

Understanding Wage Issues in the Tea Industry

Report from a multi-stakeholder project

As part of the Tea Improvement Program (TIP),
facilitated by IDH - The Sustainable Trade Initiative



Table of Contents

1	Background and purpose of the study	8
	1.1. Background	8
	1.2. Perspectives of different stakeholders	10
	1.3. Purpose and governance of the study	11
	1.4. Methodology	12
2	Understanding wages and benefits	13
	2.1. International principles relating to wages	13
	2.2. Composition of benefits	13
	2.3. Relating wages to poverty and wage benchmarks	18
3	Findings and recommendations of the research team	19
	3.1. Findings	19
	3.2. Recommendations	24
4	Barriers to raising wages	25
5	Project partners' conclusions and proposed next steps	26
	5.1. Conclusions	26
	5.2. Proposed next steps	27
6	Appendices	29
	Appendix 1: Wage and Poverty Benchmarks used by Ergon Associates in their wage ladder analysis	29
	Appendix 2: Acknowledgements	31
	Appendix 3: Response of certification organisations and their commitment to improve wages	31

Executive Summary

Introduction

Wage levels are an issue of concern across the globe as individuals, companies and governments wrestle with how wages paid to workers relate to costs of living, corporate and national competitiveness, profitability and broader macro-economic trends and challenges.

Reports by civil society organisations, including Oxfam¹, have highlighted the issue of low wages and excessive working hours in the supply chains of a range of commodities and manufactured items, including tea. They argue that corporate compliance programmes and product certification schemes have achieved only limited reach to the root causes of supply chain problems, including low wages, and many have called for a Living Wage for workers.

While statutory minimum wages are established in 90 per cent of countries, in many cases wages paid to workers fail to comply with these, and where there is compliance, minimum wages may not meet the basic needs of workers and their families. The recent spikes in food prices, highlighted as part of Oxfam's GROW campaign, have especially hurt those who spend more than 50 per cent of their income on food¹.

It is in this context that Oxfam and the Ethical Tea Partnership (ETP), a not-for-profit member organization of tea companies² committed to improving the lives of tea workers and their environment, initiated a project in 2010 to increase understanding of wages in the tea sector, and to use this as a basis for constructive dialogue in the future, with three objectives:

1. Developing an evidence-based understanding of what wages are paid in relation to a range of wage benchmarks, including developing and testing a wage ladder tool.
2. Building a partnership of stakeholders with a common concern to ensure that tea workers' wages are adequate for sustainable livelihoods
3. Identifying obstacles to raising wages

1. See <http://www.oxfam.org.uk>

2. The members of ETP are Ahmad Tea, All About Tea, Bell Tea, Bettys & Taylors of Harrogate Ltd, Booths, D.E Master Blenders 1753, DJ Miles & Co Ltd, Imperial Tea Court, Imporient UK Ltd, Intertee, Jing Tea, Mars Drinks, Metropolitan Tea Co, Mother Parkers Tea & Coffee Inc, Newby teas, Ostfriesische Tee Gesellschaft (OTG), Reginald Ames Ltd, The Republic of Tea, Ringtons, Tazo Tea, Tea Ltd, The Tetley Group Ltd, Twinings, United Coffee, Windmill

The project was co-ordinated by **Oxfam** and **ETP** at a global level, and funded by ETP, Unilever, Oxfam Novib and IDH – The Sustainable Trade Initiative. It was supported by the certification organisations Fairtrade International, UTZ Certified and Rainforest Alliance (RA), the Ethical Trading Initiative and a number of NGOs active in the tea sector.

Research was conducted by Ergon Associates in 2011, to understand wages generally, and in the tea industry in three case study areas: Malawi, West Java (Indonesia) and Assam (India). It focused purely on hired labour on plantations, with a particular focus on tea pluckers. Smallholders were out of scope for this study. The in-country research was conducted between January and June 2012.

The tea estates studied for the research were selected as a representative sample of those serving the export market, and included a mix of certified (Fairtrade, Rainforest Alliance and UTZ Certified) and non-certified estates.

Researching an evidence-based understanding of wages in the tea industry

In the tea sector, wages are generally set at the national or regional level. Research suggests that pluckers are paid the same rates across individual regions, around the level of the applicable minimum wage, regardless of the economic performance or social responsibility of the individual estate that they are working at. There are, however, variations in provision of in-kind benefits, such as food, fuel and accommodation, which may make up a significant part of workers' total benefits.

Compliance with minimum wage legislation is generally good in the tea regions studied. However, rather than act as a 'floor wage', the minimum wage is often the default wage paid. This is in spite of the fact that in Assam and Indonesia, collective bargaining between tea associations and trade unions is part of the wage setting process.

The way that plantations were established in remote areas during colonial times has left a legacy of employment and welfare requirements on tea producers from governments in countries such as India and Indonesia, which impacts on the way that producers manage costs. Labour is the biggest proportion of a tea producer costs and in some countries producers cannot vary their labour force without the involvement of government. Productivity is low in some regions and producer incomes have been cyclical.

A wage ladder tool was developed for each country: a visual representation of how actual wages paid relate to a range of internationally and nationally recognised benchmarks, including national poverty lines and World Bank poverty lines, expressed in Purchasing Power Parity (PPP) dollars to allow international comparisons. The World Bank poverty line is currently set at US \$2 PPP/day. This is the minimum consumption of a person in poverty (food and basic needs, where food = >50 per cent of expenditure). The extreme poverty line, defined as living on the edge of subsistence, is currently set at US\$1.25 PPP/day.

Wages support households, not just individuals, so average household size and average number of earners for tea regions were used to calculate household poverty thresholds and basic needs.

In all three regions, in-kind benefits and non-wage allowances – including food, fuel and accommodation – make up a significant proportion of total benefits for pluckers on estates. The research team quantified (‘monetised’) these in-kind benefits (including allowances) using the best available methodology, and making clear their assumptions. However, local research suggested that the actual take-up of in-kind benefits, namely the proportion of workers who receive the full effective value of these in-kind provisions, varied widely.

The tea estates studied for the research were selected by ETP and Ergon as a representative sample of each sector while being important for the export market, and included a mix of certified and non-certified estates.

Summary of findings

The development of the wage ladders for the various tea producing countries has proved to be a complex challenge.

Note to readers of the findings: The ladders shown in the report are representative of our research findings but the methodology involved making assumptions about key variables, including household composition; conversion of local currency to \$PPP; value and uptake of in-kind benefits (particularly in the case of Assam) and seasonality of earnings. Different assumptions would alter the appearance of the wage ladders, and other interpretations of the data could be valid. Other caveats include:

- Our research only enables us to present an average for a tea-growing region and circumstances may well vary between tea-growing communities.
- The situation also varies over time with one significant devaluation in currency (Malawi Kwacha) and several increases to minimum wage levels taking place during the course of the two-year project.
- Local researchers used slightly different methodologies in the three countries to understand workers' wages.

So we have come to regard wage ladders as a useful tool and aid to discussion but wider analysis is required to properly understand the circumstances of families living in the various individual tea communities.

In **West Java (Indonesia)**, the research team calculated that pluckers' wages were above international poverty benchmarks and local researchers estimated that they were close to a living wage for a household if in-kind benefits are included. However, Indonesia's economy has been developing fast, and they are low in relative terms.

The reverse is true in **Malawi**. In absolute terms, wages are very low: a tea plucker's earnings are below the World Bank extreme poverty line for an average household with an average number of earners. However, they are not particularly low relative to others in Malawi, which is one of the poorest countries in the world, having the ninth lowest GDP per capita³. Basic cash wages from tea are lower than the national poverty line, which is however reached when productivity payments and in-kind benefits are included.

In **Assam (India)**, tea pluckers' earnings are higher in absolute terms than in Malawi. Estimating in-kind benefits as having almost equal value to cash wages, total compensation falls just above the World Bank poverty line extrapolated for an average household. In relative terms, pluckers' wages are around 40 per cent of the Indian average income level (calculated as Gross National Income per head of working population).

In all the regions analysed, total benefits for tea pluckers (cash wages and in-kind benefits) were found to be above the applicable national poverty line extrapolated for an average household. However in all three regions the national poverty lines (state poverty line for Assam) stand below the World Bank extreme poverty line (US\$1.25/day 2005 PPP) at current local prices (see Figure 3).

Another significant finding, of particular relevance to the standards bodies, was that in the focus regions, wages were found to be no higher on certified estates than on non-certified estates. This is because for the wages element of certification, standards only require that wages do not fall below the legal minimum. The project leaders therefore concluded that certification is no guarantee that workers' wages meet their households' basic needs. Ethical certification brings workers a number of other financial and non-financial benefits, which were not looked at in this research. Note that the report scope was limited to waged workers; the study did not look at the impact of certification on the incomes of smallholders⁴.

Although women make up the majority of tea pluckers in many tea estates, they tend to have low representation in the workplace for a combination of reasons, which means the adequacy of wages to meet their needs cannot be assured at present. There is currently poor information on the value or otherwise that women workers put on in-kind benefits. While in some regions child-care is good, in others, quality child-care may not be available, which can mean older siblings, usually girls, miss educational opportunities to look after younger siblings.

The findings help explain the concerns reported by civil society organizations and the disconnection between different stakeholders, which has been a feature of interactions on the subject of wages.

4. A range of independent published studies are available on the costs and benefits of certification for smallholders, workers and the environment; for further details [see the websites of the certification organizations and www.isealliance.org]

Recommendations

The Ergon research team made three key recommendations on how wage issues can be better addressed. These are relevant for tea producers, tea buying companies, retailers, governments, NGOs and trade unions.

1. Improving understanding and measurement of wages

Companies, in particular, need to increase their understanding of wage issues and how to address them, including the following factors:

- Wage-setting mechanisms
- The full industrial relations picture
- The extent to which the applicable (statutory or agreed) minimum wage is a reliable indicator of basic needs
- Value, quality and take-up of in-kind benefits

2. Adapting auditing and assessment procedures

Assessment and auditing organisations need to review their approaches to wage assessment in situations where minimum wages are not reliable indicators of households' basic needs. Benchmarks of basic needs will be required which will vary according to the context. Auditing procedures should be adapted to include assessment of quality and take-up of benefits, including child-care. More work may be needed involving tea companies, standards bodies and auditing firms to ensure consistency of approaches.

3. Improving dialogue on wages

There is a need for more constructive and effective dialogue on wages between different stakeholder groups, including trade unions. More trust needs to be built between companies, civil society and trade unions at both the national and international level.

Barriers to raising wages

In the course of the project and through dialogue with stakeholders, Oxfam and Ethical Tea Partnership identified the following barriers to raising wages found to be low:-

- Lack of understanding of wage-setting mechanisms.
- Absence or inefficacy of collective bargaining processes.
- Disempowerment of women workers.
- Contribution of in-kind benefits.
- Structure and productivity of tea production.
- Limited dialogue between stakeholders.
- Overly simplistic assurance processes.

Project partners' conclusions and proposed next steps

The project partners found the research and the process of working together on this issue very useful. It established common ground in understanding the way wages are set, the cash and in-kind components of wages for tea pluckers in the different countries and how these relate to national minimum wages and to national and international poverty benchmarks.

All the project partners agree that there are real issues relating to wages in the tea sector that need to be addressed and follow-up to this research project is required. At the same time it has highlighted the complex root causes of low wages.

This project has already stimulated considerable discussion within and between stakeholder groups in different countries. Prior to the report being finalised, discussions were held with all the key stakeholder groups who had been involved in the project. While stakeholder discussions around the findings of the report have been very useful and constructive, it has been hard to develop an action plan that is appropriate for all the countries assessed as part of this report, as well as other key tea producing countries.

Wages and benefits are very important aspects of workers' quality of life but are linked to other issues such as job quality, opportunities for progression (particularly for women workers), job security and contractual relationships, access to housing and land and other income generation opportunities for family members. These vary in different countries, as do the structures in the industry and wage-setting processes.

There are many changes taking place in the tea sector which will affect wages and other livelihood and quality of life issues. These range from increasing reliance on the smallholder sector, to mechanisation and changing labour and consumption market dynamics.

The strategy that the project partners have therefore decided to follow is to take a country-specific approach. This will link work on wages and benefits to wider work on poverty in tea communities and efforts to adapt working practices in the tea sector that will enable producer companies and their workers to thrive in the future. The project partners are committed to co-ordinating a follow-up process involving other interested organisations, with a focus on ensuring all parts of the value chain are involved.

The initial plan is focused on three areas of activity.

1. Country-specific follow-up

Build on the initial analysis carried out as part of the 'Understanding wage issues in the tea industry' project and other work to date on the needs of workers and tea communities to develop approaches that support sustainable livelihoods for tea workers in each priority country. The selection process will take into account the importance of wage issues, stakeholder interest and capacity at international and national level and the potential for making a difference. Countries under review, in addition to Malawi, India and Indonesia, include Sri Lanka, Kenya and potentially other African countries.

The intention is to involve organisations from all parts of the value chain with relevant skills and influence. Different organisations would take the lead on different aspects of the implementation, where they have particular expertise, experience or influence.

2. Improve dialogue on wages

The research team highlighted the varying levels of understanding of wage issues between stakeholder groups and the need to increase trust and constructive dialogue on the issue. We hope that this report can act as a useful input to this. Ethical Tea Partnership and Oxfam can play a role in building trust and facilitating dialogue and will incorporate that into their future plans.

While there is much discussion about wage issues in supply chains at the international level, wages in the tea sector are set at the national or regional level through agreed processes and need to take account of the national context and local realities.

ETP has held some very preliminary discussions in producer countries where there is considerable concern about external stakeholders focusing on issues and processes that are locally managed, particularly in countries with large domestic markets. There remain some big questions about what role international stakeholders could or should play and it is important that these are aired and constructively discussed.

In some countries, further discussion will be required with individual stakeholder groups before productive multi-stakeholder discussions can be held, in other countries such wider discussions can move ahead and will form part of the work plans.

3. Influencing the way wages and benefits are monitored and audited

Standards, certification, auditing and assessment organisations are an important stakeholder group. They are involved in raising sustainability standards and providing assurance to the market on issues which include wages. All the key standards organisations operating in the tea sector have supported this initial project and are involved in discussions about potential follow-up.

At the meeting in September 2012 between ETP, Oxfam and the certification bodies Fairtrade International, Rainforest Alliance and UTZ Certified to discuss the results of the research, participants broadly:

- accepted the findings of the research;
- agreed that changes need to be made to the way wages are assessed and audited for the purposes of product certification; and
- agreed on the need to work together, recognising this as an area of pre-competitive co-operation

Standard setting organisations and certification bodies have been looking at wage issues in relation to their various standards and discussing such issues within forums such as the ISEAL Alliance. While this issue goes far beyond the tea sector, and changes in audit approach need to take account of the situation in other sectors, the Ethical Tea Partnership can play an important role. It can ensure that, within the tea sector, a consistent approach to wage issues is developed across ETP and certification bodies and provide learnings from the tea sector into wider processes.

Through the Tea Standards Forum, ETP will work with the certification bodies and IDH – The Sustainable Trade Initiative and other interested parties to improve the way wages are assessed. The ultimate objective is to have one assessment approach on wages for all standards bodies operating in the tea sector and one repository of information on wages in the tea sector that is kept up to date for the benefit of everyone.

1 Background and purpose of the study

1.1. Background

Wage levels are an issue of concern across the globe as individuals, companies and governments wrestle with how wages paid to workers relate to costs of living, corporate and national competitiveness, profitability and broader macro-economic trends and challenges.

While statutory minimum wages are established in 90 per cent of countries worldwide, this does not in itself ensure that workers are receiving sufficient income to provide for the basic needs of themselves and their families. There are two reasons for this:

1. Gaps in compliance with minimum wages

In many sectors, it is still common for companies not to pay the legal minimum wage to their employees and local enforcement is weak. This was one of the driving forces behind the establishment of private voluntary labour standards, where checking that the minimum wage is being paid is one of the key audit requirements. For example, one organisation that carries out assessments for international brands primarily in India, China, Bangladesh and the UK found that in 2012, 22 per cent of the sites they visited were not paying the minimum wage. While still a very high statistic, this is a significant improvement on 2006, when 84 per cent of sites they visited were not paying the minimum wage⁵.

2. Minimum wages are not adequate to meet basic needs, or have not kept pace with rises in cost of living

While in theory, minimum wages should be sufficient to enable workers to provide for the basic needs of themselves and their families, this may not be the case if minimum wages do not keep pace with rises in cost of living. It is these situations which give rise to concerns that minimum wages are not 'living wages'. This issue is not confined to poorer countries. In the UK, research by KPMG indicates that one in five workers are paid less than the living wage and the Living Wage Campaign calculates that the minimum wage is 20 per cent below what is required for a 'low cost but acceptable family budget'⁶.

There is no one agreed way of calculating a living wage, making analysis fraught with complications. However, recent research suggests that although minimum wages have increased over the last five years, considerably so in some countries, the gap between minimum wage and living wage calculations is widening. One consultancy which carries out assessments at factories in the UK, Bangladesh, India and China supplying international brands, calculated that the gap between living wage and minimum wage was 47 per cent in India, 62 per cent in Bangladesh and 14 per cent in the UK and China⁷.

Reports by civil society organisations have increasingly highlighted the issue of low wages and excessive working hours in the supply chains of a range of commodities and manufactured items, including tea.⁸ These reports have placed retailers and suppliers under increased scrutiny. They argue that corporate compliance programmes and product certification schemes have achieved only limited reach to the root causes of supply chain problems, including low wages, and many have called for a Living Wage for workers. As a result, the question of a living wage has received increased focus in various quarters. There are now a growing number of initiatives to find ways of dealing with the challenge of low wages, see Box 1 below.

5. Nice work? Are workers taking the strain in the economic downturn? An update of Impactt's data on the prevalence of labour standards issues 2006-2012.
6. BBC News Website 5 November 2012. Ed Miliband to unveil 'living wage' proposals

7. See footnote 5.

8. Sustainability in the Tea Sector. SOMO. 2008; A Bitter Cup. War on Want/ UNITE/IUF 2010; Wages of Inequality, Wage Discrimination and Underpayment in Hybrid Seed Production in India. Global Research 2012. Study commissioned by the Fair Labour Organisation and India Committee of the Netherlands.

Box 1

Examples of wage improvement initiatives

Purchasing power parity approach:

Asia Floor Wage, garments

The Asia Floor Wage is an initiative of the Asia Floor Wage alliance, a consortium of trade unions, labour rights activists and academics working in the garment industry across Asia, Europe and North America. The consortium developed a benchmark using the World Bank's Purchasing Power Parity methodology that would allow workers to purchase equivalent baskets of goods and services across garment-producing countries in Asia.

Industry-wide approach: World Banana Forum, bananas

The World Banana Forum has brought together the most influential stakeholders in the banana industry including producing country governments, retailers, trade unions, NGOs and banana companies. They have publicly stated that workers are entitled to a living wage and that a 'common basket' of needs bears little relation to the minimum wage. Their programme has attracted financial support from the UN FAO to apply the programme in Ecuador, Colombia and Cameroon. Steps taken to date include gathering benchmark data on basic needs and wages, reviewing the impact of collective bargaining and reviewing the distribution of value along the value chain.

Ethical model factory approach:

Marks & Spencer, garments

Several garment companies have encouraged/incentivised suppliers to introduce productivity and training programmes that create the momentum and margin to raise wages. Marks & Spencer set out a commitment to a 'fair living wage' in its corporate plan and set itself a target relating to its supplier factories in Bangladesh, India and Sri Lanka. In addition to a modest uplift in wages, benefits have been found in reduced worker turnover and absenteeism and enhanced product quality.

Advocacy approach:

Levi Strauss & Co, garments

Levi Strauss has identified a different lever, aimed at national governments' minimum wage-setting

mechanisms: 'We will advocate with governments to set minimum wages consistent with the cost of living when wages fail to keep workers above the poverty line.'

Levi Strauss & Co, Commitment to workers, 2011.

Audit methodology approach

Fairwear Foundation has started to use wage ladders in its auditing processes, and has made a range of ladders publicly available. Social Accountability International (SA8000) has started to build living wage methodologies into its audit processes.

Government procurement approach

The Dutch government now applies social conditions to European tenders to promote international working standards and human rights in the international supply chain. Companies supplying the Dutch government are required to commit to ensure the ILO core conventions and human rights are respected. For some products (coffee, tea, cocoa, flowers and textiles) where specific risks are known, an additional commitment to a Living Wage is required.⁹

Voluntary commitment approach

In the UK, the Living Wage Campaign, organises for employers to become accredited Living Wage Employers, if they can demonstrate that they are paying the calculated Living Wage of £8.55 per hour in London and £7.45 in the rest of the UK, compared to the statutory national minimum wage of £6.19 per hour (figures current at April 2013). This is a voluntary initiative but is gaining traction, as major employers such as Barclays Bank, KPMG and local authorities sign up. The campaign is beginning to gain political influence, with support from the (Conservative) Mayor of London, Boris Johnson and the opposition Labour Party. The Labour Party has committed to looking at ways of making the living wage the norm for wages in the UK, including proposing new rules that mean government contracts could only be given to those firms who pay workers the living wage as a minimum.

1.2. Perspectives of different stakeholders

Stakeholder	Typical position
Tea brands, packers and retailers	We meet our obligations under national law (which many of our competitors do not) and have made significant investments to ensure our suppliers meet international social and environmental standards. How can we monitor a living wage when there is no agreed definition? Isn't it the governments' job to make sure a minimum wage is a living wage? We are under price pressure from our customers and our leverage is limited.
Tea Producers	Wages are set through legitimate national or regional processes and take note of national poverty lines and minimum wage rates. We meet our obligations under national law and provide a range of other social and welfare benefits, many of which would be the state's responsibility in other countries or industries. Labour is the majority of our cost of production and some estates are already on the edge of viability so we have little room for manoeuvre.
NGOs	Workers tell us they cannot live on the wages provided and have no voice in the way they are set, particularly women. Yet MNEs make huge profits from their labour. The definitional challenge should not be an excuse for inaction; workers must get a fairer share of value from the value chain.
Trade unions	A living wage is not just a number; the most sustainable basis to deliver it is through collective bargaining between management and workers, who know best what their basic needs are. Yet union freedoms are undermined by a number of factors, including precarious work and corporate business practices.

There is a readiness from some companies and certification bodies to move on from discussion towards commitment and action. However, when they do so they face a range of obstacles, as this report makes clear.

1.3. Purpose and governance of the study

It is in this context that Oxfam and the Ethical Tea Partnership (ETP), a not-for-profit member organisation¹⁰ of tea companies committed to improving the lives of tea workers and their environment, initiated a project to increase understanding of wages in the tea sector, and to use this as a basis for constructive dialogue in the future.

It was carried out as part of the Tea Improvement Programme (TIP)¹¹, which had identified a more transparent and fair wage structure as an area for TIP action and innovation.

The project was co-ordinated by Oxfam Novib, and funded by ETP, Unilever, Oxfam Novib and IDH – The Sustainable Trade Initiative. It was supported by the standards bodies Fairtrade International (FLO), UTZ Certified and Rainforest Alliance (RA), the Ethical Trading Initiative and a number of NGOs active in the tea sector.

The goal of the project was to deepen understanding of wage issues in the tea sector in order to increase constructive engagement around the issues with three objectives:

1. Developing an evidence-based understanding of what wages are paid in relation to a range of wage benchmarks, including developing and testing a wage ladder tool.
2. Building a partnership of stakeholders with a common concern to ensure that tea workers' wages are adequate for sustainable livelihoods.
3. Identifying obstacles to raising wages.

The focus for the study was on hired labour on tea estates with a particular focus on tea pluckers. The geographical focus was on Indonesia (West Java), Malawi and the state of Assam in India. These regions were chosen due particular concerns regarding wages. Studying wages in three regions also enabled the project team to base findings and conclusions on a wider spread of evidence. Smallholders and their waged workers and temporary workers were outside the scope for the study, but further work in this area is planned for the future.

This report was put together by Oxfam¹² and the Ethical Tea Partnership to explain why the project was developed, how it was implemented, its key conclusions and what follow-up activities are under development. The explanations of wages and benefits, wage setting processes and comparisons to national and international benchmarks are based on work carried out by consultants (see Methodology below) between January and June 2012.

10. The members of ETP are: Ahmad Tea, All About Tea, Bell Tea, Bettys & Taylors of Harrogate Ltd, Bigelow, Booths, D.E Master Blenders 1753, DJ Miles & Co Ltd, Imperial Tea Court, Imporient UK Ltd, Intertee, Jing Tea, Mars Drinks, Metropolitan Tea Co, Mother Parkers Tea & Coffee Inc, Newby teas, Ostfriesische Tee Gesellschaft (OTG), Reginald Ames Ltd, The Republic of Tea, Ringtons, Tazo Tea, Tea Ltd, Tea Monkey, The Tetley Group Ltd, Twinings, United Coffee, Windmill

11. Members of the Tea Improvement Programme (TIP) are of Ethical Tea Partnership, Oxfam Novib, Unilever, Rainforest Alliance, Utz Certified, Solidaridad, Royal Dutch Tea and Coffee Association (KNVKT), DE Masterblenders 1753 and the program is coordinated by IDH - The Sustainable Trade Initiative.

12. Oxfam Novib and Oxfam GB at the global level

1.4. Methodology

Oxfam and Ethical Tea Partnership commissioned the specialist labour rights, employment and development consultancy Ergon Associates, to lead the research, following a competitive tender process. Ergon conducted extensive desk-based research, recruited and managed the in-country researchers, again through competitive tendering, and acted as project managers.

Detailed discussions were held with the certification organisations Fairtrade International, Rainforest Alliance and UTZ Certified who all supported the project in order to understand better the relationship between their current processes and wages of waged workers on tea estates. A survey of tea companies and certification organisations was conducted to assess their current understanding of wage issues, including the commercial context, buying practices and the buyer-grower relationship.

An advisory group of NGOs was formed at the outset, comprising Traidcraft, Christian Aid, Solidaridad, SOMO, BananaLink and the ETI NGO Co-ordinator, co-ordinated by Oxfam. Two trade unions were invited to join the group but declined on the basis that no commitment had been given by the tea industry to address low wages, beyond understanding them. This issue was also of concern to NGO members of the group, but they nevertheless saw the value of the project and gave statements of support from their organisational perspective.

Advisory group members were consulted from time to time, contributed suggestions and received updates. However, a decision was taken not to circulate early drafts of the report until the research was complete and the findings could be presented as accurately as possible and in context, which limited the opportunities for NGO participants to give meaningful advice. NGO and trade union input was also sought during the country-based research, and where received was incorporated.

Research methodology

Desk research was conducted by Ergon Associates in 2011, to understand wages generally, and in the tea industry in three case study areas: Malawi, West Java (Indonesia) and Assam (India), focusing on wages paid to tea pluckers.

A wage ladder tool was developed for each country, as well as an accompanying methodology on how to use and read a wage ladder. A wage ladder is a visual representation of how actual wages paid relate to a range of internationally/nationally recognised benchmarks. The aim was to produce a simple, intelligible tool, use data from the most authoritative sources, reflect prevailing international consensus and make clear the rationale, assumptions, implications and challenges.

Tea companies, packers and certifiers were surveyed regarding their understanding of wage issues.

Independent local researchers, Wadonda Consult in Malawi and INRISE in Indonesia, were engaged by the project leaders and Ergon jointly, following a competitive process, to carry out in-country research, including direct interviews with workers and management. The project team were not able to recruit a suitable researcher for the research in Assam so, in this case, desk research was supplemented by stakeholder interviews by an Ergon staff member in Assam. Oxfam India were unable to participate in the research at the time in question.

The tea estates studied for the research were selected as a representative sample of estates supplying the export market, and included a mix of certified (Fairtrade, Rainforest Alliance and UTZ Certified) and non-certified estates.

A note on the numbers

The figures provided in the consultants' reports were correct at time of submission (July 2012). Changes to national minimum wages as well as inflation and practice by individual estates will mean that while a general picture is likely to remain, figures will date rapidly.

2 Understanding wages and benefits

2.1. International principles relating to wages¹³

There are two internationally recognised principles relating to wages which are relevant to the living wage debate:

Principle 1: Meeting basic needs

Ensure that wages are sufficient to meet the basic needs of the worker and his or her family¹⁴. Basic needs are: sufficient to meet basic food, clothing and housing needs¹⁵, and provide some discretionary income for themselves and their dependants¹⁶.

Principle 2: Determine wages by collective bargaining

In determining wages and working conditions that reflect these considerations, a company should seek to bargain collectively with its workers or their representatives, in particular trade unions, in accordance with national systems for collective bargaining¹⁷.

A statutory minimum wage is established in more than 90 per cent of ILO member states. In the ILO conception, a minimum wage should meet the basic needs of workers and their families and therefore, in theory, be a 'living wage'. However, in practice this is not the case, for a range of reasons. So wages can be compliant with national legislation but not meet international (private voluntary) standards.

13. See also "What is ILO's view on how to calculate a "living wage"?" taken from the ILO help desk at: http://www.ilo.org/empent/areas/business-helpdesk/faqs/WCMS_DOC_ENT_HLP_WAG_FAQ_EN/lang--en/index.htm#Q4; Article 7 of the ICESCR; Article 23.3 of the UDHR; 2008 ILO Declaration on Social Justice for a Fair Globalisation which, at I.A.(ii) references a "minimum living wage" itself taken from Article 3(d) of the ILO's Philadelphia Declaration http://www.ilocarib.org.tt/projects/cariblex/conventions_23.shtml

14. ILO Tripartite Declaration 34; OECD Guidelines 2011, Ch.V, 4b; ISO 26000 6.4.4; ETI base code 5; Global Reporting Initiative EC 5; Principle 1 Global Compact.

15. Global Compact Self Assessment tool HU 2.B. Wages

16. Global Compact Self Assessment tool HU 2.B. Wages; ETI Base Code 5; ILO Convention 100, 'Equal Remuneration for Men and Women Workers for Work of Equal Value', 1951

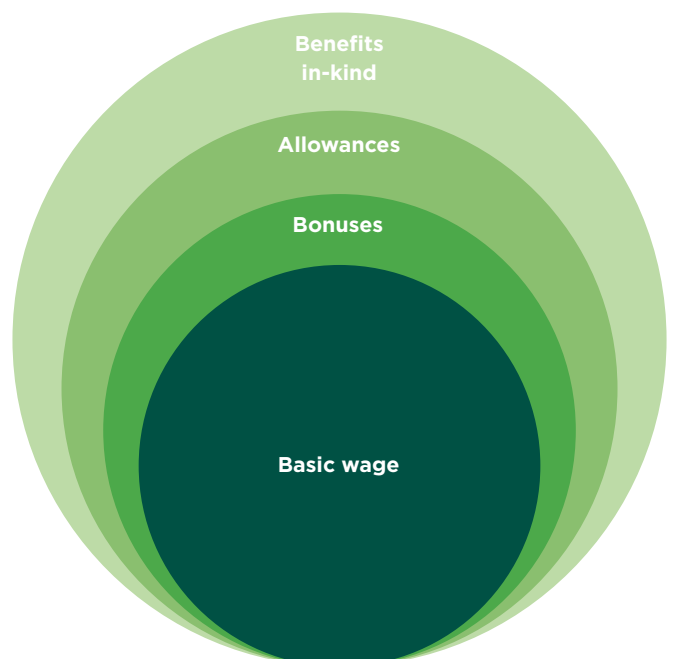
17. ILO Tripartite Declaration, par. 50; ISO 26000 6.4.4 labour practices issue 2; ILO Convention 131

2.2. Composition of benefits

For pluckers, cash wages are typically determined on the basis of 'piece rates' i.e. related to the amount of tea plucked, although basic wages may not fall below applicable statutory or agreed minimum rates. Basic cash wages may be supplemented by bonuses (relating to attendance or performance) allowances (such as additional cash payments to meet cost of living increases, or accommodation costs) and in-kind benefits, such as access to medical care. In-kind benefits constitute a significant part of total benefits on tea estates in the regions studied in this research.

Wages are different from 'total employment costs', which are the costs to the employer of employing waged labour and include elements such as obligatory (employer) social security contributions, paid leave entitlements and expenditures on recruitment and training.

Figure 1 - Understanding what makes up a wage



Box 2

In-kind benefits in the tea sector example from India

Tea plantations in India were established in colonial times. They employ large numbers of people (an individual estate may have several thousand residents – workers and their families) and tend to be in remote areas, often in states with high levels of poverty. Their history and geographical isolation has led to tea estates having a range of responsibilities beyond the simple provision of compensation for work.

Employment levels and the Badli system

The industry has a standing agreement to maintain the level of employment of permanent workers, set on 1 January 1969¹⁸. There is also an industry-wide agreement to operate the Badli¹⁹ system, where the son or daughter of a worker who has retired has to be hired in the place of his/her father or mother. Through this, families have assured jobs for at least one member of the family.

Health and welfare provisions of the Plantations Labour Act

The Plantations Labour Act, 1951 is a national act applicable to all plantations in India and is administered by State Governments. The Act brings within its remit rules applicable under various other national legislations²⁰. The Plantation Labour Act specifies a number of health and welfare benefits that plantations must provide.

While some of these would now be considered costs of employment (such as maternity and sickness benefit), others represent significant in-kind benefits and plantations are also responsible for some services that would normally be considered as state responsibilities. The health and welfare benefits mandated under the PLA are:

- **Housing:** for all permanent workers and their families.
- **Medical Facilities:** to all workers and their families.
- **Canteens**
- **Crèches:** where workers' children below age 6 exceed twenty five in number.
- **Education:** for workers' children up to age 12.
- **Rations & Dry Tea:** subsidized food grains at prices fixed in the 1950s.
- **Firewood & Fuel:** approx. 228 cft. of solid wood as the quantum of firewood²¹ + 100 oz. of Kerosene per family per week²².
- Provident Fund & Gratuity
- Maternity and Sickness Benefits
- Drinking water

The state governments may also introduce additional rules pertaining to the plantation system in their own states, e.g.: the Assam Factories Rules, Kerala Plantation Rules.

18. <http://assamchahmazdoorsangha.org/bilater1/12.html>

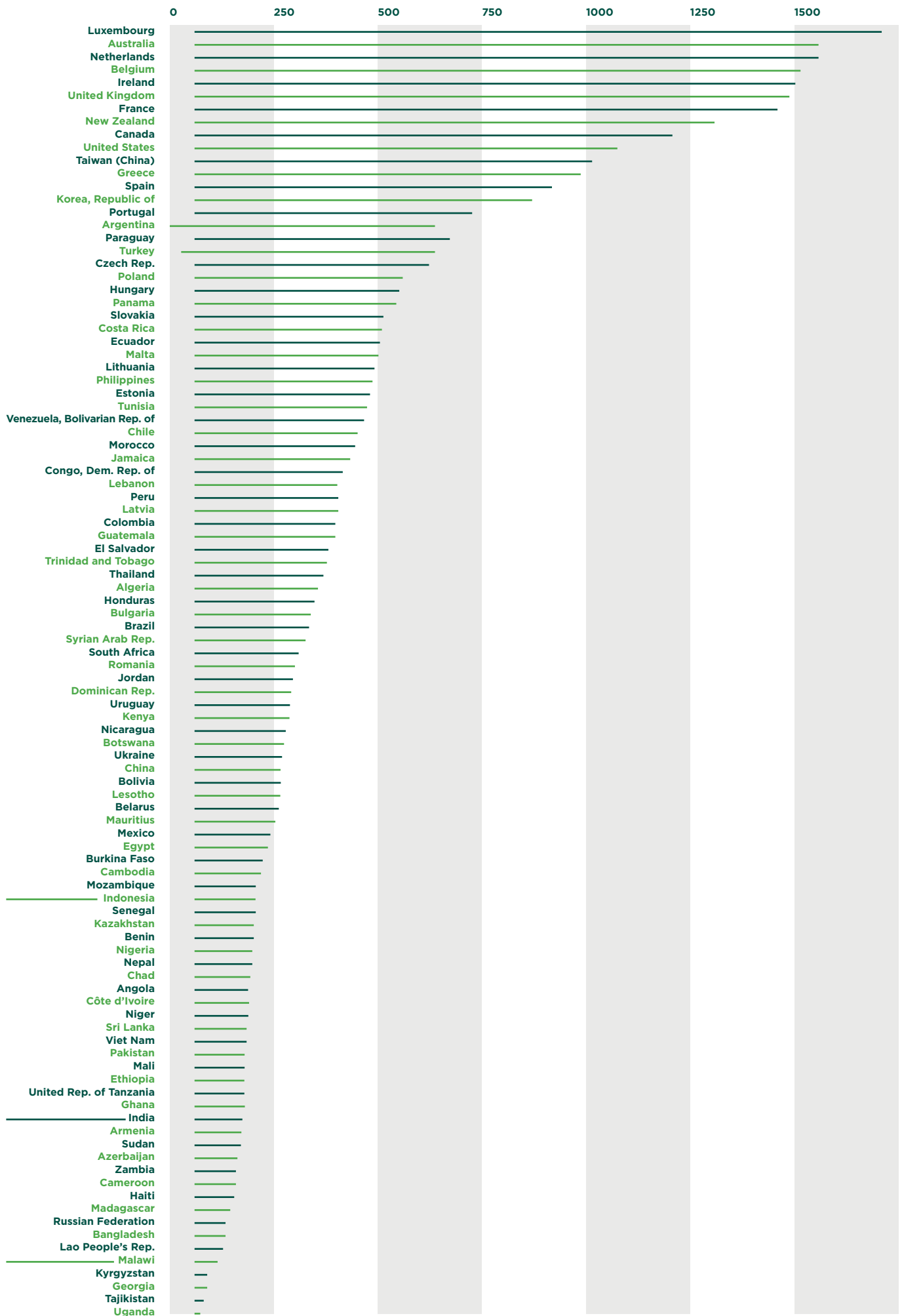
19. Talwar, Chakraborty & Biswas; (Study on Closed and Re-opened Tea Gardens in North Bengal; 2005)

20. Including the Industrial Disputes Act (1947), Gratuity Act (1972), Payment of Wages Act (1936), Provident Fund Act (1956), Payment of Bonus Act (1965), Workmen Compensation Act (1923), Weights and Measures Act, The Factories Act 1948, Equal Remuneration Act 1976 and Minimum Wages Act 1948.

21. <http://assamchahmazdoorsangha.org/bilater1/1.html> (Extracts form the proceedings of 19th Session of the Standing Labour Committee held on the 22nd and 23rd May 1962 at Shillong)

22. <http://assamchahmazdoorsangha.org/bilater1/1.html> (Extracts form the proceeding of the 21st Session of the Standing Labour Committee held on 15th June, 1963 at Shillong)

Figure 2 - Absolute value of national minimum wages (US\$PPP 2005)



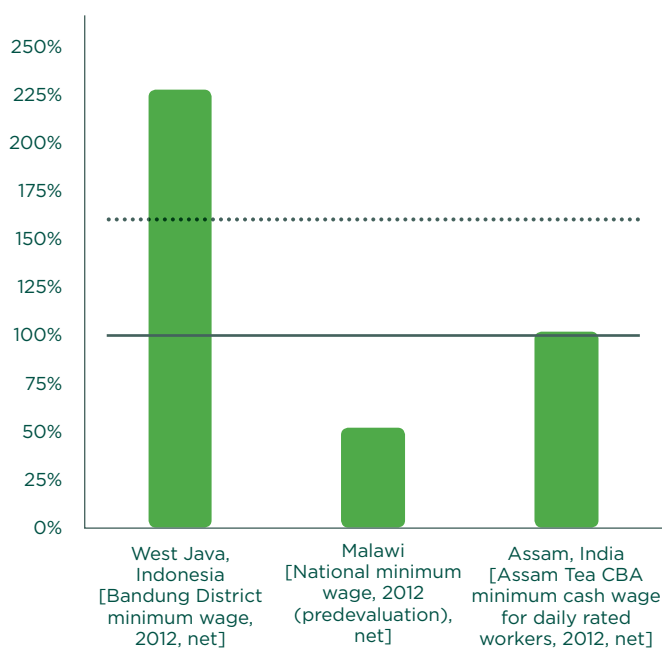
Source: 'Update on minimum wage developments', ILO Governing Body Committee on Employment and Social Policy, March 2009, www.ilo.org/public/libdoc/ilo/GB/304/GB.304_ESP_3_engl.pdf

Statutory Minimum Wages

The purpose of a statutory minimum wage is to establish a minimum income floor, to ensure that even the lowest wages in an economy meet the basic needs of workers and their households.

Analysis produced by the International Labour Organisation (ILO) in 2009 has shown that minimum wages remain low in absolute terms in many countries. The research noted that *'In 50% of countries the minimum wage is set at less than \$250 PPP per month.'* Figure 2 (former page), shows the level of monthly minimum wages (2007 rates) in 100 countries, expressed in comparable purchasing power parities (US\$ PPP) which take account of differences in cost-of-living. Minimum wages in the three focus countries are highlighted. Indonesia is ranked 68th, India 85th and Malawi 96th.

Figure 3a: Value of minimum wage rates set by national or district governments in each research area compared to international poverty lines - national assumptions on household composition



Minimum wages and poverty lines

Figure 3 shows how the local minimum wage rate in each research area, which is either set by national or regional government, compares to international poverty lines defined by the World Bank (see section 2.3 below). There are other components to tea workers' wages and benefits package which are analysed in this report, these graphics simply show how government-set minimum wage rates relate to international benchmarks. As these figures relate to households, they take into account average household size and number of income earners, for which assumptions have to be made. Figure 3a, uses national assumptions and methodologies for calculating household size and income earners, which vary between the countries. Figure 3b uses a standard assumption of a household across all three countries with 3 adult-equivalent consumption units (eg 2 adults and 2 children) with one earner. This is the model used by the Asia Floor Wage.

Figure 3b: Value of minimum wage rates set by national or district governments in each research area compared to international poverty lines - 3 unit household with one earner



■ Applicable minimum wage (mean, net) — WB US\$1.25 PPP Extreme Poverty Line = 100 WB \$2 PPP / day Poverty Line

Source: Ergon Associates

Wage-setting processes and structures

Wage-setting processes vary by national/regional context, and have a significant influence on wage levels. For example, where there is little or no unionisation or existing unions have limited power, employers may effectively set wages unilaterally across the sector.

In the tea sector, wages are generally set at the national or regional level. Research suggests that the basic pay rate for pluckers is the same across individual regions, around the level of the applicable minimum wage, regardless of the economic performance or social responsibility of the individual estate that they are working at. There are, however, variations in in-kind benefits, which make up a large part of workers' pay and benefits and pluckers can also earn additional income when they exceed the daily plucking target.

In Malawi, there is unilateral, sector-wide determination of minimum basic wages through the tea employers' association TAML, with no union involvement. This wage sits just above the statutory national minimum wage. The current wage system is unrelated to estates' profitability: all estates in this research pay the same rates, regardless of their own economic performance or certification status.

In Assam, tea wages are determined through collective bargaining between the sectoral employers association and one recognised union (Assam Chah Mazdoor Sangha – ACMS²³). The responsibility for labour and wage issues in India is complex. The Minimum Wage Act (1948) provides for minimum wages to be fixed for 'scheduled' employments, and tea is governed by the Plantation Labour Act (PLA). While a minimum wage for tea pluckers is set at state level, it is then derogated to collectively agreed rates between employers and the ACMS. All estates in the region pay the same level of cash wage, regardless of the economic performance or certification status of individual estates.

In Indonesia, the situation is also complex and politically influenced and there is greater diversity in wage-setting at plantation-level. In West Java, the main focus area of this research, the Governor in 2011 effectively repealed the (lower) provincial minimum wage for West Java, which is the basis for calculating a plantation sector minimum wage. In its absence, the Bandung District minimum wage was applied by default

23. While affiliated to the Indian National Trade Union Congress (INTUC), ACMS is no longer affiliated to the Global Union Federation for agriculture, IUF (International Union of Food workers).

during the period of the research, which was in principle binding on the surveyed tea estates. Bandung is the capital city of West Java and the district's minimum wage is around 40 per cent higher than the West Java Provincial minimum wage had been, reflecting the urban economy of Bandung. Whereas all of the plantations surveyed paid field workers' wages at or above what the West Java minimum wage had been, none pay wages near the level of the Bandung District wage. Certification does not change the level of wages paid by estates.

Taking household needs into account

The national and international poverty lines used in this research are established per person (per capita). Yet wages support households, not just individuals. In order to reflect this 'economic dependency', for the purposes of calculating household poverty thresholds and basic needs, we have depicted poverty lines as they are experienced by households – covering the needs of an average-size household with an average number of wage earners. This means that the poverty lines represented in the wage ladders are significantly higher than the nominal per capita poverty line. They are multiplied by a factor of 2-3, constituting the number of 'consumption units' in an average household, and divided by the average number of wage earners.

For the purposes of calculating household poverty thresholds and basic needs, average household size and number of earners for tea regions were used. These were based on in-country survey research and official statistical sources relevant to tea-producing regions (including significant household surveys).²⁴ The researchers followed national statistical practice with regard to establishing the number of 'consumption units' within a household²⁵. While this militates against direct comparability – a family of four will equate to 4 'consumption units' in Indonesia, while a family of 5-6 will equate to 3.8 'consumption units' in Malawi – our rationale is that national stakeholders will best be able to appropriate the wage ladders where they are based on established national assumptions. These are summarised on next page.

24. The formula of identifying average household size and dividing by the number of earners means that child-care also needs to be considered, to avoid assumptions regarding unpaid child-care such as an elder sibling looking after younger ones (resulting in missing school, for example, particular prevalent for female children). Tea estates may provide child-care facilities, so how child-care has been accounted for was included in the country research summaries.

25. Assam: 1 adult = 1 consumption unit; 1 child = 1/2 consumption unit (i.e. household of 2 adults + 2 children = 3 consumption units); Malawi: 1 if greater than 12 years; 0.95 if 10 – 12 years, 0.78 if 7 – less than 10 years, 0.62 if 4 – less than 7 years, 0.36 if 1 – less than 4 years and 0 if less than 1 year; Indonesia: 1 household member = 1 consumption unit.

Country	Average household size	Consumption Units	No. of Earners	Multiplier
Indonesia ²⁶	4	4	2	2
Assam ²⁷	5.1	4.3	1.78	2.42
Malawi ²⁸	4.3	3.8	1.17	3.25

Household size and number of earners based on official sources in Indonesia, Assam and Malawi

2.3. Relating wages to poverty and wage benchmarks

Absolute poverty measures

Poverty lines specify the level of income or consumption which is just enough for a person to maintain the basic minimum standard of living, based on the cost of a basket of basic goods and services. A person is classified as poor if his/her income or consumption is lower than the poverty line.

International poverty lines

The World Bank defines extreme poverty as living on the edge of subsistence. The World Bank extreme poverty line is currently set at \$1.25 2005 Purchasing Power Parity (PPP) per person, per day. The value of the extreme poverty line is expressed in PPP dollars, meaning that it represents the goods and services which could be purchased for \$1.25 in the US in 2005.

The World Bank poverty line is currently set at \$2 PPP. This is the World Bank measure of minimum consumption of a person in poverty (food and basic needs, where food = >50% of expenditure). It is included here as it clearly reflects the fact that incomes between \$1.25 PPP and \$2 per day, per capita still entail absolute poverty.

National poverty lines

National governments determine a national poverty line, using household surveys to establish consumption patterns of the poor, and the value of a basic needs basket. Poverty lines may be established both nationally and regionally, and for urban and rural areas. The research looked at the most regionally-relevant rural poverty line.

Wage ladder development

A wage ladder tool was developed – a visual representation of how actual wages paid relate to a range of internationally and nationally recognized benchmarks. This was done by:

- Selecting relevant benchmarks and gathering information for each benchmark.
- Converting international benchmarks (such as World Bank extreme poverty and poverty lines) into local currency, using purchasing power parities (PPP) to neutralise differences in cost of living²⁹, and bringing them up-to-date from 2005 to 2012 prices, using conversion factors developed by the World Bank and the IMF.
- Adjusting the representation of household needs, according to average household size (converted into ‘consumption units’), divided by the average number of wage earners in a household³⁰.
- Converting gross wages into net, take-home pay, in order to compare this against basic needs measures based on income and expenditure.
- Breaking wages down into basic wage, overtime and other allowances, and monetising the value of in-kind benefits.

The researchers incorporated into the ladders benchmarks of wages as well as benchmarks of poverty, where available.

It is recognized that the Asia Floor Wage (AFW) methodology for calculating a Living Wage has the greatest currency among civil society organizations. AFW assumes a single earner in a household, who needs to provide for two adults and two children (three consumption units). The AFW is based on the assumptions that food requirements are 3000 calories/adult/day and that the ratio of food costs to costs of basic services is 1:1. The methodology implicitly assumes a single earner in order to account for child-care costs. However, AFW – and the underlying methodology – is intended as a benchmark for urban manufacturing wages, rather than rural, agricultural wages. For this reason, the Asia Floor Wage (AFW) is not represented on the wage ladders for Assam (India) and West Java (Indonesia).

See Appendix 1 for an explanation of benchmarks used in the research together with assumptions made when making wage ladder calculations.

26. INRISE – interviews with tea workers, April 2012

27. District Level Household and Facility survey 2007-8, Ministry of Health and Family Welfare; 2004-5 Rural Labour Enquiry, Ministry of Labour 2011 (Assam average)

28. Wadonda Consult – surveys and interviews with tea workers, April 2012

29. Purchasing Power Parities (PPPs) are currency conversion rates that both convert to a common currency and equalise the purchasing power of different currencies - they eliminate the differences in price levels between countries in the process of currency conversion. PPP enables the comparison of the standards of living between two countries by comparing the price of this basket of goods and services in terms of the currencies of the two countries.

30. This enables a comparison between a) the contribution of the average wages earned to the average household's costs with the average number of wage earners and b) the cost of meeting the household's basic needs – that is household poverty line levels.

3 Findings and recommendations of the research team

3.1. Findings

Wage levels

Tea pluckers are paid on a piece-rate system. A 'norm' is set for the number of kilograms of tea that should be plucked each day and additional payments are given for each kilogram above the norm that is plucked. The level at which the norm is set varies by region (due to productivity differences, among other factors) and the amount plucked above the norm will vary according to the individual plucker's ability and the season. In high season, pluckers may be able to earn above the norm, in low season they will not and they must receive the legal minimum. In some regions there are also variations in rates according to the quality of the leaves picked.

It is important to note that the analysis is based on the best pay data available to the research teams but this is not always directly comparable between countries.

- In West Java, the research identified pay rates for different types of work on four estates and the researchers were able to get indications of the contribution of productivity payments, so the graphics represent *effective average take-home pay for the peak season*.
- In Malawi, the research focused on pluckers only on three estates and the researchers were able to get indications of the contribution of productivity payments so the graphics represents *effective average take-home pay for pluckers over the course of 12 months*.
- In the case of Assam, data is based on *documented statutory and agreed minima* for pluckers and does not include productivity payments as the research team were unable to access credible data on this. Therefore, the India wage ladders may under-represent the total monthly cash payments that a plucker would receive.

West Java: data is based on take-home pay in West Java collected through field-level worker surveys, including productivity benefits where applicable; data reflects peak season wages (local research suggested low season wages may be up to 30% lower). In-kind benefits were assessed and quantified by the local research team, to give an estimation of their cash-equivalent value.

Malawi: data is based on take-home pay collected through field-level worker surveys, averaged across peak and off-peak during one calendar year, including average productivity and overtime benefits where applicable. In-kind benefits were assessed and quantified by the local research team, to give an estimation of their cash-equivalent value. Take-up of in-kind benefits varied, and in some cases was low.

Assam: data is based on collectively-agreed minimum salaries and information on value of in-kind benefits from the Indian Tea Association, triangulated against data from specific estates; this data does not reflect seasonality, nor differences in productivity between workers; equally, value and take-up of in-kind benefits have not been verified through local research.

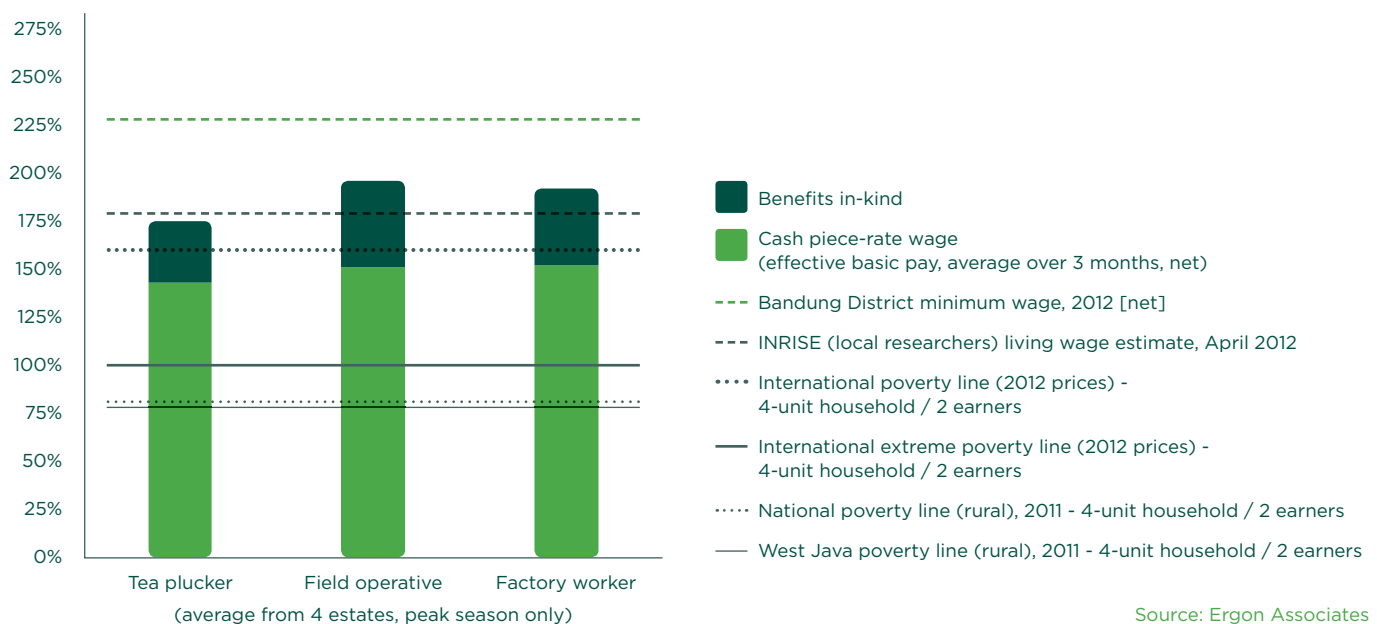
In order to convert daily wages into monthly figures, the researchers assumed 26 working days per month, on the basis of applicable national legislation and local practice.

Wage ladders are useful to help understand wages against poverty and wage benchmarks. However, they do need to be supplemented by the broader context in which wages are set and paid. For example, wage setting processes, industry costs-of-production and the industrial relations environment.

The research found significant differences in basic wage levels across the three regions.³¹

31. Local currencies were converted into US\$ at purchasing power parities to neutralise differences in cost of living between countries

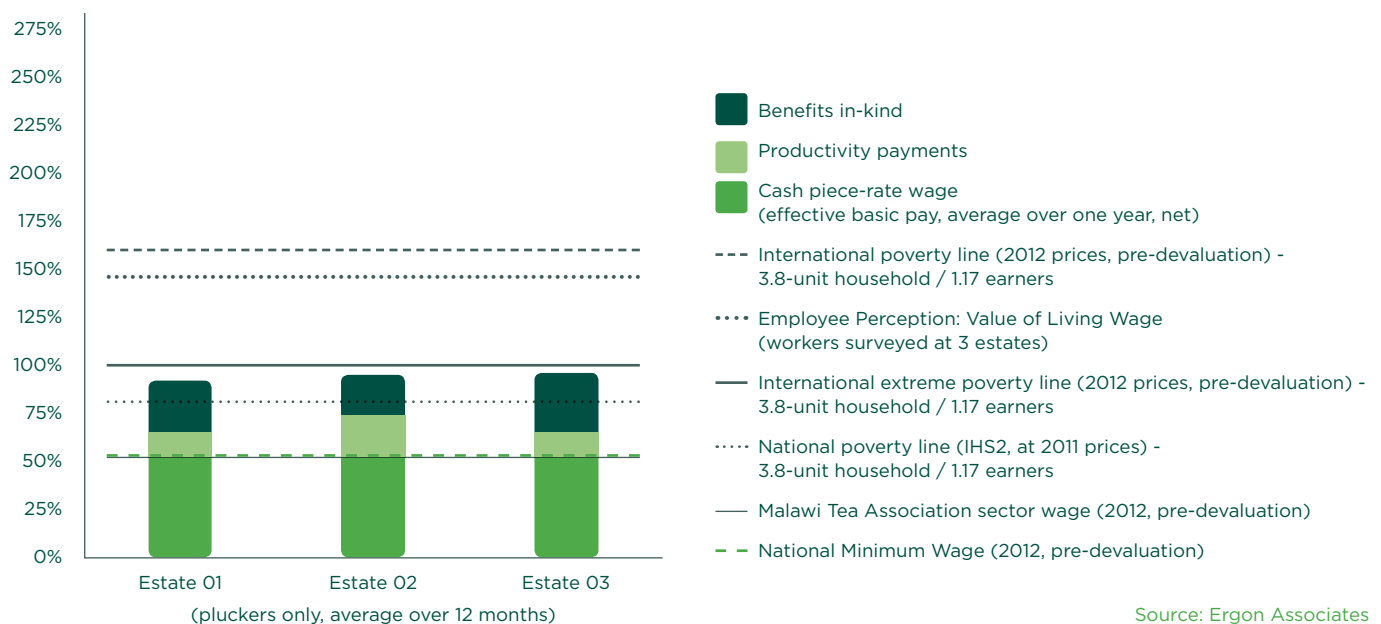
Figure 4:
Indonesia (West Java) 'wage ladder', by work category
 World Bank Extreme Poverty Line (household, monthly) = 100



In **West Java**, the research team calculated that pluckers' wages were above international poverty benchmarks and local researchers estimated that they were close to a living wage if benefits are included. However, they are low in relative terms. Indonesia's economy has been developing very fast and there is significant disparity between urban and rural incomes. So, although tea pluckers' incomes exceed household basic needs indicators in absolute terms, they represent less than one-quarter of the national average income (calculated as Gross National Income per head of working population), significantly lower than the relative poverty benchmark of 50-60 per cent of national median income (see Figure 7).

Figure 5:
Malawi 'wage ladder', pluckers only

World Bank Extreme Poverty Line (household, monthly) = 100



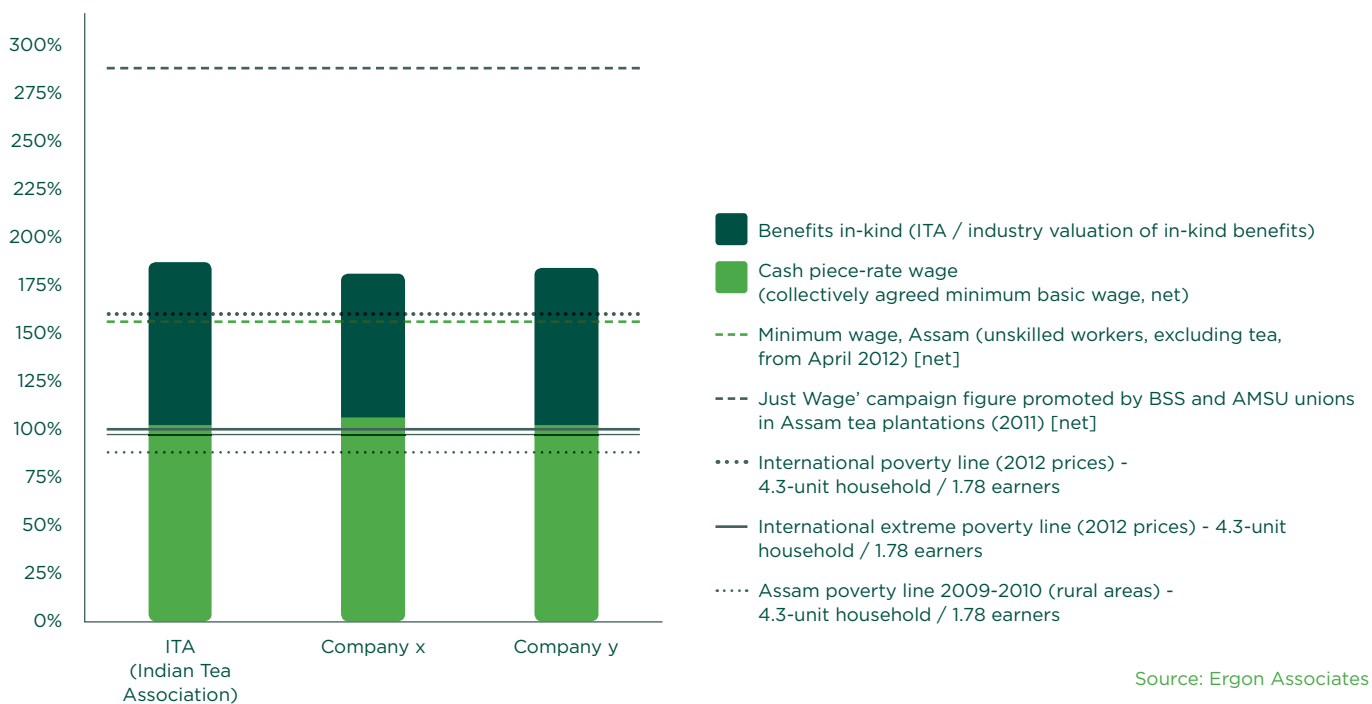
Malawi Kwacha / month @ 26 working days/month, wages (including productivity-related payments) average across one calendar year. Note that in relation to the 'Employee perception of value of living wage', staff at two out of three employers surveyed gave the same estimated living wage as the consulted employees did.

The reverse is true in **Malawi**. In absolute terms, wages are very low: a tea plucker's earnings are below the World Bank extreme poverty line for an average household with an average number of earners. However, they are not particularly low relative to others in Malawi, which is one of the poorest countries in the world, having the ninth lowest GDP per capita³². In 2010, less than 20 per cent of Malawians earned a monthly income that was above the tax-free threshold of MKW 12000³³. So a tea plucker earns around 90 per cent of the national average income (calculated as Gross National Income per head of working population - see Figure 7).

Cash wages from tea are lower than the national poverty line, which is however reached when in-kind benefits are included. (Note that, since research was completed in 2012, the Malawian Kwacha has been significantly de-valued: as a result, the minimum wage has been substantially increased in nominal terms. In real terms, however, the situation described here is likely still to pertain.)

32. IMF 2011
 33. UNDP 2010

Figure 6:
India (Assam) 'wage ladder', pluckers only
 World Bank Extreme Poverty Line (household, monthly) = 100



Source: Ergon Associates

(documented minimum rate for plucker, with no productivity enhancement)

As field work was not carried out in India, the graphics show legal minima and in-kind benefits only; wage data does not include productivity payments, the valuation and take-up of in-kind benefits has not been verified through local research and there was no estimation of a living wage as part of this project. The Just Wage figures are from a local union campaign.

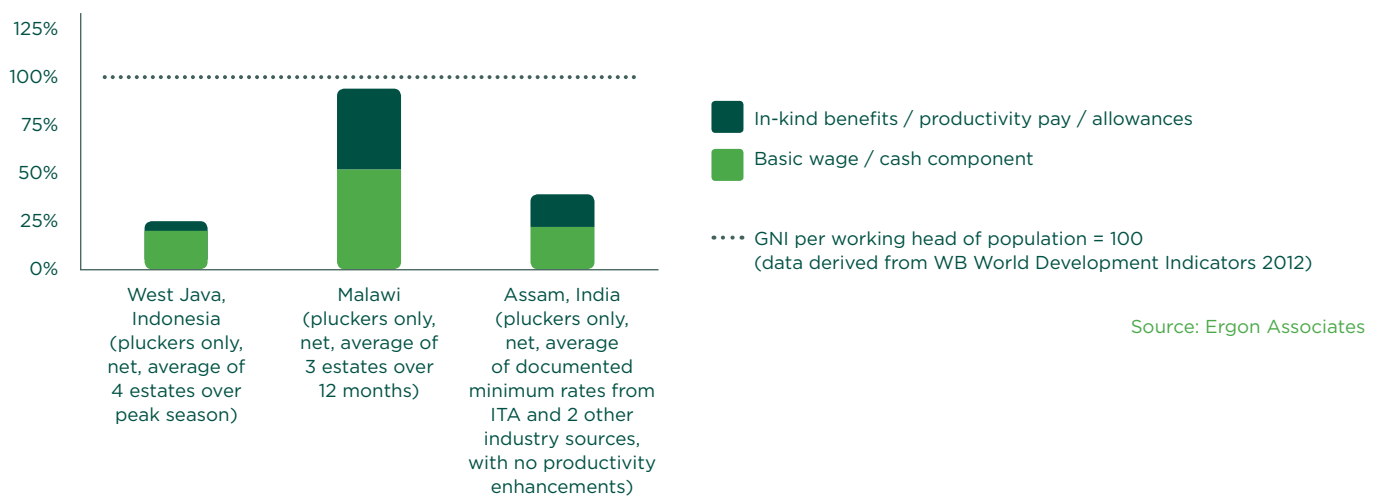
In **Assam**, tea pluckers' earnings are higher in absolute terms than in Malawi but still only just reach the World Bank poverty line when average household size is taken into account. In relative terms, they are around 40 per cent of the Indian average income level (see Figure 6).

Note: As field work was not carried out in India, the graphics show legal minima and in-kind benefits only; wage data does not include productivity payments i.e. 'plucking above the norm'; equally, the valuation and take-up of in-kind benefits has not been verified through local research.

In all the regions analysed for this study, total benefits for tea pluckers - including cash wages and in-kind benefits - stand above the applicable national poverty line extrapolated for an average household. However, in all three focus regions the applicable national poverty line stands below the World Bank extreme poverty line (\$1.25 / day 2005 PPP) at 2012 prices.

In all three regions, in-kind benefits and non-wage allowances - including food, fuel and accommodation - make up a significant proportion of total benefits for pluckers on estates. In the calculations, in-kind benefits have been quantified ('monetised').

Figure 7:
Pluckers' wages as a proportion of Gross National Income (GNI) per head of working population



Wages in relation to relative poverty benchmarks

Median income is important in establishing *relative* poverty; for instance in the European Union, the poverty line is defined as 60 per cent of the national median income³⁴. Median income describes the point in national income distribution where half have higher incomes and half have lower incomes.

Comparable measures are not available for all countries studied here. The best alternative proxy is to look at Gross National Income (GNI) per head of working age population (World Bank, IMF).

Looking at plucker wages in relative terms, the picture is the inverse of the representation of wages against absolute measures of poverty. This reflects the fact that lowest wages are paid in the poorest countries. Pluckers in Malawi earn nearest the average income measure, at more than 90%, whereas Indonesia pluckers, whose wages and benefits exceed a number of basic needs measures, earn only around a quarter of national average income, calculated as Gross National Income per head of working population.

In summary, although the applicable minimum wages were set above the relevant national poverty lines, it was found that they are *not an adequate proxy* for the basic needs of waged workers. This helps explain the concerns reported by civil society organizations and the disconnect between different stakeholders that has been a feature of interactions on the subject of wages.

34. Eurostat "Relative poverty risk threshold"

3.2. Recommendations

The Ergon research team made a number of recommendations on how wage issues can be better addressed. These are relevant for tea producers, tea buying companies, retailers, governments, standards bodies, NGOs and trade unions. The recommendations have been grouped into three areas:

Improving understanding and measurement of wages

Surveys and consultation carried out as part of this project highlighted the varying levels of understanding of wage issues between stakeholder groups and the different ways that they look at the issues. The researchers identified a clear need for companies in particular to increase their understanding of wage issues and for all stakeholder groups to the importance of the following factors, which are fundamental to understanding the implications of wage levels and how to address them.

Wage-setting mechanisms: Where wage-setting is at a sector rather than a company level (as is generally the case in the tea sector) and the statutory minimum wage is an important factor in wage determination, a broad approach will be required, engaging a number of stakeholders in industry, as well as trade unions, civil society and government.

The full industrial relations picture: It is essential to capture the full industrial relations picture when assessing wages and working conditions, including where there is collective bargaining already in place in the wage-setting process, and the potential for workers' interests to be represented effectively.

The extent to which the applicable minimum wage is a reliable indicator of basic needs: Statutory minimum wages are generally used as a proxy for adequate wages in social audits on tea estates. This study has revealed that this can be appropriate in some regions, but not in others

Quality and take-up of benefits: A substantial proportion of a tea plucker's compensation package is made up of in-kind benefits such as housing. While there is generally no variation in the cash component of the wage between tea estates, considerable variation was found in the provision, quality and

take-up of benefits. This has implications for pluckers' quality of life. Assessment and auditing procedures should be adapted to include assessment of quality and take-up of benefits, including child-care.

The reality of tea pluckers' household situations:

Understanding how wages relate to poverty requires greater understanding of the profile of people who work as tea pluckers (for instance men/women, number of wage earners in a household, with/without dependants), and their situation in relation to non-monetary poverty indicators, such as literacy levels and health status. In some countries, tea plucking is a predominantly female occupation or is becoming more so and the implications of this need to be understood and strategies developed based on a sound gender analysis.

There are significant barriers to raising wages: These will have to be resolved at a combination of levels including the local level, national level and international level, involving a range of stakeholders as appropriate.

Adapting auditing and assessment procedures

Assessment and auditing approaches will need to be adapted to take into account situations where minimum wages are not reliable indicators of basic needs. Of the estates surveyed here, wages were no higher in certified estates than in non-certified estates and therefore certification is no guarantee that workers' wages meet their basic needs.

In addition, more work may need to be done with assessment and auditing organisations to ensure that consistent approaches are taken between standards bodies and auditing firms, in the way that they treat in-kind benefits and the difference between the labour costs of employers and the wages workers receive. Where minimum wages are not an adequate proxy for basic needs, additional benchmarks will be required which will vary according to the context. Assessment and auditing procedures should be adapted to include assessment of quality and take-up of benefits, including child-care.

Improving dialogue on wages

There is a need for more constructive and effective dialogue on wages between different stakeholder groups. More trust needs to be built between companies, civil society and trade unions at both the national and international level.

4 Barriers to raising wages

In the course of the project and through dialogue with stakeholders, Oxfam and Ethical Tea Partnership identified the following barriers to raising low wages.

Lack of understanding of wage-setting processes

There has been a lack of understanding about how wages are set on tea estates, the extent and adequacy of collective bargaining and the implications of these for addressing low wages, particularly where they are determined on a sector-wide basis. Collective bargaining agreements can in effect act as a ceiling rather than a floor, as individual producers do not vary the cash wage rate, regardless of their economic performance. Focusing on individual supply chains as a route to changing wages is unlikely to be effective unless there are changes in national wage-setting processes.

Effectiveness of collective bargaining

The full industrial relations picture is a vital part of information required when trying to understand wages on tea estates, including when there is established collective bargaining in place and the potential for workers' needs to be represented.

Disempowerment of women workers

Although women make up the majority of tea pluckers, in many tea estates they tend to have low representation in the workplace for a combination of reasons. Women's ability to participate in wage bargaining is so low that the adequacy of wages to meet household needs, particularly those of female headed households, cannot be assured at present. There is currently poor information on the value or otherwise that women workers put on non-wage benefits. While in some regions child-care is good, in others, quality child-care may not be available, which can mean older siblings, usually girls, missing educational opportunities to look after younger siblings.

Contribution of in-kind benefits

A significant proportion of the wage package on tea estates is from in-kind benefits, some of which are mandated through national legislation. Quality and take-up of benefits is an important issue – provision and take-up of benefits varies significantly.

Structure and productivity of tea production

In many countries tea remains one of the most labour intensive agricultural crops, and is so crucial to employment in some rural areas that producers cannot reduce their labour

force without agreement from government (in some cases requiring legislative changes). In these cases, labour is by far the biggest proportion of a tea producer's costs (up to 70 per cent in some cases). Productivity is low in some regions and producer incomes have been cyclical.

In other regions, harvesting and employment practices are beginning to change. Mechanisation is beginning to be extensively used in some countries, changing the nature and number of jobs available in the industry. The shift to mechanization is likely to continue, with take-up in different regions dependent on a variety of factors including terrain, government and union agreements, availability of people prepared to work in low-skilled agricultural jobs and market needs.

The way that plantations were established in remote areas during colonial times, has left a legacy of rural employment and welfare requirements on tea producers from governments in countries such as India and Indonesia, which impacts on the way that producers manage costs.

Limited dialogue between key stakeholders

While civil society organisations' attention to wage issues is increasing, until recently this had not been an area of focus for most Western companies beyond relying on assurance processes, which checked that the agreed minimum wage was being paid. There has been very little dialogue between stakeholder groups with different perspectives on this issue.

Assurance processes too simplistic

Insufficient information is currently collected about take-home wages and the adequacy of wages and benefits from the workers' perspective by those assessing working conditions. Most approaches check that minimum wages are being paid, and there is not yet any agreement on how to deal with situations where minimum wages are not an adequate proxy for wages that meet the basic needs of workers and their families.

There is also potential confusion between total costs of employment ('labour costs') and wage costs, and a lack of consistency in drawing these lines between different organisations

5 Project partners' conclusions and proposed next steps

5.1. Conclusions

The project partners have found the research and the process of working together on this issue very useful. It has established common ground in understanding the way wages are set, the cash and in-kind components of wages for tea pluckers in the different countries, and how these relate to national minimum wages and to national and international poverty benchmarks.

This project has already stimulated considerable discussion within and between stakeholder groups in different countries. Prior to the report being finalised, discussions were held with all the key stakeholder groups who had been involved in the project:

- **Tea buying and producing companies:** ETP organised a number of discussion sessions with tea-buying companies and ETP's Regional Managers and Chairman organised feedback and dialogue sessions with producer organisations and companies who had been involved in the research in Indonesia, India and Malawi. There was considerable concern from producers about ensuring that organisations outside their country and sector understood the local realities and processes for setting wages.
- **Certification organisations:** ETP organised two sessions with certification organisations and dialogue has continued with individual certification organisations. The certification organisations Fairtrade International, Rainforest and UTZ Certified have committed to working together with ETP on wage issues. See appendix 3 for their statements of support
- **NGOs:** Oxfam organised a feedback session with NGOs who were involved in the project advisory group. In general, they were pleased that the work had been done and was leading to increased focus on wage issues and keen to understand what the follow-up process will be.
- **Multi-stakeholder:** ETP and Oxfam led a session at the multi-stakeholder sustainable tea programme meeting facilitated by IDH - The Sustainable Trade Initiative in the Netherlands at the end of 2012. This was attended by 40 people from tea-buying companies, NGOs from Europe, China, India, Kenya and Indonesia, European governments, and wage initiatives from other sectors. The main focus was on the implications of the analysis and possible follow-up. Participants were very supportive of the approach taken by the project and the initial action plan described in this report. Many participants emphasised that no one stakeholder group can tackle wage issues alone and highlighted the need for any follow-up to take a truly multi-stakeholder approach, that is embedded in local processes.

Given, the interest that the work and initial discussions have generated, the project partners have committed to co-ordinating a follow-up process involving other interested organisations with a focus on ensuring all parts of the value chain are involved.

While stakeholder discussions around the findings of the report have been very useful and constructive, it has been complex to develop an action plan that is appropriate for all the countries assessed as part of this report, as well as other key tea producing countries.

Wages and benefits are very important aspects of workers' quality of life but are linked to other issues such as job quality, opportunities for progression, job security and contractual relationships, access to housing and land and other income generation opportunities for family members. These are different in different countries, as are the structure of the industry and wage-setting processes, so we will need a strategy that is sensitive to the national and local context.

There are many changes taking place in the tea sector which will affect wages and other livelihood and quality of life issues. These range from increasing reliance on the smallholder sector, to mechanization and changing labour and consumption market dynamics. The project partners are involved in a number of initiatives looking at sustainable value chains and how the tea industry could develop in the future such as the Tea2030³⁵ project and Industry in Transition: The Future of Plantation Communities³⁶.

The strategy that the project partners have therefore decided to follow is to take a country-specific approach and link work on wages and benefits to wider work on poverty in tea communities and efforts to adapt working practices in the tea sector that will enable producer companies and their workers to thrive in the future.

35. Tea2030 is a collaborative project aimed at identifying and addressing the challenges and opportunities facing the entire tea value chain until 2030. It will look at how to create a sustainable value chain for tea and work together to achieve change now. The project is led by Forum for the Future, a global sustainability non-profit, in collaboration with ETP, IDH - The Sustainable Trade Initiative, Bettys & Taylors, Tata Global Beverages Unilever, Finlays and Twinings. Oxfam and the certification bodies have been invited to join the steering group.

36. This is a multi-stakeholder process focusing on Sri Lanka jointly convened by the development organisations CARE and WUSC and Ethical Tea Partnership, facilitated by the Centre for Poverty Analysis.

5.2. Proposed next steps

The initial plan is focused on three areas of activity.

1. Country-specific follow-up

Build on the initial analysis carried out as part of the 'Understanding wage issues in the tea industry' project, and other existing work on the needs of workers and tea communities in each region to develop approaches that support sustainable livelihoods in each priority country. The selection process will take into account the importance of addressing wage issues and stakeholder interest and capacity at international and national level.

Countries under review, in addition to Malawi, India and Indonesia, include Sri Lanka, Kenya and other East African countries. The intention is to involve organisations from all parts of the value chain with appropriate skills and influence. Different organisations would take the lead on different aspects of the implementation, where they have particular expertise, experience or influence.

Where there is interest, and it is appropriate, work might be linked with work on wages in other sectors, something which is currently under discussion with ISEAL, the membership organization of standards and certification bodies.

2. Improve dialogue on wages at international and national level

The research team highlighted the varying levels of understanding of wage issues between stakeholder groups and the need to increase trust and constructive dialogue on the issue. We hope that this report can act as a useful input to this. Ethical Tea Partnership and Oxfam can play a role in building trust and facilitating dialogue and will build that into their future plans.

While there is much discussion about wage issues in supply chains at the international level, wages in the tea sector are set at the national or regional level through agreed processes and need to take account of national context and local realities. ETP has held some very initial discussions in producer countries where there is considerable concern about external stakeholders focusing on issues and processes that are locally managed. There remain some big questions about what role international stakeholders could or should play, and it is important that these are aired and constructively discussed. We are planning to lead further

multi-stakeholder work on the future of the tea sector, which includes analysis of how the plantation model can transition to a more sustainable future and implications for job types and wages.

In some countries, further discussion will be needed with individual stakeholder groups before productive multi-stakeholder discussions can be initiated. In other countries multi-stakeholder discussions can move ahead and will be part of the work plans.

3. Influencing the way wages and benefits are monitored and audited

Standards, certification, auditing and assessment organisations are an important stakeholder group, they are involved in raising sustainability standards and providing assurance to the market on issues which include wages. All the key standards organisations operating in the tea sector have supported this initial project and are involved in discussions about potential follow-up.

At the meeting between ETP, Oxfam and the certification bodies Fairtrade International, Rainforest Alliance and UTZ Certified to discuss the results of the research in September 2012, participants broadly:

- accepted the findings of the research;
- agreed that changes need to be made to the way wages are assessed and audited for the purposes of product certification; and
- agreed on the need to work together, recognising this as an area of pre-competitive co-operation

Standard setting organisations and certification bodies have been looking at wage issues in relation to their various standards and discussing such issues within forums such as the ISEAL Alliance. While this issue goes far beyond the tea sector, and changes in audit approach need to take account of the situation in other sectors, the Ethical Tea Partnership can play a role in ensuring that, within the tea sector, a consistent approach to wage issues is developed across ETP and certification bodies and provide learnings from the tea sector into wider processes.

All three certification bodies have responded, saying that they are reviewing their standards but that they will be making changes to address wage issues more clearly and taking meaningful steps towards implementing a living wage. Their statements are reproduced in Appendix 3.

Through the Tea Standards Forum, ETP will work with the certification bodies and IDH - The Sustainable Trade Initiative and other interested parties to improve the way wages are assessed. The ultimate objective is to have one assessment approach on wages for all standards bodies operating in the tea sector, and one repository of information on wages in the tea sector that is kept up to date for the benefit of everyone.

Further methodological developments might include:

- An agreed approach to assessing the quality and up-take by workers of in-kind benefits, as this is such a significant component of compensation packages and provision and take-up vary greatly.
- Agreed methodology for assessing average take-home pay during different seasons, so that the impact of productivity payments (e.g. additional pay for plucking above the 'norm') is reflected appropriately.

6 Appendices

Appendix 1

Wage and Poverty Benchmarks used by Ergon Associates in their wage ladder analysis

Benchmarks	
Prevailing industry wage	This is the prevailing industry rate for pluckers. For the purposes of the wage ladders, this is relevant to Malawi, where wages are unilaterally determined sector-wide by the TAML industry association, and there is effectively a 'going rate' for field tasks sector-wide. In Assam, the sector rate is determined by (two sub-regional) collective agreements or 'settlements'. There is currently no sectoral rate for plantations in West Java, in the absence of a revised provincial minimum wage for 2012.
Statutory minimum wage	This is the minimum wage rate which has force of law and is binding on the tea estate in question - set either at national (Malawi), regional (Indonesia), state (Assam, by occupation) or sector level.
Collectively agreed wage	Out of the three focus regions, our research has only identified collectively agreed minimum wages for pluckers in Assam. While there is nominal collective bargaining on estates in West Java (Indonesia), field research did not identify collective bargaining as a core determinant of wage outcomes for pluckers and other field workers.
Poverty lines	<p>These specify the level of income or consumption which is just enough for a person to maintain the basic minimum standard of living, based on the cost of a basket of basic goods and services. A person is classified as poor if his/her income or consumption is lower than the poverty line.</p> <p>We have used three poverty lines:</p> <ul style="list-style-type: none"> • <i>National poverty line</i>: in all three focus regions, national government determines a national poverty line, using household surveys to establish consumption patterns of the poor, and the value of a basic needs basket. Poverty lines may be established both nationally and regionally, and for urban and rural areas. We have used the most regionally-relevant rural poverty line. In all three focus regions, the applicable national poverty line stands below the World Bank extreme poverty line at current local prices. • <i>Extreme poverty line (US\$1.25 2005 PPP)</i>: this is the World Bank measure of minimum consumption of a person in extreme poverty (food poverty), per person, per day. The value of the extreme poverty line is expressed in PPP dollars, meaning that it represents the goods and services which could be purchased for \$1.25 in the US in 2005. In order to convert this into local currency, we apply the PPP conversion rate from the World Bank database (PovCalNet) and then update the figure from 2005 values to current (2012) prices using IMF and World Bank conversion factors. • <i>Poverty line (US \$2 PPP)</i>: this is the World Bank measure of minimum consumption of a person in poverty (food and basic needs, where food = >50% of expenditure). It is included here as it clearly reflects the fact that incomes between US\$1.25 PPP and US\$2 per day per capita still entail absolute poverty.

Benchmarks	
Median national income @ 60%	Relative poverty is measured against earnings in the rest of the economy, commonly by reference to 'national median income' (for example, within the EU, the (relative) poverty line is defined as 60% of national median income). However, comparable and up-to-date earnings data are not available for Malawi and Assam, therefore pluckers' wages are compared below to Gross National Income (GNI) per head of working age population, as the best available proxy for national median income. GNI is essentially gross national product (GNP), minus indirect business taxes.
Calculated 'living wage'	The Indonesia research team was able, on the basis of analysis of incomes and expenditures of workers interviewed, to calculate a 'living wage' following the formula established at the Berkeley Conference.
Workers' / employers' living wage estimate Wage elements	A subjective measurement which social research indicates regularly correlates with objective measurements. ³⁷ Workers' and employers' own estimates were included in the Malawi research and were quite consistently aligned.
Cash (basic wage)	<ul style="list-style-type: none"> • Seasonality: Malawi wages are averaged across one calendar year West Java wage ladder reflects peak season wages (low season wages would be up to 30% lower); Assam wage figures are from the Indian Tea Association (ITA). • Data broken down as far as possible (by sex, job type).
Overtime	<ul style="list-style-type: none"> • We have indicated payment for overtime where known (Malawi) – given that plucking is piece-rated³⁸, meeting piece quotas is a more significant determinant of wages than hours. • Pay for a basic working week should meet binding wage standards (minimum wage or collectively-agreed minimum) without workers needing to resort to overtime.
In-kind benefits	<ul style="list-style-type: none"> • We have calculated in-kind according to national law stipulations where relevant in terms of which in-kind benefits can be considered part of a cash wage. • In-kind benefits are valued at cost to employer and/or local market equivalent depending on the type of benefit, specified at country report level: note that, in the case of Assam, estimations of in-kind benefits are based on Indian Tea Association (ITA) valuations. • We have excluded mandatory employer contributions to social security/welfare funds. • The difference between theoretical provision and actual provision of in-kind benefits is noted in the narrative country summaries, and can be significant.
Tax and social security treatment	<ul style="list-style-type: none"> • Economic needs are usually related to net, take-home income, we have therefore <i>converted all wage figures to net (post-tax) equivalents</i>. • In practice, this entails: <ul style="list-style-type: none"> • A deduction of 12% from Assam wages (including minimum wage and collective-agreed figures), reflecting compulsory employee contributions to the Employees' Provident Fund Organisation (EPFO – retirement fund). • A deduction of 2% from Indonesian wages, reflecting compulsory employee contributions to the Jamsostek (retirement) fund. • All of the workers in the study areas earned less than the applicable personal income tax allowance, so no deductions were made to reflect income tax.

³⁷ Menno Pradban & Martin Ravallion, *Measuring poverty using qualitative perceptions of welfare*, World Bank Policy Research Working Paper, World Bank 2011.

³⁸ Piece-rate pay is where a worker is paid a fixed 'piece-rate' for each unit or action performed. In agriculture, this is usually measured by weight – in tea pluckers are paid by the weight in kilos (kg) of tea plucked. It may also be used for 'area covered', eg for plant maintenance or fertiliser application.

Appendix 2 Acknowledgements

Project leaders

Ethical Tea Partnership: Sarah Roberts, Executive Director.
Oxfam: Frank Mechielsen, Policy Adviser Private Sector/CSR,
Oxfam Novib, with support from Rachel Wilshaw, Ethical
Trade Manager, Oxfam GB.

Project committee

ETP
Oxfam
IDH - The Sustainable Trade Initiative
Unilever
Fairtrade International (FLO)
Rainforest Alliance
UTZ Certified

Research Organizations

Ergon Associates
Wadonda Consult
INRISE

NGO Advisory Group

Banana Link
Ethical Trading Initiative
Christian Aid
Solidaridad
SOMO
Traidcraft

Appendix 3 Response of certification organizations and their commitment to improve wages

Fairtrade International

Fairtrade International is deeply committed to tackling poverty and our Standards already include a requirement to work toward living wages. Fairtrade welcomes this report and accepts its findings as a valuable contribution towards understanding the scale and nature of the challenges, throughout the tea industry, to improve wages for workers on tea estates.

The results show in measurable terms, the poverty tea workers face and the structural obstacles to improving workers' wage levels, including price pressures throughout the supply chain. We will use these findings to strengthen our work and drive improvement in Fairtrade benefits to workers.

Fairtrade is committed to progress in wages in all countries and products where we operate and mindful to take a sensitive approach to implementation to avoid unintended adverse consequences. Our new 2012 Workers' Rights Strategy includes a strong emphasis on trade union rights and wage bargaining following consultation with trade unions and other members of our Workers' Rights Advisory Council, who provide on-going valuable advice to help strengthen workers' rights and income. In 2013 and beyond we will revise our Fairtrade Hired Labour Standards and give guidance on ways to progress towards Living Wage and the empowerment of workers.

In December 2012, we began by looking at how Living Wage calculations might be included in setting Fairtrade minimum prices and aim to work with other certification schemes to establish common definitions, methodology and toolkits for calculating Living Wage.

Fairtrade alone has limited power to raise sector wages, as they are often negotiated at industry and country/regional level. We therefore seek to work with tea industry partners, other certifiers, NGOs, trade unions, civil society and governments to bridge the wage gap. Our participation in recent industry initiatives such as the Tea 2030 project, and the next phase of this Tea Wages study, will also facilitate discussion on a new approach to setting tea industry wage benchmarks and the promotion of wage bargaining, so that better wages become a commitment of everyone along the Tea supply chain.

Fairtrade contributes directly to alleviating poverty through payment of Fairtrade premiums of over US\$6 million per annum to small farmer organizations and plantation workers in the tea sector. Recent impact studies have shown a range of tangible benefits accruing to workers, their families and communities, including in Malawi³⁹.

Fairtrade will thus continue to work toward Living Wage while delivering additional worker benefits through the payment of Fairtrade premiums, linked to sales volumes.

Rainforest Alliance

The Rainforest Alliance welcomes the study *Understanding Wages in the Tea Industry* and accepts its findings. Achieving sustainable livelihoods is a key part of our mission. Ensuring a living wage, as part of the Sustainable Agriculture Network (SAN) Standard, is of major importance for us and the current (July 2010) standard contains a number of criteria that address aspects of living wages as stated in the International Labour Organisation (ILO) definition of *Basic Living Needs; housing, clean water, healthcare and education*. However, no current comprehensive definition of what constitutes a living wage is generally accepted and is therefore is not auditable against any internationally agreed standard. Therefore the SAN is undertaking a process to develop a methodology to make a living wage implementable and auditable in the next iteration of the SAN standard. This is being consulted on widely and the next version of the standard is due for publication in 2014, with implemented at the farm level thereafter.

The complexity of the issue requires a very thorough and careful approach. Wage levels interlink with many social, economic and other aspects in the different regions and sudden changes can lead to disruptions and unforeseen impacts that might not benefit the sector. The SAN approach involves careful and deliberate processes, taking account of local specific conditions and needs to move progressively towards living wages, while also addressing other key sustainability issues.

The Rainforest Alliance and SAN address the living wage issue within a broad transition process that impacts numerous farmers, countries and supply chains. The process of wage improvements has to be a broad stakeholder process including governmental institutions, unions, the industry and civil society. We take part in initiatives together with other parties, such as the ETP and ISEAL to share experiences and work on the required changes in supply chains.

Living wages will be taken up in the Sustainable Agriculture Network Standard that is currently under review. This year (2013) the draft criteria will be discussed via a broad, worldwide stakeholder consultation process after which the revised Standard will be set.

The Rainforest Alliance is happy to continue to participate in this project, of which this report is a product, and for its findings and outputs to be fed into the SAN standard review process.

UTZ Certified

To gain a deeper understanding of the impact of our tea program, UTZ has been actively contributing to the setup, implementation and result evaluation of the here presented tea wage study. We acknowledge both the positive conclusions and the critical points it reveals.

The study focuses on three regions that gave cause for concern on the height of wages paid to workers by tea estates: Assam (India), Malawi and Indonesia. It reveals challenges concerning wages in all researched countries. For Malawi it brings to light that wages paid by certified (UTZ and other) tea farms/estates to pluckers were below the international (extreme) poverty line. Even though the study also states that these wages were above the national poverty level, this is an undesired reality.

UTZ is fully committed to the ILO core conventions. We require that wages should respect either legal minimum or prevailing sector wages, whichever higher. The study reconfirms internal assessments that for countries where minimum wage is set below the international (extreme) poverty line, this approach is no longer sufficient.

Code revision towards and beyond living wage

To address the problem, the UTZ code revision process that was started mid-2012 and will be finalized by April 2014, includes the development of new wage requirements. These requirements must soundly balance between economic viability and decent standards of living for both farmers and workers. The proposed policy entails a two-tiered approach:

1. To create a conducive environment for wages to rise gradually towards and beyond a living wage globally, for instance by bolstering the position of trade unions through awareness raising and close monitoring of wage level developments
2. To introduce a so-called safety net wage level for countries where minimum or sector wages are below the international (extreme) poverty line, such as Malawi. Most likely this will require wages that exceed agreed upon (international) poverty benchmarks. It should preferably be coordinated with other standards, for maximum impact.

The final policy will only be established after the multi-stakeholder consultation that is part of the revision process, to ensure that all aspects are taken into account and avoid undesired side-effects. The new mechanism should eventually lead to decent wages for all workers, at all UTZ certified farms and estates.

39. **Branching out: Fairtrade in Malawi, Monitoring the impact of Fairtrade on five certified organizations, Fairtrade Foundation (UK), Malawi Fairtrade Network, Fairtrade Africa and Natural Resources Institute, to be published April 2013.**

