The Influence of Social and Environmental Issues on UK Tea Market'

A Research Report

Centre for Education and Communication (CEC), Delhi
FAKT Consult for Management, Training and Technologies, Germany
Traidcraft, UK

This Project is funded by the European Union

The JustTea Project implemented by CEC, FAKT and Traidcraft

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Prepared by
Claire Trumper & Fiona Gooch

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Part One
UK Tea Market Research

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CONTENT

EXECUTIVE SUMMARY

Just Tea is a collaborative project of the Centre for Education and Communication (CEC) in India, FAKT in Germany and Traidcraft Exchange in the UK. The project seeks to identify how the tea industry could have an improved economic and social impact on Indian smallholders and workers, having been made aware of the increasingly poor terms of trade in the global tea market leading to the subsequent collapse of tea plantations across several of the traditional areas of production. This has resulted in devastating economic and social impact on those dependent on tea for their livelihoods.

The initial phase of the research concentrates on the UK tea market first, the overall marketplace and then, more specifically, the market for Indian tea. As the world's fourth-largest importer of Indian teas, at around 21,000 metric tonnes per year (although thought to be gradually reducing), the UK market is considered to be one of great importance to Indian producers.

The tea industry in the UK is changing to adapt to the ever-increasing needs of a competitive marketplace, where profitability is the key to success and survival. With reduced consumption predicted in the coming years and ever-growing competition from other products such as soft drinks always in the background, quality is essential for entry into the premium end of the marketplace where growth is still envisaged.

Brands have taken over from the smaller packers and now the market is dominated by half-a-dozen brands of which there are only two real market contenders. The overall quality of tea on the market shelf has declined significantly over the last 10 years; with the global oversupply of tea on the world market, blenders/packers have the ability to choose from a wider range of options to meet their blend specifications.

The Indian tea trade has suffered greatly from working within the confines of a 'protected market' for so many years. Under the old regime of barter trade with the USSR, factories were not encouraged to keep up with new technologies and keep their cost of production low through efficient management, as there was always a guaranteed market for their tea.

Under the new system of open trade, other more economically viable countries have undercut the Indian producers on price and have taken their traditional export markets. The smallholder group has expanded rapidly during this time. The additional concern to the Tea Board now is how it will provide an infrastructure of support to engage with producers. If the population of India continues to increase, exports may not be a viable option open to producers although, currently, India is the largest producing as well as consuming country in the world.

The supply chain of tea is a complex one with several companies playing different roles along the way. However, the options for marketing Indian teas are being explored and possible new routes are being considered.

GLOSSARY OF TERMS

CTC	Method of processing tea: ‘cut’ some say ‘crush, tear and curl’. Increasingly popular for tea bags as the leaf has a small area-to-volume ratio and, therefore, infuses quickly.
Fairtrade	Goods that are sold on fair-trade terms and certified by the Fairtrade Labelling Organisation (FLO) and can use the internationally recognised label
Multiple	Multiple retailer or supermarket, for example, TESCO or Sainsburys
Orthodox	Method of processing tea using a roller mechanism. More traditional manufacture but more expensive and less commonly sought after.
Own-Label	Supermarket’s own brands of products
Sector	Part of a category, for example, tea is a sector of hot beverages.
Sub-Sector	Part of a sector, for example, green tea is a sub-sector within tea.

1. THE TEA MARKET IN THE UK

1.1 General Trends

The tea industry in the UK is evolving and changing to meet the ever-challenging demands of running a profitable and self-sustainable business in an ever-changing marketplace. Many of the more traditional practices associated with the tea trade in the UK have either adapted to meet these demands or they have disappeared over time. With no auction taking place in London since 1998 and the reduction in Brokers to just two from over half a dozen in the late 1990s, trade has been challenged to source and buy teas in different ways and to increase their 'in-house' expertise at all points of production.

The market for tea in the UK is worth over £560 million, making it one of the biggest grocery markets in the UK. The consumption of tea is static at best but the Food and Agricultural Organisation (FAO) predicts a decline of 0.8 per cent per year between now and 2010, suggesting that domestic consumption in producing countries is more likely to absorb the overall rise in consumption of 1.7 per cent per year.

Countries/Regions	Actual Consumption	Projected Consumption	Growth Rates
	1998–2000	2010	2000–2010
	Thousand metric tonnes		% per year
World	2,145	2,577	1.7
UK	138	126	–0.8
India	625	850	2.8

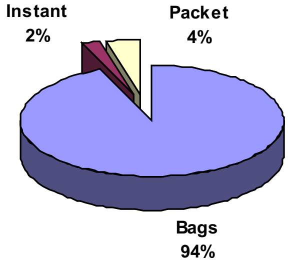
Source: FAO Committee on Commodity Problems, Intergovernmental Group on Tea. Fifteenth Session, Current Market Situation and Outlook, August 2003

With these figures at hand, it is predictable that the future of the tea market in the UK lies in value addition and not increased volumes. Tea is increasingly being overtaken by soft drinks, and manufacturers have to be more innovative to keep their market share. Over the next 5 years, as consumers choose more premium products, the value will rise by 9 per cent and the volume will drop by 8 per cent as the trend of drinking less tea continues. Therefore, manufacturers will require increasing amounts of high quality tea and not the lower grades of tea that currently flood the world market and provide a sense of over-production.

1.2 Consumer Market Segmentation

The UK tea market is served primarily by tea bags, with the majority (84 per cent) being sold as 'everyday tea'. These are standard teas produced from normal black tea such as Tetley Tea and PG Tips. (See Fig 1.) The remaining tea bags are specialty and fruit/herbal teas that currently dominate the only growth area of the market with an increased demand of 0.9 per cent per year. Despite their popularity, tea bags are also on the decline (See Fig 2), and brand leaders such as Tetley and PG are having to hold on to their market share through innovations such as advertising the health benefits of tea and providing ready-to-drink products that are hoped to attract the growing number of younger consumers. If children are encouraged to drink tea from an early age, it is hoped that they will continue to do so throughout their lives.

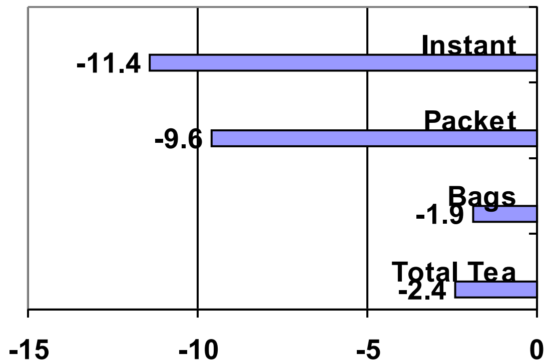
Fig 1 Percentage Share of Sectors



Source: Tea Market Report Tetley GB Ltd. Customer Marketing 2003

FAO Committee on Commodity Problems, Intergovernmental Group on Tea. Fifteenth Session, Current Market Situation and Outlook, August 2003
Mintel, Tea and Herbal TeaMarket Intelligence, February 2003

Figure 2 Value Percentage Change Year on Year



Source: Tea Market Report Tetley GB Ltd. Customer Marketing 2003

1.3 Marketing and Brands

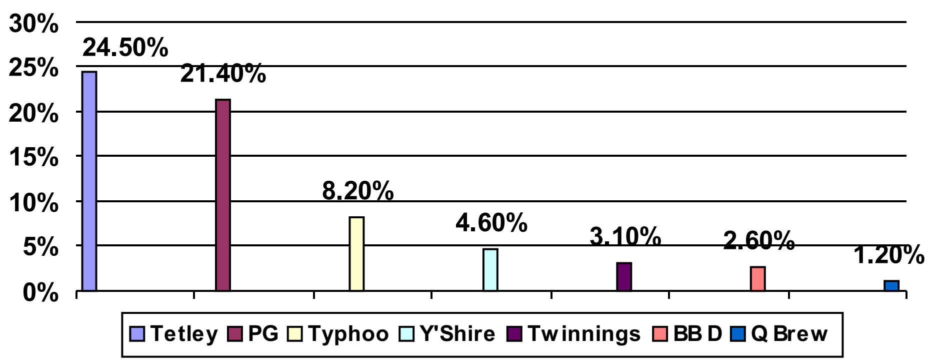
The UK market is dominated by brands; in the past, it was thought that consumers were brand loyal and would buy their favourite tea repeatedly. However, over the last 5 years, the overall quality of the mainstream brands in the UK has declined significantly. Whereas companies would have once wished to blend to a specific recipe that they felt made them stand out from their competitors and retain brand loyalty, this is possibly not happening as much as it did. For example, Tetley used to be known for its inclusion of Indian teas in the blend to retain a malty, thick character that consumers would notice over the brighter but thinner blend of PG Tips.

Over the years and during the change of business practices, Tetley has now reduced its inclusion of Indian tea in the blend, and replaced it with better-value Africans and Indonesians, in order for the company to remain competitive. Much research has been carried out to ensure that consumers are unaffected by this change, and that they notice little difference in their cup of tea.

In contrast, manufacturers such as Taylors of Harrogate and Twinings are now taking advantage of this change in character amongst the two big brand leaders. They are concentrating on increasing their market share through producing good quality blends for the more discerning consumer and the speciality markets. It is also interesting to note that manufacturers, such as Premier Foods the Typhoo Brand, which practices a specialist buying technique that builds on long-term relationships with the producers and specialises in quality, had the fastest growing brand last year.

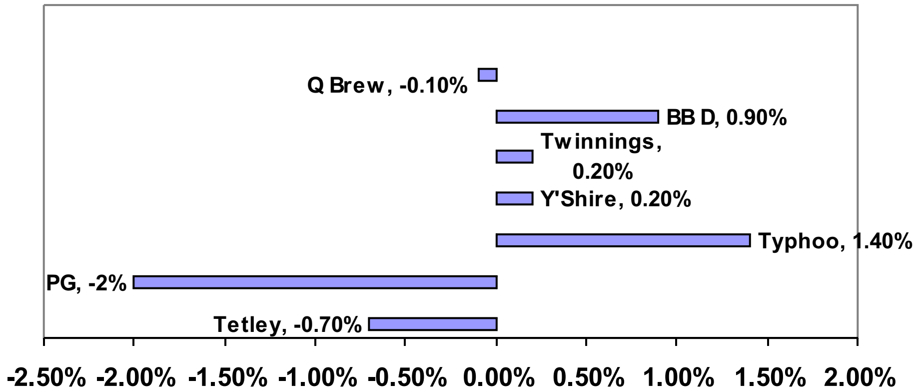
The figures below show the main brands in the marketplace and their percentage volume share change year on year.

Fig 3 Percentage Volume Share Tea Bags



Source: AC Nielsen Multiples MAT data to 09.08.03

\Fig 4 **Value Percentage Change Year on Year**



Source: AC Nielsen Multiples MAT data to 09.08.03

Manufacturers, most of who are large multi-national companies, own all brands. Therefore, while it is possible to talk about the supply chain in terms of separate functions, the actors may not actually be separate companies. These big companies have interests throughout the supply chain and may, therefore, supply, pack, ship and blend all their tea themselves. Similarly, specialist blending/packing companies may provide tea to competing companies for both branded and own-label products.

The major players in the tea industry globally are Unilever (an estimated 15 per cent share of the global volume), Premier Foods, Allied Lyons, the Co-operative Wholesale Society, James Finlay and Associated British Foods. Seven such multinational corporations control not only 90 per cent of the western trade but also 85 per cent of the production through their ownership of factories and plantations. The UK is again dominated by four players: Unilever Bestfoods (26.9 per cent), Tetley Group (25 per cent), Premier Foods (12.7 per cent), Associated British Foods (6.4 per cent), with own label taking 21% (all shares by value, est. 2002).

Importantly, the two big players overall Unilever Bestfoods and The Tetley Group do not buy on behalf of their two large Indian companies, Hindustani Lever and Tata, respectively. However, the UK offices of Tetley/Tata and Unilever's Liptons Tea Supply do source for majority of their tea brands' markets.

Just over 90 per cent of tea (including fruit/herbal tea) value sales went through the multiples in 2003. Tesco, Sainsbury, Asda and Safeway account for over 65 per cent of all sales in the UK. Despite this, smaller, more specialist shops continue to be strong distributors of some speciality and herbal teas.

1.4 Pricing

There is no futures market for tea, and price depends primarily on supply and demand. Buyers will buy either through auction or privately, securing teas on forward crop contract or private sale. Many large tea-producing countries produce tea throughout the year although there will be peaks and troughs in quality and so buyers are able to keep low stocks and take advantage of world markets week-by-week. Most buyers will monitor prices at the auction and set a benchmark for purchases that week. Because the quality of overall blends is slowly dropping, as already noted, buyers are less choosy as to where their teas are coming from. As long as the brand is consistently blended to a set standard, teas are bought from around the world at optimum price for the blend, in order to ensure competitive advantages.

1.5 Innovation

Innovation and niche marketing appear to be the way of the future for increasing the sales of tea and attracting the younger generation. The demand for organic, green and herbals is growing fast, as for Fairtrade teas. A healthy economic climate has affected the tendency to eat out in coffee bars and tea houses, and retailers are now trying to replicate the 'eating out' experience at home. Retails are trying to increase consumer familiarity with new and higher-value concepts that may later appear on the supermarket shelf and perhaps visa versa. An example of this is the trial establishment of the Costa Coffee outlets in Sainsbury stores.

1.6 Ethical Issues (see Part 2 of the report for more detail)

Consumers are largely unaware of the labour standards and conditions of employment in many tea-growing areas. Very few opportunities exist to engage with consumers regarding these messages, other than through the Fair Trade movement.

However, with the growth of Fairtrade sales over the last few years and the establishment of the Ethical Trading Initiative (ETI), many mainstream buyers and packers of teas in the UK thought it necessary to be proactive and come together to work with tea factories that were importing into the UK in order to 'develop a clear understanding of conditions on tea estates and to validate them by continuous cycle of independent audits'.

Therefore, a Tea Sourcing Partnership ETP was formed in 1997 and has, to date, audited estates that provide 81 per cent of the UK tea imports. For further analysis of the ETP approach, see Part 2 of this report.

Fairtrade sales of tea are set to continue rising as a growing number of consumers become aware of who produces their food and at what cost. However, most consumers who purchase goods with a Fairtrade Mark will feel assured that they are 'doing the right thing'. Although many will not take this understanding any further and wish to engage with the producer, they will have an understanding that the product is sourced in a 'fair' way. It is unknown as to how the consumer will react with the introduction of ethical standards vs Fairtrade standards, if and when this happens. A lot of communication will have to be provided around the individual products on offer.

Fairtrade sales saw a record £100 m sales reached across all Fairtrade products after a 4090 per cent growth a year for a decade. Of all products, 'Britain is now the second largest market after Switzerland. Sales are rocketing in the US and Europe's market grew 30% last year to almost £400 m."

As mentioned earlier, the consumption of tea in the UK is declining yet the sales of Cafédirect's tea brand teadirect® have grown by a staggering 32 per cent, making it the fastest growing tea brand on the market. The Fairtrade tea market is dominated largely by teadirect® although they face growing competition by Clipper Teas as well as the own label supermarket packs, which are new on the shelf and growing fast. Unfortunately, figures are not available to provide a breakdown by brand but the total Fairtrade tea sales now account for around 5 per cent of the UK market.

1.7 Market Access Issues

As mentioned above, growing areas of the market are the niche and premium sections that depend largely on quality. Competition is high and market entry is not guaranteed. The majority of value (and, therefore, profit) is added through blending, packaging and marketing and these parts of the process are currently being carried out in the consuming countries if a shift is made to add more value in the country, this will help the producing country. There is definitely potential to add value in country, for example, Sri Lanka has succeeded in translating 50 per cent of its exports to the value-added form, of which some blends are currently for sale on the Indian market.

The financial costs of entry are high and include some or all of the following:

- Certification fees for either organic, Fairtrade or both.
- Compliance costs associated with meeting buyers' requirements either through the ETP or through other schemes operated by, for example, Premier or Ringtons.
- Compliance to a Quality Assurance System either HACCP or BRC Food, which would encompass the Food Safety Act 1990, food labelling and pesticide residue regulations.

Fortunately, apart from packaged green teas, there are no import tariffs that apply when supplying the UK market.

Mintel, Tea and Herbal Tea Market Intelligence, February 2003
A C Nielsen Integrity MAT data to 09.08.03

2. THE MARKET FOR INDIAN TEA IN THE UK

2.1 Background

Teas from the North West of India in Darjeeling and Assam have always been thought of as amongst the best quality teas in the world. Both grow tea as a seasonal crop and each has a unique character. Assam has always had buyers vying for particular marks either at auctions or on a forward crop contract. However, teas from South India have the opposite reputation and are seen as poor quality filler teas that bring the price of a blend down. Therefore, when talking about Indian teas, this differentiation needs to be made.

In today's market, although the Indian tea trade is suffering from lower exports and generally lower prices all round, the good quality Assams and Darjeelings will continue to be sought after whereas the majority of the southern Indian teas will not.

For many years, the Indian Tea Trade worked within the confines of a 'protected market' as the country continued to barter tea with the former USSR for arms and defence systems. When the USSR broke down and the CIS was formed, a free market suddenly opened up but the producers were not prepared and had no understanding of market dynamics.

2.2 Manufacture

Traditionally, tea production in India was primarily orthodox and the Russian market took almost all of their surplus production. When this market collapsed, producers were left with the decision as to which market they should produce for and they were unsure as to whether they should continue with orthodox production or whether they should move to 100 per cent CTC (Crush, Tear and Curl manufacture used primarily for tea bags) for either the local or international markets.

Having worked within such a protected market for so long, producers tended to be inefficient. Little or no maintenance or upgrading of machinery had been carried out for many years. With no incentive to do so, many producers did not catch up with the innovative uses of technology. The cost of production was, therefore, higher than for the newer entrants into the global marketplace who had newer factories and the latest training available to them. It soon became clear that producers from Kenya, Sri Lanka, Indonesia and Vietnam could produce teas of a similar, if not better, quality and at a lower price. The government removed quantitative restrictions on tea imports in March 2001 and in spite of lower prices prevailing in India, there was a 23 per cent increase in imports in 2001.

In today's world of oversupply in the global marketplace, it has become apparent that quality is key to primarily keeping your market share and possibly growing it. In the case of teas from Assam, this is happening but teas from South India are suffering greatly in the world market.

2.3 Smallholder Production

Good management is essential for producing good quality teas and the management of green leaf is of utmost importance. Over the recent years, the number of smallholder growers has increased significantly; they now account for nearly 20 per cent of the overall production as compared to 7 per cent in 1991. Most smallholders are based in the south of the country, although a few are now providing leaf to the Northern factories as well.

In most cases, smallholders feed leaf directly into the factories or sell to a middleman who acts as a buying agent. Very few smallholders own their own processing factories. In the past, as early as in the 1960s, Tamils returning to South India were given marginal land to grow tea on as a cash crop; today these plots have grown to be an integral part of the trade. The people are not indigenous to the area and have no local links to the community, making survival extremely difficult. Unfortunately, the infrastructure necessary to build systems to support these producers has not been created either by the estates that they feed or the Tea Board of India. Therefore, the smallholders have become marginalised people, who have little ability to produce good quality tea. The overall quality of tea produced in Southern India has declined significantly.

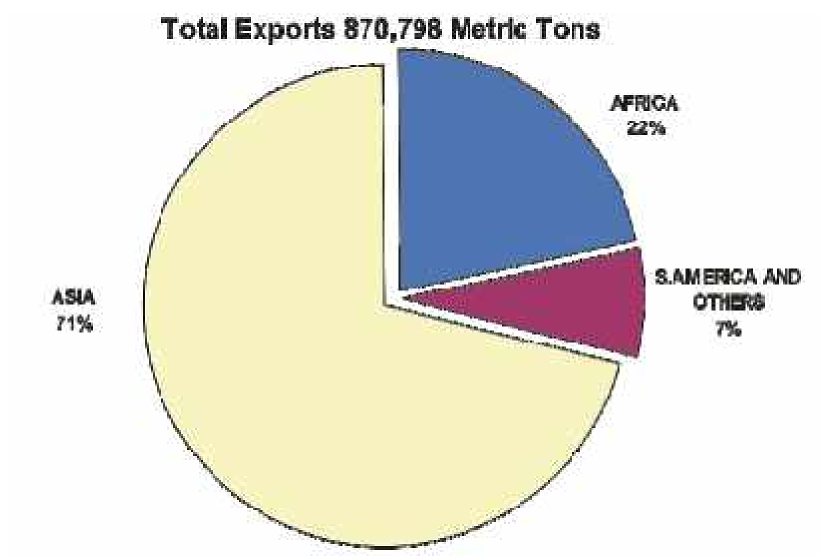
The Guardian, Saturday, 28 February 2004
Cafedirect website, Sales value figures from Information Resources 52, w/e 20 March 2004
Africa Beverages Project Report for DFID Traidcraft Tea Paper 2002

2.4 Exports

India remains the largest producer and consumer of tea in the world although figures 5 and 6 show a decline in Indian exports of tea to the world market as against the rise in exports from Africa and their subsequent value to the UK packers and blenders. Of the total production in the country, roughly 75 per cent is produced in the north and 25 per cent in the south.

The UK imports 135,000 metric tonnes of tea a year, of which around 16 per cent is from India although this figure has been in decline for the last few years, as discussed earlier.

Fig 5 World Exports of Tea in 1983



Source: International Tea Committee, Annual Bulletin of Statistics, 2003

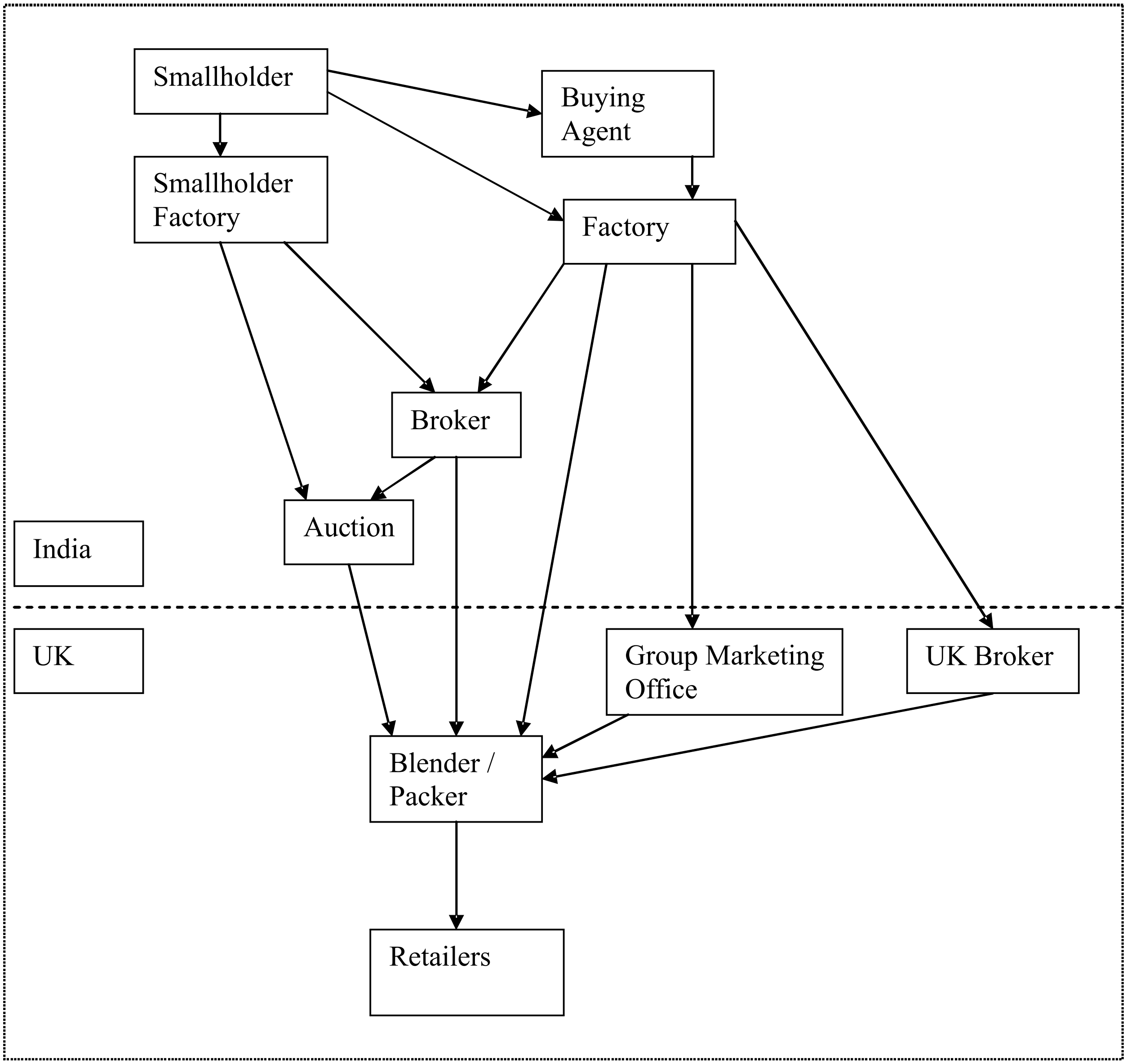
2.5 Supply Chain

The supply chain for all types of Indian tea Darjeeling, Assam, Dooar and South Indian is complex. As explained above, the interests of companies are difficult to separate because, for example, one company can be a producer, a packer and a shipper. However, once in the UK, the chain does become a little more straightforward.

FAO Committee on Commodity Problems, Intergovernmental Group on Tea. Fifteenth Session, August 2003.

FAO Committee on Commodity Problems, Intergovernmental Group on Tea. Fifteenth Session, Selected Market Studies, August 2003

The following is the supply chain for Indian teas entering the UK market:



2.6 Marketing

India produces around 8,50,000 metric tonnes of tea a year, of which it exports only in the region of 1,65,000 as the rest is consumed by the local market..

Table 1 shows the export of Indian tea to the destination countries of the world. The UK is the 4th largest importer after the CIS, Iraq and the United Arab Emirates. However, the volume of exports to the CIS is slowly decreasing because the market has been taken over by better-quality but cheaper teas from Africa as well as other Asian countries; Iraq is only looking to buy cheap teas at the moment with its 'food for oil' funds and this will not continue in the future; and the UK has reduced its volumes drastically and moved into the cheaper markets in Africa over the last 10 years.

Therefore, with this gloomy picture, the Tea Board of India needs to support the industry in marketing its teas globally and to encourage better-quality production to encourage buyers to stay with their teas. One ray of light at the end of the tunnel could be the trade liberalisation between India and Pakistan. If tariffs are reduced and tea could be exported to Pakistan, it would be an excellent market to explore and to work with. This used to be a traditional market for Indian tea but currently teas from Africa are undercutting the Indian price and securing the market.

Of the estimated 21,000 metric tonnes of Indian tea that enters the UK each year, several, large UK brands take the bulk. For example, in 2003, Tetley bought 7,000 metric tonnes of Assam and Nilgiri tea while Unilever took between 34,000 metric tonnes of Assam and between 12,000 metric tonnes of South Indian tea. These buying companies, based in the UK, blend and export teas across Europe and the world. It becomes difficult then to estimate quite how much Indian tea is retained in the UK. However, Premier (Typhoo and own label brands) takes an estimated 500 metric tonnes and Ringtons brings in an estimated 900 metric tonnes so the smaller blenders/packers, such as Taylors of Harrogate and Twinings, would also take similar volumes.

To combat low prices and in order to search out niche markets, some estates have turned to both organic production and Fairtrade. However, poor quality tea is poor quality tea whether it is produced organically or not, and this has not proved a great solution in the most needy of areas. There are three estates in Assam selling to the UK and other Fairtrade markets under FLO guidelines. There are also Fairtrade and organic estates producing Darjeeling tea.

India is also among the very few tea-producing countries with expertise in instant tea manufacture; this should be used as an advantageous lever. However, looking at earlier statistics on the future of instant tea, this is perhaps not a growth area.

Table 1 Export of Tea from India

Tabel 1 - Exports of IndianTea showing Countries of Destination					
Calender Years	Metric Tons				
	1998	1999	2000	2001	2002
Afghanistan	143	255	282	247	776
Australia	1,218	831	676	751	785
Bahrain	143	139	171	124	159
Canada	752	895	974	524	1,233
CIS	94,582	102,679	95,022	82,210	62,579
Egypt	6,651	1,247	931	313	500
France	316	138	143	94	165
Germany	5,166	5,255	4,568	4,166	4,869
Hong Kong	25	16	6	2	20
Indonesia	1	124	175	235	1,580
Iran	1,097	4,061	3,437	2,829	1,227
Iraq	10,118	7,101	10,866	16,864	43,193
Ireland (Rep)	2,517	3,012	3,112	2,537	1,919
Japan	2,911	2,678	3,497	1,915	2,165
Jordan	122	23	15	109	177
Kuwait	372	441	340	252	303
Libya	6,975	-	3,625	-	-
Muscat	336	163	236	311	314
Nepal	502	42	211	230	94
Netherlands	1,939	2,139	2,375	3,233	2,875
New Zealand	7	24	15	4	84
Other Africa	701	808	2,017	976	1,170
Other America	16	8	16	66	61
Other Asia	303	93	205	235	754
Other Eastern Europe	367	155	111	231	423
Other Europe	1,546	766	198	619	162
Other Oceania	6	-		-	-
Pakistan	1,392	413	3,336	3,306	3,695
Poland	9,879	9,792	12,527	8,269	7,006
Qatar	270	166	144	119	212
Saudi Arabia	3,780	3,675	876	410	632
Singapore	233	131	185	347	468
Sri Lanka	1,367	598	1,244	966	1,434
Sudan	567	30	146	727	49
Syria	-	-	1	-	135
Tunisia	-	-	457	1,449	705
Turkey	3,214	776	2,922	877	1,000
UAE	23,040	17,348	22,112	23,349	26,457
United Kingdom	21,273	17,789	20,931	16,102	21,006
USA	3,194	5,180	6,023	4,520	5,683
Yemen	581	101	225	339	811
Yugoslavia	17	-	-	-	34
Total All Tea	207,639	189,092	204,353	179,857	196,914
of which					
Tea in Bulk	124,151	112,249	131,771	131,475	161,492
Tea in Packets	81,423	74,087	70,774	45,866	32,780
Tea in Tea Bags	2,066	2,756	1,808	2,516	26,532
Source: International Tea Committee, Annual Bulletin of Statistics, 2003					

3. CONCLUSIONS AND RECOMMENDATIONS

3.1 Issue of Supply and Demand

Table 2 shows the position of supply and demand in the world market and demonstrates, quite clearly, the current surplus of 86,000 metric tonnes in the world.

There is clearly a world oversupply issue. However, this does not necessarily equate to the situation in the domestic market in India where supply and demand are not too far out of line. If the population continues to grow at a steady rate, India may not have so much tea to export.

However, the global market is oversupplied and it is against this backdrop that the project is working. Oversupply is a difficult and, sometimes, a political problem that is hard to affect but engagement at all levels is recommended in order to ease the situation.

In the past and, most recently, in 2002, members of the Tea Boards of four of the largest producing countries (India, Sri Lanka, Indonesia and Kenya) met to establish a 'quota system' that would quell supply and ease the situation for all. With supply and demand back in line, it was hoped that premium prices would be paid for quality. The talks failed and nothing along similar lines has been instigated since.

The problem still needs to be resolved and perhaps it needs to be tackled by all Tea Boards across the world, both from producing as well as importing countries. Importing countries, such as the UK, should work with their governments to put pressure on governments of producing countries to reduce production or at least to stop further planting, still happening in many places. Governments must see themselves as partners in the tea sector.

This project could perhaps help to inform both the UK Tea Association as well as government, through the vehicle of DFID, as to the situation on the ground and the severe need for change.

3.2 Formalisation of the Smallholder Sector

Smallholders will continue to plant and pluck tea because it is often the only form of income generation within the family. The price paid for green leaf may be small but it is money. Therefore, smallholders cannot be told to uproot tea bushes and plant alternative crops because tea is often the commodity that has given them the most success.

Therefore, as the number of smallholders in India is known to be growing and no alternatives are currently on the horizon, the Tea Board of India should be encouraged to provide a structure under which the smallholders can operate and be more protected from the hawkers of the leaf and corrupt factory managers.

Table 2 Third World Supply and Absorption of Tea

Table 2 - World Supply and Absorption of Tea										
Calender Years	**Thousand Metric Tons**									
	1994	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**	**2002**	**2003**
SUPPLY										
PRODUCTION										
India	753	756	780	810	874	826	846	854	826	857
Bangladesh	52	48	53	51	56	46	53	57	53	57
Sri Lanka	244	246	259	277	281	284	307	296	311	303
Indonesia	128	144	166	154	167	161	157	173	173	168
East Africa (a)	297	333	351	327	405	358	356	415	413	426
EXPORTS ONLY										
China	180	167	170	202	217	200	228	250	252	260
Rest of Eastern Asia	26	23	26	31	37	41	61	73	80	57
Rest of Africa	20	21	18	25	28	30	30	34	33	34
Other Countries (b)	66	65	65	96	97	79	79	85	83	87
Total	**1,766**	**1,803**	**1,888**	**1,973**	**2,162**	**2,025**	**2,117**	**2,237**	**2,224**	**2,249**
ABSORBTION										
IMPORTING COUNTRIES										
United Kingdom	149	141	147	153	146	137	144	133	139	131
CIS/USSR	130	162	160	200	179	201	203	211	218	204
Rest of Europe	104	103	117	113	111	114	108	114	117	122
America	129	114	121	115	132	129	122	135	132	135
Asia	280	286	322	304	355	335	356	383	392	363
Africa	180	201	190	223	219	219	231	223	241	230
Oceania	23	22	23	21	22	19	20	19	19	18
Total	995	1029	1080	1129	1164	1154	1184	1218	1258	1203
EXPORTING COUNTRIES										
India	550	562	580	597	615	633	653	673	693	703
Bangladesh	27	22	27	24	31	35	37	40	39	41
Sri Lanka	23	23	24	24	24	24	24	25	27	27
Indonesia	38	38	50	60	75	63	56	73	72	76
East Africa (a)	28	30	32	32	31	28	27	29	27	28
Other (Import Only)	57	58	65	71	71	77	92	101	102	85
Total	723	733	778	808	847	860	889	941	960	960
Total Absorption	**1,718**	**1,762**	**1,858**	**1,937**	**2,011**	**2,014**	**2,073**	**2,159**	**2,218**	**2,163**
SURPLUS/SHORTFALL	**48**	**41**	**30**	**36**	**151**	**11**	**44**	**78**	**6**	**86**
Source: International Tea Committee, Annual Bulletin of Statistics, 2003										

This formalisation would not imply that estate owners would have to 'support' the smallholders as they do their own workers under the Plantation Act. Such an expectation would discourage the estate owners from further engagement with them. However, if factories did work alongside smallholders in a concerted partnership, both parties would potentially benefit. Access to extension services and fertiliser loans would lead to higher quality leaf intake for the factories, economies of scale and, hence, better prices all around. The partnership would move the relationship from a price/cost transaction to one of a shared added value approach.

Under this same system, the lines of communication would be improved because issues of pesticide residue, etc., would not be such an issue to the buyers. Currently, buyers are exceptionally wary about the increase in the number of smallholders in India, because the latter are not monitored or controlled in any way. One buyer stated that he would not buy from any estate where he could not guarantee that they did not take leaf from smallholders as he would be unsure of the quality. Formalising the smallholder sector would improve the position of smallholders irrespective of whether tea for export or domestic consumption was being produced.

3.3 Crop Diversification

Running alongside this issue of oversupply in the global market is the question of diversification. Having said earlier that smallholders would not easily be encouraged to uproot their bushes to try other cropping regimes, this is possibly because no trials have taken place to see what else would successfully grow in these regions. Small scale intercropping has been reported but this is possibly just for use by the family and local communities. As part of this project, it is suggested that partnerships are formed with other agricultural institutions that could trial other crops in the tea-growing regions to test viability. Supporting off-farm activities is also appropriate because diversification of household livelihood strategies and reducing dependency on tea could deliver better returns.

3.4 Smallholder-Owned Brands

Branding of teas has been shown to be extremely important in the Indian market and the possibility of launching a smallholder-owned brand should be investigated. A similar project was tried with milk under the AMUL brand name.

3.5 Engagement with the Tea Sourcing Partnership

The work of the ETP is expanding within India; 50 per cent of the selling marks have been audited this equates to 75 per cent of the teas coming into the UK. Within the new system of grading factories from A to E, most factories have been given targets to work towards in order to achieve an A rating and, therefore, to increase sales. This system is different to the Pass and Fail system and has been designed to encourage producers more. The Code, followed by the ETI, is a good starting point from which to build and the problems brought to light by the auditors are commonly ones of pay and housing. Similar issues were highlighted by the CEC report. These, therefore, are common strands to pick up on and work with the ETP in order for the project to gain momentum and coverage. As the situation is so appalling in some areas, it would be useful to work with other organisations in order to have a greater impact.

3.6 Engagement with all Stakeholders

Whilst the project can engage with governments, donors, trade bodies and other NGOs, future dialogue and research must involve the retailers and consumer organisations in order for it to be meaningful. Any further research should be preceded and complemented by dialogue on the outcomes from this research amongst the key players in the supply chain.

APPENDIX 1

List of Publications and Reports:

International Tea Committee, Annual Bulletin of Statistics, 2003

Traidcraft, UK Tea Market Assessment, 2004

Lambshead, C. Private Sector Partnership for Malawi Final Report, August 2001

Bedford A., Blowfield M., Burnett D., Greenhalgh P., Value Chains: Lessons from the Kenya tea and Indonesia cocoa sectors, NRI 'in focus' No 3

ii) Useful websites:

Tea Council	www.teacouncil.co.uk
Tetley Tea Experts	www.teaexperts.co.uk
Tetley GB	www.tetley.co.uk
Tea Sourcing Partnership	www.teasourcingpartnership.org.uk
ITC Trade Statistics	www.inttea.com
Twinings	www.twinings.com
Tea Board of India	www.tea.nic.in
Ringtons	www.ringtons.co.uk
Clipper	www.clipperteas.com
Cafedirect	www.cafedirect.co.uk

Part Two

Research into the Social and Environmental Issues Influencing the UK Tea Market

Fiona Gooch

CONTENTS

1. EXECUTIVE SUMMARY

This report is an output of a wider project, Just Tea, which seeks to identify how the global tea industry could have an improved economic and social impact on Indian smallholders and workers. The Just Tea Project focuses on specific tea-growing regions of India, namely Assam, West Bengal, Tamil Nadu, and Kerala, and on the Indian, UK and Germany markets.

The report forms the second part of the UK-based research on Indian tea supply chains. Part One provided a study of the UK market for Indian tea and Part Two focuses on the social aspects of the tea industry. In particular the report considers the impacts of trends in the UK tea-buying practices on Indian tea smallholders and workers and assesses the strengths and weaknesses of existing social initiatives. It concludes with recommendations for improving the social impacts of the tea industry.

The UK imports only 21,000 of the 8,50,000 metric tonnes of tea produced annually in India; yet, the UK market is viewed as significant by the Indian tea sector. This is for two key reasons: first, the two largest global tea traders, Unilever and Tata/Tetley, buy much of the tea traded internationally from the UK; secondly the UK retains a reputation for good-quality tea, and some tea processed in the UK is subsequently re-exported.

The main Indian tea-producing areas of significance to the UK (in terms of Just Tea's geographic focus) are Assam and the Nilgiris area of Tamil Nadu. Purchases from Assam are either direct from the tea factories or through auctions. From Niligiris, the UK companies buy either direct or through agents. Buyers interviewed expressed a clear and growing preference to buy direct. This is based on a desire to reduce price and manage risk, the two key trends identified by the research.

The research shows that the continuing trend for aggressive downward price pressure in tea markets has a debilitating effect on the potential for improvements in workers' terms and conditions. Likewise buyers' strategies to manage reputation risks from potential consumer safety scares (mainly over pesticide residue levels) or supply chain scandals (for example, the exposure of the poor working conditions) may have negative impacts on smallholder farmers and tea workers (by further marginalising the vulnerable).

Less significant trends found to impact tea producers include the growing demand for better quality tea by more niche market buyers and an increasing focus on sustainable agriculture (that is, looking at the balance of environmental, economic, and social factors in agricultural production).

The research finds that the impact of the various tea-focused social initiatives developed by the UK market is mixed or unclear. Fair trade and individual company initiatives are found to have a mostly positive impact within their limited scope, whereas important questions are raised about the approach of the industry-wide tea initiative, the Tea Sourcing Partnership, which has the potential to bring about significant change.

Based on the research conducted so far, the report makes the following recommendations for the Just Tea project to focus on to improve social conditions within the Indian Tea industry.

- Strengthening suppliers' position in supply chains (through improved communications, organisational structures, possibly forming a brand)
- Increasing the accountability of retailers and tea-processing companies for their social impact, in particular integrating social demands from western buyers into purchasing decisions.
- Exploring the potential that the UK industry as a block might have to influence improvements in global tea prices.
- Ensuring that smallholders and other suppliers are consulted in the development of new codes of conduct or standards
- Investigating the options for diversifying from tea production

- Increasing Indians' commitment to buying Indian tea
- Improving global confidence in India tea

Some of these recommendations are considered to be beyond the scope of the Just Tea project.

2 GLOSSARY OF TERMS

CTC	Method of processing tea: 'crush, tear and curl'. (Tea leaves are cut smaller than traditional, 'orthodox' meth Increasingly popular for tea bags as the leaf has a smal area-to-volume ratio and, therefore, infuses quickly.
Fairtrade	Goods, which are sold on fair trade terms and certified the Fairtrade Labelling Organisation (FLO) and can us the internationally recognised Fairtrade label/mark.
Label	Mark used on packaging
Multiple	Multiple retailer or supermarket. For example, in the U Asda, TESCO or Sainsburys or others
Orthodox	Method of processing tea using a roller mechanism. M traditional manufacture but more expensive and less commonly sought after
Own-Label	Supermarket's own brands of products. (These are usu made by an external business.)
Plantation (also used: large estate, large tea gardens)	Tea estate
Retailer	Used here to mean a large multiple retailer or a supermarket chain
Sector	Part of a category, for example, tea is a sector of the ho beverages category.
Selling Mark	Each tea factory sells tea under one or more selling mark(s). Each selling mark is used to describe the tea.
Sub-Sector	Part of a sector for example, green tea is a sub-sector within tea.

List of Abbreviations

ADB	Asian Development Bank
ETP	Ethical Tea Partnership (ETP), formerly Tea Sourcing Partnership
EU	European Union
FAO	Food and Agriculture Organisation
IMF	International Monetary Fund
MRL	Maximum Residue Levels
TNC	Trans National Company
TSP	Tea Sourcing Partnership, now called Ethical Tea Partnership
UNCTAD	UN Conference on Trade and Development
WTO	World Trade Organisation

Note: Relevant currency conversions are included at the end of the document

3. INTRODUCTION

"Some tea gardens in West Bengal, Kerala, Assam and Tripura have been closed and abandoned during the last five years due to lower price realisation. As a result, 28,195 workers lost their jobs, of which 19,336 were in West Bengal, 6,648 in Kerala, 1,661 in Assam and 550 in Tripura".

This report is an output of the Just Tea project, a collaborative initiative of Centre for Education and Communication (CEC) in India, FAKT in Germany and Traidcraft Exchange in the UK. The project seeks to identify how the global tea industry could have an improved economic and social impact on Indian smallholders and workers. It was conceived in the context of increasingly poor terms of trade in the global tea market for producers and processors and the subsequent collapse of tea plantations, which has resulted in devastating economic and social impacts on those dependent on tea for their livelihoods (to the extent of starvation and suicide). The Just Tea Project focuses on specific areas within the four major tea-growing regions of India, namely Assam, West Bengal, Tamil Nadu, and Kerala, and on the Indian, UK and Germany markets.

The report, by Traidcraft Exchange, is the second that considers the Indian tea supply chain from a UK perspective. Part One, a study of the UK market for Indian tea, was written by Claire Trumper a Tetley tea buyer in the 1990s. Part Two focuses on the social aspects of the tea industry in relation to the UK market; it considers:

- Sourcing patterns and purchasing practices of key UK tea buyers
- Social and environmental trends in the UK that affect the tea trade
- The impact of these practices and trends on Indian tea producers
- The various existing UK-based initiatives that seek to address social concerns in the tea industry.

This report has been compiled based on desk research, email conversations and interviews including three leading brands, the Tea Sourcing Partnership, the UK Tea Council, The International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF), two supplying companies, and NGOs (Oxfam, Action Aid) as well as smallholder researchers.

Further research soon to commence in India will provide a more detailed study of the social and economic impact of the tea industry in India. Additional market research in Germany will complete the research component of the project; this, as a whole, will inform the focus for the ongoing project.

4. OVERVIEW OF THE UK SOURCING OF INDIAN TEA

Just Tea Project: The UK Tea Market Research provides an in-depth study of the UK market for tea. This section of the report provides a brief outline of the sourcing patterns of the key players in the market in order to provide a context for the subsequent consideration of the buying practices and social initiatives adopted by these organisations.

The UK market is dominated by a few leading brands that, between them, buy the majority of Indian tea. These brands are Tata (Tetley and Quick Brew brands), Unilever (PG Tips, Brooke Bond and Liptons), Premier (Typhoo and some retailers' own label) and Associated British Foods (Twinings). Another company of significance because of its approach is Ringtons, a family-owned business that sells its own branded products, including tea, from vans direct to 3,00,000 customers mainly in the northeast of England. Ringtons also blends and packs its own label of tea for some retailers and a fair-trade company.

Assam and the Nilgiris are the significant Indian tea-growing regions for the UK market. Interviewees, when asked about where the UK buyers sourced tea, did not mention tea from Kerala and West Bengal.

Whilst the UK sources Darjeeling tea, (part of West Bengal state), this supply chain was not assessed because it is a very different product and market compared to mass-market black tea.

Tea from the Assam region is typically bought on a mixture of advance crop contracts and by auction in Kolkata. Owing to concerns over pesticide management practices in the Nilgiri estates, tea from that area is typically purchased through trusted local agents. However, there is a growing trend for buyers to source directly from the factories to give them greater control over the supply and benefit from the lower prices afforded by direct trading relationships.

Tata/Tetley and Unilever are two of the major international tea packers. Unilever alone has approximately 12 per cent of the world's tea market. The main office of both companies in the UK organise the purchases of a majority of the tea they buy. Tetley's office in the UK is responsible for the purchase of all teas for the Tetley business worldwide. Tata Tea purchases all the teas required for their brands sold throughout India. In Unilever, Hindustan Lever decides on the tea that is bought and (blended, packed and) sold in India independently from Unilever's UK office. To a lesser extent other Unilever tea-producing country offices are responsible for purchasing tea locally for domestic consumption.

Globally, Premier buys 8598 per cent of all of its tea from factories/sites that they have visited (and much of their purchases are negotiated directly). They employ a South Indian contact to oversee their interests in Tamil Nadu. Premier typically buys approximately 10 per cent or less of the total production from each supplier.

Ringtons buys directly from two Assam-based companies and are looking to source from another to spread their supply risk. Tea is bought mainly on crop contracts from Assam (to ensure the supply of quality tea) with only a little being bought at auction.

Three companies supply much of the Indian tea to the UK market, according to interviewees. These are George Williamsons, Ever Ready and the Assam Tea Company.

Interviews with those involved with monitoring the social conditions of tea estates and factories supplying the UK market indicated that some tea producers are paying inadequate wages; there are problems with provident funds (a type of pension), and the standard of workers' housing is poor. However, the Indian research will be investigating the impact of the UK purchasing in more depth.

5. KEY BUYING TRENDS IN THE UK MARKET AND THEIR SOCIAL AND ECONOMIC IMPACTS

The two key trends identified in buying tea for the UK market are to reduce and manage risk, and to reduce costs (for those catering to the mass market). Less dominant but still significant trends include a growing focus on sustainable agriculture (particularly looking at the environmental aspects of production) and an increasing demand for higher quality tea for niche market brands.

5.1 Risk Management

UK buyers are concerned about their risks on two distinct fronts. First, in terms of consumer safety, mainly in relation to pesticide use; and second, in terms of the potential negative publicity in relation to the exposure of poor social conditions commonly found in tea production.

Pesticide concerns

In recent years, heightened consumer concern over pesticide levels has led to increasingly stringent specifications for maximum residue levels (MRL) in green leaf tea (pre-factory processed tea). MRLs are set by European Community regulations on the basis that they must not pose unacceptable risks for consumers. (There is also a voluntary supermarket driven standard, EUREPGAP, which sets standards on good agricultural practice, including pesticides).

All the UK brands now monitor the level of chemical residues in green leaf tea purchased to ensure that they fall below MRL limits for the relevant pesticides. In fact, in anticipation of MRL levels tightening further in the future, some buyers are already specifying lower levels possibly to cover themselves should changes be introduced while their tea is in storage, or because their company wants to set tighter levels.

Concerns over MRLs are, therefore, now highly influential in purchasing decisions for Indian tea. Indeed, several buyers mentioned rumours of DDT usage by some Indian tea gardens, further increasing their concerns about pesticide management in India. Buyers need to be able to trace the source of green leaf in order to investigate pesticide usage. Indirect purchasing, for example, via auction is increasingly seen as risky if the source (selling mark) is commonly unknown. This is a major factor in the trend towards direct purchasing with the exception of areas in which buyers are confident that all the tea at the auction are from trusted sources.

With its low altitude estates, the growing environment of Assam provides a hospitable habitat for pests; hence, pesticide usage in the region is high. This compares unfavourably to tea grown at higher altitudes (for example, in Kenya). The growth of East African tea sourcing by the UK companies would seem to reflect this situation.

As seems to be the case for India then, the current approach of imposing MRLs to the sale of tea (without a complementary training of producers) is likely to become a barrier to market; this is especially the case for smallholder tea producers.

Some interviewees questioned the logic behind MRL regulations. Some suggested that pesticide residues were likely to dissipate in the tea factory burning processes; others questioned the need for regulations, unsure if any trace of pesticides has yet been found in a cup of tea. Others were concerned that the MRLs had only been set for western manufactured pesticides whereas cheaper, and often more locally appropriate, brands made by Indian manufactures had not yet been tested, and so were not permitted.

The trend towards direct purchase is potentially a mixed blessing for Indian tea producers. Ultimately, it is leading to increased vertical integration of the supply chain and, therefore, increasing the control of the dominant brands. This concentration of power may have advantages for those suppliers in the supply chain at the moment; however, those currently outside these supply chains may find that they have limited routes to market and could become increasingly marginalised because they will not be part of communication channels informing them of changes in standards to access markets. (This is in part due to the diminishing function or effectiveness of agricultural extension services.) In the future, those currently in the supply chain may find it difficult to negotiate fair terms of trade with powerful buyers, who control the main routes to international markets.

With the increase in direct purchasing for international markets, buyers are purchasing the best quality teas direct and therefore less high-quality tea is available through auction. There are concerns that if auctions come to trade in poorer quality teas only and are still used as benchmark for all tea prices, it may serve to depress prices further.

Social conditions at supplier sites

In recent years, there has been increasing concern in the UK, in relation to international supply chains, of the often-poor social conditions of many workers in developing countries. India is regarded as a laggard in terms of social standards because child labour still occurs in many industries. For companies that manufacture or source products overseas, understanding and managing their supply chains is often a challenge. Since the 1980s, a series of media investigations have exposed exploitative working conditions in the production of well-known branded consumer goods, leading in some cases to mass consumer boycotts and other negative publicity.

As companies have increasingly been called to account for poor practices in the production of their goods, codes of conduct have become the standard approach for retailers to exert control over the practices of their suppliers. Typically, however, these codes of conduct are set by the buyer with no supplier consultation; they do not address the needs/priorities of workers and require compliance at the expense of the supplier company.

The increased trend for monitoring social conditions impacts differently on estates and smallholders. Some believe that it could further threaten the plantation model. Social codes re-emphasise national legislation, which for tea plantations requires them to provide hospitals, schools, housing, etc. These entail high costs at a time when tea prices are low. When similar tea can be purchased from smallholders, who do not bear these costs and also benefit from family labour, the plantation model looks unviable. It is not surprising then that often poor labour practices get driven underground.

Conversely, however, while benefiting from a lower cost base, smallholders are much more problematic to audit, making them less attractive supply chain partners.

Details of significant approaches to monitoring of labour conditions for the UK market are given in the section on social initiatives, and their impacts are considered in section 6.

5.2 Price

As is common across many product sectors, the prices for commodity and manufactured products have been subject to continuous price pressure as mass-market trade buyers and consumers shop around for the cheapest prices. Asda has recently been selling a box of 160 tea bags for 98 pence (equivalent to 0.6p/bag). This pressure on price is a self-perpetuating, downward spiral. The power of the UK supermarkets is such that they are able to exert enormous pressure on suppliers to reduce prices or loose orders. Once one supplier reduces prices, others must follow suit or risk their business. And so the cycle continues. One interviewee implied that with the exception of Assam tea, the price paid to suppliers of mass-market brands is below the cost of production.

When considered in conjunction with the trend towards codes of conduct, it is clear that tea suppliers face a double pressure, to reduce prices while improving social conditions. The impact of this continual price squeeze can be devastating for producers. With margins already very small, the only way to cut prices is to make savings, and in many cases, the only areas with any flexibility are wages and social 'benefits'.

5.3 Sustainable Agriculture

Over the last few years, a growing movement has emerged that has questioned the predominance of agricultural practices that contribute to social and environmental problems. A vision of sustainable agriculture has emerged, which integrates three main goalsprotection of the environment, social equity and economy. Sustainability rests on the principle that we should meet the needs of the present without compromising the ability of future generations to take care of their needs.

Within the tea sector, Unilever is the most active in developing its sustainability approach and has included tea sourcing in its sustainable agriculture programme. So far, this programme has been piloted with tea in Kenya, Tanzania and India. Further information on this programme is included in the initiatives, section 6.

Within India, an increasing number of tea gardens have become certified as organic in recent years, a development that is viewed with scepticism by some buyers. Some interpret this move as an attempt by poor-quality tea producers to re-invent themselves to access new markets. Others feel that the price of tea is so low that production methods will become organic by default, as producers will not be able to afford the cost of inputs. It is not clear from the interviews whether the demand for organic tea was matched by organic tea production.

5.4 Quality

Whereas the quality in the mass-market tea sector declined in recent years along with sales in this sector, niche-market tea brands have shown growth and, hence, the demand for the usually higher quality teas that they purchase has increased.

Tea quality is significantly influenced by the way in which it is processed. Processing of the green leaf needs to take place between 4 and 12 hours of picking. This makes tea a unique commodity compared with other tree commodities in which much of the added value processing takes place miles from the place of cultivation. Given the importance of tea factory processing practices and the context of falling tea prices, which puts pressure on growers and factory managers to cut corners to maintain their viability, some UK companies, concerned about quality, have changed their purchasing practices to buy from a limited number of selling marks. This has essentially resulted in a form of partnership between these UK companies and their tea suppliers. The focus of the relationships may initially have been on quality but now includes consideration of workplace conditions too.

6. SOCIAL INITIATIVES IN THE UK TEA INDUSTRY

In the UK, there are three types of initiatives concerned with the social (and, in some cases, environmental) impacts of tea production. These are: Fair Trade, the Tea Sourcing Partnership and individual company schemes.

6.1 Fair Trade

Fair trade aims to improve the livelihoods of marginalised producers in developing countries by developing more direct, equitable and long-term trading relationships. Products are bought based on terms that aim to be fair to both supplier and buyer. Consumer awareness of fair trade has grown significantly in the last few years and many Fairtrade products are now available for purchase in supermarkets.

The Fairtrade Labelling Organisation, FLO, maintains registers of agricultural product suppliers, including tea suppliers, from whom buyers can source Fairtrade products. FLO has developed fair trade standards that must be met by suppliers to the registers. FLO's UK membership permits buyers to use the Fairtrade label on product packaging.

Fair trade Standards

As for all production, the concerns of smallholders and plantation workers are different, with smallholders working their own land needing to receive a fair price whereas workers employed on tea plantations are concerned about fair wages and decent working conditions.

To reflect these diverse needs of different types of tea producers mentioned above, FLO has developed two sets of generic producer standards, which are periodically reviewed and updated.

1. Small farmers

Applies to smallholders organised in co-operatives or other organisations with a democratic, participative structure.

2. Workers on plantations and in factories (referred to as 'hired labour' standard)

Applies to organised workers, whose employers pay decent wages, guarantee the right to join trade unions and provide good housing wherever relevant. On plantations and in factories, minimum health and safety as well as environmental standards must be complied with, and no child or forced labour can be used.

For suppliers, these standards encourage continuous improvement in:

- working conditions
- product quality
- environmental stability
- investment in the development of their organisations and the welfare of their producers/workers

Uniquely, in comparison to most other social initiatives, as well as supplier standards, FLO makes requirements concerned with fairness in the trading relationship itself whereby fair and long-term trading partnerships are a fundamental objective. Therefore, the standards stipulate that buyers must:

- pay a price to producers to cover the costs of sustainable production and living
- pay a 'premium' that producers can invest in development
- make partial advance payments when requested by producers
- sign contracts that allow for long-term planning and sustainable production practices.

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www.fairtrade.net
www.fairtrade.net/pdf/sp/english/Tea%20SP%20version%20Oct03.pdf
www.fairtrade.net/pdf/hl/english/Tea%20HL%20version%20Oct.03.pdf

FLO sets prices for products that bear relation to world market prices but usually with a minimum level that aims to at least cover the cost of production. Tea is an exception here, and there is currently no minimum price for Fairtrade tea. (Currently the tea product specific standard is going through revision and the possibility of a minimum price is being explored.) However, buyers of all Fairtrade products are required to pay a premium on top of the price, which, within certain guidelines, is intended to improve the socio-economic situation of the producers and their communities. The premium is paid into a separate fund and is managed by a Premium Committee made up of democratically elected estate and worker representatives. In the case of smallholder associations, the use of the funds must be decided upon by all members through democratic procedures. The fixed premiums for tea currently range between Euro 0.5 and 1 per kg of 'made' tea.

A certification company set up by FLO monitors compliance with the standards. Companies selling products sourced according to the fair trade (minimum and progress) standards are able to put a label called the 'Fairtrade mark' on their products. This signals to the consumer that Fairtrade standards have been complied with and that these standards have been independently monitored. Users of Fairtrade mark are referred to as licensees. They pay a percentage of the Fairtrade product's retail price to the Fairtrade monitoring organisations to help pay for the running of the fair trade monitoring system and the promotion of fair trade to consumers.

Fairtrade Tea

Fairtrade registers exist for many types and grades of tea including orthodox and CTC, green tea and black tea. There are currently 25 organic or partly organic tea gardens and 12 smallholder organisations on the Fairtrade tea register globally.

FLO International works with a total of 61 FLO-certified producer partners in Asia and Africa, 25 of these are in India1 in Kerala, 6 in Nilgiris, 4 in Assam and 14 in Darjeeling.

Fairtrade tea is sold in the following countries, mainly through Fairtrade organisations themselves and, increasingly, in mainstream shops and supermarkets.

Total sales volume of Fairtrade-labelled tea in MT (Million Metric Tons):

	2002	2003	%
Austria	8.1	8.1	0
Belgium	0.8	2.0	150.0
Canada	4.3	5.6	30.2
Denmark	22.0	7.0	-68.2
Finland	4.6	4.8	0
France	31.0	52.0	67.7
Germany	154.8	156.0	0.8
Great Britain	806.0	1,089.5	35.2
Ireland	1.0	10.7	970.0
Italy	41.6	10.1	-75.7
Japan	7.9	8.5	7.6
Luxembourg	1.0	0.9	-10.0
Netherlands	67.5	59.6	-11.7
Norway	2.2	3.1	40.9
Sweden	16.6	14.0	-15.7
Switzerland	41.7	36.5	-12.5
USA	54.6	521.0	854.2
TOTAL	1,265.8	1,989.3	57.2

Fairtrade tea sold in the UK

In 2005, 34 companies were 'licensed' by the Fairtrade Foundation, FLO's UK member, to sell Fairtrade tea in the UK. Collectively these 34 companies make approximately 210 products that are available through supermarkets, independents, wholesalers and out-of-home hot beverage suppliers. In 2003, the retail value of the Fairtrade tea sold was GBP £9.5 million. The tea sold was a mixture of loose, tea bag, blended, single area, black, green tea, herbal teas and other speciality teas.

Table: Number of UK Fairtrade tea products and whether they are sourced from India

Company Name	Number of Fairtrade tea products	Source from India *	Comments
Clipper Tea	21	Yes – A & D	
Equal Exchange	15	Yes – A & D	Tea is packaged i Kolkata
Hampstead Tea and Coffee company	12	Yes – D	
Traidcraft	10	No	
Suma	4	Yes – A & D	
Teadirect	4	No	
Imporient (UK) Ltd	3	No	East African bulk supplier
Morrisons	1	No	Supermarket 'Ow Label' tea
Sainsbury	1	No	Supermarket 'Ow Label' tea
Somerfield	1	No	Supermarket 'Ow Label' tea
TOTAL	68		

*A = Assam; D = Darjeeling

The table is based on publicly available information in 2004. Sources include Fairtrade Foundation website - http://www.fairtrade.org.uk/products_tea_buy.htm and company websites

A brief Assessment of the Fairtrade approach

Strengths

- Fairtrade standards set criteria for both buyers and suppliers thus protecting producers from exploitative purchasing practices, which can exist when buyers have more power than suppliers and that can result in poor social practices.
- Premiums paid on top of the price enable improvements in social conditions or production practices.
- Fairtrade requires the existence of democratic decision-making structures, for example, the Premium Committee, effectively empowering workers and smallholders and giving voice to their needs and priorities.
- Fairtrade enhances producers' awareness of market standards and demands through more open and regular communication with their buyers.
- Fairtrade producers are selected on the basis of social as well as economic criteria in response to consumer interest in improving the welfare of workers and smallholders.
- Fairtrade marked tea is one of the few growth sectors within the UK tea market. UK Fairtrade tea sales are growing at 30 per cent per year and this trend looks to continue offering greater opportunities for new and existing producers to benefit from increased trade.
- FLO system is reviewed periodically and so can be changed.

Weaknesses

- Despite impressive growth in recent years, the volume of Fairtrade tea purchased as a percentage of the global tea purchases is small; as such, there is limited opportunity for tea suppliers to benefit from Fairtrade. As a consequence, there is an oversupply of tea available from Fairtrade producers on the Fairtrade tea register.
- Fairtrade is only recognised in 20 Northern markets (major European and North American markets), although there are discussions in India about promoting the concept of fair trade.
- The Fairtrade mark requires no long-term commitment to buy from a particular producer. Whereas fair trade companies will aim to do so, mainstream companies may decide to stop buying under Fairtrade terms at short notice.

- In cases where Fairtrade tea is sourced from one plantation within a larger company, the fair trade benefits accrue only to that one plantation. This can create problems when a company may strive to offer the same terms and conditions for all its workers, but is perceived to favour one plantation (that is supplying fair trade) over another (that is not supplying fair trade). However, experience shows that this can have a leverage effect, with improvements funded by Fairtrade premiums at one plantation encouraging improvements funded by the company at others.

6.2 Ethical Tea Partnership (ETP)

ETP (previously known as the Tea Sourcing Partnership) was set up in 1997 by the major UK-based tea packing companies and is the main UK social initiative that focuses specifically on tea. Membership currently includes 17 tea companies including Tetley/Tata and Unilever. The majority of members are tea companies with a significant UK base and, more recently, some non-UK companies, including Sara Lee/Douwe Egeberts and Metropolitan, have joined.

The ETP mission statement states that the members share three common beliefs:

- We have a shared responsibility for the social and ethical conditions involved in sourcing the tea we buy
- Activities in this area should be non-competitive and apolitical
- We respect the cultural and legislative differences in tea-producing countries and seek to work closely with producers

The ETP Scheme looks at five areas, assessing whether estates and factories comply with local laws and national union agreements for:

- Employment (including minimum age and wage levels)
- Education
- Maternity
- Health and safety
- Housing

Estates and factories are asked to complete an in-depth questionnaire on their policies and procedures in these areas. Responses are validated by an independent monitoring visit by PricewaterhouseCoopers (PwC), which is paid for by ETP. Monitoring reports are graded (A-F) according to the nature of non-compliances identified, and the ETP secretariat works with estates to agree corrective actions. The aim is for all suppliers to meet the relevant law in their respective countries. ETP members seek to work with estates to resolve non-compliances; however, they may stop buying from those selling marks (estates) that refuse to address non-compliances or participate in the programme.

The ETP system operates on a four-year cycle with PwC making interim visits to check if non-compliances have been rectified. The ETP is a member of the ETI (ETI see section 7.1). The ETI Base Code is based on International Labour Organisation (ILO) core conventions and includes a commitment to pay a living wage (that is, above nationally set legal minimums, if appropriate). As the ETP monitors against country law, gaps may exist between ETP's monitoring and the ETI base code depending on the country that is being monitored.

The UK imports tea from approx 30 countries. ETP currently focuses on monitoring in the seven countries shown in the table below, which make up approximately 80 per cent of ETP's members' imports into the UK. In India, ETP has concentrated in Assam and audited in 170 selling marks to date this represents 56 per cent of the Assam marks sold to ETP members. To date, the monitoring has prioritised selling marks that supply a number of ETP members.

Country of origin	% Imports to ETP members
Kenya	44
India (to date, only factories in Assam have been monitored. Monitoring of South Indian factories will commence early 2006.)	15
Indonesia	8
Sri Lanka	4
Malawi	6
Zimbabwe	3
Tanzania	1

At the end of 2005 monitoring will start in Argentina & Brazil and in early 2006 monitoring will start in China and South India.

Membership fees are based on the volume of tea sold. Anecdotal feedback suggests that only tea businesses supplying European, North American and Australian markets feel they can justify the membership costs of the ETP. (Membership is only open to European and North American markets at the moment.) Middle Eastern and Japanese markets do not see the value of the ETP approach because their consumers have not expressed an interest in the working conditions of tea workers.

In 2004, and in tandem with the change of name, ETP reviewed its strategy and prioritised the following areas for action.

- Putting a statement on tea packs about ETP. Tea brands, which are members, can use the statement 'Find out about our membership on www.ethicalteapartnership.org working for a responsible tea industry'. A similar statement is available for use on non-branded packs such as supermarket own-label tea. This statement has recently started being put on packs of branded and supermarket own-label tea.
- Four key performance indicators (scope of coverage, change in supplier performance attributable to the ETP, increased membership, and customer communications)
- Stakeholder engagement (still to be decided)

The main drivers for the change in approach are fourfold: to inform customers; meet the cost of compliance; develop stakeholder partnerships and explore the use of international or local standards.

A brief Assessment of the ETP approach

Strengths

- ETP is an industry-wide collaboration amongst the major UK companies that seeks to avoid wasteful duplication in the UK tea industry's efforts to improve social conditions
- Monitoring visits by PwC are paid for by the ETP
- ETP has raised awareness of social issues in the tea industry amongst both suppliers and buyers
- Since 1997, ETP has 'signed off' on 25 per cent of the non-compliances identified in the four biggest supplier countries.
- ETP recognises that there are flaws in its approach and that it is evolving to improve, hence its development of a new strategy. ETP sees itself as on a 'journey' and is open to suggestions as to how to improve.

Weaknesses

In the context of assessing ETP's approach, the following comments by the Kenya Tea Development Agency (KTDA)'s Marketing General Manager are relevant.

Julius Ethang'atha (KTDA) at the presentation of the new ETP/ETP strategy in London on 29 June 2004

- WHAT IS ETHICAL? Kenyan farmers' definition of ethics would include a concept of cost and risk-sharing. “What is ethical about prices below production costs?” The producer gets only 5 per cent of the value of retailed tea, why should he/she meet all the costs?
- COSTS The system dumps all the costs of compliance at the suppliers' door at a time when prices are depressed (even below existing costs).
- FOCUS Why focus on 8,000 factory workers when the real issue is with 400,000 smallholders?
- WHAT IS PARTNERSHIP? You come and audit us, you know everything about us, our salaries, working conditions, etc… and, yet, we can't question your practices? Growers are not partners in the ETP but they wish to be so.

In addition to the comments made by the KDTA's marketing manager above, the following weaknesses are also identified:

- Lack of multi-stakeholder governance within ETP. Whilst suppliers see themselves as crucial partners to improving working conditions, other stakeholders (including trade unions and NGOs) and others with sectoral knowledge also have the potential to make valuable inputs to the ETP and help to bring about real change and positive impact. Currently, suppliers, trade unions, NGOs and workers themselves are excluded from ETP's decision-making processes. Some suppliers in different countries are not returning ETP's initial questionnaire because they do not trust or see the benefit of the ETP approach. The ETP system gathers information from stakeholders in pre-monitoring meetings, but the stakeholders do not receive feedback after an audit and they are not involved in improving working conditions. The stakeholders consulted in pre-audit meetings found the ETP's approach extractive rather than a partnership way of working.
- There is no complaint mechanism for suppliers, who feel they have been unfairly treated by the audit process, or have been denied market access due to the lack of an ETP audit.
- There is no evidence of a transparent decision-making process within member companies concerning the use of the monitoring results and how these impact relationships with suppliers. In particular, the ETP approach does not seek to integrate social considerations with purchasing practices. So suppliers are required to make necessary changes to comply with the code at their own expense without any assurance of future sales. One supplier reported that they would need to increase the price by 25 per cent to cover the costs of the required changes. (Whereas efficiency improvements may reduce costs, in the context of low prices, there will still be a shortfall between the price realised and the costs of compliance with the national law required by ETP.) For the ETP to bring about genuine and lasting social improvements, it needs to address the purchasing practices of members that currently impede the ability of suppliers to bring about social improvements. Placing the cost burden on the supplier with no sharing of risk and responsibilities may result in suppliers hiding labour standards problems or bending the interpretation of national law.
- There are concerns about whether ETP's auditors are competent to assess social compliance at a factory level, particularly in auditing 'rights'-based issues. There are also some questions about whether ETP is looking at the issues of priority to workers at estates.
- ETP runs a costly monitoring scheme (suggested to be £900,000 per annum). It can be argued that this approach offers low value for money and that more sustainable and greater change can be brought about with a different approach. For example, training workers to know and access their own rights.
- Currently ETP does not monitor smallholder production, a significant proportion of all tea production. ETP is involved in the ETI's small producers working group to understand how best to improve standards in the smallholder sector, since it is recognised that an audit based approach is inappropriate.
- A number of tea-supplying countries and estates in countries where monitoring has started have still not been monitored by the ETP, which results in some suppliers feeling that the ETP operates an unfair playing field.

6.3 Individual Company Initiatives

Both Premier and Ringtons have responded to concerns about social issues in their tea supply chains by developing their own social assurance programmes. Both companies sell branded tea as well as make 'own-label' tea for supermarkets. Both companies are members of the ETI, neither is a member of the ETP.

Premier

A Quality Assurance programme that includes social workplace issues was introduced in Premier in the 1990s. Premier has developed a partnership approach to working with suppliers with whom quality and social compliance issues can be integrated with purchasing decisions. The ethos behind this approach is a recognition that buyers need to engage with their suppliers, to show commitment to wanting to improve quality and the social aspects of production. Premier believes that direct and long-term trading relationships are beneficial both to the supplier and buyer.

The Premier system now approves 160 selling marks, supplying 8598 per cent of Premier's tea direct to the company.

Between 1998 and 2005, a dedicated member of staff conducted Premier's audits, reporting into the buying team. In India, up to 5 days are allocated per monitoring visit to fully audit against the relevant national legislation, the Plantation Labour Act.

Premier Foods was floated on the London Stock Exchange in the summer of 2004. Earlier, it was owned by a US private equity group Hicks, Muse, Tate and Furst, which created it from the old Hillsdown group. Recently, Premier sold its tea business (which includes Typhoo, London Fruit and Herb, Lift, and QT brands as well as supermarket own-label tea production) to India's Apeejay Group for £80 m ($140 m).

Ringtons

The main developer of Premier's assurance approach moved to sourcing tea for Ringtons in 2004 and is putting in place an updated approach to that developed for Premier. The new quality and social assurance programme in development will include the following features

A rating system (A* to F). Suppliers will be encouraged and incentivised to improve their ratings, with larger orders for example. Ringtons will not buy from an F-rated company.

- Supplier visits every three years. Ringtons' tea buyer made visits to its Indian suppliers in 2004.
- Inclusion of quality, social and environmental issues in purchasing negotiations.
- A sustainable price (above the cost of production) is paid to suppliers when they source directly, for example, on crop contracts. Where prices are linked to auctions, Ringtons is considering remitting additional money back to the factories of those selling marks when world prices are low. Given the small volumes purchased, this may also be intended to boost Ringtons' profile with suppliers and will also enable suppliers to improve social conditions.

Brief Assessment of Ringtons' and Premier's approach

Strengths

- Consideration of social issues is integrated with purchasing, to the extent that there was an intention to operate an internal floor price for tea.
- Long-term commitments to source tea enable suppliers to plan ahead and so make realistic commitments to improve.
- One-to-one relationships enable the sponsorship of ad-hoc projects, as needed.
- The cost of the monitoring is paid for by the company doing the monitoring.

Weaknesses

- It could be difficult for new suppliers to enter these supply chains.
- There is limited dissemination about their approach within the wider tea sector, as an alternative to the ETP approach.
- It is not a sector-wide initiative, so there is a duplication of monitoring between Ringtons, Premier and ETP.
- It is unclear whether these companies can fully pursue the improvement of social issues when sourcing tea for the supermarket's own-label teas.

6.4 Unilever Sustainable Agriculture Programme

Unilever is a member of the ETP. It also runs its own programme on sustainable agriculture. Unilever anticipates continued growth in consumer interest in environmental and ethical issues and as such is aiming for 50 per cent of all its products to be from sustainable sources by 2010, and may launch new niche sustainable agriculture brands. (The intention is for mainstream products to be sustainably sourced.) Unilever's sustainable agricultural indicators (see below) are predominately environmental in nature with fewer social or economic indicators being included in the ten indicators. However, a Unilever India-based Field Development Manager is quoted as saying, “Our biggest challenge is the unpredictable income due to a drop in global tea prices.” This suggests that Unilever should increase its focus on the financial side of developing sustainable tea trade.

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http://news.bbc.co.uk/1/hi/business/4337140.stm.

Unilever Sustainable Agricultural Indicators	Typical Parameters
Soil fertility	Soil organic mater, soil pH, soil compaction
Soil loss	Soil cover index, soil erosion
Nutrients	Proportion of nutrients applied that is exported, proportion of nitrogen that is fixed on site, loss of nutrients to water
Pest management	Risk to operators and the environment of pesticides applied, adoption of Integrated Pest Management approaches
Biodiversity	Crop generic diversity, proportion of land managed as natural habitat, habitat quality
Product value	Total value of produce per ha, ratio of solid waste re-used/recycled to solid waste disposed in landfill
Energy	Total energy input per ton of product, ratio of renewable to non-renewable energy inputs, production of polluting emissions
Water	Amount of water used, sustainability of water source, pollution of water courses by factory effluent
Social/Human capital	Fair employment practices, agricultural knowledge and training, relationships with local communities, health and education status of employees
Local economy	Amount of money, profit spent locally, employment level in the local community

More detail on these indicators is given in two documentsSustainable Tea Good Agricultural Practice (for plantations) and Sustainable Tea Good Agricultural Practice for farmers (smallholders).

Brief assessment of Unilever's sustainable agriculture approach

Strengths

- Sustainable agriculture as linked to the concept of sustainable development is a holistic approach, integrating social, environmental and economic objectives. A multinational company's alignment with international public policy objectives, such as sustainable development is welcome.
- Intention to supply sustainable agricultural products to the mass market.
- Indicator setting has been complemented with the provision of guidance. Guides have been produced on sustainable tea production for not only for plantations but smallholders as well, these are accessible on the Web.

Weaknesses

- Unilever's approach to sustainable agriculture, under-weighs economic considerations, which are currently acknowledged as the major concern of tea suppliers.
- There is no consideration of a responsible use of power. For example, how Unilever through its significant market share (1015 per cent globally) could leverage improvements in price and social conditions.
- No external stakeholders are involved with the governance of Unilever's sustainable agricultural approach, and yet external organisations have good knowledge of the social and environmental impacts of tea production and could be key partners to bringing about improvements. The lack of independent expertise may hamper the initiative.

Unilever (2003) Tea, a Popular Beverage; Journey to a Sustainable Future, www.unilever.com, www.growingforthefuture.com

7. LEARNING FROM OTHER INITIATIVES TO IMPROVE SOCIAL CONDITIONS

The previous section looked at private sector approaches to improving social conditions. This section considers approaches and recommendations from other initiatives and organisations that can provide learning for improving the social impacts of the tea industry.

7.1 Ethical Trading Initiative (ETI)

ETI is a multi-sector membership organisation set up in 1998 to improve labour conditions in global supply chains by establishing minimum standards. The main purpose of ETI is to learn and promote good practice in the implementation of codes of labour standards. Members work together to identify what constitutes "good practice" in code implementation through experimental projects and research, and then ETI promotes this good practice through publications and events. As such, ETI takes an experimental approach and is not a verifier of companies

Membership is made up of three stakeholder groups: corporates (35 members); international trade unions (3) and non-governmental organisations (15). Company members fund (60 per cent) of the ETI, and the UK's Department for International Development (DFID) funds the remainder with a small income generated through the sale of publications and their conference.

ETI has developed a nine point Base Code, based on core ILO conventions and covering what ETI considers to be a minimum requirement for any corporate code of labour practice. To become a member of ETI, corporate members should adopt the ETI Base Code and implement either the Code or national legislation, whichever is the higher standard. Company members can choose which supply chains they wish to apply the ETI Base Code to.

The nine clauses of the ETI Base Code are as follows:

9 elements of the ETI Base Code

1. Trade union freedoms	PLUS	5. Living wages
2. Freedom from forced labour		6. Health and safety
3. Freedom from child labour		7. Working hours
4. Freedom from discrimination		8. Regular employment
		9. No inhumane treatment

In addition to adopting all the elements of the ETI Base Code, companies undertake (for those supply chains they apply the ETI Base Code) to:

- Communicate the code throughout the company and suppliers
- Monitor their supply chain against the Base Code
- Support independent verification of standards
- Inform workers about the code and provide a means for confidential report of breaches
- Establish improvement plans with suppliers where needed
- Report to ETI yearly on their progress towards implementation
- Participate in ETI projects.

ETI company members vary hugely in the extent to which they promote implementation of the Base Code and in the commitment to meeting the above requirements. Many companies are cautious of promoting trade union freedoms, committing to living wages (usually higher than minimum wages), limiting a working week to a maximum of 48 hours with 12 hours overtime, and communicating with workers and establishing confidential complaint mechanisms. A procedure to enable ETI to withdraw membership from companies not meeting membership requirements has recently been developed although to date no company has been expelled.

Premier and Ringtons are both individual company members of the ETI. The ETP has joined as a single member but has committed only to bring about labour improvements to meet national legislation in each country, not to the ETI Base Code, even if the latter is the higher standard. Currently, the ETI is discussing with ETP its intention to put an 'on-pack' reference to the ETP's monitoring because this contravenes ETI's membership rules that do not allow members to make claims about their ethical supply chain approaches.

ETI smallholder project focus on green bean and tea smallholder suppliers in Kenya

The ETI is currently running an experimental project to assess how to apply the ETI Base Code to smallholders in members' supply chains. There is a concern that the application of standards, in general, including ETI's Base Code, may marginalise smallholders from supply chains they are currently part of, due to the process of assessing compliance against standards. Research has been undertaken in Kenya on green bean and tea supply chains, with a view to developing recommendations for ETI company members. The research was undertaken to identify the smallholders' needs, as well as understand their experience of supplying to the UK. The research found the following was common or regular practice.

Low prices relative to the high costs of production

Lack of transparency of the supply chain, for example, producers do not know what happens to their products after auction

Insufficient communication between supply chain actors

Lack of adequate representation of the needs and views of smallholders

Unsatisfactory safety and health conditions in the working environment (lack of Personal Protective Equipment and Occupational Health and Safety training.)

Insufficient/delayed wages

Use of casual labour

Lack of overtime payments for working long hours

Lack of contracts especially for green beans

Lack of transparency about grading especially for green beans

The ETI smallholders' group is currently in the process of developing recommendations on the basis of this research. This learning will hopefully be very valuable to the tea sector and the Just Tea Project will keep abreast of this.

7.2 Natural Resources Institute (NRI)

Lessons from Kenya Tea and Indonesian Cocoa Value Chains

In 2002, the NRI undertook research on Kenyan tea and Indonesian cocoa sectors. They found that the following issues significantly impact on the well-being of smallholders in these value chains:

- Governance (legal framework; land tenure; producers association)
- Good working practices (freedom from physical, ethnic and sexual harassment; regulated use of child labour)
- Health, safety and security (use of chemical/pesticide inputs; access to health care; security of tenure)
- Compensation (fair share of crop/export price; timely payment; competitive wages; ability to grow other crops)
- Investments in the future (access to education and loans)

When assessing the relevance of these smallholders' priorities to 'ethical' codes/sourcing, there was disparity

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www.ethicaltrade.org

Bedford, A, Blowfield, M, Burnett, D and Greenhalgh, P (2002) Value Chains: Lessons from the Kenya Tea and Indonesia Cocoa Sectors In Focus 3, Natural Resources Institute/Resource Centre, London

Priorities of Kenyan Tea Producers	Covered by ethical sourcing/code?
Land tenure	No
Stable, long-term buyer-seller relations	No
Freedom from harassment and intimidation (ethnic, sexual)	Yes
Fair price and timely payment	Rare
Access to health and education	Some mention of workplace health

Defining and managing smallholders' well-being are the two key elements of any effective social responsibility strategy. Core labour standards may be relevant to an extent, but they do not cover other major issues such as terms of trade, and land and environmental management. The criteria on core labour standards such as child labour and freedom of association may also be unrealistic in the context of smallholders.

7.3 International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF)

Recommendations following an IUF visit to West Bengal and Assam in April 2004

An IUF delegation visited tea plantations in West Bengal and Assam in April 2004. The delegation included Teresa MacKay, Vice President of the IUF AWTG Board, Sue Longley, IUF Global Coordinator, Anuradha Talwar, Advisor to the Supreme Court and President of PKMS in West Bengal and Meena Patel, IUF South East Asia Education Office.

The IUF recommendations for follow-up action include.

1) With the government

- Demand that the government implements its constitutional obligation to the right to life and livelihood, bearing in mind the Supreme Court interpretation that the right to life and livelihood includes the right to food and work
- Exert pressure on the government in the absence of employers to provide medical aid, food, water and education facilities on abandoned plantations
- Exert pressure on the government to prosecute and implement sentences for rogue employers, who have stolen workers' Provident Funds and wages. Theft of Provident Funds is a criminal, non-bailable offence whereas non-payment of wages is breach of contract. (Provident Fund is a sort of social security scheme with a pension element. Employers and workers contribute to the funds.)

2) With the employers

- Target the tea employers' organisations to urge them to sanction rogue employers and to get them to provide (humanitarian) aid on the abandoned plantations.

3) By the IUF

- File a complaint in the Supreme Court for the prosecution of the rogue employers
- Follow up with tea packing and processing companies initially in the European Union but also in North America
- Support the right to food and work network
- Organise an interstate meeting involving unions on the closed plantations to exchange information and experiences on co-operatives, joint management committees and other measures to use to get the tea gardens working
- Conduct more research in Assam (working with the ACMS) and also in Kerala
- Raise the issues of the abandoned plantations with appropriate international bodies such as the ILO, FAO, etc.

Interestingly, the IUF has not chosen to focus its main recommendations on supply chains but to demand rights due to workers from employers, and that government step in to deliver social security.

Learning from initiatives in other commodity sectors may not be replicable when working on the tea sector. The tea commodity sector is different from other commodities, in that quality characteristics of the final product are significantly determined by value addition by factory processing close to tea growing. The tea companies dominating the tea sector have a lower global market share compared to market concentration of power in other commodities, such as bananas or coffee. This makes solutions in these two commodities less applicable in tea sector. However, initiatives to influence purchasing practices in other product sectors are explored in annexure 1 to this report to see if there is learning that may be applied to the tea industry on that key issue.

7.4 Learning from other initiatives aiming to improve social impact: Involve a range of stakeholders in the design and implementation of initiatives and standards

For social initiatives to have a positive impact on livelihoods, they need to involve a range of different stakeholders with knowledge of the product market. It is acknowledged that this is difficult in reality. The following are examples in which the integration of stakeholders' concerns is needed.

- Standards initiatives, such as Eurepgap, or setting of MRLs, which have caused problems for smallholders. Did not seek out smallholders and smallscale suppliers to consult with them to evaluate the practicability of their proposals. The ISEAL alliance an association of international standard-setting, certification and accreditation organisations that focus on social and environmental issues has proposed a Code of Good Practice for Setting Social and Environmental Standards. The Code of Good Practice proposes that either the standards are based on internationally agreed standards (in which democratic processes have already been involved in setting the standards) or in which the standard is based on other criteria. Extensive multi-stakeholder consultation, in different languages, is needed including with the different organisations impacted by the proposed standard. This is particularly important because standards are increasingly being used as a barrier to market access.
- Social codes of conduct, which are often based on the ILO's core conventions, are usually not integrated into purchasing decision-making, but are treated as add-ons by western companies. This means that the focus of purchasing continues to be on reducing prices, with social 'compliance' issues being placed as an additional cost to the supplier, rather than a partnership between buyer and supplier to improve social conditions integrated into their trading relationship.
- Strengthening suppliers in supply chains is needed, especially where power in the supply chain is particularly concentrated higher up the supply chain. This can be done through bargaining groups, such as co-operative marketing organisations (which may also negotiate purchase of inputs as well as provide information to members) and to a lesser extent through information provision.

Build understanding of supply chains

Markets currently dominate how products are sold. A trade initiative needs to understand where products sit, in terms of supply and demand. Poor understanding of the supply chain and market for products is where many initiatives fall down. Un-sellable products (for example, poor quality, overpriced) doom an initiative to failure, as do initiatives that do not address systemic problems in the market, such as oversupply in commodities.

ISEAL Alliance (January 2004) Code of Good Practice for Setting Social and Environmental Standards
http://www.isealalliance.org/documents/index.htm

8. THE BUSINESS CASE FOR IMPROVING LIVELIHOODS IN THE SUPPLY CHAIN

In the current context of depressed tea prices, there is no business case for a supplier to spend extra on improving the social conditions of tea production unless the aim is to access niche, sometimes export, markets, where it would be possible for the tea to realise a higher price. However, these niche markets have higher levels of entry and it is not possible to guarantee a sale.

The following are elements of a business case for the market to take steps to improve the social conditions of tea production.

- Buyers wanting high quality tea need to get involved at the source of production and influence the tea factory to improve their production processes as well as the plucking of tea. The focus on low prices has led to shortcuts compromising quality. Improving factory management should improve the social conditions of working in a tea factory (for example, doing regular maintenance should reduce peaks and troughs of work caused by equipment breakdown). If people are rewarded for picking two leaves and a bud as opposed to picking for volume, the quality of tea will improve and, hopefully, so will the pay of the pluckers. Larger companies interviewed felt that the mass market did not recognise taste (that is, quality) but instead were focused on other aspects such as colour, speed of brew and mouth feel.
- There is weak business case around securing tea supply. Currently purchasing practices push risk on to the tea suppliers through low prices. This is compounded by the costs associated with achieving social 'compliance'. In turn, tea suppliers pass this risk onto the estates and smallholders, and the actual supply of tea could become at risk over time. As growers (estates and smallholders) abandon tea, and their children and their workers leave to find other sources of income, tea supply could be put in jeopardy. However, this is unrealistic since tea quality varies, and many Indian tea workers are not integrated with their local communities and are unlikely to move. For workers, the only skills they know relate to tea production.
- There is a business case at the Indian tea industry level to improve the reputation of India's tea. Buyer's concerns about pesticide residues on smallholders' tea hampers buyer's ability to trust Indian tea and, therefore, their ability to buy from any selling mark that meets their specification at an auction. Improving the reputation of Indian tea so that buyers trust the tea they buy will enable smallholders to access markets they are currently excluded from.

The quality focused business case along with securing long-term quality supplies is the rationale behind the approach of some UK tea buying companies of integrating social considerations into their purchasing.

9. RECOMMENDATIONS TO IMPROVE THE SITUATION OF TEA WORKERS AND PRODUCERS IN INDIA

Improve prices paid to tea workers and producers

The following are list of suggestions/things to bring about improvements. Suggestions are made at each point of the supply chain. Any individual action may not be sufficient to bring about improvements. A refinement of these points can be made once the JustTea India research has been completed.

- Estate owners and smallholders could pay a living wage to workers (or share a fair proportion of their tea sales with workers, if it is not possible to pay a living wage). This assumes owners are paid enough.
- Higher prices might be realised if better quality tea were harvested and if smallholders had better varieties of tea bushes, better agricultural practices and if tea were harvested in a manner to optimise quality (two leaves and a bud). In some areas, tea is unviable because it is grown on marginal land (that is, land not suited to tea production). With training, smallholder production can produce better quality tea due to the labour intensive nature of tea.
- Smallholders and workers could organise to represent their concerns and suggestions to managers, others in tea trade, and state-level public sector organisations.
- Smallholders could receive a proportion of the price the factory selling mark realises for the tea, rather than being subject to factory dictated prices for their tea. Smallholders in Sri Lanka are paid 50 per cent of the value the factory sells their tea for (enforced through regulation), and smallholders in Kenya get ~60 per cent of the auction value of their tea because they own the KTDA factories, which process and then sell the tea.
- Factories could chose to produce quality tea rather than focusing on lowering their overhead cost per kg of tea by maximising the throughput of tea, which leads to overproduction that depresses auction prices. (There is a suggestion that regular harvesting of only two leaves and a bud actually stimulates some tea bushes to produce more?)
- Auctions could be run for the benefit of growers rather than buyers.
- Regulation could force a high percentage of tea sales to be made through (transparent) auctions limiting the ability of buyers to divide and rule when negotiating direct sales.
- The Indian Tea Board could improve the image of Indian tea, by registering and educating smallholders and factories about market standards for tea, including concerns about pesticides.
- The Indian Tea Board could work with other tea boards as well as other international, state-level organisations and growers to manage the supply of tea.
- Globally, processors/packagers could act in a way to discourage the overproduction of tea, rather than encourage tea oversupply that ensures for them a cheap supply of tea.

Summary of recommendations

The table below sets out a series of recommendations to improve the situation of tea workers in India. The column 'whom' includes not only those involved in the change but those organisations that might be key to influencing the change. The recommendations are set out in the order of priority according to those likely to deliver the most positive livelihood impact for the producing communities, to contribute to the project team's prioritisation exercise. Those with a * could be taken forward as part of the JustTea project.

Recommendations Specific to Just Tea Project

	Aim	Why (what message)	Involving whom? Acronyms explained below	Where
1	*Increase tea growers' power in the supply chain	Improve communication structures among smallholders and isolated tea producers. (May involve formalising them and linking to well-run factories) Would also increase tea growers' knowledge of their options (re: market standards, MRL, diversification and planning)	Tea Boards, agricultural extension and small holders	India
2	*	Create/strengthen smallholder organisations to help with marketing, and possibly sourcing low cost inputs. For example, form a collective brand of the smallholders (compliant with competition rules), such as AMUL for milk	Funder/investor, an existing tea company/ entrepreneur, smallholders	India
	Balance supply to demand	Stop funding/encouraging new tea production	World Bank, IMF, ADB and national governments	International
		Manage supply down	Tea Boards, national governments, UNCTAD, WTO, FAO, TNCs, growers, etc.	International
3	*Increase Indian consumption of Indian tea	Indian production and consumption are almost in balance. Use the following sentiments when marketing tea to upmarket customers - 'Drink the view', 'support the viability of your leisure areas'	Marketing organisation run to sell smallholder tea. Major employers and state bodies commit to drink local Indian tea	India
4	*Reduce dependence on tea as a sole livelihood through improving communication	Education/training, diversification, and initiatives to integrate tea workers into local communities	Small holders, workers on plantations, NGOs, government.	India
5	*Improve confidence in 'unknown' Indian tea	Improve good agricultural practice amongst tea-growing smallholders to meet MRLs, and improve quality. (This may involve registering smallholders and bought leaf factories.)	Indian Tea Board, small holders, bought leaf factories, tea councils in 'tea-drinking' countries	India
6	*Include smallholder concerns in the development of external market standards (for example, MRL, ETP and others)	Improve viability/practicality of standards, knowledge and achievement of standards. Put in place redress mechanisms when excluded from market.	EU process for setting MRLs. Retailers and processors involved in ETP EU Public policy on importance of multi-stakeholder standard setting	International
7	*Increase accountability of retailers and processors for their social impact	Integrate 'stated' social intentions into purchasing practices. Improve transparency, risk/cost sharing not dumping. UK commitment to auctions, quality and minimum price?	Retailers, processors, ETP, companies, growers – smallholder and plantation, trade associations, Tea Council, consumer organisations, NGOs, trade unions	International
10	Use trade policy to improve India's supply/demand balance of Indian produced commodities.	Investigate use of Special and Differential Treatment (SDT) provisions to limit imports	Indian government, WTO, Indian tea board, Trade policy advisors	India/ International

Recommendation 1 To increase tea growers' power in the supply chain

This recommendation is a pre-cursor to some of the following recommendations being realised and is an enabling recommendation. Once smallholders are organised and in communication structures, they will be able to make more informed decisions about their options. In particular tea growers need to be kept up to date with improvements in growing techniques, factory management, market and supply chain information as well as market standards (such as MRL and ETP) or crops to diversify into. An organisation of smallholders will also enable smallholders to lobby for changes to proposed market standards (as referred to in Recommendation 6) as well as increase their bargaining power with their buyers (referred to in Recommendation 7)

The people needing to be involved in this recommendation include smallholders, who need to be provided information by the Indian Tea Board and the agricultural extension services.

Recommendation 2 Create/strengthen smallholder organisations

For example, the creation of a smallholder tea brand. This recommendation is one way in which smallholder organising (in Recommendation 1) could evolve in a way that would strengthen their visibility in the market. The suggestion was that the smallholders could form an 'AMUL'-type organisation to market their tea. AMUL is a co-operative set up to market milk-based products produced by smallholders and is structured in such a way that smallholders get a fair proportion of final product price (see http://www.amul.com/index1.html). Organisations used to be set up by old CDC (Commonwealth Development Corporation) to improve market position of smallholders. CDC used to act as investor, working with smallholders and government to set up agricultural processing facilities, which had some accountability to smallholders. One example of a CDC investment includes Mumias Sugar Company, in Kenya, which now sources sugar from 33,000 smallholders. Capital-intensive agricultural processing factories set up by CDC, in the past included the setting up tea factories.

People to be involved in such an initiative include smallholders, investors and an entrepreneur or existing company with tea knowledge, who is willing to run the new organisation so that there is a fair return to the smallholders.

Recommendation 3 Increase (particularly wealthy) Indians consumption of Indian tea

Indian production and consumption are almost in balance. This initiative builds on Recommendation 2 but has an added marketing element. Tea is seen as the poor person's drink, with Nescafe and Coca Cola being seen as more up-market alternatives. To counter this trend in developed countries, tea is promoted as a healthy drink because it contains anti-oxidants. Could a smallholder brand encourage Indians to buy locally, possibly by using variations on the following marketing ideas Support the viability of your leisure areas' or 'Drink tea, knowing you are supporting your favourite view'? To ensure its viability, it would be worth getting major employers and state bodies in a target city to commit to buy local Indian tea for their workplace canteens and kitchens. A marketing theme of buying Indian or locally produced products will also potentially help support small enterprises that may form as smallholders diversify out of tea (see Recommendation 4).

Recommendation 4 Reduce dependence on tea as a sole livelihood through improving communication

Globally, the tea trade is in oversupply and each tea-producing country needs to reduce their production by a small percent. In addition, tea is currently being produced on marginal land in India (that is, land not suited to tea production and so results in low yields), which means it will remain uneconomic to grow tea in these areas when prices are so depressed. Workers on many tea estates are dependent on their employers (tea estate managers) for everything. This combined with the historical fact that many tea workers are not from the local area effectively traps them on their estates. There is a need to reduce the dependence on tea as the sole livelihood for these workers and smallholders. Tea workers and smallholders need to consider other sources of livelihood. Possibilities include inter-cropping tea bushes with vegetables or other products, pulling up tea bushes and diversifying out of tea. (Pulling out tea bushes requires heavy equipment and is, therefore, expensive). In addition, workers need skills that will enable them to have livelihoods outside of the plantations, as well as activities that start to integrate them into the communities that live outside of the plantations. The children of tea workers need an education that is relevant to having aspirations outside of tea sector. These activities are dependent on smallholders and workers being part of communication systems that provide them with information about the tea market and its alternatives so that they are able to make informed decisions. (See Recommendation 1).

People needing to be involved include smallholders, workers on plantations, associations of smallholders and workers, trade unions, NGOs, state governments, agricultural research and dissemination organisations, small enterprise development organisations, schools, adult education/skill development organisations, and Tea Board of India.

Recommendation 5 Improve confidence in 'unknown' Indian tea

Currently, tea produced by unknown smallholders or from unknown factories (or selling marks) is not trusted. This, in general, creates a bad reputation for Indian tea. Agricultural practices amongst tea-growing smallholders need to improve so that they are able to produce better quality tea and use appropriate amount and type of chemical inputs. These improvements could be brought about by the Indian Tea Board registering smallholder and bought leaf factories, or possibly could be brought about by other sources of agricultural extension advice. Perhaps smallholders could be linked into higher quality tea factories, which pay more, monitor leaf quality as well as provide agricultural advice, including on inputs? Caution is needed so that the registration and communication activities do not introduce excessive costs to the smallholders. People who need to be involved include Indian Tea Board, small holders, bought leaf factories, agricultural extension services, and Tea councils in 'tea drinking' countries.

Recommendation 6 Include smallholder concerns in the development of external market standards

Including specifically to influence the MRL standards and Tea Sourcing Partnership. The content as well as the application of these standards could be improved. Such involvement is based on smallholders being organised in a manner to influence the development of these standards, as well as provide a communication channel back to smallholders and single estates about emerging standards. (see Recommendation 1).

- Particular areas to explore might be the setting of MRL levels for non-EU pesticides, as well as understanding whether/how chemical residues on tea leaves impact on human health after tea is brewed.
- In relation to the Tea Sourcing Partnership, an area to explore would be to share responsibility along the supply chains for improving social conditions, and whether an add-on social compliance/rating system is fit for the purpose of improving social conditions or, in fact, undermines those conditions, since the scheme does not address the priorities of tea workers. Since the purpose of ETP is to improve social conditions in tea-exporting countries, could the governance of the initiative not include NGOs, trade Unions or workers organisations (and suppliers) based in tea-exporting countries? Could the ETP system also include some form of redress if a selling mark was incorrectly rated, or had spent significant amount of money, which was not recouped through tea sales and then resulted in bankruptcy?
- There is an important public policy dimension. The importance of multi-stakeholder involvement in standard setting needs to be made to the EU, so that private standards are not developed in a manner that inappropriately skews access to EU markets for producers with no mechanisms for redress.

People to be involved in this initiative include smallholders and workers organisations, EU NGOs and trade unions, code of conduct initiatives, Tea Sourcing Partnership, EU commission in charge of setting MRL, DG Trade within the EU, tea processors and retailers, and consumers organisations.

Recommendation 7 Increase accountability of retailers and tea processors for their social impact

Currently, the gains of trading in tea are not felt all along the supply chain of tea reaching the UK. Indian workers supplying tea to the UK market have problems with pay, housing and Provident Fund. The sourcing approaches of some blending and packing companies undermine the ability of the suppliers to realise a price that covers their cost of production.

In addition, tea-processing companies through their sourcing activity and involvement at different points in the supply chain influence the context of the whole tea sector. Processing companies influence to ensure that there is oversupply of tea, (ensuring their ability to source tea,) and enabling them to be in a powerful negotiating position so that they can pursue the lowest priced sources of supply. Purchasing for the mass market is undertaken in a short-term way that does not consider the long-term implications of dumping cost and risk on suppliers, or the long-term implications of undermining auctions. Whereas political and historical factors are also responsible for oversupply and poor returns received by smallholders and workers, these terms of trade contribute to the current poor context for tea producers.

Retailers currently dominate the ability of the agricultural suppliers to access the UK market and, therefore, are able to dictate the terms of trade to their suppliers. Asda (a UK supermarket), now owned by Wal-Mart (a US supermarket) prides itself on 'everyday low prices'. Tesco, another UK supermarket, aims to match ASDA on price, and the interaction between these two supermarkets sets the context for the UK supermarkets' continuing focus to offer consumers lower prices. Despite social commitments, the squeeze on price is then pushed down the supply chain, resulting in tea producers and workers becoming more vulnerable.

The concentration of market power then concentrates power at the next level down the supply chain and so on, as each supermarket generates its standards and wants to work with a limited number of suppliers.

An alternative approach could be taken UK wide, co-ordinated by the Tea Council to commit UK companies to buying a certain proportion through auctions, to pay a minimum price, or to only allow tea quality above a minimum standard to come into the UK. Much more work would need to be done to assess feasibility or desirability of such an approach. Although auctions can be a fair sales mechanism, some suppliers have only been able to bring about improved social conditions in the current context because of their direct advance purchase agreements with buyers. Limiting the quality into the UK would send a practical signal to the tea sector to manage supply and it might push the tea prices up both at the retail end as well as improve the tea price the supplier receives. However, more analysis would need to be done as to who would be affected by such a proposal.

All stakeholders in the supply chain need to negotiate an approach to trading in tea, which ensure that all benefit from trading in tea, with each taking responsibility for their actions to ensure that minimum social standards can be realised at each level of the supply chain.

People who need to be involved include consumer organisations, retailers, processors, growers (smallholders and plantation), trade associations, Tea Council, ETP, trade unions and NGOs.

10. RELEVANT NETWORKS/ORGANISATIONS TO CONTACT WHEN EXPLORING RECOMMENDATIONS

It is crucial when wanting to improve the social impact of the tea trade that all the tea stakeholders are involved. JustTea's working groups need to include all tea stakeholders. Below is a list of organisations and individuals. JustTea could explore working with them to improve the situation of Indian tea workers and smallholders outside of the tea sector.

Who	**Relevance to JustTea**
OXFAM	Run the 'Make Trade Fair' campaign globally Have a tea project in Kandy, Sri Lanka, to address the problems faced by smallholder tea growers in the Small Organic Farmer Association. Smallholders are also selling tea under fair trade terms.
ActionAid	UK office is looking to run a campaign to regulate agricultural processing companies to improve the lives of small producers. ActionAid recently researched social impact of Hindustan Lever Ltd. tea activities in India.
Trade Justice Movement (TJM)	A global trade campaign focused mainly on public policy demands, but will also include demands on corporate regulation
Ethical Trading Initiative (ETI)	Has a working group looking at how to implement the ILO core conventions for labour standards in the smallholder sector. ETP, Premier, Ringtons are members of ETI.
International Union of Food, Agricultural, Hotel, Restaurant, Catering, Tobacco and Allied Workers' Associations (IUF)	Recently organised a visit to see the tea crisis in West Bengal and Assam
Natural Resources Institute (NRI)	The ethical trade team used to do research on tea
Commodity issues	
UN Conference on Trade and Development (UNCTAD)	Has an 'eminent persons group on Commodities' since November 03
Food and Agriculture Organisation (FAO)	Convened Intergovernmental group on tea. This group met in August 03 in Colombo, Sri Lanka and in Indonesia in September 05.
International Institute for Sustainable Development	Involved in Sustainable Coffee Partnership.

11. Publications

- Fran Abrams, (25.6.02) The tale of a teabag from Sri Lanka plantation to Twinings Guardian G2
- Phil Wells, (May 1995) Premier Teas Quality Assurance Project New Consumer Research Working Paper The Transnational Corporation in a Host country: Policy and practice in Developing Countries
- Ayo Akinfe, (2.8.2004) New Delhi Announces Ambitious Sales Target The Public Ledger
- Unilever (2003) Tea, a Popular Beverage; Journey to a Sustainable Future, www.unilever.com, www.growingforthefuture.com
- Bedford, A, Blowfield, M, Burnett, D and Greenhalgh, P (2002) Value Chains: Lessons from the Kenya Tea and Indonesia Cocoa Sectors In Focus 3, Natural Resources Institute/Resource Centre, London
- ISEAL Alliance (January 2004) Code of Good Practice for Setting Social and Environmental Standards http://www.isealalliance.org/documents/index.htm
- http://www.business-humanrights.org/ - search on Tea, for relevant stories
- Centre for Education and Communication (May June 2003) Indian Tea Industry at Crossroads Labour File Journal on Labour and Economic Affairs
- Eva Langlands (January/February 2004) A Crisis Brewing New Consumer Magazine
- Fairtrade Labelling Organisation International (October 2003) Fairtrade Standards for Tea for Hired Labour http://www.fairtrade.net/pdf/hl/english/Tea%20HL%20version%20Oct.03.pdf
- Fairtrade Labelling Organisation International (October 2003) Fairtrade Standards for Tea for Small Farmers' Organisations http://www.fairtrade.net/pdf/sp/english/Tea%20SP%20version%20Oct03.pdf

12. Currency Conversions used at the time of this report

100 GB pence = GB Pound £1.00 = USD $ 1.82372 = 84.4645 Indian Rupees

100 US cents = US Dollar $1 = GBP £ 0.548191 = 46.3250 Indian Rupees

Appendix 1

Lessons from other commodities:

This section of the report looks briefly at the Coffee and the Banana campaigns, and assesses the differences between these commodities and tea, the strengths and weaknesses of their approach, and suggests recommendations for work to improve livelihoods of those involved in tea production.

Coffee campaign

With 22 producing countries, Oxfam launched its coffee campaign on 18 September 2002 in 17 countries with a 55 page report "Mugged: Poverty in your coffee cup" in response to the fact that coffee producers are receiving ever lower and lower prices for their coffee. Meanwhile, the profits of the main roasting companies (Nestle, Sara Lee, Kraft, and Procter and Gamble) have been on the increase. The following demands were in their report.

Oxfam is calling for a Coffee Rescue Plan to make the coffee market work for the poor as well as the rich. The plan needs to bring together the major players in coffee to overcome the current crisis and create a more stable market. Within one year the Rescue Plan, under the auspices of the International Coffee Organisation, should result in:

1. Roaster companies paying farmers a decent price (above their costs of production) so that they can send their children to school, afford medicines, and have enough food.
2. Increasing the price to farmers by reducing supply and stocks of coffee on the market through:
   > Roaster companies trading only in coffee that meets basic quality standards as proposed by the International Coffee Organisation (ICO).

   > The destruction of at least five million bags of coffee stocks, funded by rich-country governments and roaster companies.
3. The creation of a fund to help poor farmers shift to alternative livelihoods, making them less reliant on coffee.
4. Roaster companies committing to increase the amount of coffee they buy under Fair Trade conditions to two per cent of their volumes.

The Rescue Plan should be a pilot for a longer-term Commodity Management Initiative to improve prices and provide alternative livelihoods for farmers. The outcomes should include:

1. Producer and consumer country governments establishing mechanisms to correct the imbalance in supply and demand to ensure reasonable prices to producers. Farmers should be adequately represented in such schemes.
2. Co-operation between producer governments to stop more commodities entering the market than can be sold.
3. Support for producer countries to capture more of the value in these commodities.
4. Financed incentives to reduce small farmers' overwhelming dependence on agricultural commodities.
5. Companies paying a decent price for all commodities, including coffee.

Oxfam's analysis showed that while the coffee price was falling (causing starvation and suicides in some countries in the producer communities) the roasting companies' profits were increasing. Oxfam recommended supply management and other initiatives are needed, since a free market will not be able to rectify the imbalance of who gains from the coffee trade.

Since launching the report from discussions with companies, the following has happened:

None of the processors are willing to commit to paying a price that covers the cost of production. There is some discussion about price.

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http://www.maketradefair.com/en/index.php?file=11092002131005.htm

Nestle has launched a fair trade coffee brand in the UK. Another roaster company said that it would source and certificate a proportion of their coffee according to fair trade.

Kraft are sourcing some coffee under the Rainforest Alliance certification scheme (pre-dominantly an environmental scheme.)

Other companies do not want to use the fair trade certification system. They do not want to support fair trade because they see it as a form of market intervention, though they are considering paying a premium to farmers.

At a country level

New coffee producers are still appearing adding to the problems of coffee overproduction and, therefore, pushing the price even further down in 2004. In some countries, there are not other legal cash crops for the producers to diversify into. This is in part due to the stalemate within the WTO's Agreement on Agriculture and the US and the EU subsidisation of their agriculture limiting market opportunities.

One country, Colombia has been able to reduce its coffee production by 20 per cent because it has a strong and organised federation.

Since December 2004, the coffee price has increased.

In terms of organising discussions on coffee, there are two main forums:

- CCCC - the Common Code for the Coffee Community. The CCCC has produced a Common Code and Rules of Participation, which does include small-scale growers. Its aim is to produce a certifiable code of conduct for sustainable coffee, which companies will adopt.
- UNCTAD's Sustainable Coffee Partnership aims to work with the International Coffee Organisation, donors and most of the main stakeholders. The partnership undertakes research and policy-making and has looked at four areas: Sustainable production and consumption practices; Financing and Risk management; Standards co-ordination and development; and Policy and Market development.

The big coffee roasting companies co-ordinate their inputs into these initiatives through the Sustainable Agriculture Initiative, which has a secretariat in Germany. Whereas the companies make commitments and are more open about their business practices in Europe and America, they remain outside of multi-stakeholder conversations in developing countries. Many producers sell through people they have had long-term relationships with and so there is caution about change. In some countries, traders are on the national coffee board and so very influential, including being able to influence national policy.

Coffee producers and NGOs supportive of working on commodity issues have formed the 'Global Alliance for Coffee and Commodities', which is hosted in Oxfam's offices in Honduras.

Oxfam's coffee campaign has had three evaluations. However, it is perhaps too early to assess the experience of the coffee campaign on the lives of coffee producers and the coffee sector.

Banana Campaign

Banana smallholders and plantation workers have been realising significantly less income from their cultivation of bananas. Bananas are traded predominantly through the following five companies Chiquita (~25 per cent market share), Dole (~25 per cent), Del Monte (~16 per cent), Fyffes (~8 per cent and is an Irish-based company, which bought Geest, a UK company in 1995) and NOBOA (~9 per cent and is an Ecuadorian national company). Fyffes is the only company not to own plantations and refrigerated boats for transporting bananas (a key element of concentrating power in the supply chain).

Problems in the banana sector include poor pay and working conditions at plantations and low prices for smallholder banana producers. At a country level, as a result of fair trade's work with windward island smallholders, the Windward Islands Farmers' Association (WINFA) is much more organised, which has improved the efficiency of production on the islands. However, the Latin American and West African plantations remain cheaper.

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http://www.sustainable-coffee.net A Common Code for the Coffee Community

http://www.unctad.org/sections/wcmu/docs//ditc_comb_com0003_en.pdf - Draft Schematic Structure for a Sustainable Coffee Partnership

In 1993, the unions of the Latin American plantations, met with Windward Island producers (smallholders), an Ecuadorian smallholder organisation and European civil society organisations to form a coalition. Since that meeting, the coalition meets approximately three times a year to develop its policy. Early on they organised a postcard campaign that asked the EU agriculture minister to set a quota for fair trade. (However, they were told that such a request was not possible because it violated the WTO Article that does not allow countries to differentiate between products on the basis of how they are made). In 1998, a three-day international banana conference was held that included all stakeholders. Companies also came to the conference. A follow-up conference was held in 2005.

COLSIBA, the Latin American banana trade union apex body, approached Chiquita to have a workers' rights agreement. Additional pressure was put on Chiquita through 12 country campaigns (mainly in developed countries). In 2001, an agreement was signed by Chiquita, COLSIBA and the ILO not only to have good labour standards on their own plantations but also at their suppliers. A Corporate Social Responsibility (CSR) programme in Chiquita was started also in 2001, supported by the Chief Executive. This included joining the ETI and Social Accountability International (a certification scheme against ILO core labour standards, which includes a management system component). While Chiquita is making significant improvements to the social conditions of production at the plantations it owns, this is localised, (a hurdle to be overcome includes ingrained anti-union attitudes of Chiquita staff in some countries), and there has not yet been significant change at plantations supplying Chiquita, which it does not own.

Fyffes joined the ETI, but its participation has been weak. Fyffes was the first company selling fair trade bananas into the UK market.

In Dole and Del Monte, there has been weak union organising and so less ability to lever change.

NOBOA ignored the pressure on them to improve their practices until a Belgium ethical investment research organisation ('Ethibel Stock at Stake') brought out a report for investors on all the banana companies, and highlighted problematic impacts of NOBOA's practices. NOBOA recently requested to meet with Banana Link and trade unions for the first time in April 2005, and there is hope that this will lead to change in Ecuador.

As a result of the campaign, more fair trade bananas are being sold. Fair trade bananas now account for 20 per cent of all Windward Island bananas sold. These are being sold in the UK through Fyffes, fair trade company Agrofair, and two independents Pratt and Mack Mulitiples and through Del Monte, who have the exclusive banana supply agreement with Wall Mart (who own Asda). Fairtrade bananas now account for nearly 5 per cent bananas sold in UK.

In the last two years, the retail price of bananas has dropped 30 per cent, and retailers have squeezed the banana supplier's margins. Profits from the multinational banana suppliers have moved to the retailers. (Bananas is one product that retailers make most money on). Banana Link, the UK part of the banana campaign, is now going to increasingly focus on retailers, due to the significant impact retailer pricing has on the suppliers, and then onto the workers and smallholders.

The Banana Link's website urges its supporters to do the following.

Letter Writing to the Supermarkets

- Ask them to investigate thoroughly the social, labour and environmental conditions in which bananas are produced for their stores. Also, ask how they aim to ensure that standards are raised.
- Ask to be given the choice to buy Fairtrade labelled bananas that guarantee minimum social and environmental conditions (some supermarkets already sell fair trade bananas. Check with the campaigning organisation in your country).

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www.saiplatform.org SAI Platform conducts a number of activities around four main themes: 1) Knowledge building and management; 2) Awareness raising; 3) Stakeholder involvement; and 4) Support to the implementation of SA practices (within the supply chain as well as in compliance with trade policies and regulations). The SAI platform is specifically focusing on Dairy, Cereals, Coffee, Palm Oil; Potatoes and Vegetables

www.bananalink.org.uk and at a European level http://bananas.xs4all.be

http://www.sa-intl.org/

http://www.bananalink.org.uk/campaigns/campaigns.htm

Currently the EU has a managed banana market that favours African, Caribbean and Pacific countries, and is run in a manner in which companies apply for quarterly licences to import into the EU. This arrangement will end in 2006. The banana campaigns see a need for a commodity agreement with environmental and social chapters. In recognition of the power of companies over the banana trade, such an agreement will not only need governments to be signatories but companies would also need to commit companies to such an agreement. An international conference was held in April 2005 and produced a declaration with recommendations to EU, national governments, supermarkets, consumer organisations and voluntary initiatives.(See www.ibc2.org for more details) One of the key recommendations of all the participants at the conference was to set up a permanent multi-stakeholder forum. This proposal will be made to the next FAO Inter-Governmental Group Conference.

A Brief Assessment of the Strengths and Weaknesses of the Coffee and the Banana Campaign approaches in Relation to the **Tea Sector**

Differences

In the banana sector, the EU has a managed market, which means that the trade rules controlling the supply of bananas is much more controlled, and also favours production from certain countries, in comparison to tea having no managed market.

In both the coffee and banana sectors, there is a greater level of concentration of a few companies at the international market level, in comparison to the current maximum global market share in tea being ~15 per cent for Unilever, closely followed by Tata/Tetley.

Strengths

- Both have global coalitions and are informed at a policy level by producers and civil society as appropriate, rather than being purely northern driven
- Their actions are integrated. They are able to undertake research, campaign and meet with companies in a way that puts concerted pressure for particular objectives.
- Both have organised major focal points in which all the actors are involved in meeting and being presented with problems and potential solutions. Coffee has two global multi-stakeholder initiatives.
- Strong producer organisations and trade unions, which are able to organise smallholder producers and workers, respectively.

Weaknesses

- Sustaining interest in civil society organisations around the world to organise collectively and sustain pressure for change.
- It is particularly important to involve producers from all producing countries, rather than focus on selected countries. For example, West African producers of bananas are not included in the banana campaign.
- Undertaking thorough research into the campaign demands, particularly in relation to their achievability and potential effectiveness.

Recommendations for tea sector

- Need for an internationally networked group of civil society organisations, which can organise themselves to representatively set policy direction, and then take co-ordinated action to support negotiation or changes in support of producers and workers.
- To include retailers as well as processors into any private sector demands.

Building a Business Case for Corporate Social Responsibility in the Indian Tea Industry

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