers and smallholders that operate outside Western-oriented supply chains and thus are excluded from potentially beneficial effects of CSR strategies
10. Advocate for the rights of the workers and raise awareness among workers of their rights

¹⁶⁰ See for instance: T.Lines, Options for Commodity Income Stabilization (IISD, April 2007) & Lines

Consumers should:

1. Give preference to tea from socially, environmentally and economically friendly production and trade

General recommendations

Also in general it is recommended that more research is carried out into:

1. purchasing practices in the tea sector and their effect on sustainable production¹⁶¹
2. the social, environmental and economic impact of restructuring (eg. out-grower systems, increased smallholder production, liberalization) of the tea sector worldwide
3. the social, environmental and economic impact of CSR in the tea sector worldwide
4. value distribution in the tea sector, especially downstream margins
5. the effects of power asymmetries in the supply chain (eg. monopsonies) on price setting and value distribution

Increasing tea consumption and diversification strategies

Most of the recommendations provided above focus strategies on shaping tea production. A more sustainable tea industry can and should also be facilitated by working on the demand side: stakeholders, especially the industry itself, whether directly or through industry organisations, but also governments of tea-producing countries should also focus on stimulating sustainable tea consumption internationally. In Western countries, stressing the health benefits of green tea appear to have helped to raise consumption of green tea. Also convenient ready-to-drink and added value products, such as ice tea in particular, appear to have raised consumption (although not necessarily of quality teas)¹⁶² and there are also indications that in line with an increased quality awareness with regard to coffee, for instance, high-quality teas are also becoming more popular¹⁶³. However, Western country imports represent only a minor share of the tea traded internationally, so it appears to be imperative to also focus on raising consumption of sustainably produced tea in non-Western markets, including in tea-producing markets. Finally, with a persistent historic oversupply in the tea sector, stakeholders should also consider strategies for income diversification such as growing others corps and tea estate tourism.

¹⁶¹ See also: Traidcraft Exchange

¹⁶² See for instance: VNKT

¹⁶³ See for instance Jane Pettigrew, Tea & Coffee website, "Tea Time in Europe!", January/February 2003 < <http://www.teaandcoffee.net/0103/tea.htm> > (10 June 2008)

Annexes: SOMO comparative international tea research

Case study summary India¹⁶⁴

Basic Information

The earliest record of tea in India is a Dutch account dates back to 1598 (Weisburger & Comer in Kiple & Ornelas 2000:715). However, the Sngpho tribe, which along with the Khamti tribe were India's first tea drinkers, maintains that it has consumed tea since the 12th century. Although a Dutch seafarer wrote of tea being eaten as well as drunk in India in 1598, accounts of earlier Indian history do not mention the use of tea or its cultivation.

The tea cultivation which was started in India in the nineteenth century by the British, however, has grown to the extent that today India is listed as the world's leading producer, producing 944 million kilograms of tea in 2007, 76% of which is produced in the North-East Indian states (mainly Assam and West Bengal), and 24% in the southern states of Tamil Nadu and Kerala. The Cut Tear and Curl (CTC) variety of tea forms the bulk of Indian Tea (90%) but also orthodox (8%) and green tea (2%) are also produced in smaller volumes. India is also the world's largest consumer of tea, consuming 786 million kilograms of tea in 2007.

Tea in India is grown by both smallholders (less than 10.1 hectares of cultivated land) numbering 141,529 in 2006 with 152,668 hectares under tea, and large estates (technically more than 10.1 hectares in size, but generally they are somewhere between 100 and 600 hectares) numbering 1671 estates with 415,332 hectares under tea. Out of the total of 568,000 hectares of land under tea in India, 78% is in North East India and 22% is in Southern India.

Recent Developments

The Indian tea industry has witnessed many structural changes over the years. The emergence of small tea growers and Bought Leaf Factories, crises in the tea industry

¹⁶⁴ S.M. Kadavil, Indian Tea Research (Partners in Change, April 2008)

and the closure / abandonment of tea estates etc., are the some of the changes in the recent history of the tea industry in India. In early 2005, the industry witnessed major companies withdrawing from production and concentrating on the packaging of tea, such as Tata and HUL in India. In the South, there is a new paradigm shift from the colonial mode of production to participatory management in tea cultivation. In the North, McLeod Russel acquired the HUL tea gardens and became to the largest global plantation company. Tata and HUL intend to focus on brand business and on exploring the market substantially, rather than on the plantation business, which is a low-margin segment.

Apart from the changing scenario of the production sector and intensification of brand products and markets, the tea industry has also witnessed the new business model of the major companies in tea plantation, which is diversification of crops. The highly volatile price and fluctuation of international markets forced the companies to develop new business models to sustain the industry. Most of the companies initiated new projects for the diversification of products, developing retail markets and nature-based tourism in and around their tea gardens.

Economic Characteristics

Total turnover in the tea industry is approximately USD 2.25 billion, and the Net Foreign Exchange earned is approximately USD 413 million per annum. The Indian tea industry is the second largest employment provider in the organised manufacturing sector, giving direct employment directly to 12,58,800 families on the estates. Almost the same number of people again work as casual workers or on the smallholdings, and the sector indirectly generates employment for another ten million people.

Exports

India exports around 203.86 million kilograms of tea per year (including 21.9 million kilograms of imports from other countries which are re-exported)¹⁶⁵. The biggest buyers of Indian tea are CIS countries (49.11 m.kgs), Iraq (41.3 m.kgs), United Kingdom (23.21 m.kgs), and the UAE (21.88 m.kgs).

Domestic Market

India is still the largest consumer of Black Tea in the world, with domestic consumption accounting for almost 80 per cent of the country's total tea production. The pattern of domestic consumption has shown a steady and positive growth since 2000. From a mere 73 million kilograms in 1951, domestic consumption has

¹⁶⁵ See next section of import and re-export from India.

increased to 757 m.kgs (2005) and 771 m.kgs (2006)¹⁶⁶. Despite a steady growth rate in domestic consumption, the per capita consumption in India is still one of the lowest in the world at 0.65 grams per head per year. The major tea-consuming states in India include Maharashtra (87 million kilograms), Uttar Pradesh (82 million kilograms), Gujarat (64 million kilograms), Rajasthan (58 million kilograms) and Madhya Pradesh (42 million kilograms).

The Indian domestic tea market is predominantly a loose tea market, constituting around 60 per cent of the total tea consumption, while the rest is served by packaged tea. The packaged tea market is highly consolidated in India, with Unilever and Tata Tea accounting for almost half of retail value sales.

Trading

Indian tea is sold at tea auction as well as through private sales. Out of the total tea produced, only 45% is sold through auctions, with the rest sold through private sales. The auction price determines the price in private sales as well, however.

Auction System

In 2006, the average price at the Northern Indian auction had increased to Rs. 71.62 per kilogram and average price at the Southern India auction to Rs. 50.79 per kilogram. Overall in Southern India, price realisation is relatively low, even though Southern India relies more on auction sales. The average price at different auction centres also reveals that the estate factories fetch a higher price compared to cooperative and private processing factories, which are popularly known as Bought Leaf Factories.

- There are some major criticisms of the present form of auction system, however :
- Accommodation for limited number of registered buyers in the auction hall for bidding on any auction day, due to lack of space in the auction hall.
- Dominance of buying agents (commission agent) in the auction room.
- A large number of CST buyers (principal registered buyers) are not allowed to bid in the auction room, particularly in Southern Indian auctions.
- Shorter time for price discovery (roughly 20 to 30 seconds per lot).
- Probability of price fixing by big buyers
- Unable to provide the producers with the best possible prices.

Trading for Small holders

The price paid by the agents of private processing factories or the BLFs to the small growers is based on the auction price fetched by some 'representative' factories.

¹⁶⁶ Tea Statistics, (2003), Tea Board of India, Kolkata.

However, there is no formal list of these ‘representative’ factories and there are no disclosures made on how the green tea price for the period is arrived at. The small growers do not have any control of green leaf prices, and price fluctuations in the auctions directly and immediately affect the price realised by them. Most of the BLFs sell their first-grade quality tea to the direct market at a higher price, and sell the poorer quality tea at the auctions. As a result, the factory only pays the average auction price for all the tea leaf procured from the smallholders.

Cost of Production

The impact of social costs in the large estates in percentage terms works out to about 5-8 per cent of the total costs. Overall, labour costs comprise around 60% of the total costs. The profitability of the industry at the current level of prices, both in the local and international markets, does not provide the way to meet these costs. The total costs, both fixed and variable, for providing these facilities are around Rs.3 billion per annum. In an industry with a turnover of about Rs.78 billion, this burden is too high. It implies an additional Rs. 4.12 per kilo of manufactured tea in North East India and Rs. 3.44 per kilo in Southern India. The cost of production is, however, also pushed up as a result of mismanagement, age of the bush, high overhead costs, poor agricultural practices, etc.

On the other hand, the cost of production on smallholder tea farms has remained relatively lower than that on the estates, primarily because there are many hidden family labour costs, and also because the smallholders do not have to bear the social costs.

Cost of production in RS per kg of green leaf of small growers

	Assam	WB	Tripura	Niligiris	Kerala
Inputs- Fertilizers /pesticides etc.	1.74	2.12	1.6	1.78	1.26
Wages	3.58	2.87	2.73	2.92	4.54
Direct Expenses	0.15	0.69	0.32	0.11	0.19
Overheads	0.81	0.64	0.42	0.52	0.6
Total cost per kg. of green leaf	6.27	6.32	5.07	5.33	6.59
Average price realization	7.41	5.5	4.54	4.87	5.35

Source: Compiled report on small tea growers, (2005), Tea Board of India

Social Characteristics

The Plantation Labour Act (PLA), enacted in 1951, is one of the most significant Acts in the Indian Tea Industry and, together with associated Acts, governs most of the social aspects on tea plantations. The Act provides for the welfare of plantation labour and regulates the condition of work on plantations. In addition to the PLA, there are other social security laws which have provisions covering Provident Funds, gratuity and so on, and there are compensation schemes for injuries such as broad-based

social security measures, an umbrella of laws which apply to the plantations in India. The other major Acts in the plantation sector are: Weights and Measures Act, The Factories Act 1948, The Equal Remuneration Act 1976, The Payment of Bonus Act 1965 and The Minimum Wages Act 1948. However, most these Acts are not applicable in the case of smallholdings.

Labour

The plantations are usually situated in remote and uninhabited areas, where crops have not previously been grown. The plantation workers are therefore mostly migrants. These labourers are often provided with housing on the estates, along with facilities for shops, services and communal facilities for recreation and culture. It is unfortunate that almost all the companies aim to minimise labour costs when there is a crisis, despite many studies having shown that there is a strong business case for investing in labour. Studies conducted by the ILO in Sri Lanka revealed the following:

- A 1 per cent increase in crèche attendance raises worker turnout (that is, the converse of absenteeism) by 0.22 percentage points and daily plucking productivity (intake) by 0.07 kg of green leaf.
- A 1 per cent increase in individual latrines improves turnout by 0.07 percentage points and productivity by 0.09 kg.
- A 1 per cent increase in the percentage of live births increases turnout by 0.66 percentage points and productivity by 0.31 kg.

In spite of this, there have been several moves by the plantation companies to lobby the government to reduce the 'social burden' and change the Plantation Labour Act.

Smallholders

The majority of the workers in small tea gardens are temporary and casual workers, and most of them are migrants. The workers get paid at much lower rates than the estates, and they have hardly any rights compared to their plantation counterparts. However, in some regions of Kerala, the wage is fixed according to the weight of green leaves which workers collect each day rather than a regular daily wage. In many regions, workers are employed only during the peak season, and family labour replaces hired labour in the off season or when the price of green leaf is low.

Environmental Characteristics

Energy

Tea production consumes both thermal and electrical energy at the ratio of 85:15. Thermal energy, used in the withering and drying processes, is produced by burning coal, firewood or fuel oil in heaters. Firewood is the most extensively used of these in

India. A recent study by the *Asian Regional Research Programme in Energy, Environment and Climate* shows that the total specific thermal energy consumption varies between 4.45–6.84 kWh/kg processed tea. Electrical energy on the other hand, is used mainly to power machinery. In the case of orthodox tea production, the withering and rolling processes consume the most energy, while in CTC tea production, the CTC process consumes a large amount of electrical energy.

Energy and environmental audits conducted in selected tea factories showed that energy efficiency is generally low, mainly due to the use of outdated equipment and obsolete technology. Energy cost happens to be a small fraction of the total production cost. This study also focused on the environmental impact of the tea sector, which is primarily in the form of GHG emissions from fuel combustion. As a GHG, carbon dioxide (CO₂) is the single largest contributor to climate change. The total fuel consumption by the tea sector in India contribute annual CO₂ emissions of 1,352,000 tons. Sulphur dioxide is another pollutant emitted from fuel combustion which is causing concern because of its contribution to acid rain.

The extensive damage caused by deforestation resulting from the use of firewood is another major factor. A need has therefore arisen to promote and adopt Energy Efficient and Environmentally Sound Technologies (E3ST) in the tea sector.

Usage of Pesticides and Fertilizers

Since it was first planted, tea has been devoured by pests and damaged by disease. The crop loss ranges from 14% to 50% to extreme cases. In 1934, there were 10 insects which affected tea plants, but that list has since grown to 40 species. This has been compounded by primary and secondary diseases. In order to combat pest attack, a huge quantity of pesticides finds its way to the industry, and this has led to indiscriminate use rather than integrated pest management. This has also added to the costs of production, pesticides being a high cost input. Such reasons have led to more and more tea estates adopting organic methods of tea production. There are many varieties of organic tea already available on the Indian market which are certified by Indian agencies. The Tea Board has several schemes for assisting plantations to adopt eco-friendly methods of production. However, there remains a great deal of variation from country to country regarding standards on the usage of pesticide and fertilizers, which acts as a barrier to plantations producing organic tea.

Corporate Social Responsibility

CSR practices have remained confined to a few big tea companies, and CSR is still generally equated with philanthropy and is not integrated into core business strategy. This is largely due to the tea management culture which has developed over more than 150 years.

CSR Initiatives in the Value Chain

The value chains of tea are difficult to detect, and large global brands are often reluctant to share the costs of improvements and pass them down the supply chain to their suppliers while gaining from the reputational benefits from these improvements. The big companies are in the best position to benefit commercially from their CSR stance, but such business scenarios either do not exist for small tea gardens or they are not adequately developed. Experience with various codes of conducts shows that they are often developed to suit the requirements of the Northern countries and do not involve various actors within the value chain in the development and implementation of the codes. The workers, who are one of the key stakeholders, often do not have any knowledge of the CoC and they have no role in its development and implementation.

However, some major changes are being observed in the area of CSR in Indian tea plantations, with Unilever committing to Rain Forest Alliance certification for all its tea procurement by 2015. It has also initiated partnership programmes between smallholders in India, through Non-Governmental Organisations such as Partners in Change.

The Ethical Tea Partnership, which is still the biggest certification scheme in the tea sector, has also modified its implementation methods and has appointed a Country Manager for its programme in India. Tata Tea remains the biggest member of the Ethical Tea Partnership.

Utz Certified has also initiated a consultation system for its forthcoming tea code in India and has facilitated the formation of a National Reference Group consisting of Planters and their Associations, smallholders, auction houses, trade unions, NGOs and certifying bodies.

The balance sheet for fair trade is invariably positive, since farmers do not pay for certification, the premium is very high and the necessary changes in farming systems fairly limited. However, these impacts may be hard to maintain in the future in the fair trade system, as oversupply continues and downward pressure on prices increases.

In all the systems, the challenge has been to extend the benefits of certification to the smallholder and ensure that the benefits reach the workers on the plantations. Smallholders can sign up to Fair Trade only if they have formed organisations (cooperatives, associations or other organisational forms) which are able to contribute to the social and economic development of their members and their communities and are democratically controlled by their members. However, most of the marginal small farmers have less than one or two acres of land and the movements to form farmers' cooperatives have not been much of a success due to a lack of financial and technical support from the companies opting for the certification.

There has been very little work on building the capacity of the stakeholders in India for developing business cases for certification and due to lack of knowledge; access to Northern markets remains the main entry point for certification.

Other Philanthropic Initiatives from Indian Tea Association

Many companies in India continue to offer sporadic support to philanthropic activities in the tea gardens. Most of the mid-sized companies channel their philanthropic activities through the Indian Tea Association (ITA). These initiatives include a Mothers Club started in 1999 which initiated safe motherhood programmes. Programmes on mother and child health and crèche development ran from 2002 to 2006, and in 2007, the ITA initiated the Community Health and Advancement Initiative in India (CHAI) with the objective of improving the quality of life of workers and other surplus labourers in tea gardens.

Stakeholders in the value chain of the Indian Tea Industry

The value chain of the Indian tea industry involves various stakeholders, and their roles are sometimes conflicting and affect convergence at operational levels. The 'structured and pre-determined' role of stakeholders and the interactions between them, however, help maintain the value-additions and the price mechanism in the industry.

Workers and Small Growers

The workers, who are important stakeholders in the value chain, often do not have any knowledge of the trade initiatives and CSR in international standards. However, the active participation of trade unions plays a major role in enhancing the worker's role in the international value chain of the Indian tea industry. The major trade unions active in the tea plantations are the Centre of Indian Trade Unions (CITU), the All India Trade Union Congress (AITUC), Hind Majdoor Sabha (HMS), the Indian National Trade Union Congress (INTUC) and the United Trades Union Congress (UTUC).

The smallholders are fragmented across the four major tea producing regions. They are in the process of coming together under a National Umbrella through a project initiated by the NGO Partners in Change, in collaboration with Oxfam Novib.

Tea Brokers: Determining Role

The auctioneers have a regular dialogue with the producers and buyers, and are able to monitor changes in demand and production patterns. The auctioning companies offer manufacturing advisory services to producers in response to changing market requirements, so that they are able to relay the positive and negative attributes of tea

to their manufacturers. The auctioning companies occasionally provide short-term finance to tea producers for the purchase of machinery, capital investment, etc., repayments of which are then deducted from the sale proceeds of tea. Two of the biggest auction houses in the world and in India are J. Thomas and Company and Carrit Moran and Co.

Buyers

Indian buyers at auction centres are more fragmented compared to some of the international auction centres. Many of the buyers represent one big brand company and they sell tea to their regional packagers as proxy buyers. Large buyers who buy more quantity and buyers representing big companies dominate the auctions and play a major role in price fixation and sale practice. They buy tea for their other requirements through private sales or directly from producers. The base price for this is the auction price. This is one of reasons that private sales have been on the increase in all the regions of India, despite the various benefits of selling tea through the auction system.

Packagers and Marketers

These include packagers/blenders, and the majority of them are national brand companies. Large retailers or marketers only supply the specifications for the branded products they order. These companies design and/or market but do not form part of the production field. They have formed a new breed of manufacturers that do not have factories. For instance, Wagh Bakri, a large regional player focused in Gujarat refuses to integrate its operations backwards by acquiring tea estates. According the latest report by AC Nielson (June 2007), Tata Tea has led with a major market share in the packet tea segment in India. The table shows the trend of market share in the packet tea segment in India. The company outperformed with a volume share of 19.2 per cent as compared to Unilever's 18.6 per cent. The market share of Unilever has declined from 26.1 per cent in 2002 to 18.6 per cent in 2007.

Consumers

India is the biggest and fastest-growing market for tea. However, a survey conducted on consumer response to socially responsible and environmentally friendly tea in India demonstrates that consumers displayed a low level of involvement with the social and environmental issues in the food and beverage industry (F Krisch, 2006). Social issues in isolation failed to evoke any interest. In all, 20 per cent of the respondents claimed awareness of the tea production process. Mumbai claimed the maximum awareness (27 per cent) followed by Kolkata (23 per cent) and Bangalore (21 per cent), and the lowest awareness was recorded in Delhi (8 per cent).

Tea Board of India

The Tea Board of India is a statutory body set up under the Tea Act 1953 to promote all-round development of the tea industry, and comes under the administrative control of the Ministry of Commerce and Industry, Department of Commerce. Major functions of the Tea Board of India include: development and promotion of the tea industry, extension of tea cultivated areas, improvement in the quality of green leaves and made tea through quality upgradation programmes, undertaking promotional campaigns to grow national and international markets, promotion of cooperative efforts of growers, implementing development schemes, implementing self-help groups to enhance high quality in green leaves and research and development initiatives.

Non Governmental Organisations

There are very few NGOs operational in the Indian tea sector which are working on the issue of corporate social responsibility. This is mainly because of pattern of the tea industry, which is insulated from outside interventions. However, Partners in Change (www.picindia.org) in collaboration with Oxfam Novib from Netherlands, Centre for Education and Communication (www.cec-India.org) in collaboration with Traidcraft from UK, Prakruthi (www.prakruthi.org) and Institute of Plantation, Agricultural and Rural Workers-IPARW (www.iparw.org) in collaboration with Solidaridad, South and South East Asia have active programmes in the tea sector. Regional offices of UNICEF and ILO also collaborate with various stakeholders for occasional programmes in the tea industry.

Recommendations

Plantation Companies

- ❑ Improve the implementation of the Plantation Labour Act of 1951 in letter and in spirit. There should also not be any effort from the plantation companies to dilute the existing labour laws which protect the workers in the tea industry, on the grounds of diminishing returns.
- ❑ Plough the profits generated from the tea industry back into the gardens in reasonable proportions, to make the industry more sustainable as well as profitable
- ❑ Move away from the 'conflict model' of industrial relations towards a concept of Human Resource Management/Development, as the workers (especially women workers) are the estate's prime "assets".
- ❑ Procure good quality tea produced by smallholders, without violating social and environmental conditions. at higher prices in order to compensate for the costs of implementing sustainability.

Small Holders and Private Tea Processing Factories

- Improve the quality of tea by joining together in cooperatives and adopting sustainability strategies
- Smallholders should develop internal control systems and better management practices, which will help them to link up with quality conscious buyers
- The private tea processing factories should adopt HACCP, ISO 9000 for food safety and quality aspects and should work together to develop a standard for social certification of the processing factories
- The factories should procure good quality tea produced by the smallholders without violating social and environmental conditions, at higher prices in order to compensate for the costs of implementing sustainability expenses.

The Government

- Provide technical and marketing assistance to the small and marginalized farmers
- Provide credit schemes and debt management services to the plantations
- Create a separate department within the Tea Board dedicated to small and marginalized tea growers
- Ensure that labour laws are not violated on the large plantations, and that the ILO decent work standards are maintained
- The social security mechanism of tea estate workers should be strengthened, and for this purpose special agencies should be established, an implementation mechanism introduced and a fund set up. Trade unions should be involved in the implementation and monitoring of these.
- Make preferential procurement of tea possible for different government departments for tea which adheres to acceptable codes of conduct and provide incentives for companies which adheres to such codes
- Strengthen the relationship between small tea growers and private processing factories. Develop a strategic intervention in order to help each actor see their rights and responsibilities within the value chain.
- Engage with various code setting bodies and act as a facilitator for those companies willing to adopt a certification.

The International Tea Buyers

- Take responsibility for conditions in their entire tea value chain, particularly where they have more influence.
- Provide support to the small tea growers through technical and marketing assistance
- Provide additional price for tea produced in a sustainable process
- Do not lobby to dilute the social protections available to tea estate workers
- Conduct multi-stakeholder monitoring and verification of the social and environmental standards in the tea estates from which tea is procured

- Expand the sale of certified tea to new emerging countries such as India

The NGOs and INGOs

- Technical assistance and other commercially oriented support including quality improvement training, sales, and marketing skill building, support of participation in trade shows could be provided by the NGOs. The innovative quality upgradation programmes by UPASI, KVK and the Tea Board underline how formal institutions can develop and deploy new strategies for otherwise imperilled smallholders. (Neilson and Bill Pritchard, 2006).
- Assist in aggregating the smallholders in partnership with big companies
- Provide training to tea small growers on social, economic and environmental aspects and improve their understanding of the tea value chain.
- Adapt Codes of Conducts to the local realities of India through a participatory process
- Monitor the implementation of Codes of Conduct in the tea estates of India
- Support for broad-based rural development, including the development of local processing capacity and producer associations, and measures to improve credit and risk management facilities.
- Encourage tea traders to implement effective Codes of Conduct.

Certification Agencies

- The certification schemes should be an amalgamation of local realities and the Northern market requirements
- The certification programme needs to go hand in hand with creation of an enabling environment on better social, economic and environmental practices. This would include training and capacity building - particularly of the marginalized stakeholders in association with the NGOs.
- There should be increased participation from the producing countries in the governance of the codes for local ownership.
- Increased effort needs to be put in by the Certification Agencies towards helping smallholders to get certified without increasing the costs of production in a significant manner.

Case study summary Indonesia¹⁶⁷

Sector profile

With an annual production of 140,000 tons and exports of 95,339 tons, Indonesia is the sixth largest producer and fifth largest exporter in the world. Tea is an important source of income for Indonesia, and it is estimated that more than 350,000 people are employed in the Indonesian tea sector. The main destination regions/countries for Indonesia's mostly orthodox bulk black tea (in volume) were, in descending order of importance the CIS, the UK, Pakistan and Malaysia (all figures 2006, ITC 2007).

More than 90 percent of the tea exported is black tea, which is mostly of the orthodox kind, and a small portion of CTC. Black tea fetched about 1 dollar per kg on average in 2005 at the Jakarta auction. Green leaf prices varied from about 7 to 12 dollar cents per kg from 2006 to 2007.

Tea estates are mostly located in West Java, a region naturally endowed with a broad area of highlands. Other important producing areas are located in Central and East Java and on the island of Sumatra. Tea is produced all year round.

Producers in Indonesia are categorized in three different groups. The first group consists of smallholders, medium and large sized private plantations that are often oriented to the domestic market of green and jasmine tea and are responsible for 29 percent of total national production (2005). The productivity of this group is relatively low: around 0.75 ton/ha. Farm sizes range from a quarter of a hectare to more than 20, with up to 100 workers. The second and third group include (very) large estates with more than 100 workers and up to 26 thousand hectares that are government or privately owned. These groups dominate production for export and account for 50 and 21 percent of total production respectively. The productivity of these groups is around 1.84 and 1.01 ton/ha.

Large state and private plantations usually have green leaf processing facilities. State plantations almost exclusively sell their tea through the Jakarta auction, the most important auction for black tea (for export) in the country. Private plantations normally sell their tea directly to domestic and international blending and packing companies, usually not via the auction. These companies sometimes also export tea directly and buy tea in large amounts from smallholders, via collectors and directly. The majority of growers are oriented to the domestic market of green and jasmine tea, while export (black tea) is dominated by large plantations, both state-owned and privately owned.

¹⁶⁷ V. R. Kustanti & T. Widiyanti, Research on the supply chain in Indonesia (Business Watch Indonesia, 2007)

The Jakarta Tea Auction is dominated by Lipton (the Tea Buying Department of PT Unilever Indonesia), which buys 70% of all tea auctioned, and the Dutch exporter L. Elink Schuurman, which buys a maximum of 20% of the tea sold.

Critical issues

The majority of pickers, the largest group of workers in the tea sector, are hired on a temporary basis. Smallholders' plantations only hire temporary pickers. In the private and government (large) estates that were surveyed about half of the workers were employed on a temporary basis, and the other half permanent. Temporary workers get paid per kilogram of tea leaf collected. Their income therefore fluctuates, but it usually is below minimum wage levels. Piece-rate levels are somewhat lower on smallholder farms than on the larger estates. Permanent workers are paid monthly wages that are just above minimum wage levels. The majority of the workers in primary tea processing are permanent workers. The wages of permanent factory workers range from just above to twice the regional minimum wage. The wages of many non-permanent factory workers are below regional minimum wage levels. In higher processing factories (packing and blending) most of the workers are temporary workers and wages were found to be above minimum wage levels. Minimum wage levels in Indonesia often do not provide a worker and family with a decent standard of living. Also income for smallholders in West Java is often below the local minimum for physical family needs.

Permanent factory and field workers usually enjoy benefits such as free housing, medical care and transportation (schooling is not usually included). It is nevertheless difficult for permanent workers to make ends meet, and even harder to save money or send their children to senior high school. Workers therefore usually have to look for additional income. The situation of temporary workers is often even more precarious because, in addition to often lower and irregular income and low job security, they may only receive annual and holiday bonuses.

On the tea estates, a larger proportion of female workers work in the field, and only male workers become supervisors. The field research did not reveal any cases of child labour, children of 13 to 15 might work in the plantations to earn living but they are no longer considered child labourers because they are married.

Union tradition is still very weak in the Indonesian tea sector. While some companies claim that they support union activity, companies normally intervene to ensure that union leaders are loyal to company management. When unions have been formed, for example, the union executives in state plantations have been elected by the company management. It should also be noted that the role of unions is undermined by increasing casualization of work in this sector. The majority of the workers in the

fields and in higher processing plants are already non-permanent and are therefore not unionised.

Jobs in the sector are under pressure from the increased use of automated picking. For instance one state-owned plantation is expected to shed 60 percent, or about 2360, of its pickers because of the picking machines it acquires.

Forces of hindrance and advancement

Exports are crucial for the income of the Indonesian tea sector, yet terms of trade have deteriorated. Worldwide supply is outpacing demand, resulting in fierce competition between tea-producing countries, and in downward pressure on world market prices. Because of among others tea prices being paid in dollars and the depreciation of the rupiah against the dollar income per volume from exports has increased somewhat over the last years in real terms¹⁶⁸. However costs of production have risen due to factors including inflation and higher fuel prices. As a result the area under production has diminished in recent years. Many producers have sold their estates or have switched to more profitable commodities such as palm oil, cocoa and sugar cane.

There are other factors undermining Indonesia's competitiveness, such as high freight costs, lack of government support and low value addition. As to the latter, Indonesian tea fetches on average lower prices than Sri Lankan or Kenyan tea. And only about 6% of tea exports consisted of consumer packaged (ready-to-drink) tea. The factors that have hindered capturing more value include value added tax levied on tea from 2001 to 2007 and a lack of investment incentives, government support and tariff harmonisation (tariffs on imports of made and value-added tea are (much) lower than other tea producing countries).

In general, CSR is underdeveloped in this country's tea sector, and actors that are familiar with the concept often refer to philanthropic activities instead of supply chain responsibility, for example. At the national level little or no attention is paid by the government or civil society to the problematic issues in the tea sector. Legislation and enforcement is not up to international standards. Minimum wage levels are below living wage levels, for example, enabling producers to pay such low wages, and while legally there is union freedom, in practice it is restricted.

It was found that the notion of supply chain responsibility is mostly absent in the purchasing practices of international buyers, which only appear to be interested in quality and price. However it should be noted that many of the large private and government estates from which they source tea are probably being monitored by the Ethical Tea Partnership (ETP) programme (ETP does not disclose lists of estates

¹⁶⁸ Calculations SOMO based on ITC 2007 statistics

monitored). This scheme aims to ensure good social conditions at the plantations it monitors for its members (see report) which, in turn, can focus on price and quality only. There is considerable criticism of the merits of the ETP system, and the findings of this case study underpin this criticism: the estates included in the field research are probably ETP monitored as well and are in any case representative of Indonesia's exporting plantations, which are known suppliers of tea MNCs such as Unilever and Sara Lee.

Recommendations

CSOs

- Raising awareness of the problematic issues, both nationally and internationally
- Supporting and facilitating empowerment of workers through capacity building, rights education, and promotion of union freedom

Government

- Promotion of CSR nationally
- Creating conducive climate for development of the tea sector, especially through incentives and subsidies to actors with weak bargaining position in the market structure.
- Counterbalancing monopsonies
- Upholding and improving labour legislation

Corporates

- Implementing CSR in tea production
- (International) Buyers should reward increased ethical, ecological and economical (CSR) quality with better prices and/or long term engagement

Consumers

- Take positions against malpractices in this sector by addressing and rewarding corporate accountability on the part of the packing and blending companies which through their influence and bargaining power are best equipped to positively contribute to a more sustainable tea sector.

Case study summary Kenya¹⁶⁹

Sector profile

Tea was first introduced to Kenya in 1903 from India by a European settler, GWL Caine. The British Colonial Administration started exporting it to London by 1933. The cultivation of tea in the colonial period was basically the preserve of the British settlers. After independence in 1963, the cultivation of tea was desegregated to both small-scale and large-scale African farmers who had bought land from British settlers. The planting and production of tea has rapidly increased since independence in 1963. Tea production rose from 18,000 tones in 1963 to 310,607 tonnes in 2006. The tea sector contributes – directly and indirectly – to an estimated 3 million jobs, a figure which is equivalent to about 10% of the population¹⁷⁰.

Increased tea production of has meant that Kenya shares third place in the global tea producer list with Sri Lanka, after China and India. Kenya is responsible for 20 per cent of all tea exported in the world, making it the second biggest exporter after Sri Lanka, and for 9 per cent of the global tea production in 2006 (ITC 2007). Pakistan is the biggest importer of Kenyan tea, Egypt the second biggest and the UK ranks third (ITC 2007).

Small-scale farmers have continued to play a vital role in the cultivation of tea in Kenya; it is estimated that small-scale farmers contribute up to 60% of the total crop in the country, whereas multinational owned large-scale tea estates contribute 40%.

The case studies focussed on small growers in the Vigha district, one of Kenya's tea-producing districts, and the estates of Unilever Tea Kenya Limited (Ltd.) and James Finlays (Kenya) Ltd. With a production of 32,370 and 23,617 tonnes of tea respectively in 2002, these are the two largest producing companies in Kenya.

Critical issues

Tea workers, both permanent and casual, are entitled to a number of benefits that are provided by the two large companies. These include free health care provision, housing, water, schools for their children and a few workers are allocated small plots

¹⁶⁹ L. Kabiru, Kenyan Tea Sector (Kenyan Human Rights Commission, May 2008) & Report on Research on the Small-Scale Tea Sector in Kenya (Nairobi: Christian Partners Development Agency, May 2008)

¹⁷⁰ The Tea Board: <www.teaboard.or.ke>

of land where they can grow food crops for their daily sustenance. However, the research revealed a number of problematic issues as regards the working and living conditions of these plantation workers. Virtually all of the problems that were revealed were denied or downplayed by the local management.

The estate houses tend to be overcrowded, especially during peak season, and are sometimes in poor condition. Moreover their allocation is riddled with allegations of corruption, tribalism and sexual harassment.

Discrimination against women in the tea estates takes the form of sexual harassment and 'forced' pregnancy tests. All workers are medically tested before being hired. Women that are found pregnant during this examination are not hired. Women pluckers who refuse the sexual advances of their - always male - supervisors are sometimes *given too much work or allocated lonely or dangerous plucking zones*. Promotions and employment at both companies are largely determined by ethnicity. The political turmoil and violence that spread through the country in early 2008 illustrates the reality of such tribal tensions at the plantation level.

The management of the two estates acknowledged that for a number of years they had not been hiring permanent workers but had instead relied extensively on temporary labour. Companies have been using a loophole in the previous labour legislation that did not explicitly state the employment duration of temporary workers. This loophole encouraged the companies to retain temporary workers for periods as long as six years. *Casualization of labour* is a major concern because workers are not guaranteed job security and other benefits that accrue to permanent workers, such as pension and access to medical care for their children. Most workers interviewed had worked for more than 3 years at the plantations without any letters of appointment that they were entitled to. And if they did get the formal documents, these were often flawed.

From the analysis, one of the major complaints from the workers was the inefficiency of the union which had led to lack of effective representation of the workers. The local chapter of the Kenya Plantation and Agricultural Workers' Union (KPAWU) turned out to have neither a work plan or a budget. Most of the workers interviewed for the research were not aware of their rights at the workplace. At one of the James Finlays estates, there were also reports of workers being sacked because they participated in a strike and that workers were scared to take up leadership in the event that they would be targeted, as their former colleagues had been.

Pluckers from James Finlays and Unilever are paid using the piece-rate system. This means that their monthly income fluctuates according to the amount of tea collected, which depends on the season, and the worker's strength, health and agility. The target set by the companies is 33.5 kilograms of green leaf per day in the high season. This would result in roughly USD 3 a day which in turn is about two-and-a-

half times the minimum wage for unskilled employees in the agricultural sector of \$35 (2,536 shillings) per month¹⁷¹. The minimum wage does not provide a decent standard of living for a worker and family¹⁷². Pay slips during the field research revealed monthly wages for pickers that were about USD 50 (low season) to 100 (high season). The salaries of factory workers are higher. Temporary workers on smallholder farms are paid less than those on large plantations. This is the result of large plantations paying about 6.30 KES (USD¹⁷³ 0.093) per kilo of green leaf while at small farms this might range from 4 to 5 KES (USD¹⁷⁴ 0.059 - 0.074) only. With an average of 15 kilograms this is equivalent to around 1.10 USD a day¹⁷⁵.

This shows that all is not well in the smallholder tea sub-sector either. The tremendous growth of this sub-sector demonstrates the success of small-scale tea production for export markets. The low payments for green leaf, however, are beginning to negatively affect production. This was evident in some areas in Vihiga district where tea farms are being neglected and in some extreme cases tea bushes uprooted.

The average return to the farmer has remained dismal, with tea factories paying an average of USD 0.21 per Kg of green tea leaf collected in spite of Kenyan tea fetching an average of USD 1.72 per Kg on world markets during the past 8 years. Declining trends in income and tea quality have been blamed on inappropriate laws and policies, mismanagement by tea controlling/regulating bodies, mismanagement of tea factories and corruption and collusion along the supply chain and poor farming practices.

Environmental Impact Assessments are rarely carried out on smallholder tea production. National Environment Management Authority (NEMA) has not carried out comprehensive EIAs on small-scale tea growing and KTDA factories. The KTDA factories rely on wood fuel for energy generation. The wood is bought from the local community, resulting in large-scale tree-felling. KTDA does not have any tree-planting programmes or a reforestation programme.

Forces of hindrance and advancement

The tea industry in Kenya points to the rising cost of production and in particular the high cost of labour as one of their key challenges. An analysis carried out by the Unilever management indicated that labour costs constituted about 43 per cent of total costs in 1999, whereas this figure had risen to about 55% of total costs by 2006.

¹⁷¹ <<http://www.state.gov/g/drl/rls/hrrpt/2007/100487.htm>>

¹⁷² <<http://www.state.gov/g/drl/rls/hrrpt/2007/100487.htm>>

¹⁷³ Conversion of the US dollar at Kshs. 67.8 to USD 1

¹⁷⁴ Conversion of the US dollar at Kshs. 67.8 to USD 1

¹⁷⁵ CPDA

On a comparative note, the costs of labour had increased out of step with the rate of inflation: wages had risen by 175 per cent and inflation by about 70 per cent between 1996 to 2007. The management at both companies as well as the Chair of KTGA noted that the rising wage costs were unique to Kenya, where workers were demanding USD 3 per day as compared to countries such as Malawi, India and Sri Lanka where workers were paid less than a dollar. The James Finlay management conceded that companies had little option but to mechanise picking in some of their tea estates in order to stay in business. This policy was not aimed at creating mass redundancy of workers, because mechanisation would only be used for certain varieties of tea. Fluctuating market prices and the strengthening of the Kenyan shilling had also negatively impacted tea estates, because their produce is bought in dollars. Other challenges that were noted by the industry included serious climatic changes that had decreased tea production, dilapidated infrastructure which causes an increase in costs of production including transportation and unreliable energy supplies and its subsequent high costs.

The smallholder industry has also highlighted the rising cost of production, which are high compared to many other tea producing countries. The main factors contributing to the high cost of production are the high cost of labour, high costs of farm inputs, particularly fertilizers, the high costs of energy/fuel at the factories, high costs of transport due to poor road and rail transport system and numerous taxes and levies.

There are also a number of other factors that uniquely bedevil the smallholder sub sector. For instance, information flow and sharing within the sub-sector is poor, or in some cases completely lacking. This means that farmers are often unaware of auction prices, for example. Smallholders are not organized effectively through the Kenya Union of Small-Scale Tea Owners (KUSSTO). There is no farmer representation at the Tea Board Kenya (TBK) and the East African Tea Traders Association (EATTA), nor at the Mombasa Tea Auction (MTA) where most of the smallholder tea is sold. Representation of smallholder tea at the Kenya Tea Development Agency (KTDA), the organization that processes and sells almost all smallholder tea, by regional directors is ineffective or compromised. Extension services provided by KTDA to small scale farmers is insufficient. Fertilizer prices that were imposed were considered too high and the amount supplied often excessively higher than the amounts needed. The sporadic poor services at the Tea Collection Centres (TCC) and the Tea Factories negatively affects tea quality and incomes for farmers. Critical issues range from poor transportation affecting tea quality, poor tea sacks resulting in loss of tea, too few staff at the TCCs resulting in farmers having to wait for long periods and/or, not being served at all due to fraud and theft. Dissatisfaction among the farmers and other stakeholders, including the Tea Brokers Association, because of corruption and non-transparent practices, which led to a bill tabled in parliament seeking to return KTDA to statutory control.

The two large tea estates – James Finlays and Unilever Tea – are both involved in implementing various aspects of Corporate Social Responsibility (CSR). Among other things, the companies have been involved in provision of health care for their workers; have provided educational facilities for employees' children. Both tea estates are also monitored by the Ethical Tea Partnership (ETP), the world's most popular ethical tea sourcing scheme among multinational tea packers. Unilever Tea production in Kenya is also certified by the Rainforest Alliance, the certification process commenced in 2007. James Finlay is producing some of its tea under Fairtrade and RA¹⁷⁶ as well¹⁷⁷.

CSR policies and practices are to some extent also visible in the small-scale tea industry in Kenya. For instance while the KTDA does not have a (comprehensive) CSR policy that pertains to tea farmers and their communities, 10 out of 56 of its factories are Fairtrade certified. In the four years the factories have been certified, this has generated USD 3.6 million in Fairtrade price premiums on top of what the smallholders involved would normally have earned. This, however, only represents around 0.2 percent of smallholder export value in 2006¹⁷⁸. KTDA is also involved in a programme funded by DFID (United Kingdom's Department for International Development) together with Unilever (its largest client, sourcing 40 percent of KTDA's tea) aimed at improving the sustainability of the tea smallholder sector¹⁷⁹.

The government has just adopted new labour legislation that specifies, among other things, that temporary workers are entitled to a written contract if they have worked for more than three months. Dissatisfaction among the farmers and other stakeholders, including the Tea Brokers Association, because of corruption and non-transparent practices, led to a bill tabled in parliament seeking to return KTDA to statutory control¹⁸⁰.

Recommendations

The case studies in Kenya highlight some of the following recommendations.

CSOs

- Raising awareness of the problematic issues, both nationally and internationally
- Support and facilitate empowerment of workers through capacity building, rights education, and promotion of union freedom

¹⁷⁶ Finlay website, Environment News, Finlays earns sustainable agriculture certification from Rainforest Alliance <<http://www.jamesfinlay.co.uk/our-values/news?node/317>> (10 June 2008)

¹⁷⁷ FLO-cert

¹⁷⁸ Calculations SOMO

¹⁷⁹ "Top buyer to help Kenya improve tea productivity", Business Daily (Nairobi), 9 June 2007, <http://www.bdafrica.com/index.php?option=com_content&task=view&id=1685> (18 May 2008)

¹⁸⁰ Daily Nation Newspaper; Thursday 4th July 2007

- Further research into conditions of tea smallholders to validate and elaborate on the findings from this research is recommended.
- The Kenya Plantation and Agricultural Workers' Union (KPAWU) should immediately develop plans of action that prioritise and detail the activities that the trade union needs to implement, for example awareness raising on the contents of the CBA. Also each of the branch offices of the KPAWU should be in a position to manage their own funds.

Government

- Promotion of CSR nationally
- Create conducive climate for sustainable development of the tea sector, especially through incentives and subsidies to actors with a weak bargaining position in the market structure.
- Counterbalance monopsonies
- Enforce the labour legislation to ensure that casualisation of labour is halted
- Medical officers should take a more active role in inspecting the housing conditions for low cadre employees in the tea estates.

Corporates

- Implement effective CSR initiatives in tea production
- (International) Buyer should reward increased ethical, ecological and economical (CSR) quality with better prices and long-term engagement
- The large estates should take the issue of sexual harassment seriously and develop suitable and impartial avenues in which such cases can be reported and seriously acted upon by the management. The management of James Finlay's needs to speed up the development of their Gender Policy and ensure its impartial implementation.
- The large estates should also immediately increase the housing quarters of the workers or make alternative arrangements for their housing, this would include provision of housing allowance which is commensurate to the average and adequate house rent payable in Kericho.

Consumers

- Take position against malpractices in this sector by addressing and rewarding corporate accountability of the packing and blending companies which through their influence and bargaining power are best equipped to positively contribute to a more sustainable tea sector.

Case study summary Malawi¹⁸¹

Sector profile

Malawi was the first country in Africa to grow tea on a commercial scale, which started at Mulanje in the 1880s. Today, large commercial estates account for 93% of production, with the remainder grown by some 6,500 smallholders. Most of the estates are owned by foreign companies and are based in the districts of Mulanje and Thyolo, the country's principal tea growing regions. Ownership is concentrated among 11 companies, of which the largest is Eastern Produce Malawi (EPM), which owns 21 estates. The company is a subsidiary of the British public limited company Camillia.

About one-third of Malawi's crop is sold through the Limbe Auction, with two-thirds sold direct. A high proportion of the tea is bought by major international companies such as Unilever and Lyons Tetley. The biggest export destinations are the United Kingdom and South Africa. The colour and brightness of Malawi tea is a key factor in blending of leading British tea brands. Exports reached 42 thousand tons valued at 49 million USD¹⁸². The sector provides up to 70,000 jobs in the large estates alone.

Critical issues

Workers

The socio-economic conditions of the plantation workers and the surrounding communities are poor. Although work on the tea plantations is highly intensive, wages are very low. The daily wage in the tea industry is between US\$ 0.70 and US\$ 1.60 a month for plucking green leaves which compares to a legal minimum wage of US\$ 0.39 a day. There are no effective trade unions and there is no capacity for workers to bargain collectively. Most of the workers in the field are employed on a temporary basis and are male. Temporary workers are not entitled to benefits such as free housing.

Discrimination is rampant on all the estates. Very few of the women working on the plantations are supervisors or in more senior positions. Women encounter reluctance to get employment and when they fall pregnant they lose their jobs and all the terminal benefits, such as pension and redundancy payments to which they were entitled. Another major problem is sexual harassment of female employees by their superiors. As women occupy the lowest level in the employment hierarchy, they are easily coerced into sexual relationships with their seniors, in exchange for better

¹⁸¹ Malawi Tea Research Project (Malawi CARER, May 2008)

¹⁸² ITC 2007

payment, promotion or lighter work. In some cases, male managers demand sex as a precondition for employing a woman. Because of low wages, some women on the estates resort to prostitution.

Most of the estates covered by the study had sound policies on health and occupational safety, but reality on the ground points to the contrary. Protective gear is not being distributed, for example, and sanitation and housing conditions are sometimes poor. Most estates offer health care to employees and their families, however, and they even claim to medically support surrounding communities in general. A lack of medicine and qualified personnel was noted on some estates, but ambulances were available on all the estates surveyed. HIV/AIDS is a very serious problem in Malawi and its tea sector, where it has decimated the workforce and raised the household dependency ratio. Out of a population of 12.3 million, almost one million people in Malawi were living with HIV at the end of 2005. Health and safety conditions in general in seemed better in the larger foreign owned estates than in the smaller domestically owned estates.

There are reports of child labour being a serious problem in the tea sector in Malawi, but there is a lack of systematic knowledge on this issue. This study did not directly observe children working in the fields, nor did the interviews indicate that child labour exists. The study found that child labour is the norm in small-scale tea farming households, where it takes the form of household chores.

Smallholders

Tea smallholders face a number of problems. While in the past Malawi had a number of institutions specifically for tea smallholders, such as a smallholder factory and development agency, they have almost all ceased to exist, along with most other government support. In addition, smallholders are not organized nor (effectively) represented in national tea institutions. Smallholder farmers, who account for about 14% of the land on which tea is cultivated but only 7% of the production, all sell their tea to the private estates. The price for their green leaf, currently equivalent to US\$ 0.082 per kilo, is fixed by the companies and does not make any distinction for quality or current world market prices. Smallholders indicated that this price is very low and not in line with the cost of production. They therefore claim that they do not benefit from tea growing at all. Most of the farmers grow other crops as well to supplement their income. Poverty among smallholders was evident, with some of them wearing rags and not even being able to afford shoes.

Extension services (training, farm inputs on loan) are sometimes provided by the estates, but they demand a dedicated supply in return. They can only access loans in this way, banks do not offer any support whatsoever. Many smallholder tea farmers are illiterate and they are mostly unaware of international supply chain demands, such as price and quality. The farmers depend exclusively on the buying company to

offer them transport. During peak season, farmers interviewed complained that their tea gets destroyed and could not be sold due to a lack of transportation.

Environmental impacts

Pesticides are used only on the estates, smallholders cannot afford them. Inorganic fertilisers are used by the estates and most of the smallholders. The latter claimed to use them despite claiming that they were aware of their negative impact on biodiversity and soil fertility. Many have also adopted measures to prevent soil erosion, however, such as constructing boxed ridges or planting (ground) vegetative cover such as grass and trees in and around their fields. Land is a contentious issue in the tea growing areas in Malawi. Because the majority of available productive land is taken by the tea companies, and some of it by smallholders, there is a lack of land. People are therefore clearing marginal areas in order to cultivate other crops, or to sell the cut trees as firewood or charcoal.

Recommendations

- There is a great need to advocate for the rights of the workers and to raise awareness among workers of their rights. A comprehensive and coordinated civic education campaign on human and labourers rights can address the gap and empower the workers in tea estates to start demanding for their rights whenever there are violations.
- Sensitization meetings should be held in the near future with both the National union (federation) and the (sector) Workers Unions on the plight of tea workers in the tea industry and how they can intervene.

Case study summary Sri Lanka¹⁸³

Basic information

Sri Lanka is one of the oldest tea producing countries in the world - commercial production was started in 1867 by the British planter James Taylor in Loolecondera estate in Kandy. The tea produced in this country, popularly known as “Ceylon Tea”, ranks among the best available teas in international trade. In 2007, Sri Lanka was the third-largest tea-producing country globally, with a 9% share of global production, producing 30.6 million kilograms of tea. The total extent of land under tea cultivation has been estimated at approximately 187,309 hectares.

Sri Lanka produces tea throughout the year, and the growing areas are mainly concentrated in the central highlands and southern inland areas of the island. They are broadly grouped under these headings according to their elevations, with high grows ranging from 1200 m upwards, medium grows covering between 600 m to 1200 m. and low grows from sea level up to 600 m. High grown teas from Sri Lanka are renowned for their taste and aroma. The two types of seasonal tea produced in these areas, Dimbula and Nuwara Eliya, are much sought-after by blenders in tea-importing countries. Uva teas from the Eastern Highlands contain unique seasonal characteristics and are widely used in many quality blends, particularly in Germany and Japan. The medium grown teas provide a thick colour variety which is popular in Australia, Europe, Japan and North America. The teas produced in low grown areas are mainly popular in Western Asia, Middle Eastern countries and CIS countries. Most factories in these areas produce what is known as a leafy grade of tea, the tea leaves of which are highly twisted and can grade into long particles.

Sri Lankan tea is grown on large plantations as well as on smallholdings. According to a survey carried out in 2005, there are approximately 118,275 hectares of smallholdings (Census of Tea Small Holdings, Department of Census and Statistics, 2005). Of the total land on which tea is cultivated, around 43% is managed by the corporate sector, with a production of about 35%, while the balance of 57% is in the smallholder sector, with a production of 65% of the total. The average productivity in the smallholder sector is substantially higher, at about 1,853 kg/ha compared to the corporate sector productivity of 1,459 kg/ha.

¹⁸³ Sustainabilitytea, Report on the Sri Lankan Tea Industry (Institute Of Social Development Kandy, April 2008)

Economic characteristics

Employment

The tea sector in Sri Lanka has always been a vital component of its economy. It is also the country's largest employer, providing employment both directly and indirectly to over 1 million people. It also contributes a significant amount to Government revenue and to the gross domestic product.

Exports

Sri Lanka has emerged as one of the world's leading tea exporters, with a share of around 19% of the global demand. With around 305 million kg black tea being exported per annum, the current foreign exchange earnings from tea exports amount to approximately Rs. 81 billion (USD 750 million), which is nearly 14 per cent of the total national foreign exchange earnings. Income from the agriculture sector contributes about 19.7 per cent of the total GNP, around 70% of which is made up of tea.

Price formation

- **Corporate sector:** The cost of green leaf depends on the field productivity, cost of other inputs, wages, plucker intake, etc., and usually works out at around Rs 14.50 – 21.50 per kg (or Rs 65 – 90 per kg of made tea)¹⁸⁴.
- **Smallholder sector:** The cost of production of green leaf in the smallholder sector is estimated to be around Rs 16 – 25/= per kg) (Source: Tea Small Holdings Development Authority). Smallholder leaf is processed mainly in private bought-leaf factories. The Tea Control Act stipulates the payment of a reasonable price for green leaf supplied by smallholders (directly or through a leaf dealer) as well as for the cost of manufacturing the same. The scheme of cost sharing between smallholders and factories is based on a formula proposed by the government which takes into consideration the cost of production at the field level and at the processing factory separately. There have been several payment schemes (or apportionment of the net sale average (NSA) price of tea) for green leaf, and the scheme which is currently in force is called the New Reasonable Price Formula. The cost of production in Sri Lanka is generally considered to be the highest (USD 1.70 – 2.20 / kg) compared to costs in other tea growing countries.

Trading

The Colombo tea auction centre is one of the largest in the world, and on average it trades about 5-6 million kg of tea weekly. Colombo auction prices are the highest

¹⁸⁴ 1 USD is equal to 107 Sri Lankan Rupees.

(about USD 1.80-1.90 per kg of made tea), as are the FOB prices (about USD 2.63 per kg), compared to those fetched for tea exported from other countries. Of the total quantity of exports, about 40% is in value added form, which is considered to be high, compared to figures from other countries exporting tea.

Social characteristics

Sri Lankan tea plantations are covered by various laws and regulations, some of which are specific to the tea sector. These laws include the Estate Labour (Indian) Ordinance No. 13 of 1889, Medical Wants Ordinance No.09 of 1912, Diseases among labourers ordinance No 10 of 1912, Minimum Wage (Indian Labour) No.27 of 1927, Trade Union Representatives (Entry into Estates) Act No.25 of 1970, Estates Quarters (Special Provisions) Act No 2 of 1971, to name but a few. In addition to the above, the Government of Sri Lanka has ratified several conventions relating to workers in plantations, passed by the ILO (International Labour Organization).

Employment

However, in spite of all the legal measures, it is becoming clear that plantation work is no longer attractive. The labour situation on plantations has gone from one of surplus to deficit, with an annual decline at the rate of 10 – 20% of the workforce. There are new areas of concern, such as the out-grower system. Under this new system, a plot of land is allocated to a worker family which works on the estate. The family is given fertilizer and other technical assistance to manage the land. The companies will pay the worker family whenever they supply green leaf to the factory. As a result the worker becomes a harvester in which the company sets the price of green tea leaf. The company avoids having to pay into the Employees Provident Fund, Employees provident fund, Maternity fund etc. Although the system has been implemented in some state and privately owned estates, it was opposed by the trade unions.

Housing and electricity

The housing available to estate workers is still inadequate, and only about 52% of estate households have access to mains electricity, while more than 74% of the total population of the country enjoys this facility (Source: Ceylon Electricity Board). The rest of the estate population depends on kerosene for lighting. The recent increase in the price of kerosene by Rs 16 per liter has had a major effect on living conditions.

Health

The infant mortality rate amongst the estate population remains high. According to the 2002-3 figures, neonatal mortality rate is 31 percent (the highest in the country) on the tea estates, compared to 13.5 percent in rural areas. The infant mortality rate remains the highest (47.5%), compared to 7.4 percent in rural areas.

Environmental characteristics

There have been some high-profile changes on the environmental front in Sri Lanka, but these have primarily been among the big multinational tea companies. Finlays tea estates in Sri Lanka are run by two subsidiaries: Hapugastenne Plantations Limited and Udapussellawa Plantations Limited, comprising 18 tea estates. These have adopted a more systematic triple bottom line reporting method which covers the full spectrum of economic, environmental and social impacts. With over 15,000 hectares of tea, rubber and forest plantations, they have a significant impact on Sri Lanka's environment. Finlay's factories are now entirely powered by renewable sources of timber and they are in the process of developing a system of establishing their carbon balance sheet or footprint, with the aim of reducing emissions of global greenhouse gases.

Tata Tea, which manages the Watawalla estate, has launched a project of cultivating Calliandra with a view to enriching the organic matter content of the soil through mulching, and to minimizing the use of furnace oils for tea drying. Using calliandra firewood for drying would lead to savings in foreign exchange owing to fewer imports, while providing employment for surplus labour. They have also started hydroelectric power generation on the plantation, which helps the country to meet its energy needs at low cost and saves foreign exchange through the low consumption of oil.

Similarly, two plantation companies owned and managed by Hayleys, Kelani Valley Plantations (KVPL) and Talawakelle Tea Estates (TTEL), have launched an Eco project to protect the fragile eco-system on the up-country mountain ranges. TTEL has now preserved all the naturally generated water resources such as water falls, springs and streams on the Great Western Estate, and has completely stopped the spraying of pesticides¹⁸⁵, making use of natural pest controllers such as birds. There was a campaign by the Government through the Tea Board, which has led to some action on the environmental front from the major tea companies in Sri Lanka.

CSR practices of the tea companies

The awareness level of the stakeholders regarding the key benefits of adopting CSR strategies is low. However, some of the companies have increasingly begun to understand the benefits of quality certifications and are also trying to benefit from the certification schemes of the Ethical Tea Partnership (ETP) and Fair Trade (FLO). Many of the tea companies have signed up to standards such as UN Global Compact, ISO and HACCP. There has also been an increase in their developmental activities in the communities, particularly in the area of philanthropy. Companies which have advanced levels of CSR policies include Finlays, Tata Tea, Hayles group

¹⁸⁵ Some experts doubt this claim and say that the company is still working towards this goal

and Dilmah tea. However, the workers and the trade unions feel that there has been no attempt to involve them in these processes, and they have not been trained to use the opportunities available through the codes to protect labour rights.

Stakeholders of the tea supply chain

State sector institutions

- **The Ministry of Plantation Industries (MPI)** deals with policy issues affecting the tea industry, with various bodies in place to implement the policy. The Sri Lanka Tea Board (SLTB) is responsible for monitoring tea marketing and promotional activities, the collection and interpretation of tea statistics, monitoring subsidies for upgrading factories and policy formulation and implementation in the area of quality assurance of tea.
- **The Tea Research Institute (TRI)** has a mandate to carry out research on all aspects of tea cultivation, processing and product development. The National Institute of Plantation Management (NIPM) deals with the human resource development requirements of the industry, by providing training to all personnel working in the industry.
- **The Tea Small Holdings Development Authority (TSHDA)** looks after the operations of the smallholder sector in the country. It provides the necessary extension services to disseminate technical know-how to smallholders on tea cultivation, maintains the Tea Shakthi Fund and acts as the coordinating body for the sector. The Tea Shakthi Fund operates/manages around 12 factories in various parts of the tea-growing districts in which the leaf from the smallholders is processed. But as the prices paid by these factories are not very attractive, the majority of the smallholders prefer to sell their leaf to other bought-leaf factories, and the viability of such factories has therefore been questioned.

Private sector organizations

There are several private-sector organizations, which have major roles, as large parts of the state-owned land have been managed by the private sector since 1992.

These are:

- **The Tea Association of Sri Lanka (TASL)**, which was established very recently, is claimed to be the apex body, comprising membership from all the private-sector stakeholders. Its function is to ensure production and export of quality teas to the market.
- **The Planters Association (PA) of Ceylon:** There are 20 Regional Plantation Companies (RPCs) (Annex I) managing nearly 81,592 ha, about 78,188 ha of which is given over to tea cultivation. This covers 304 estates (Anon, 2003). All these RPCs are members of the PA. Most of the common issues facing this sector are addressed by the PA.

- **The Federation of Tea Smallholder Societies (FTSHS):** There are nearly 400,000 smallholders (with holding sizes of ¼ acre – 50 acres), scattered across various tea-growing districts, but more than 80% of them are in low-lying land. Since there was no common organization to represent issues facing them, FTSHS was formed.
- **The Private Tea Factory Owners Association (PTFOA):** The PTFOA was formed in 1990 mainly to protect the interests of the private tea factory owners against the Sri Lankan Government's policy of stipulating the price payable for green leaf. The private factory owners are represented in the CTTA as an observer. However, they felt that a separate organisation was required to specifically address the problems related to the tea factory owners.
- **The Colombo Brokers Association (CBA):** The teas produced at the factory are sold at the Colombo auctions through the brokers. A nominal sum of 1% on the sale price per kg is charged by the brokers.
- **The Colombo Tea Traders Association (CTTA):** The tea buyers, sellers and brokers associated with the Ceylon Chambers of Commerce (CCC) formed the CTTA in 1894. Apart from lobbying government officials on behalf of their members, the other important function of CTTA has been to conduct the weekly tea auctions in Sri Lanka, through which roughly 90% of the tea is sold in Sri Lanka.
- **Trade Unions:** The major trade unions in Sri Lanka are the Ceylon Workers' Congress (CWC), Lanka Jathika Estate Workers' Union and the Joint Plantation Trade Union Center. These unions are quite powerful. In December 2006 and October 2007 new wage collective agreements were concluded, which raised wages after the direct intervention of the President of Sri Lanka. The bulk of the tea is produced by smallholders, however, and they are not covered by the plantation trade unions. In addition, the focus of the trade unions which are politically affiliated has been mainly on wage issues, and they have not been able to focus on other aspects of labour.
- **Civil Society Organisations:** The CSOs focus primarily on activities related to livelihood, peace building, rights of children, gender, prevention of HIV/AIDS etc., and very few focus on issues related to rights in the plantation community. The INGOs, such as Care International, Plan International, WUSC (World University Services Canada), World Vision etc., directly implement projects related to livelihood in the plantation sector. Whereas CSOs such as Oxfam, Save the Children Fund, CORAID, Christian Aid, HIVOS and also agencies such as NORAD, USAID, Aus-AID, SIDA, CIDA, assist the Local NGOs in implementing specific activities agreed upon by both parties through consultation. At the present time, very few CSOs are concentrating on environmental, occupational health and safety issues in the tea sector.

Recommendations

Plantation companies

- Explore the possibilities of upgrading plantation jobs, by providing upward movement, to attract more workers to work in the estate.
- The price share supplement in the wage structure should not be based on the national average price of tea, but rather on either
 - the net sale average price (NSA) of that particular estate or
 - the average price recorded in the corporate sector at that elevation, somewhat similar to the green leaf price formula, in place.
- There should not be any effort from the plantation companies to dilute the existing labour laws which protect the workers in the tea industry, on the grounds of declining returns.
- The big companies could also tie up with the ILO and other civil society organisations to help small growers achieve minimum labour and environmental standards. Adherence to such standards will give an additional product value to the tea being sold at the retail level. In return, the companies could provide incentives in terms of better prices to the small growers. These practices could work to the advantage of both.

The government

- Provide technical and marketing assistance to the small and marginalized farmers
- Provide credit schemes and debt management services to the plantations
- Ensure that labour laws are not violated on the large plantations and that the ILO's decent work standards are maintained
- The social security mechanism of tea estate workers should be strengthened, and for this purpose special agencies, an implementation mechanism and a fund should be created and trade unions involved in implementing and monitoring them.
- Grant preferential procurement of the tea for government departments which adhere to acceptable codes of conduct, and provide incentives to companies which adhere to such codes
- Strengthen the relationships between small tea growers and private processing factories. Develop a strategic intervention in order to help each actor aware of their rights and responsibilities within the value chain.

International tea buyers

- Take responsibility for conditions in their entire tea value chains, particularly where they have more influence.

- Provide support to the small tea growers through technical and marketing assistance
- Pay a higher price for tea produced in a sustainable process
- Do not lobby to dilute the social protections available to tea estate workers
- Conduct multi-stakeholder monitoring and verification of the social and environmental standards on the tea estates from which tea is procured

NGOs and INGOs

- NGOs could provide technical assistance and other commercially oriented support, including quality improvement training, sales, and marketing skill building, support of participation in trade shows
- Training small-scale tea growers on social, economic and environmental aspects, and improve their understanding of the tea value chain.
- Adapt Codes of Conducts to the local realities of Sri Lanka through a participatory process
- Support for broad-based rural development including the development of local processing capacity and producer associations, and measures to improve credit and risk management facilities.
- Encourage tea traders to implement an effective Code of Conduct.

Case study summary Vietnam¹⁸⁶

Vietnam is situated in the geographical region of the world from which tea originates, and today tea is grown in 34 of 64 Vietnamese provinces. The best qualities are achieved in the Northern Highland and humid Midland areas. In two otherwise rather poor provinces, Thai Nguyen and Phu Tho, tea production is an important source of income. With a total production of 109,000 tons (2005),

History

Tea production for export purposes was introduced by the French colonialists at the end of the 19th century. The first large integrated tea plantation in Vietnam was established in 1957, with support from the former Soviet Union. Since the first statistical reports of tea production, the plantation area in Vietnam expanded from 5,400 hectares (ha) in 1955 to 125,000 ha in 2004. Over the last decade alone, tea production has doubled. This rise in production can be attributed to a massive promotional campaign by the government-run marketing agency VINATEA, as well as an ADB programme to raise the incomes of farmers through development of tea and fruit.

Economic characteristics

With 400,000 households engaged in tea cultivation and more people working in processing and trading, the Vietnamese tea industry has created over 1.5 million jobs. It's contribution to GDP, however, remains modest at 0.41% (2006). In the booming economy of Vietnam, the agricultural sector is losing importance when compared to industry and services. Among the eight main agricultural export commodities of Vietnam, tea ranks seventh, with an export value of 111 million USD in 2006. Tea was recently taken off the list of five strategic agricultural products.

Domestic market

30% of Vietnamese tea production is consumed domestically, most of it as green tea. Many tea farmers have their own small processing equipment for green tea, which they use for their own consumption and for local sales. There is an influential segment of domestic consumers which source high quality tea from specialised tea retailers or directly from renowned plantations. Modern tea bars and supermarkets

¹⁸⁶ Comparative international research on the tea sector in Vietnam (Hanoi: Centre for Community Empowerment, 2007)

increasingly compete with the traditional tea retailers and with small tea houses that cater mainly for a working class clientele.

Export

Vietnamese tea is exported to over 90 countries. About 60% of exports are in the form of black tea, for which the main importers are Pakistan, India, and Russia. Green tea makes up 20% of exports and mainly goes to Taiwan and China. Another 20% is exported as speciality teas, such as Oolong, Jasmine, and yellow tea (Pu-errh). There is a tendency towards decline in terms of value, with exports increasing to 107% in the first 6 months of 2007 and export value decreasing to 99.8% compared to the same period in 2006. On the international markets, Vietnamese tea is considered of lower quality, fetching an average price of between 0.95 and 1.06 USD/kg.

Price formulation

There has never been an auction system for tea in Vietnam. Prices for green leaf are set by the bigger tea companies in each region. Since the green leaf available currently satisfies only 80% of the production capacity of processing plants, prices for green leaf have almost doubled in recent years. The situation is aggravated by Chinese traders, who increasingly buy yellow tea from Vietnamese farmers.

Social aspects

Growing tea can generate attractive incomes for farmers, especially in the North of Vietnam – where no other cash crops such as coffee, cashew, etc., are grown. The revenues per acre of tea are twice to three times those for paddy (wet rice). Farmers normally live on the land which they cultivate, even if it belongs to the company which contracts them. Only those farmers who have a permanent working contract with a company are provided with social insurance.

As far as labour laws go, Vietnam is a member of the ILO and has ratified conventions on child labour and the minimum employment age. There are no specific national labour laws relating to the tea industry.

To date, there have been no social certification schemes, such as the Ethical Tea Partnership, active in Vietnam. Fair Trade has been introduced only recently, with the Fairtrade Labelling Organisation (FLO) starting a new system of in-country certification in July 2007. Since January 2008, a 100% Vietnamese owned Fair Trade company has started to export green and jasmine teas which are produced and processed to EU organic standards and traded according to FLO criteria.

Environmental issues

Extensive use of pesticides has been reported as a problem especially among independent farmers who do not receive technical support. In some provinces, tea farmers have formed IPM (Integrated Pest Management) clubs as part of programmes provided by the Ministry of Agriculture and Rural Development (MARD). The result is what they refer to as “clean tea” by domestic standards, but which do not receive international recognition.

There is an emerging niche market for organic tea in Vietnam, which is being explored by new private trading companies such as Ecolink. As it used to be with Fair Trade, because of the high cost of certification by international institutes, the entry-level cost for that market is relatively high.

Stakeholders in the tea supply chain

The linkages between different stakeholders, especially farmers and processing units/companies, are very weak. There is no formal sharing of market information between the actors in the supply chain. An effective tool to promote and strengthen these linkages has not yet been developed.

Farmers

There are three main types of tea farmers in Vietnam:

- Individual farmers (mostly smallholders) own their plantation areas, decide what they want to cultivate on it, and sell to whoever they want. They only pay a low tax rate for their land, but are in a very weak position when the price of tea leaves falls. About 90% of tea farmers belong to this category.
- Contracted farmers have their own land or are leasing it on a long-term basis from a company. In principle, they have to sell fresh leaves to the contracting company, but in reality they sell their product as fresh leaves, semi-processed or ready-made green tea to anybody offering a good price. They may get some support from the company in the form of credits, fertilizer, seedlings, and pesticides.
- Worker farmers are a declining relic of a formerly state-owned sector. They do not hold title to the land on which they cultivate tea. They maintain a closer relationship with the company for which they used to be workers and which now provides them with land to continue planting and with pesticides and chemical fertilizers. They have a right to sell their entire product to the company if the price goes down. They do have access to credits from the company but do not receive social insurance. Compared to other types of workers, worker farmers are well trained and benefit from good vertical linkages, but they have to pay relatively high taxes.

Vietnamese tea farmers are currently in a good bargaining position within the supply chain, due to strong competition for green leaf between processing factories and Chinese traders. In addition, since the local market is growing and most farmers have the necessary equipment for home processing of green tea, they are more independent than if they would have to rely solely on sales to processing factories. Although farmers are members of the general farmers' union, there is no professional organisation related to tea growing which could help them to cope with eventual market changes (e.g. falling prices for green leaf). Some farmers have organised in IPM clubs, organic or fair-trade groups, with the support of government programmes or international NGOs/ trading companies.

Trading and processing companies

- Low utilisation of new technology and uneconomic machine running times. If the expansion of the processing sector continues unchecked, it will result in a low profile for this actor in the tea supply chain. As a presently weak actor, the tea processing units suffer specifically from the fact that there are no binding contracts with farmers which allow them to plan their supply of green leaf. Even negotiated arrangements can be broken by either party with almost no chance of legal enforcement.
- Integrated companies are mainly medium-sized or large companies which own land on which tea is grown by worker farmers, at least one processing factory, and a marketing department. In addition to producing black and green tea for export, they have started to develop different product lines catering to the local market. The number of privately owned integrated companies is growing, with several state-owned companies being currently in a process of privatisation.
- Trading companies: In the past, VINATEA played a leading role in finding clients, coordinating quotations/contracts, and providing information about the international market to tea producers. Due to changing export markets and growing private sector involvement, the importance of VINATEA has reduced dramatically. Private trading companies, some of them in joint ventures with international partners, are the first actors in the Vietnamese tea value chain who have started to develop niche export markets (e.g. organic, Fair Trade). In developing such niches, they tend to become integrated companies which organise farmers and train them to produce speciality products.

Government

There is no tea board or any other authority specifically dealing with tea in Vietnam. Anyone who wants to grow tea or open a processing factory can do so and may even directly export if he can find a buyer.

Associations

The state-owned Vietnam Tea Association (VITAS) can be considered the biggest body representing tea processing and trading companies in Vietnam. VITAS aims at providing technical services, building models for sustainable development and setting up a complete tea industry information network. Its performance of these roles is not considered successful by the members of the association, however. Some have even stopped to provide sales figures to VITAS since they fear its functionaries might misuse them for their own trading advantage.

Trade unions

There are no independent trade unions in Vietnam; they are all affiliated to the Vietnam General Confederation of Labor under the leadership of the Communist Party, and maintain cooperative relations with state and other socio-political organisations. About 20 unions belonging to the Vietnam National Union of Agricultural and Rural Development Workers are active in the tea industry. In most tea companies, the chairman of the trade union is also the vice director. This union functions well in terms of organising social activities (staff retreats, paying visits to sick workers etc.). There is concern, however, if trade unions act as real representatives for the rights of the workers. Companies occasionally share profits with their workers.

Civil society

There are no Vietnamese NGOs which have programmes relating to the tea sector. Several INGOs such as CICSE/ Belgium, CECI/ Canada and SNV/ Netherlands have run time-limited capacity building programmes for tea farmers within a limited area.

Potentials and challenges

- Diversification of markets: There are growing domestic and international markets for quality green tea. In the export section, niche markets for specialty teas, organic and fair-trade products are worth further exploration.
- Lack of quality teas: As demand for green leaf is outstripping supply, farmers pay little attention to quality plucking. This may result in a deteriorating quality of Vietnamese tea which already has a mediocre reputation on the international market, where it is used mainly as filler tea.
- Need for organisation and representation of farmers: Although farmers are presently in a good bargaining position due to the current demand for green leaf, this situation could change in the future. Farmers are neither prepared nor organised to meet such a challenge. They need to join together horizontally in producer associations or cooperatives and improve vertical links to factories

and trading companies, in order to receive timely market information and quality requirements.

- Reduction of processing factories: As several processing factories do not seem to be making enough profit, a market adjustment will take place, with a phase-out of government subsidies. This will directly affect workers in the processing factories, as well as tea farmers who might again have to compete for sales of their green leaves to factories.
- Transparent price formulation: The present system of price formulation by larger companies is lacking transparency. The proposed introduction of an auction system could help to improve this situation. An independent association which offers proper services to its members would also be an asset.
- Improvement of linkages: Binding contracts which can be enforced would increase planning security for all stakeholders in the supply chain and improve linkages.