The Tea Market – a background study

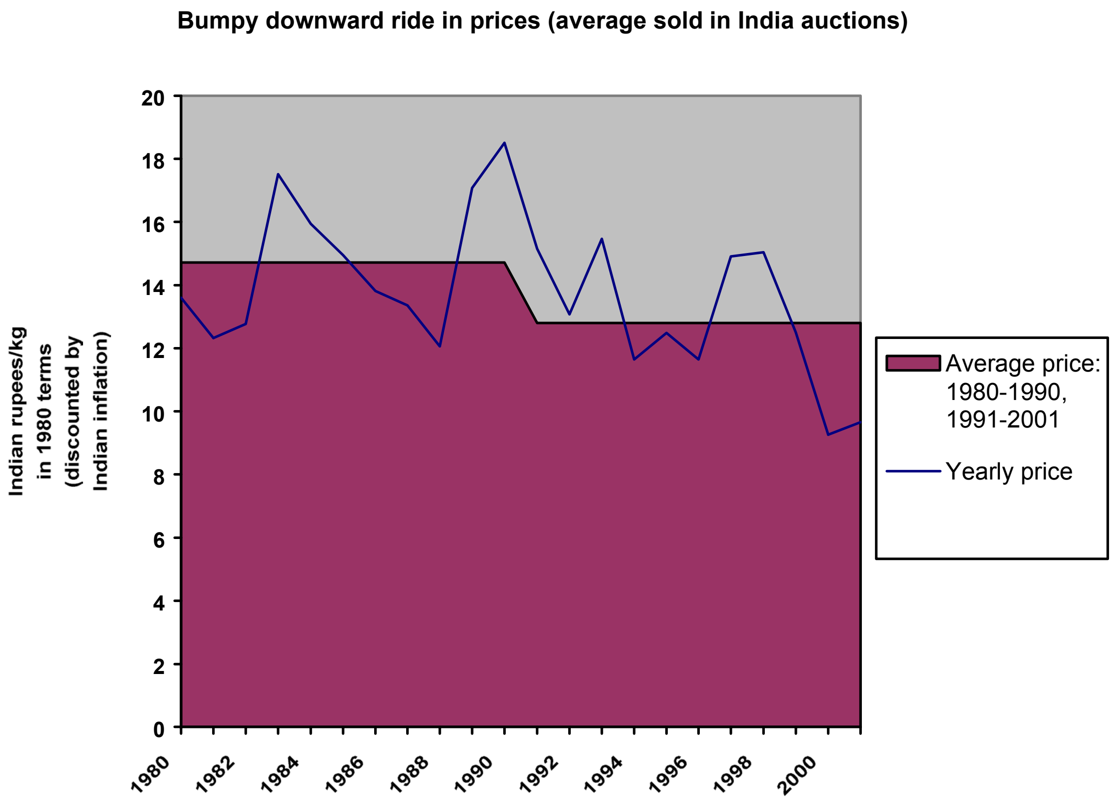
CONTENTS

Section 1: Market Fundamentals

1.1 The Economics of Tea

The price of tea has been in long-term decline while production costs have risen, putting downward pressure on farmers' incomes and labourers' working conditions.

Since 1980, the real price of tea has fallen by 15%[1]. As the chart below shows, another problem has been price volatility. In the last two decades, the annual average price has fluctuated between a high of 333 cents/kg to a low of 142 cents/kg in 1980 terms, and the instability index[2] has averaged 13, which means that the price deviated from the exponential trend by 13% in any given year.



1.1.1 Price decline

The decline in prices has been primarily due to the strong growth in supply in the face of sluggish demand. Unlike with cocoa and coffee, the ratio of stocks to demand play only a minor role in determining the price level because the quantity of tea stocks held is relatively low (because tea perishes so quickly). Instead stocks function more as a transitory 'pipeline' stage in the supply chain.[3]

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[1] Cashin, World Bank data
[2] Methodology for instability index taken from Maizels, Bacon and Mavrotas - Commodity Supply Management by Producing Countries, 1997
[3] Maizels, Bacon, Mavrotas, Commodity supply management by producing countries – a case study of tropical beverage crops, 1997

Competition between producer countries for a share of the world market is intense for a number of reasons, all of which contribute to low prices:

- A large number of countries produce tea and many of them are big enough to prevent the establishment of a clear monopolistic leader, which allows for fierce competition.
- Demand is rising slowly and so the only way to increase significantly the amount of tea exported is at the expense of competitors.
- It is fairly easy for buyers to switch from one source to another, especially for blends for popular tea bags as any change in taste with the change in the source of one tea can be disguised by blending with other teas. Because of the dominance of the auction system in acting as a day-to-day intermediary between producers and buyers, producer countries have been unable to tie customers into long-term relationships.
- As tea deteriorates fairly quickly it is frequently necessary to cut prices in order to clear stocks.
- Tea supply is greater than demand from manufacturers.
- Producing countries stay in the market despite its scant rewards because they have invested a great deal in tea production and lack alternatives.

Low prices for tea are passed on to the poorest segments of a country in the form of low wages on plantations. Given that it is easier to cut costs (by reducing labour costs) than raise prices (impossible for an producer country to attempt unilaterally), producing countries have to remain competitive by lowering wages – which partially accounts for the rut in which plantation wages are caught.

As is the case with coffee and cocoa, the forecast is that tea production will continue to increase over the next few years despite a slower growth in demand – a trend that can only undermine prices in the long term. The present decline in prices was on the back of a 0.6% annual increase in production between 1984 and 1994 – annual increase between 1994 and 2005 is estimated at 2.8%. For 2005, the projected surplus of export availabilities over import requirements stands at about 24 000 tonnes, a surplus of 2%.[4]

1.1.2 Price volatility

One area in which tea differs from coffee and cocoa is that the world tea market used not to be particularly prone to price volatility. In fact until the 1980s world tea prices seemed relatively stable when compared to other commodities.[5] This can be accounted for in several ways:

- Tea production is less prone than coffee and cocoa to peaks and troughs due to weather and disease. Also world production is fairly diversified and not concentrated in particular areas as is the case with coffee (Brazil) and cocoa (West Africa).
- The tea market is not undermined by the destabilising effects of speculation.
- Vertical integration and companies in monopolistic competition in consumer countries also stabilise prices (if at low levels).

Price volatility is a necessary precondition for viable futures markets as it is only when price fluctuates that producers, traders and processors find that they need to hedge against price fluctuations. One analyst takes a rather interesting view on this, arguing that in the coffee and cocoa markets the existence of futures trading makes price determination very organised, centralised and transparent.[6] By contrast the tea markets are not held around one international price but according to different auction prices in producing countries. The entire market is therefore more hazy and

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[4] Medium-term outlook for black tea, Intergovernmental Group on Tea, Committee on Commodity Problems, FAO, September 1999
[5] Friedheim , T. Price Analysis of the World Tea Market, Heidleberg Working Paper, 1992
[6] Friedheim , T. Price Analysis of the World Tea Market, Heidleberg Working Paper, 1992

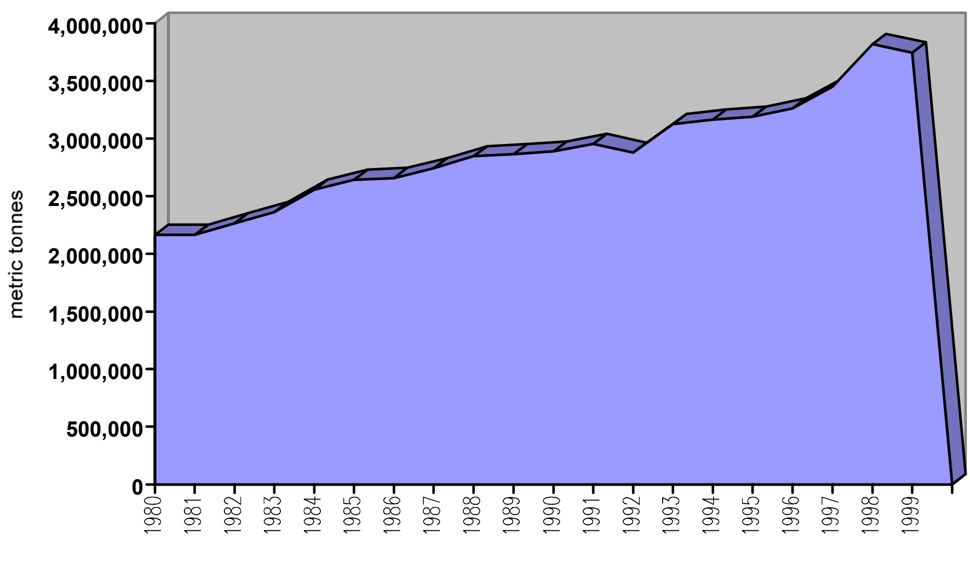
complex, but the local pricing of each grade of each factory's produce means that the price of tea is more accountable to producers.

The relative stability of the tea market was true until fairly recently – there was a noticeable increase in the volatility of the markets in the 1990s. This volatility first began in the mid-1970s when prices became twice as unstable as they had been the decade before.[7] There began to be a cycle of swinging prices with a pattern of seven-year lows. This increased price volatility may be attributed to a number of factors; among them exchange rate fluctuations and more changeable demand (such as the collapse of the economy of the former Soviet Union – previously a large buyer of Indian tea).[8]

1.1.3 Production

Tea is cultivated in about 36 countries all over the world, but production is heavily concentrated in just a handful. In 2000, five countries (India, China, Sri Lanka, Kenya and Indonesia) together produced almost 80% of the world's tea[9]. While India, China and Sri Lanka have long dominated world production, the share of the African countries has increased dramatically over the last two decades. In the ten years between 1986 and 1995 Kenyan production increased by 44% while Tanzanian production increased by 58%.

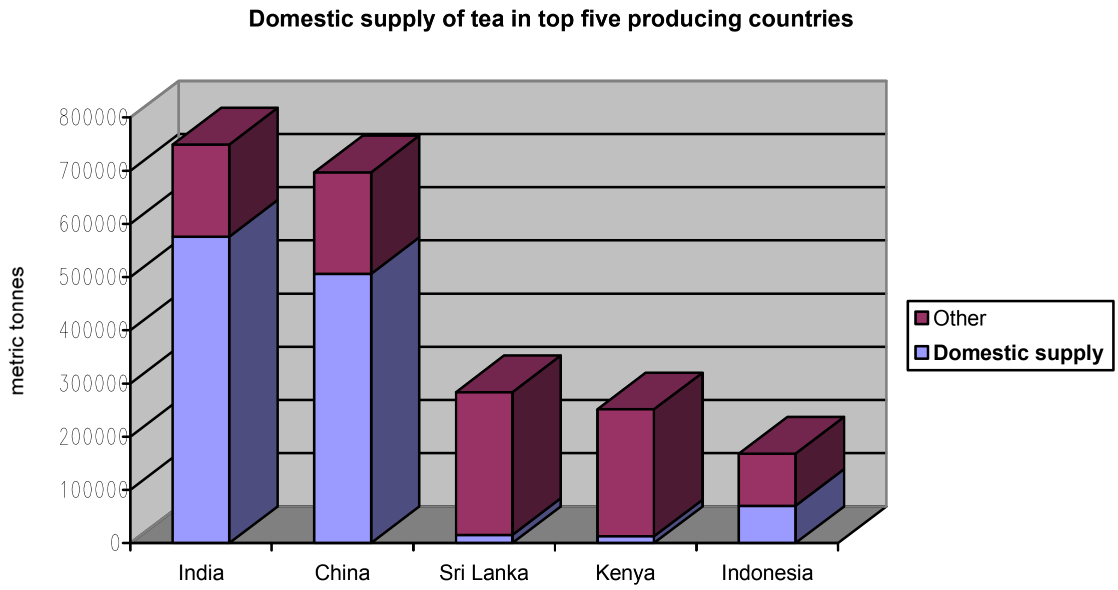
World production 1989-1999



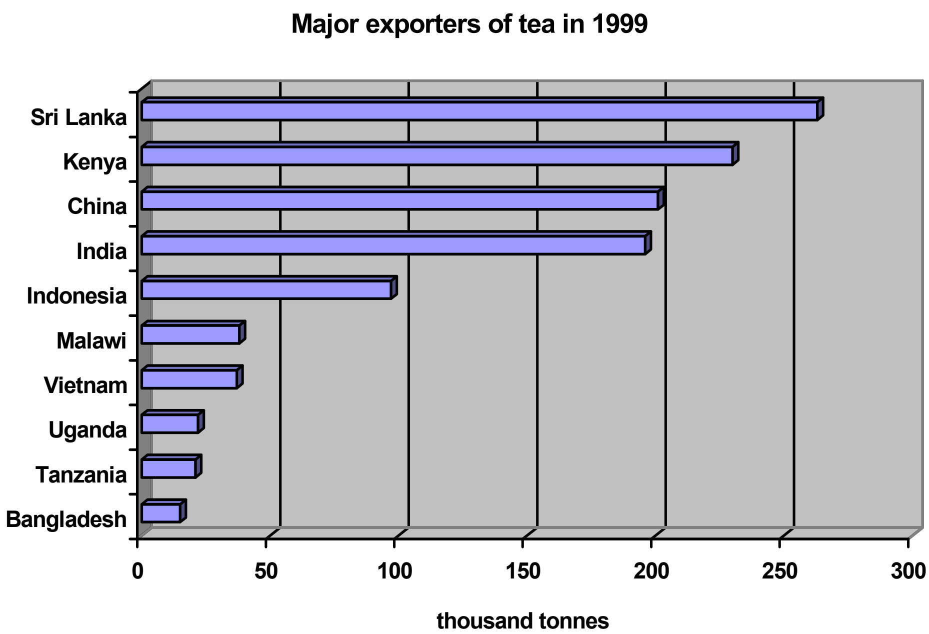
The growth in world production has been largely responsible for the damaging fall in prices, but the response from producing countries has not been towards restricting supply. On the contrary, a vicious cycle has been created whereby many countries try to compensate for lost export earnings due to lower prices by extending the area devoted to tea and expanding the volumes of their tea exports. Major tea producers such as Bangladesh, Kenya, Malawi and Tanzania expanded their tea production area by more than 130,000 hectares in the first half of the 1990s.[10] Prices have been forced down

[7] Friedheim , T. Price Analysis of the World Tea Market, Heidleberg Working Paper, 1992
[8] Friedheim , T. Price Analysis of the World Tea Market, Heidleberg Working Paper, 1992
[9] F.O. Lichts statistics, World Tea Markets Monthly, July 2001
[10] Transfair report on Fairtrade

further by strong competition from the 'new' African producers who emerged onto the tea market relatively late.



Large domestic consumption of tea in many producing countries means that the major producers and major exporters do not necessarily correspond. India, for example, consumes the equivalent of 80% of its annual production, while Turkey, the sixth largest producer, actually consumes more than it produces.



1.1.4 Consumption

The strong growth in production levels has not been matched by consumption, which has shown very modest growth over the last decade. In 1992, global tea consumption actually declined, reflecting dramatic decreases in tea consumption by the former USSR. In 1999 supply overtook demand for the first time in six years. This was the result of demand not meeting the bumper harvest year of 1998 which was the biggest harvest of the decade – Kenya alone increased her production by 32.7% (65 thousand tonnes) from the previous year.

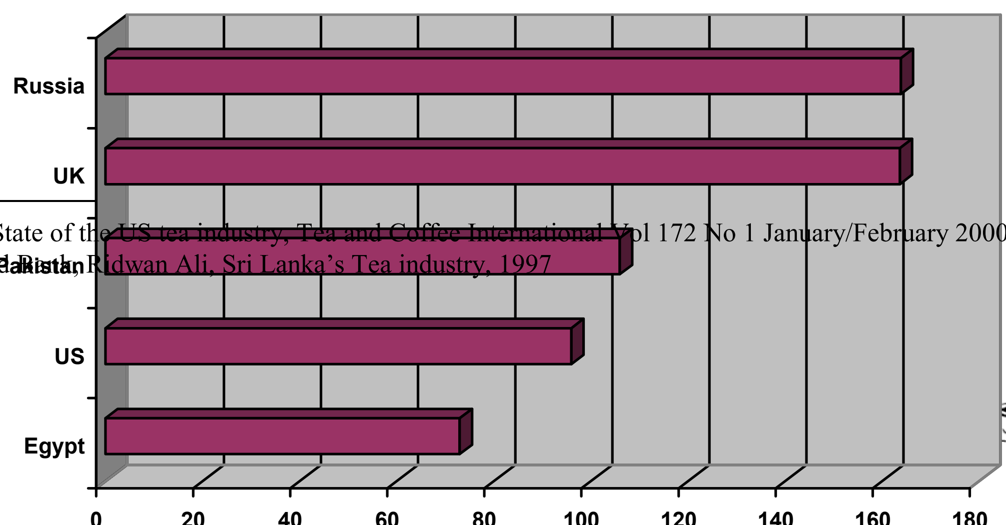
This stagnation in demand has been complicated by the disruption of normal buying patterns in the former USSR, by the war in the Middle East, and by numerous other anomalies occurring in consuming countries[11]. It can, however, loosely be attributed to the discovery of alternative beverages by consumers, especially of convenient soft drinks. This is supported by the fact that the tea markets in the UK and Canada, where tea is usually brewed hot, have been in overall decline, whereas the market in the US, where almost 80% of consumption is ready-to-drink iced tea, has been flat. In an effort to make tea more convenient to prepare, the tea industry has gone as far as to introduce a 'tea tablet', which was recently invented in Japan.

The paradox of the growth in tea in more convenient forms is that, while demand for tea products may increase, less tea leaf is required to satisfy that demand. For example, CTC tea, which is used in tea bags, yields twice the cuppage per given weight of tea. A shift in tea-drinking behaviour towards the increasing use of tea bags and soluble instant tea effectively reduces the quantity of tea needed per cup and also raises the demand for plain cheaper tea at the expense of those of high quality.

A large proportion of the world's tea (more than half) is consumed in producing countries (unlike coffee and cocoa). India is both the world's largest producer of tea and the world's thirstiest consumer. Although India produces almost 30% of the world's tea it exports less than 20% of the world's supply. Given that tea is the national drink for two thirds of the world's population and that much of the consumption is in the South where population is growing, there is some potential for increased demand for tea across the world.[12] Even in the South, however, tea is loosing ground to soft drinks. To counter this trend, the tea industry is actively trying to promote consumption in the EU and the US by emphasising the health benefits of drinking tea. The promotion of ready-to-drink tea is also being explored as it can better compete with soft drinks.

As the graph below on major importers of tea shows, the export trade must cater to very different markets. Major buyers of tea in the Middle East want a very different product from what is in demand in Europe. The United Arab Emirates buys low grow Sri Lankan tea which is not at all in demand in the UK. Germany and Japan buy First Flush Darjeeling at more than $30 per kg, while the UK would only reluctantly pay $2.50 for a top quality Kenyan. Consumer tastes differ not only with regard to quality and origin: continental Europe buys leafy orthodox teas, while the UK prefers CTC's (tea further processed by Crush, Tear and Curl) more suitable for tea bags. A tea producer, therefore, will typically produce 5 main grades and 2 or 3 secondary grades, and must find a market for each.

Top 5 importers of tea in 1999



[11] The State of the US tea industry, Tea and Coffee International Vol 172 No 1 January/February 2000
[12] World Bank, Ridwan Ali, Sri Lanka's Tea industry, 1997

1.1.5 Profitability: rising costs vs. rising productivity

While market prices for tea have been falling, the costs of production have been on the rise, putting downward pressure on profitability. The rise in costs has been partially outweighed by increases in yields and productivity, but the extent of this varies across regions and according to whether it is a smallholding or a plantation.

Governments frequently worsen the problem of high production costs in tea manufacture by levying excise tax, which is disconnected to the sale price and thus punishes factories for the production process itself[13]. Moreover, the final manufactured product is routinely under-utilised because whatever is left at the final point in the manufacturing cycle gets dubbed 'tea residue', which cannot legally be sold, impeding further use of the leaf by-product.

The world average for tea yields in 1999 were 1077.1 kg/hectare, but average yields vary enormously from country to country. At the top end, Kenya produced 2123.4 kg of tea per hectare in 1999, while Nepal has one of the lowest productivities in the world at 200 kg per hectare.

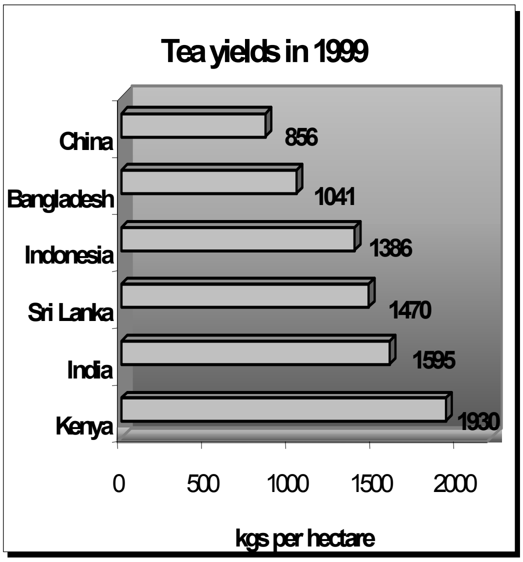
Sri Lanka has probably the world's highest cost of tea production – a kilogram of tea was estimated to cost US$1.47 to produce in 1994. This compares to $1.09 in India and $1.15 in Bangladesh.[14] Tea production is land and labour intensive – but both these factors are getting more and more expensive whilst international commodity prices slip. The problem is only compounded by soil erosion and the degradation of land fertility caused by over-intensive farming.

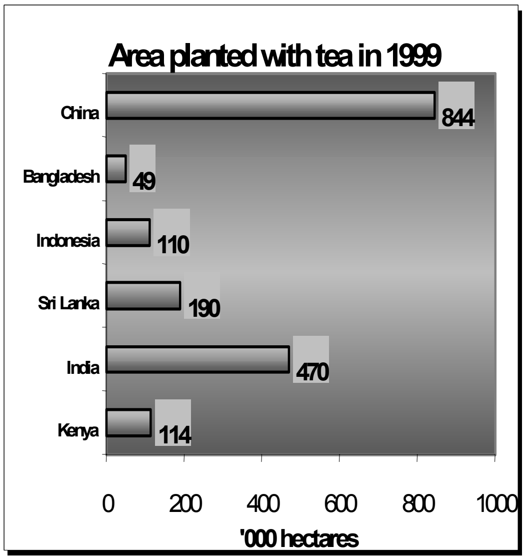
A major determinant of yield and cost of production in each country is labour productivity. Labour costs account for around half of the unit cost of production and approximately 75% of that labour cost is on plucking.[15] This explains the high cost of production in Sri Lanka, where even high-yielding plantations have excess labour, except during heavy cropping months when they are faced instead with a worker shortage. Another factor influencing yield is the quality of seedlings and the land. Again, Sri Lanka tends to retain old low-yielding seedling tea and the land is degraded. Availability of chemical inputs can also be a factor. Kenyan smallholders have access to fertilisers on credit from the Kenya Tea Development Agency, which may explain their relatively high yields.

Differences in yields, cost of production and prices have made the profitability of tea vary widely across the different countries. Among the various countries the highest profitability has been

[13] Time for tea production cost control, Tea and Coffee International Vol 175 No 7 July/August 2001
[14] ILO, Productivity Improvement and Labour relations in the Tea industry in South Asia
[15] Asian Development Bank, Phase 1 Report: Plantation Development Project

obtained by Kenya (over $2000/ha), followed by India (over $1,400/ha) with the lowest being Sri Lanka (c. $1100/ha).[16]





With rising input costs and falling prices, there is pressure to limit labour costs, which constitute around 55-60% of the total cost of production for tea. This has damaging implications for workers on tea estates, who figure as a cost to be minimised by plantation companies despite the desperate need for an improvement in their working an living conditions (see Section 2).

1.1.6 The forecast

There is a danger that prices will drop yet further due to ambitious plans for increased tea production in several countries, against a backdrop of sluggish demand.

For example, the Vietnam Tea Association in 2000 agreed on concrete measures to increase production from around 60,000 tonnes to 214,000 tonnes by 2010, with exports rising almost threefold[17]. Similarly, Nepal's policy is to boost production to more than 46,000 tonnes by the end of the decade from less than 8,000 tonnes now[18]. Kenya, already the world's biggest exporter, is set to increase its share of the world export market to 20-23% by the year 2005. It is important to note, however, that the countries focussing on expanding production are the smaller, relatively new entrants to the market. Nepal and Vietnam together accounted for only 2% of the world's export market in 1999. Price decline is preventing the major producing countries from expanding production, and they are instead concentrating on increasing productivity and quality.

It could be argued that the impact of expansion on the part of many smaller countries will not be significant given that these countries supply the lower-quality end of the market in Russia, the Middle East and other developing countries. These are also the countries where consumption is projected to grow at the fastest rate over the next five years. Oversupply in any part of the market, however, is undesirable and potentially harmful for the whole market as lower prices in the low-quality sector may drag down prices in other sectors.

[16] World Bank, Ridwan Ali, Sri Lanka's Tea industry, 1997
[17] Vietnam plans sustainable development for tea industry, Vietnam Agency News, June 30 2000
[18] Darjeeling sees threat in tea from Nepal, Financial Times, July 24 2001

To avoid further decline in prices, there must be enough growth in consumption. The FAO predicts, however, that the annual growth rate for both production and consumption will be 2.8% until 2005.[19] Given the starting point of production being greater than consumption, this will effectively mean a widening gap between supply and demand and therefore lower prices.

The prospect is brighter for green tea, which is enjoying growing popularity in the west.

1.2 The Politics of Tea

1.2.1 Developing countries' reliance on tea

Several countries are heavily dependent on tea for their export earnings, and have suffered acutely due to low and volatile prices. In 1994 Rwanda was exceptionally dependent on tea and coffee – earning more than 90% of its foreign exchange through the sale of those two commodities. Kenya in 1998 earned almost 30% of its total exports value from the sale of tea. Tea accounts for more than 20% of the value of exports from Sri Lanka.

This reliance on tea means that these countries are particularly badly hit by unfavourable price trends in the tea market. When the price for tea declines, their terms of trade suffer as they have less foreign currency to buy imports, which are generally increasing in price. The decline of tea prices between 1980 and 1993 resulted in a loss of $580m in the terms of trade of developing countries[20].

1.2.2 The intervention of politics in the tea trade

As was shown by the Boston Tea Party, tea makes a good pawn in international affairs and the politicisation of tea is further compounded by the prevalence of consumption by the South, unlike with coffee or cocoa. [1]

To take one example, the conflict between Pakistan and India over Kashmir weakens the South Asian Association for Regional Cooperation (SAARC), which would otherwise have the most potential for influencing the tea trade as it includes both Sri Lanka and India, which together market most of the world's quality value-added tea. Pakistan and India are currently in a quid pro quo arrangement whereby Pakistan will buy Indian tea if India buys Pakistan's cotton.

Domestic politics also plays an important part in tea production. The activities of the Tamil Tigers in the tea-growing regions of Sri Lanka have been described as the greatest cost to the Sri Lankan tea industry, while in India over 450 armed separatist extremist organisations disrupt the operating environment.

The organisation with jurisdiction over tea as an export commodity is the World Trade Organisation, which would ultimately have authority in mediating any dispute. For example, the WTO has been pressuring the EU to abolish tea tariff 'preference' to Kenya, which bestows a major price advantage to that nation.[21] The WTO, however, has traditionally kept out of regulating commodities markets, including tea, except in tariff issues. The Tea Working Group of the Food and Agriculture Organisation (FAO) of the UN, therefore, is more relevant as the international body for the tea industry. On a regional level, organisations gaining in prestige and legal clout include SAARC in South Asia and the Common Market for East and South Africa (COMESA) in Africa.

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[19] Medium-term outlook for black tea, Intergovernmental Group on Tea, Committee on Commodity Problems, FAO, September 1999

[20] Maizels, Bacon, Mavrotas, Commodity supply management by producing countries – a case study of tropical beverage crops, 1997

[21] Regional trends reshaping world tea markets, Tea and Coffee International, Vol 175 No7, July/August 2001

A difficult issue that needs to be addressed in the international tea trade is re-exports, and this is further discussed in the box below.

Re-export (and even re-re-export), usually as blended tea, is growing within individual tea regions and is most problematic in the case of illegal mass shipments of smuggled tea – such as large tonnage boatloads from China into India, or between India and Sri Lanka – which are reportedly on the rise.

The re-export issue is trickiest today between Sri Lanka and India. Already a very much export-oriented country, Sri Lanka is seeking to increase export earnings through increasing the volume of its tea exports. It does this by blending its tea with Indian tea, then re-exporting to major world markets, including back into India. Sri Lanka's export drive is partly due to the government's need for foreign currency to fund the civil war.

India, meanwhile, is resisting re-exports of Nepalese tea through the Calcutta auction centre. Tea from the Nepalese district of Ilan is increasingly recognised as comparable to Darjeeling tea and Nepalese growers view Calcutta as a good channel through which to sell their tea alongside the world-famous "champagne of teas", sometimes actually labelling their tea as Darjeeling. The threat perceived by Darjeeling planters has prevented Calcutta from acting as such a channel.

1.2.3 Tariffs

	Rate of duty (%) Pre-Uruguay	**Rate of duty (%) Post-Uruguay**
Brazil	15	11.4
Egypt	45	35
India	10	7.60
Indonesia	100	40
Kenya	50	38
Pakistan	45	34.2
UK	0	0
US	0	0

Source: FAO 1995[22]

Many developed countries impose no, or only slight, restrictions on bulk and packaged black tea imports[23]. Because of this, the effect of trade liberalisation on their consumption would be negligible.

The high proportion of tea consumption by developing countries, however, makes tariffs still an important issue in the trade. For example, Egypt is a significant buyer of Kenyan tea and the tariff stand-off between Kenya and Egypt regarding concessionary tariffs for COMESA goods threatened to greatly set back performance at the Mombasa tea auction[24].

An important issue in tariffs is the difference in rates applied to packaged tea and bulk tea. Exports of packaged tea allow the producing countries to add more value to their product, but packaged tea is often subject to higher tariffs than bulk tea, which makes such exports difficult. Russia, the largest

[22] Figures for post Uruguay tariffs were not confirmed but anticipated in 1995
[23] Medium-term outlook for black tea, Intergovernmental Group on Tea, Committee on Commodity Problems, FAO, September 1999
[24] Kenyan tea production to boom, Agriculture Magazine, www.readafrica.com, Sept/Oct 2000

importer of tea in the world, attaches a 20% rate on tea in packages of less than 3kg, while the rate for bulk tea is 5%. Similarly, Pakistan, the third largest importer, puts a 35% ad valorem duty on packaged of less than 3kg, but only 25% on others. Other importing countries charging differentiated rates include Belarus, Kaakhstan, Ukraine, Saudi Arabia, Jordan, Ethiopia and Morocco. North America and the EU do not charge tariffs on either bulk or packaged black tea, but most EU countries do charge 3.1% on green on packaged green tea, which discourages green tea producers from adding more value to their tea. Spain and Portugal also charge around 12% on soluble tea from outside the EC (6% for soluble tea from inside the EC), against discouraging imports of value-added tea from developing nations.

1.3 Policy Responses

1.3.1 Supply Management

Given that the decline in prices is primarily due to oversupply, there needs to be some arrangement whereby the producing countries agree to limit their tea production to a more sustainable and profitable level. The fierce competition between the producing countries to each increase production and export earnings has meant, however, that there is currently no supply management agreement in place.

The decline of tea prices in the 1950s and 1960s motivated many countries to reconsider the need for international co-operation to support prices, protect their tea markets and guard an important provider of foreign exchange earnings[25]. A meeting of producing countries in 1969 reached an agreement to impose voluntary export quotas. This was successful in raising prices for a couple of years but collapsed as a result of opposition mainly from the African countries who resented efforts to curb their rapidly increasing production. The continuing opposition from Kenya and several other expansion-minded countries prevented the adoption of measures considered by an FAO Working Party in 1974, including a minimum export price arrangement, and the coordination and regulation of marketing to avoid stock accumulating in importing countries and depressing prices. A proposal made by Sri Lanka and supported by India allowed countries such as Kenya to take up the greater part of the growth in world import demand within a global export quota system, but the East African tea-producing countries still believed it would restrict the rate of planned development of the smallholder tea industry.

Possible supply management programmes include:

- Stock reduction – Although there is some correlation between stock levels and prices, the perishability of tea means that stocks are normally small in relation to consumption, so that this scheme will only have a small impact on raising prices.
- Reduced production – Because tea is domestically a popular beverage in many producing countries, most notably India, opposition from such countries is likely to make such a scheme very difficult. High domestic demand in those countries will mean that a lower share of production is exported, thereby reducing their share in the export market, which they will find unacceptable.
- Minimum quality standards – Removing substandard tea from the export market would address the problem of oversupply, while demand could also be stimulated by increasing customer satisfaction with tea. A number of producing countries – including India, Sri Lanka and Kenya – already have minimum standards below which teas are destroyed, but countries such as Argentina, China and Malawi rely on exports of low-priced tea unfettered by quality controls. The latter group would not be willing to impose minimum export standards.

[25] Maizels, Bacon, Mavrotas, Commodity supply management by producing countries – a case study of tropical beverage crops, 1997

- Export quotas – As the experience after the agreement of 1969 showed, opposition from expansion-oriented countries makes this scheme difficult. However, it is worth reconsidering a global export quota based on the 'principle of differential growth' of the kind advocated by Sri Lanka and India in the 70s.
- A uniform ad valorem export tax – With this tax, the domestic producer and consumer prices in participating countries would be reduced relative to the world price, which would reduce production and increase domestic consumption, thereby leading to a run-down in producer stocks and a fall in export volume. A major problem with this scheme, however, is the large domestic tea market of countries such as India. If this tax is too high, there would be an incentive for traders to divert tea to the domestic market, so that export earnings actually fall for India even if world tea prices rise as a result of the tax, making the scheme unacceptable for India. Clearly, the 'optimal tariff rate' would be different be different for different countries according to how big the domestic market is. With a non-uniform export tax, however, there would arise problems of exporters smuggling tea from a high-tax country to a low-tax country. The smuggling could happen both from an exporting country to an importing country, which would evade the tax completely, or from a high-tax producing country to a low-tax producing country. There would therefore need to be strict customs controls with a differentiated ad valorem export tax scheme. A further problem with differentiated rates would be agreeing on which countries should be allowed to have a comparative advantage over others by imposing lower tax.

1.3.2 Boost Consumption

Another way to solve the problem of oversupply is to stimulate the demand for tea. This is the policy currently being pursued by producing countries both individually and in international partnerships. The Tea Boards of the producing countries focus on promoting their particular countries' tea, respectively, and fund bodies in major consumption countries such as the Tea Council in the UK to promote the general consumption of tea.

By far the major tool used to promote consumption of tea is the health benefits associated with the antioxidants in tea. The Food and Agriculture Organisation (FAO) of the UN conducted a "Tea Consumption and Human Health" project through its Intergovernmental Group on Tea of the Committee on Commodity Problems. The project researched and publicised the health benefits, and positive results were seen in the four markets (Indonesia, Spain, Zimbabwe and the Czech Republic) where the communications package was tested, especially in Zimbabwe and the Czech Republic: Zimbabwe showed a 52% recall of the tea and health message and a 12% weekly consumption increase in the target group, while in the Czech Republic a 28% point gain in perception of tea as a healthy lifestyle drink had been realised[26]. The potential boost to the tea market from this programme had prompted the offer of financial support from the packers in both of these markets on an equally shared bases (the Czech Republic $500,000 of the total media cost of $1,000,000 and Zimbabwe contributing $50,000 of the US$100,000). This opportunity to pass on the cost of stabilising the tea market to tea companies makes this policy response attractive, but it remains to be seen whether the tea consumption will rise enough under this scheme to significantly raise prices.

An extension to the "Tea Consumption and Human Health" project is the development of a Tea Mark to be used on products with at least 90% black tea. The mark has already been registered in over 30 countries and is designed to enhance demand for tea in conjunction with a comprehensive communication package of the benefits of drinking tea. It will be clear after the intergovernmental session in Delhi in October 2001 which countries will be officially launching the mark. FAO is responsible for its licensing, monitoring and surveillance.

[26] Report of the thirteenth session of the Intergovernmental Group on Tea, Committee on Commodity Problems, FAO, September 1999

1.3.3 Risk Management

Tea prices are volatile and fluctuate from month to month and also from year to year with occasional spikes. There is no specific pattern to the movements, suggesting that incomes have been affected by unpredictable price "booms and bust" cycles. Also, the prices in different auction centres do not always move together, but differ in terms of level, volatility and direction, suggesting that region-specific factors such as economic events and weather conditions affected the movement of tea prices, and that these markets are not fully integrated.

Given the instability created in the exporting countries by the random fluctuations in their purchasing power, there has been some discussion of whether risk management tools used in other markets such as futures and options should be applied to the tea market.

At the moment, most of the world's tea is traded in either auction or forward markets, unlike with coffee and cocoa which make greater use of futures and options markets. Auction markets do not provide for any hedging or risk management as prices are set only for goods that will be delivered immediately. Tea sold through forward contracts is gaining in popularity because of its advantage in shielding both the buyer and the producer from price volatility by locking on prices they wish to trade in the future. Forward contracts are limited, however, in that each forward contract is an agreement customised to meet the specific needs of the parties involved and producers without a trading reputation, most notably smallholders, find it difficult to find a buyer to negotiate with. Furthermore, prices in this market tend to be less transparent compared to auction prices.

It is because of these problems of the current trading system for tea that alternative methods are being sought. Futures and options contracts are similar to forward contracts, but are standardised and traded in transparent exchanges, thereby avoiding the problem of inaccessibility by small buyers and producers. They have some potential to allow for more dependable and transparent prices in the tea market, but there are major problems with the proposal:

- Unlike with tea and coffee, there is no single indicator price for tea, but widely differing prices are applied to each grade of tea from each factory. This would make a common exchange market difficult to establish.
- A futures market in tea could exacerbate, rather than stabilise, price volatility if there is excessive speculation unrelated to actual production, as in coffee and cocoa markets.
- Given the complexities of determining a price for each grade of tea from each estate, it is particularly probable that there would be much unwise speculation in any futures market, furthering the risk of greater price volatility.

Section 2: Capturing Value along the Supply Chain

The tea supply chain begins in a smallholder farm or a plantation, where the tea leaves are grown and plucked. The leaves are then either transported to a bought-leaf factory, in the case of smallholders, or processed in the factory on-site, in the case of large plantations. The processing is done in the producing country because tea must be processed within hours of its being picked to maintain quality. The tea is then usually taken to the local auction centre, where its price is determined on a day-to-day basis. Only about 16% of tea is sold outside the auction centres through direct contracts[27]. For the domestic market, the tea would next be blended and packed, while for exports, the supply chain would include an exporter before blending and packing. Tea will generally reach the supermarket shelf within 20 to 30 weeks of leaving the bush.[28]

The different types of tea

The different types of tea can be classified into Green, Black or Oolong tea depending on the way that the same basic tea leaf (camellia sinensis) is manufactured. Black tea is the tea that predominates in the West and is produced by the process given above. The manufacture of green tea differs from black in that the withered leaf is steamed and rolled before drying or firing, so avoiding the fermentation stage. Oolong tea is semi-fermented.

The vast majority of the tea trade is in black tea, and this can further be divided into two types. Orthodox tea is made by rolling the withered leaf under light pressure to create a twisted, wiry appearance in the final product. This is the traditional method for making tea and specialty teas such as Darjeeling are made in this way. For CTC tea, the withered leaf undergoes the "crush, tear, curl" process, whereby it is shredded and then crushed between sets of grooved rollers to produce a small granular final product. This method revolutionised tea manufacture when it was introduced as it yielded double the cuppage per weight and it is ideally suited to tea bags.

Tea is a very labour-intensive product and labour costs represent 55-60% of the total cost of production, and yet the proportion of the labourer's wage in the consumer price of tea is shockingly low. Unilever's PG Tips is the most popular tea bag brand in the UK[29] and costs £1.48 ($2.12) for 250 grams in Sainsbury's supermarket. Considering that plantation workers are paid $50.76 per month in Kenya, a major exporter of tea and one of Unilever's key suppliers, this means that less than 3% of the consumer price reflects the work of the labourer[30]. Around 15% of the retail price goes to the plantation and factory[31], while around 0.3% goes to the auction broker[32]. This means that around 80% of the value is added further on the supply chain and accrues to the exporter, trader and/or manufacturer. One report estimates that between 30% to 50% of the retail price of the tea goes into blending, packaging and promotion[33].

2.1 Production: Smallholders vs. Plantations

In many countries, tea is mainly produced by small producers, despite being most often thought of as a plantation product. The current trend in regions including Assam and Uganda is for growth in the number of smallholders. In many ways the cultivation of tea is very attractive to smallholders: tea

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[27] Dealing with price risks, Intergovernmental Group on Tea, Committee on Commodity Problems, FAO, September 1999
[28] Plantation to Cup, www.tea.co.uk
[29] Hot Beverages Handbook 2000, Premier Brands
[30] Assuming 26 days' work per month plucking 32.5kg of tea leaves, which is the equivalent of 8.125kg of processed tea
[31] Calculated from the difference between auction price and wage per given weight of tea
[32] See section on auction houses
[33] Transfair report on fair trade

provides work and income throughout the year, requires little investment, and the risk of disastrous crop failure is fairly low.
Smallholders' and plantations' respective shares of tea production vary between the different producing countries[34]. In Kenya, the smallholder sub-sector produces 62% of all the country's made tea[35]. More than half of the tea crop in Sri Lanka is produced by small farmers, while in Nilgiri, the biggest tea area of South India, small-scale production predominates[36]. Nevertheless, plantations still produce a large proportion of the world's tea.

2.1.1 Smallholders

2.1.1.1 The marketing of smallholder tea

Small farmers sell their crop to middlemen, to plantations or to 'bought leaf' factories – factories that buy up the raw tea, process it and then sell it. In most cases it is the factory that collects the leaf directly from the smallholder, with whom there is usually a contract, and middlemen are less of an issue with tea than with coffee.

Prices paid by factories to smallholders are set nationally or regionally by government and reviewed regularly. Prices for smallholder tea tend to be lower than prices for plantation tea because of the generally lower quality. Compared to large plantations that are often run by multinationals with access to the latest technical information, smallholders lack the knowledge of how to pick and store the leaves properly, and how best to treat the bushes and the land. This situation is exacerbated because they often they do not have the capital to be able to afford the necessary technical inputs like fertilisers and irrigation. There is, however, some scope for small farmers to shop around for the best deal in different factories, which need the farmers as much as the farmers need the factories. There is evidence of such shopping around in Uganda.

2.1.1.2 Processing problems for smallholders

The problem with tea is that it is a very perishable commodity both before and after processing. Producing high quality tea relies on smooth transport and other infrastructure networks to get the tea quickly to and from the processing factories. The green tea leaf cannot be stored for longer than six hours without damaging its quality, and it is recommended that there is a maximum of three hours interval between plucking and processing for good quality tea. Likewise processed tea has a shelf life of only a year before experiencing a serious drop in quality. The longer the tea is kept the higher transaction costs are as the tea may need repeated quality assessment and grading.

The fact that smallholders grow their tea in geographically dispersed areas makes it difficult for the marketing system to move the tea efficiently and quickly. The small producers sometimes have very little choice in whom to sell their tea to, and in such cases they are forced to sell to whichever buyer can process it relatively quickly.

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[34] There are differing definitions of a smallholder, but one feasible definition is that employed by the Sri Lankan tea board, which considers under 35 hectares a smallholding. At 35 hectares there is enough tea to have a factory and dozens of workers. A smallholder does not mean, therefore, that no outside labour is employed on the farm. Even with as little as 2 hectares a family would need to employ some labourers, but poor farmers often cannot afford to pay for additional labour and their families, including children, also work on the farm. It is only the very smallest plots that are run entirely by family labour. Smallholder farms are also not necessarily run by the owner. A problem common in Kenya is that of 'absentee smallholders', who work in the city and pay workers to look after their tea. In Nairobi, a whole cross-section of people from taxi drivers to businessmen are also tea farmers.
[35] The Tea Industry in Kenya, David Aduda, www.natcomreport.com/kenya/livre/tea.html
[36] Tea: difficult time for producers, Keith Stamp

Founding and running a factory requires a huge amount of initial capital so it is rare to find a small tea cooperative with a factory of its own. However in both Africa and Asia there are cases of small farmers who have managed to surmount the technical and scale difficulties. They can then produce tea of a quality and volume equivalent to the big plantations if they have the appropriate organisational structures in place. A well-known example of this is the small farmers' organisation 'Kenya Tea Development Agency', the privatised form of the former Kenya Tea Development Authority and the largest single producer and exporter of black tea in the world. On a smaller scale, many Ugandan farmers own their own factory.

The Kenya Tea Development Authority: a success story for smallholders?
The Agency attempts to address many of the infrastructure problems afflicting the small producer sector. As well as purchasing the green leaf from farmers and processing it at its 45 factories, it supervises tea cultivation by growers so that small farmers have the same access to profitable farming methods as the large plantations owned by multinationals. Its Fertiliser Credit Scheme has ensured that all tea farmers are able to apply recommended quantities of the specified fertilizer. As the Agency oversees the production of 62% of the national tea output, this has contributed to Kenya's world-highest yield in tea production.

The KTDA has also come under criticism, however, for undercutting the value of small farmers' tea. Essentially, green tea leaf has no market value before it is processed and marketed as made tea. Thus small farmers in Kenya rely on the KTDA to add maximum value to their tea, but the management of KTDA factories has been accused of inefficiency and political manipulation, and of not giving the farmer a just return. Indeed, the managing director of the former KTD Authority was quoted in the press as stating that despite the success of the tea sector in Kenya, smallholder tea farmers are still some of the poorest people in the Mount Kenya region.[37]

2.1.1.3 Bearing the brunt of higher costs

Increasing costs are particularly hard on smallholders. On one hand, they pay more for inputs such as fertiliser as they do not buy in bulk, and on the other hand they have poor access to infrastructure and market information necessary to increase productivity, with the result that they have much lower yields than plantations.

In Kenya, for example, the average yield per hectare for smallholder farms is currently around 60% or less of those of plantations[38]. This is unfortunate as yields are more important for small holders than workers in plantations, who are paid by the kilogram plucked and find higher yields advantageous to them only if there is a profit-sharing scheme in place, which usually distributes only a very small sum. For farmers with a small amount of land, yield can make the difference between a satisfactory income and poverty. They therefore need training and advice, but this demand is only inadequately met by tea boards who consider them too small to worry about.

2.1.2 Plantations

Plantations generally focus solely on the production of tea, to benefit from the economies of scale which this offers. A large tea estate can be hundreds of hectares in size and is often completely self-contained, with its own factory, schools, hospital, housing and place of worship.

Plantations are not only large in themselves, but are often part of a chain of plantations owned by large companies. John Keells Holdings Ltd., Sri Lanka's largest conglomerate, owns 20 estates producing 10 million kg of tea per annum, while the Indian company Tata Tea Ltd. has the majority

[37] Prevailing situation: challenges and opportunities, Institute of Economic Affairs
[38] Liberalisation of the Smallholder Tea Sub-sector, IPAR

stake in Watawala Plantation Ltd. which has 20 estates south of Colombo. In India, Tata Tea has a total of 54 estates. The global food giant Unilever also owns tea gardens in India and eastern Africa.

The International Labour Organisation estimates that tea employs around 1.5 million workers in India, Bangladesh and Sri Lanka alone.[39] Some reports estimate that the proportion of child labourers in this could be between 5 & 10% - mainly concentrated in the smallholder farms.[40]

Conditions for workers on the plantations differ widely between and within countries. However, it is undeniable that the profit-driven multinationals that own plantations have an incentive to counterbalance the decline in world prices by restricting their labour costs, which constitute some 55-60% of the total cost of tea production.

2.1.2.1 Working and living conditions in tea plantations

The tea industry is distinct from coffee or cocoa in that a large proportion of production is done in plantations, where workers live isolated from the outside world, making it all the more important that conditions are fair in the plantations.

However, there is overwhelming evidence that the most basic needs of the workers are not being met. This is partly due to a number of underlying problems afflicting the tea industry, such as the historic background of using imported labour, the inherent isolation of plantations and the counter-productive competition between trade unions. Other factors, such as low wages, sex discrimination, poor working conditions and inadequate provisions, can be more directly attributed to plantation owners.

History of imported labour

Historically, the opening up of tea and other plantations worldwide has been built on migrant unskilled labour. The immigrant labour, once committed to working in the gardens, had practically no hope of return to their native place and descendants from this group form a large part of tea plantation labour today.

Generations on, tea plantation workers are still discriminated against because of this historical context[41]. On an unofficial level, the perceived cultural inferiority of the workers persists and workers are treated as inferior by management, resulting in verbal and physical abuse as well as an attitude that the living conditions provided them are reflective of their status in life. In Sri Lanka, the vast majority of tea estate workers are ‘tea Tamils’ who are isolated even within their own community as the indigenous Sri Lanka Tamils consider them to be ‘second class citizens’. The tea Tamils are also identifiable and speak a different language to the majority population. In Assam, the tribal people who were brought in from Biha, Orrissa and Andara Pradesh still look, dress and speak differently to the indigenous population[42].

Discrimination of estate tea workers also happens on an official level. One of the legacies of colonialism was separate laws governing estates which provide exemptions from other constitutional and labour rights protection. These laws are still in place and have provided opportunities for exploitation of estate workers. As recently as last year, estate workers were excluded from the Rs.400 per month salary increase granted by the government to the rest of the private sector in Sri Lanka[43]. In

[39] ILO, Productivity Improvement and Labour relations in the Tea industry in South Asia
[40] Child Workers in Nepal, CWIN
[41] Are Codes of Conduct effective tools for improving conditions in the tea plantation sector?, Workshop organised by Oxfam GB December 3 1999
[42] Brewed in the sweat of forced labour, National Campaign for Labour Rights
[43] The Island, September 18 2000

India, the Plantation Labour Act of 1951 exists to protect the rights of estate workers but is very poorly enforced – not one single garden in Assam or West Bengal has fully implemented all the provisions of the Act[44]. This legal discrimination against plantation labour is compounded by the legal discrimination against the ethnic origins of many of the labourers. In particular, some 300,000 Hill-country Tamils in Sri Lanka are without citizenship, placing considerable constraints on their freedom of movement as well as their ability to participate in political life[45]. The resulting low representation of Hill country Tamils in Parliament makes it difficult for their problems to be highlighted and remedied. There is also a violation of language rights given that Tamil is still discriminated against although it has been made an official language.

Another important aspect of using imported labour in tea plantations was the establishment of a system of employment that incorporated whole family units. Because migrant labourers came with their families who had to be accommodated in the plantations, the residence of the family in plantations created a pattern of dependency whereby every aspect of the worker's life was contained in the plantation. Family migration also ensured that labour could be reproduced resulting in a continuous supply of labour at depressed wages and easing the problem of further recruitment. There was little or no circular migration and families rapidly settled in the gardens. This has laid the foundation for the isolation of workers and their families on the plantation, which is explored in the next section.

Isolation and dependence on the plantation

The geographical isolation of plantations, combined with high transport costs and the fact that every aspect of a worker's life revolves around the plantation, leaves workers heavily dependent on the estate to provide adequately for their needs, a demand rarely met by the management. They rely on the plantations for everything, from housing to health, to education, to leisure facilities, to shops etc. When coupled with lack of education and of skills necessary to find jobs in other sectors, this leads to a 'blind faith' in the management and a great reluctance to challenge the status quo[46]. This very dependence means, however, that the workers cannot easily find a living outside the plantation, so that they and their children often feel they have no choice but to stay at the plantations.

Ineffective trade unions

Although there tends to be a high rate of unionisation – 70% in the plantation sector in Sri Lanka – unions also tend to be highly politicised around different parties, which can affect the nature of negotiations of collective agreements. In both India and Sri Lanka, unions are weak, fragmented and inactive. They are also alleged to be 'puppets of management', severely restricting their ability to represent the interests of the workers[47].

In Assam, the only union recognised by the tea employers is the Assam Cha Mazdoor Sangh (ACMS), so that on policy matters, wage and other agreements, only one union, the ACMS, represents nearly 850,000 workers. The freedom of movement for activists of other trade unions is severely restricted, and there are certain gardens where they cannot enter even during the daytime.

Trade union representation of Assam plantation workers
In Assam, the method of collective bargaining has always been bipartite in nature. All the negotiations and agreements are conducted between ACMS and the employers' group (representing

[44] Brewed in the sweat of forced labour, National Campaign for Labour Rights
[45] Are Codes of Conduct effective tools for improving conditions in the tea plantation sector?, Workshop organised by Oxfam GB December 3 1999
[46] Oxfam Tea Project, October 2000
[47] Oxfam Tea Project, October 2000

ABITA, Tea Association of India, Assam Tea Planters' Association, Bharatiya Cha Parishad and North Eastern Tea Association), without the intervention of the state government. Recently, however, the state government refused to accept a bipartite agreement, pointing out that it was violative of the provisions of a Supreme Court ruling[48].

ACMS being the only union recognised by tea employers, a large section of the workers, though disenchanted with the union, are afraid to voice their grievances because of the alleged patronage of the tea management. The workers are also forced to pay a subscription fee of Rs.36 annually which is deducted by the garden management without the consent of the workers.

There is great discontent among other trade unions operating in Assam, who have a sizeable following despite not being recognised. There have been reports of frequent clashes between activists for other trade unions and the ACMS, resulting in several deaths.

Wages

Wages in the tea plantation sector are abysmally low, even by the plantation sector's standards. In India, official government figures[49] for average daily earnings indicate that a tea estate worker earns Rs.28.08 ($0.60) a day, while a rubber estate worker earns Rs.40.24 ($0.85) and a cotton estate worker earns Rs.77.77 ($1.65).

Wages comprise of a basic daily wage for a given target weight of leaves plucked, plus extra for any amount of leaves plucked above the target weight. If the target weight is not met, the worker may be given only half or even none of the basic daily wage.

XXX, a tea plucker on the estate owned by Watawala Plantations, revealed that her net wage for one month was 1164 rupees ($12.90) for the 17.5 days worked, after deductions were made for the Employer Provident Fund, food, stamp duty, union subscriptions, tea, dhoby (laundry) and a cash advance[50]. Her income had to support 6 individuals.

On the estate, pluckers are paid on a daily rate. They are set a target weight (12 kg during the flush season and 7-8 kg in the dry season), and if they do not meet the target, they may only get half the daily wage. If they exceed the set weight, they are paid more. Workers are also not guaranteed work everyday: during the flush season, most workers have 30 days' work, but this decreases to about 21 days as the leaf decreases.

Pluckers would like to have a share in the profits, but only 220 rupees were distributed to each plucker for the year. The security guards, nurses and administrative staff got more – 250 rupees.

An important aspect of wages on plantations is that they are accompanied by some, though inadequate, provision of housing, healthcare, food rations, etc. The Assam Branch of the India Tea Association (ABITA) states that the daily wage for a plucker is actually Rs 56.13 ($1.19) when allowances are taken into account. It can be argued that the value of allowances paid in kind, such as subsidised food grains, dry tea and firewood, may constitute part of the wage, but ABITA also controversially accounts for annual leave, national holidays and sickness and maternity benefits[51].

[48] Brewed in the sweat of forced labour, National Campaign for Labour Rights
[49] Average daily earnings in (Rs .00) in various rounds of occupational wage surveys, Labour Bureau, Government of India
[50] Interview by XXX for Oxfam, December 4 1999
[51] Brewed in the sweat of forced labour, National Campaign for Labour Rights, 1999

Wages are determined through negotiations between the major trade unions and employers' groups. For the specifics of the wage deals given below, see Annex 1.

Kenya	Kshs3931.2 ($50.76) per month		
Sri Lanka	Rs.121 ($1.34) per day		
India	per day		
	Region	**Wage in Rs**	**Wage in $**
	Assam	31.60	0.67
	West Bengal	32.30	0.69
	Kerala	61	1.29
	Karnataka	52	1.10
	Himachal Pradesh	51	1.08
	Tamil Nadu	56	1.19
Malawi	K25 ($0.44) per day for 48 hour, six day working week		

Job insecurity and the casualisation of labour

There is already a distinct lack of job security in tea plantations as even permanent workers' wages are paid on a daily rate just for the days worked, so that workers cannot be sure of a steady income. Job insecurity is also due to variance in work according to the season. In Sri Lanka, unions had previously negotiated for a guaranteed 300 days of work, but this was reneged upon after privatisation[52].

This problem is compounded by the trend towards a reduction in permanent employment and an increase in casual labour, who are employed on a seasonal basis on many estates to cope with peaks of production. Although casual workers receive the same wage, they are not entitled to any benefit enjoyed by the permanent workers. Not only do they have no job security, the temporary workers are not entitled to subsidised foodgrains, medical facilities, housing facilities, firewood, dry tea, protective clothing, etc. The women workers are not entitled to maternity benefits and the children cannot study in garden schools.

Casual workers are also excluded from the legislative rights of permanent workers, such as the provisions of the Plantation Labour Act in India. Under Sri Lankan law, there is no category of 'casual workers'. As such, they have no rights and are unable to claim benefits or have access to the Employers' Provident Fund.

Sex discrimination

Discrimination against women is entrenched in tea plantations, both in the official organisation of their work and in the widespread sexual harassment by management and supervisors.

Women constitute the majority of employees on the plantations and do most of the fieldwork, with men hired who do nothing but stand around and watch the women under the title of supervisors[53]. These supervisors are in turn watched over by other men, who hold the lowest rung of non-professional management and are invariably male, strictly limiting women's opportunities for promotion. Among male and female pluckers, wages are the same, but women have to work longer hours. While men can go home at lunchtime in the off season or when they have picked their quota, women are given additional tasks such as weeding and have to work the full day. Women workers are also discriminated against in the disbursement of subsidised food grains and medical facilities;

[52] Are Codes of Conduct effective tools for improving conditions in the tea plantation sector?, Workshop organised by Oxfam GB December 3 1999
[53] The social dimensions of tea privatisation, Tea and Coffee Trade Journal, June 2001

women do not get facilities for husbands, though they may be unemployed, while men get facilities for wives, and single women do not get facilities for their parents.

Sexual harassment by management and supervisors is common. There have also been incidences of coercive family planning by management as well as the Plantation Housing and Social Welfare Trust.

In many tea plantations, women workers have no separate toilet or bathroom facility. Educational opportunities for women and girls are also limited as secondary schools tend to be in the bigger towns and only boys are sent.

The working environment

Tea plucking is a notoriously tough job, and can be physically debilitating. There are a number of factors that make it so, and all of them could be better addressed by plantation management:

- Back pain – The heavy baskets carried by workers concentrate the weight on their head and neck, leading to severe back pain for many. A study in Kenya in 1997[54] reported that as many as 64% of tea pickers suffered from back pain during their employment as tea pickers, and only 29% of these had a history of back pain before starting tea picking. This means that about 35% have developed back pain solely due to occupational exposure to the musculoskeletal hazards of tea picking. Another study[55] in Kenya established a direct correlation between the severity of back pain and the duration of work as a tea picker:

Type	Mean duration of work (years)
Acute back pain	9.25
Intermittent back pain	12.19
Chronic back pain	16.12

Workers' back pain can be reduced by the use of baskets that evenly distribute the weight The plucker, which have already been developed by the Tea Research Institute in Sri Sri Lanka.

- Exposure to toxic materials – The spraying of pesticides is often done by untrained casual daily wage workers, mostly children and adolescents, who are illiterate and cannot read the warnings on the containers. Most of the chemicals they are using (e.g. Aldrin 20E, Carbofuran 30, Endosulfan 35 EC, Malathion 50 EC, Tetradifon 8 EC, Calixin 80 EC) are listed as hazardous and toxic and some of them are banned[56]. There is supposed to be an 8-10 day gap between spraying and plucking, but this is not adhered to by tea estate managers, putting the pluckers in grave danger.

- Lack of protective gear – Despite the dangerous exposure to toxic materials, workers are often not provided with protective and safety gears such as masks, gloves, goggles, rubber boots, polythene aprons, further increasing the danger they are under[57].

Inadequate provisions

[54] A.O. Muruka. The role of height in musculoskeletal health – A case study of tea pickers of Kericho and Kisii in Kenya. From experience to innovation – IEA 1997
[55] A.O. Muruka. Age, height and duration of service in relation to back pain among tea pickers in Kenya.
[56] Brewed in the sweat of forced labour, National Campaign for Labour Rights
[57] Are Codes of Conduct effective tools for improving conditions in the tea plantation sector?, Workshop organised by Oxfam GB December 3 1999

Because workers depend on the plantations for all their needs, it is imperative that plantations cater adequately to those needs. However, plantation management are failing their workers in providing for the most basic needs.

- Housing – The problem with housing is twofold: there is not enough housing for all the families, and the existing housing is grossly inadequate for the residents' needs. In both Assam and West Bengal, the managements have stopped constructing pucca houses (company houses, characterised by mud walls, bamboo support, tin roof and mud floor). In Assam the shortfall in housing is more than one-third of the required houses, so that workers are forced to live in slum-like situations in the vicinity of the tea plantations, and in West Bengal workers themselves had to construct kutcha houses (houses built by workers with some of the material provided by the company) without adequate facilities. Moreover, this shortfall in housing has the added ill-effect of increasing the insecurity of the workers, who either fear losing their homes or fear the granting of a home being delayed further. Housing visited by Oxfam in South Asia[58] was generally poor and crowded. In Sri Lanka, houses of only 12ft by 12ft are used for families of 5 or more. There is no separate cooking area or toilets and no room for beds. With no repairs being made to leaking roofs, dampness is a problem which leads to ill health. Individual families do not have their own toilets, and communal toilets are often not available or not maintained.

The unmet legislation on housing
In West Bengal, any worker who has put in six months or more of service is entitled to rent free accommodation for himself and his family. The Housing Advisory Committee of the Government of West Bengal under the West Bengal Plantation Labour Rules has specified the dimensions of workers' houses as: two rooms, one of 10 ft by 12 ft and the other of 8 ft by 10 ft; one kitchen of 4 ft by 6 ft; one veranda of 4 ft by 6 ft. Houses must have separate latrines, and should have walls of cement and brick with roofs of corrugated iron or asbestos.

In Assam, a permanent worker in the plantations is entitled to a housing facility of permanent nature, also referred to as a pucca house.

The Plantation Labour Act makes it mandatory for the employer to maintain the houses.

- Health – The grossly lacking health facilities are shown by the widespread presence of diseases such as malaria, hookworm, anaemia, gastro-enteritis and even cholera, with tuberculosis being reported in epidemic proportions from all plantations in Assam and West Bengal[59]. Malnutrition and infant mortality are common. This can be attributed not only to the poor sanitary conditions, crowded housing and extreme poverty of the workers, but crucially to the lack of health facilities on the plantations. Small estates cannot justify the expense of medical staff and facilities, while large estates cannot attract doctors, who do not want to live on remote estates. Clinics are generally not adequately stocked and do not have qualified staff.

Alcoholism
Alcoholism is a particular problem affecting mainly men and contributing to violence against women. On one estate in South Asia, it was stated that 'most' of the men had alcohol dependency.

The result of continued economic and social marginalisation of the plantation community, alcoholism has completely changed the atmosphere within homes, and it is not uncommon for both parents to be alcoholic, leading to obvious problems with childcare.

[58] Oxfam Tea Project, October 2000
[59] Brewed in the sweat of forced labour, National Campaign for Labour Rights

- Transport – In order to mitigate the workers' dependence on the plantation, it is very important that they have good transport connections to the outside, so that they are not confined to the plantations and have access to better medical facilities. Because of the remoteness of tea plantations, transport to the nearest town or village is often too expensive for the workers to afford. From a plantation in Hatton in Sri Lanka, for example, workers rarely go into the town as it costs Rs.10 for transport and Rs.30 if you have a bag – the daily wage was Rs.67 at the time of the interview[60]. Oxfam found in South Asia that there were 18-year-olds who had never been to the nearest town 3 km away[61].

- Education – In both India and Sri Lanka, primary schooling is a government responsibility and is provided, but it is only the larger estates that provide secondary education. Where children have to travel to go to secondary school, only the boys tend to be sent, limiting the opportunities for the girls left behind. There is generally no impetus for the children to pursue their studies above the primary level and there tends to be a high rate of dropouts at this stage – in India, this is probably because children above 12 years of age were allowed to work in plantations, according to the Plantation Labour Act. The ethnic origins of tea workers should qualify them for positive discrimination in education and employment, but it has been observed that they do not enjoy such benefits that are available to scheduled castes and scheduled tribes outside the tea industry. Literacy levels are lower among estate workers than in the wider population in both India and Sri Lanka, further tying the workers to their current jobs.

The plight of plantation children in Sri Lanka
One aid worker, who ran a health clinic for 14 months on a tea plantation, described these children as "slaves at home and outside. They have no rights, no freedom. Education is a luxury, work is compulsory. Incest is accepted."[62]

In the absence of opportunities that would otherwise be provided by a solid education, many children are roped in to work on the estates from a young age (between 12 and 14 years) – or sent away to work as domestic servants for the middle and upper middle classes. The children thus sent away work long hours – they are on call 24 hours a day looking after children their own age, carrying heavy loads form the market, cooking and working as gardeners. Sexual abuse and harassment, assault and beatings, being burnt with hot oil or burning wood, are part of their daily life. Two cases of such urban child labour came to the surface when the two girls involved were burnt alive by their employer families. They had become pregnant with by their "masters", after routine sexual abuse.

Finding domestic work for plantation children is lucrative business for agents who charge a hefty commission from parents and employers. Most parents do not realise what the children are being sent to.

Unofficial estimates for illegally employed child labour in Sri Lanka vary from 100,000 to 500,000, though government officials say this number is exaggerated.

- Water supply – Water is from communal taps, is not clean and, in Darjeeling, is seasonally scarce. There are even gardens were ponds are the only source of drinking water. Water for general drinking is rarely boiled, as fuel is scarce and expensive due to deforestation and lack of other forms of power. Because of the lack of clean water, water borne diseases such as diarrhoea, are common.

2.2 Further up the supply chain

[60] Interview by Sumi Dhanarajan for Oxfam, December 4 1999
[61] Oxfam Tea Project, October 2000
[62] Labour-Sri Lanka: tea plantations make children into workers, OneWorld, December 9 1997

2.2.1 The role of the auction houses

Unlike for coffee and cocoa there is no single indicator price for tea. Rather pricing is dominated by the auction system, whereby the price of tea from each estate is determined on a day-to-day basis, according to the quality and supply and demand on the day. This is because tea quality will vary considerably even from the same factory and region on a weekly or monthly basis. The local auction centre is used for rapid delivery and lower costs: there are 6 auction centres in India, and one each in Sri Lanka (Colombo), Indonesia (Jakarta), Malawi (Limbe), eastern Africa (Mombasa) and Bangladesh (Chittagong). Chinese tea is sold at commodity fairs in Guangzhou.

At auction, buyers bid for one particular grade from a particular tea garden at a time, after tasting the tea and judging its value. The auctioneer plays an important role in the tea market. Apart from personally tasting and evaluating each and every invoice, he has to use his knowledge of the world demand and marketing skill in judging the marketability of the tea. He has final jurisdiction and his judgment determines the selling price of the tea, to a certain extent.

2.2.1.1 Pros and Cons

More than 70% of Kenya's total tea sales are through auctions, while the figure for Sri Lanka is almost 90%. There are several advantages of the dominance of the auction system for the tea industry:

- The auction system is praised for allowing the highest price possible to be paid for the tea in a way that equilibrates market demand and supply.
- The cost of going through the system is also fairly low. In India, auctioning costs less than 2% of the merchandise including free sampling to prospective buyers, while in Kenya the commission to the broker is 1% from the producer and 0.5% from the buyer.
- It is a transparent trading forum.
- Because buyers must buy the tea in its physical form rather than just on paper, it is protected from destabilising speculators.

Although the auction system would on the surface seem to approximate a perfectly fair market where prices are determined solely by the interplay of supply and demand, a more detailed picture is less attractive:

- There has in the past been some evidence of collusion among brokers to influence prices. UNCTAD pointed to the danger arising from links between selling brokers and firms operating tea estates and the small number of buying brokers in 1982. In the 1970s, a Commission of Enquiry into the tea auction system set up by the Sri Lanka government concluded that it appears that there is 'a high degree of collusion that prevails in buy and … wide scope for collusion between brokers and buyers'. Such collusion, if it occurred, would tend to reduce the price at which producers could sell tea at the auctions, and would also affect prices of direct sales[63].
- Auction houses are usually seen as 'middlemen' that soak up cost.
- It is alleged that, when the situation is to their advantage, they increase price uncertainty, delay and speculation.

There is some possibility that auction houses will become redundant with technological advances. At the moment, almost all tea fields are located in regions where land phone lines intermittently fail or simply do not exist. With the development of the internet through mobile phones, however, and given that many plantations are financed by large companies, it is not inconceivable that tea estates in the

[63] Maizels, Bacon, Mavrotas, Commodity supply management by producing countries – a case study of tropical beverage crops, 1997

future will be able to post real-time data daily on the internet, enabling a viable futures market. The global process for bringing buyers and sellers more directly together, termed ‘disintermediation’, is already taking place with catalogue sales of premium tea. This trend, combined with advanced internet systems, could potentially support a price-stabilising tea futures market, assuming that the market is financially transparent, reliably instituted and justly enforced.

Recently more and more tea has been sold through forward contracts and private sales. The benefit of this to producers is often considerable; they get payment faster, have less uncertainty about sales and price, and can avoid the charges associated with auctioning tea (brokers fees, warehousing). Likewise the system appeals to buyers because it guarantees faster delivery (and therefore higher quality). Existing regulations, however, hamper the growth of the proportion of private sales. For example, in Sri Lanka only 10% of tea production can be sold privately, in Kenya just 15%, and in India 75% of total production must be sold through auction centres unless they are packet teas.

2.2.1.2 The global tea brokers

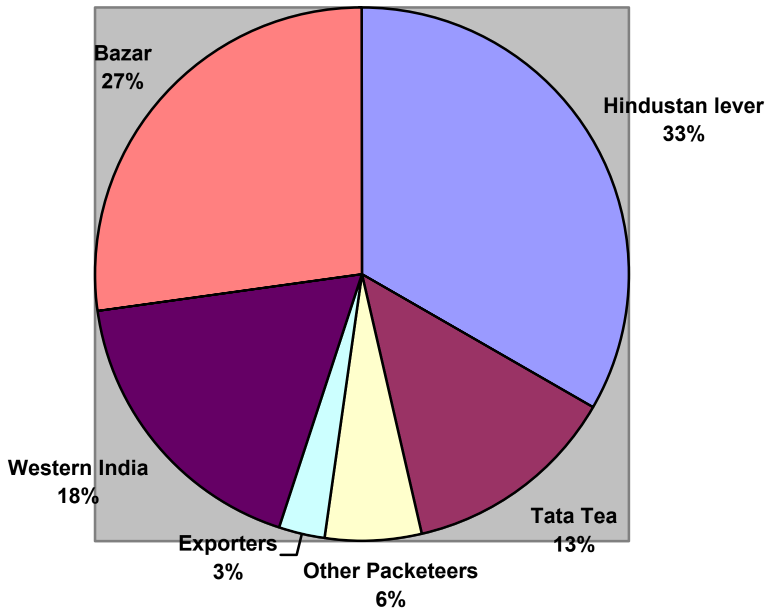
A few firms dominate the sales in each auction centre. J. Thomas & Co. Pvt. Ltd., the largest tea broker in the world, handles over 155 million kg of tea a year, i.e. one-third of all tea auctioned in India. Carritt Moran and Co. Ltd., the world’s second largest tea broker, handles 24% of auctioned teas in India.

Brokers must be registered with the appropriate tea board in order to operate, which limits the number of auction houses where tea can be sold. 11 brokers are registered with the Tea Board of Kenya, while there are 4 registered brokers at Calcutta (J. Thomas & Co., Carritt Moran & Co., Contemporary Targett and Paramount Tea Marketing) which together sell the majority of Darjeeling tea.

2.2.1.3 The concentration of buyers at auction

The concentration of buyers in most auction centres has traditionally been very high. New buyers are inherently discriminated against for a number of reasons. Firstly, brokers generally do not accept bids from buyers they do not know as they feel it increases their risk. Secondly, the new buyers are disadvantaged by the fact that the tea has to go to the processing and packaging plants most of which are owned by the other companies competing with them in the same auction.

Share of buyers at the Guwahati tea auction in 1999
(30% of tea auctioned in India is sold through Guwahati)



2.2.2 Blending

Tea is generally exported with minimal processing to consumer countries, where it is blended and packaged by the tea companies. Whilst many producers try to export pre-processed tea the export of 'ready-for-use' tea is often hindered by the absence of money for expensive, glitzy marketing strategies.[64]

The consumer markets are dominated by the popular blended brands (over 70% of the UK market). These are blends than can contain up to 35 different types of tea, necessitating blending in the consuming country. They are designed to keep their taste constant despite the loss of one or other source due to adverse weather or high prices.[65]

By exporting tea in bulk, developing countries are missing the opportunity for significantly increased export earnings. The producing countries currently sell tea most often as a generic without branding and packaging, despite the fact that branded tea fetches prices which are six times higher than bulk exports[66]. Sri Lanka is an exception, and has succeeded in capturing more value in the supply chain through value-added production.

2.2.3 Retail

With the growth of the supermarket in Europe and North America the character of tea buying changed quite dramatically in the 1990s. There has been a centralisation of tea buying, increased buying by individual companies and the bypassing of wholesalers with direct links between the tea buyers and tea packers. The leading companies spend a great deal on promoting their products. In Japan the advertising expenditure was 8%, compared to 4% in the US and 2.5% in the UK.[67] They also spend a great deal (especially if the company is smaller) on offering trade promotions to the

[64] Transfair report on Fairtrade
[65] Plantation to Cup, www.tea.co.uk
[66] Liberalisation of the smallholder tea sub-sector, IPAR policy brief
[67] World Bank, Ridwan Ali, Sri Lanka's Tea industry, 1997

retail outlets to try to persuade them to carry their brands. Retailers generally seem to add small margins on the tea but make their money from these promotional margin allowances from the packers.

2.3 The Big Players

Although the price of tea is primarily determined by supply and demand, the large corporations can have a huge influence on the world markets by regulating that supply and demand. In the early 1990s the tea market was extremely concentrated: 90% of the Western trade was in the hands of only seven transnational companies and 85% of world production was sold by multinationals.[68] This concentration has since increased.

The large companies have such large purchasing power that they can influence the demand (and price) for particular qualities and types of tea. They have made efforts to horizontally integrate (to own plantations and processing factories) and vertically integrate (to control the transport companies and shipping agencies).

This means that transnational companies have a presence at almost all stages of the journey of tea from tea bush to tea bag. This huge degree of power is a temptation to manipulate prices even for the most responsible of companies. This happened during the mid-1980s when demand for Indian tea shot up due to increases in domestic consumption and large purchases by the former Soviet Union. To try to bring down the subsequently high prices the transnational companies boycotted Indian tea. The Indian government twice attempted to get a grip on the market by imposing export restrictions to avoid local shortages, and a minimum export price to keep producers from going under. The large tea corporations then decided to withdraw completely from the Indian market, halting tea exports overnight. The Indian government then had no choice but to lift the measures.[69]

Transnational companies can afford such actions due to their flexibility, their buffer stocks and their speculative transactions. The flexibility of companies is enhanced by their deliberate policy of reducing differences in quality. With the exception of a few quality conscious consumer countries, there has been a constant deterioration and adaptation in the quality of tea across the world. Many tea qualities have become exchangeable and are bought wherever they are cheapest. With some blends coming from around 35 different types of tea each of the major brands is not reliant on any one particular source and can easily freeze out a particular producing country if they do not co-operate with the needs of the transnational.

According to a report by the World Bank (1997) the processing and distribution of tea in 1990 was controlled by four major UK corporations - all which have vertically integrated to a great degree; Unilever/Brooke Bond, Cadbury Schweppes, Allied-Lyons (now Tata Tea, an Indian company) and Associated British Foods/Twining. Together these controlled 80% of the tea market in many countries. The report compares the over-riding share of the Unilever group in the world tea market with that of Coca Cola in the soft drinks industry.[70] In Britain over 70% of the market is controlled by the popularly blended brands, and the own label sector is seeing the fastest decline. In a market that is declining overall, the two manufacturers experiencing growth are Unilever and Twinings.

The world market is getting increasingly concentrated. By 1997, for example, 75% of New Zealand's market was dominated by two multinationals: the Bell Tea company and the Unilever group. In a similar vein the Australian market is dominated by Unilever and Lyons Tetley (now Tata).[71] The fast

[68] Transfair report on Fairtrade
[69] Transfair report on Fairtrade
[70] World Bank, Ridwan Ali, Sri Lanka's Tea industry, 1997
[71] World Bank, Ridwan Ali, Sri Lanka's Tea industry, 1997

growth of the conglomerates is backed by heavy advertising, expensive marketing strategies and well-known branded products. This makes it very difficult for small firms to make any headway in the industry. In fact, a recent World Bank report estimates that the world's entire beverage industry is now controlled by just 50 transnational conglomerates. The futures of the tea, coffee and cocoa industries are intimately tied up with the marketing strategies of these companies.[72]

It is not only the companies with popular brands in the West that wield influence in the tea industry. Multinationals are heavily involved in tea from the planting and plucking, to the processing, auctioning, packing and exporting. Many of these companies are vertically integrated.

Tata Tea Ltd., part of the Tata Group producing a range of products from cars to t-shirts, not only controls 54 plantations in India and more than 20 plantations in Sri Lanka, but owns 10 blending and packaging factories in India alone, including the world's largest orthodox tea factory in Munnar. Tata also has 21% share of the Indian branded teas market. Having acquired Tetley, Tata now has a major brand presence in the West as well, with the second biggest tea big brand worldwide.

The Finlays Group is another multinational involved in every stage of tea production, producing 55m kg of tea worldwide on 59,300 acres of plantation land, as well as trading and packing more than 100m kg. Finlays is also the largest instant tea producer in the world. In almost every significant tea country, Finlays has a major presence: second largest plantation company in Kenya where it owns Africa's only orthodox factory; 16m kg of tea production in Sri Lanka; 10m kg of tea production in Bangladesh, which supplies the Finlay brand in the country, which is domestically the second best selling brand; 8m kg of tea production in Uganda; marketing and packing of the Swan (Alwazatea) brand in the Middle East (supplied from Sri Lanka); supplying the UK supermarket chain Sainsbury's with all its own label tea and ground coffee.

The most prominent example of the vertically integrated tea multinational is Unilever, the world's largest supplier of tea. It owns tea estates in India and eastern Africa, although these supply only a part of the company's needs. In Kenya, its subsidiary Brooke Bond Kenya is the largest plantation company, with 11% of the country's output, and in India Hindustan Lever is at once India's largest tea exporter and leading tea brand, as well as the world's largest packet tea marketer. In the international branded market, Unilever's Lipton Yellow Label is the world's most popular tea brand and Lipton Ice Tea is the world's most popular ready-to-drink tea brand.

2.3.1 A profile of the global companies

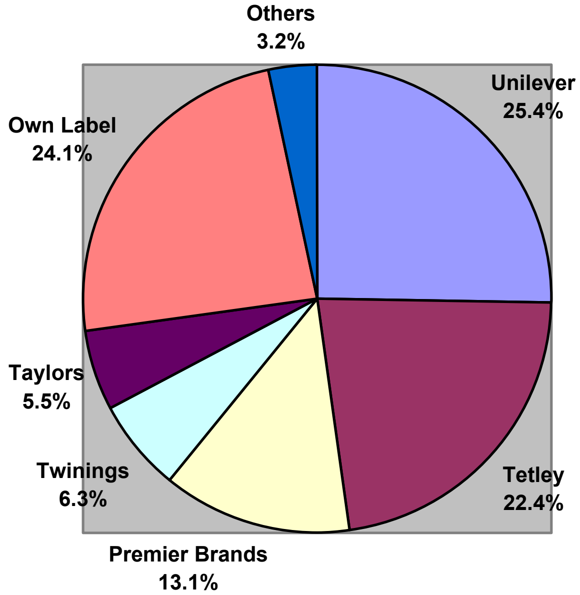
The world's largest supplier of black tea is Unilever, a UK/Netherlands multinational. Its share of the world's volume of black tea is estimated at 15%, with yearly sales of 320,000 tonnes[73].

The world's most popular tea brand is Unilever's Lipton Yellow Label, followed by Tetley.

Brand presence of Unilever and Tetley
Unilever: Lipton Yellow Label (the world's most popular tea brand); Lipton Ice Tea (the world's most popular ready-to-drink tea brand); Brisk (number one selling ready-to-drink tea brand in the US)
Tetley: Second biggest tea bag brand worldwide; brand leader in the UK and Canada; well-established major brand in the US and Australia; developing presence in France, Poland and Russia

[72] World Bank, Ridwan Ali, Sri Lanka's Tea industry, 1997
[73] How to make agri-food supply chains sustainable: Unilever's perspective

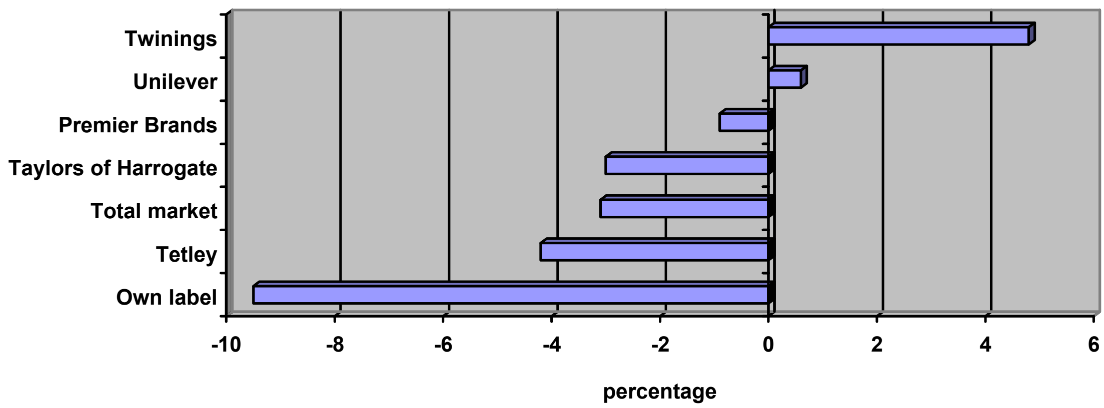
The UK tea market - manufacturers' value share of total tea in December 1999



Source: Hot Beverages Handbook 2000, Premier Brands

The above graph shows own label tea taking almost a quarter of all value sales of tea, which could be interpreted as indicating that the brand clout of the large tea companies is not as high as in other sectors. However, it is significant that the own label sector showed by far the greatest decline in value from 1998 to 1999. While the total UK tea market declined, the only manufacturers showing growth were Unilever and Twinings.

UK tea manufacturers' growth in value 1998-99



Source: Hot Beverages Handbook 2000, Premier Brands

The only global tea company that has its own plantations is Brooke Bond of Unilever. Unilever's tea estates in India and eastern Africa only supply a part of the company's needs, however.

Some examples of supply chains
Unilever: Hindustan Lever's instant tea powder plant in Etah, India, is 100% export-oriented for Unilever's needs. Carritt Moran, the tea broker, has blending and packaging operations on behalf of Hindustan Lever.

Tetley: Tetley tea is a blend of supplies from 30 different countries, bought at all 11 tea auction centres around the world. Tetley is now owned by Tata, an Indian company which also produces tea.

Premier Brands: Premier Brands has around 190 suppliers in 12 countries. Kenya accounts for 45-50% of the company's tea purchases, followed by India (around 12%) and Sri Lanka. Two of its suppliers in Kenya include the KTDA's Tegat factory and George Williamson's Changoi estate, both in Kericho. Premier Brands is also supplied by other George Williamson estates in Assam, India.

Twinings: Sri Lanka's Tea Tang Ltd., owned by BP de Silva Ltd., is currently the main supplier.

Taylors of Harrogate: Yorkshire Tea is a blend of up to 30 different teas. The new Feel Good organic tea is sourced from Assam, India.

Snapple: Snapple uses Tata Tea's instant tea powder.

Sainsbury: Finlay Beverages of the Finlay Group owned by John Swire and Sons (Hong Kong) supplies the supermarket chain with all its tea and ground coffee.

These companies often have publicised codes of conduct on social and environmental responsibility.

For example, Unilever is one of 50 TNCs that signed a UN pact on rights and the environment. The pact places an obligation to support human rights, eliminate child labour, allow free trade unions and refrain from polluting the environment[74]. Its Indian subsidiary, Hindustan Lever, believes that its philosophy that a 'fair day's work deserves a fair day's wages' has helped preserve harmonious and cordial industrial relations.

One US consumer awareness website[75] praises Tata Tea, saying that workers are provided with free housing, health care and community development facilities. Tata is also commended for running tree-planting and endangered-wildlife programmes, and because renewable energy plantations provide fuelwood to reduce dependence on fossil fuels. In a bizarre twist, however, the same website condemns Tetley USA, owned by Tata, for not having a code of conduct.

Premier Brands is a founding member of the Ethical Trading Initiative (ETI) and monitors the social and labour standards of suppliers through its Quality Assurance Programme (QAP). 150 estates currently have Premier Brands' QAP certification.

Taylors of Harrogate claims to give half of its profits from the new Feel Good Organic brand to Oxfam in India.

2.4 Policy Responses

2.4.1 Codes of Conduct

In the UK, there are two partnerships of companies – the ETI and the TSP - attempting to address some of the problems in the plantations that supply them. Some companies also claim to monitor their own supply chains. Premier Brands, for example, has a Quality Assurance Programme, which includes standards for labour.

[74] Multinationals sign UN pact on rights and environment, New York Times, July 27 2000
[75] Co-op America's Sweatshops.org www.coopamerica.org

Both the sincerity and effectiveness of these company-led initiatives are in some doubt, however. One severe obstacle to their effectiveness is that the UK only buys a small part of the world's tea. Other major importers, such as Russia, Pakistan and the Middle East, may continue to sanction mal-practices.

2.4.1.1 The Ethical Trading Initiative

The Ethical Trading Initiative (ETI) is a UK based partnership of NGOs (including Oxfam, the Fairtrade Foundation and Save the Children), trade unions and high street companies[1]. The ETI's aim is to ensure that internationally recognised labour standards are observed at all stages in the production of high street goods sold in the UK. The ETI seeks to achieve this by promoting the implementation of codes of conduct that embody such standards, which are backed by monitoring and independent verification. Corporate members of the ETI must provide an annual progress report which provides an overview of their supply chain monitoring. The reports must include details of management responsibility for ethical trade, areas of compliance and non-compliance with the codes, and corrective action taken.

Companies that are members of the ETI		
Premier Brands	Anchor Seafood	Asda
Tea Sourcing Partnership	Fisher Foods	Co-operative Wholesale Society
J Sainsbury	Lambert Howarth	Levi Strauss & Co.
Littlewoods	Marks & Spencer	Monsoon
Pentland Group	Safeway	Somerfield
Tesco	The Body Shop	

The ETI Code contains provisions including the following:

- No forced labour
- Freedom of association
- Safe and hygienic working conditions
- Living wages to be paid
- No excessive working hours

In the case of agricultural commodities (such as tea, coffee and cocoa), ethical trade is aimed at ensuring workers on plantations enjoy these rights.

Ethical trade is distinct from fair trade in that it targets workers employed in plantations, exporting businesses and processing plants. By contrast, fair trade targets small farmers, and supports them to become involved in international trade by guaranteeing a minimum price to producers.

Codes of conduct need to be monitored effectively to ensure proper implementation. ETI figures show that of the 14 UK corporations that have ETI membership, eleven were able to provide a progress report in the form requested. They revealed that 1,183 suppliers were evaluated for ethical performance during 1999. Of these, more than 65% were found to be in significant breach of the ETI Code, a figure that illustrates the scale of the challenge.[2]

A recent report suggests that the growth of direct relations between commodity producers and commodity buyers (because of vertical integration) can potentially contribute to the improvement of

[1] These include Anchor Seafood Ltd, ASDA Stores Ltd, CWS Retail, Levi Strauss & Co (Europe, Middle East and Africa), Littlewoods plc, Marks & Spencer plc, Premier Brands UK Ltd, Safeway Stores plc, J Sainsbury plc, Tea Sourcing Partnership, Tesco Stores Ltd, The Body Shop plc.
[2] Ethical Trading Initiative, Annual Report 1999/2000, www.eti.org.uk

working conditions on plantations[3]. If direct relations exist, cocoa buyers and processors can be held accountable for labour conditions on plantations that they use as suppliers. Another way in which ethical trading can benefit plantation workers is to emphasise code provisions that ensure freedom of association. This would strengthen worker organisations at the local and national level.

These issues point to an overlap between ethical and fair trade, which, although distinct, can complement one another. An example from the coffee sector in Mexico reveals that many small farmers work on large plantations part-time to supplement their income. However, after forming an association that sells to the fair trade market, its members have ceased working on plantations as they have increased productivity and incomes as a result of entering the fair trade market.[4]

Plantation owners have responded by arguing that it is unfair that buyers request improved labour conditions without contributing to the cost. But many plantations do have relatively good living and working conditions on their plantations, and a good relationship with their workers, which proves that it is possible to do so without going bankrupt. Good working conditions and salary also attract better skilled workers and increase labour productivity.

Ethical trade's advantage over fair trade lies in the fact that it is more widely applicable. Presently, the fair trade market is too small for transnational corporations to source all their primary commodities from. However, buying from sources that adhere to ETI codes of conduct would be more viable for TNCs. A downside is that plantations will often simply sign codes of conduct to create the impression they have an acceptable policy, yet do nothing to implement the code in practice, a situation that points to the importance of effective monitoring.

The ETI's definition of a 'living wage'
Section 5 of the ETI base code stipulates, "Living wages are paid". To clarify this against the poverty line (US$60 per month), an ETI document[76] clearly states that: "Since the poverty line is supposed to reflect the subsistence needs for a single person, wages that are close to this line cannot be considered high enough to be called a living wage. Allowance must be made for dependants, and the ETI living wage provision includes an explicit reference to discretionary income, above basic needs." Kenya, Sri Lanka, India and Malawi all currently have average wages below this poverty line.

In determining at what level this wage should be, the same document advocates not a strict calculated formula – because this computation may be too simplistic and static, with little scope for collective bargaining –, but a negotiated amount decided through a discussion between companies and representatives of workers.

2.4.1.2 Tea Sourcing Partnership (TSP)

The TSP was formed in April 1997 to bring together 13 UK based tea packing companies who between them account for over 40 brands of tea – approximately 60% of the tea packed in the UK. Its aim is to "develop a clear factual understanding of conditions on the tea estates and to validate it by a continuous cycle of audits" which then forms the basis of improvement.

Members of the TSP

Matthew Algie & Co. Ltd.	Brooke Bond Tea Co.	Gala Coffee & Tea Ltd.
Jacksons of Piccadilly Ltd.	DJ Miles & Co. Ltd.	Finlay Beverages Ltd.
The Nambarrie Tea Co. Ltd.	Keith Spicer Ltd.	Taylors of Harrogate Ltd.
R Twining & Company Ltd.	Tetley GB Ltd.	Williamson & Magor Ltd.

[3] The viability of a code of conduct in the coffee sector in Guatemala, Fair Trade Organisatie, July 2000
[4] The viability of a code of conduct in the coffee sector in Guatemala, Fair Trade Organisatie, July 2000
[76] The "Living Wage" clause in the ETI Base Code – how to imprement it? June 2000

The Windmill Tea Co. Ltd.

Although they are also members of the ETI the TSP does not apply the ETI Base Code. Instead, its code obligates producers to comply with local legislation and union agreements in five areas: terms and conditions of employment; health and safety; education; maternity provisions; and housing.

There are three phases to the audit conducted by the TSP. Firstly, the estate is sent a questionnaire to self-assess how it meets the above requirements. Secondly, an independent audit of the estate's site is conducted by a professional auditor. The TSP has hired a company called Bureau Veritas Quality International (BVQI) to conduct its social audit. The auditors from BVQI will examine documents and company records, observe conditions and interview employees, managers and other staff. At the end of the audit, the managers of the estate are given an overview of the finding. The full audit report is sent to the TSP. Where the estate has met all the criteria, it is awareded a certificate. If not, the TSP will work with the estate to correct the non-compliances. In January 1999, the TSP completed a pilot audit of its Sri Lankan suppliers.

To date, the TSP has not completed even the first stage of the audit, although questionnaires were supposed to be sent out last year. It has been explained that this is because the legal package took longer to verify than anticipated.

The TSP is criticised for its arms-length way of dealing with labour issues. The companies involved can defer their responsibilities to this partnership, which then employs an external company (BVQI) to carry out the audit. The companies themselves do not get directly involved in monitoring their supply chains. The lack of transparency is also a problem. When Oxfam tried to access some information about the responses to the questionnaires of the pilot audit, we were told that they were "a matter of the strictest confidence between the producers and the TSP" and could not be divulged.

The TSP viewed by an industry insider
The following account of the TSP from the broker Wilson Smithett, published in a trade magazine, shows how the partnership is seen by the tea trade.

"Unlike the Fairtrade Foundation, the TSP dos not start from the assumption that workers are treated unfairly or given a poor deal, and does not aim to force companies to consider ethics. Instead, it attempts to illustrate how well tea estates are run and managed via independent factual audits that assess companies against their legal obligations."

Nevertheless, the broker does add that: "Audits do demand some commitment from producers, and if they do not comply with TSP requirements, TSP members will cease to trade with that company until compliance has been demonstrated."

2.4.1.3 Premier Brands' Quality Assurance Programme

Premier Brands' supplier monitoring scheme, the QAP, includes sections containing ethical standards. For example, the factory checklist includes sections on: pesticides; factory overall; health and safety; labour; children; young persons; working hours; wages; welfare; creche and maternity; housing; medical; education; and environment. There is a similar checklist for 'field' monitoring.

Oxfam conducted in 1999 an examination of the company's "approach to monitoring social and labour standards", looking at the procedures in place for monitoring, rather than whether the company's supplies were being ethically sourced. The general framework was found to be good, but there were weaknesses in involving the workers and properly internalising the principles behind QAP. The impact of the assessments were also largely restricted to that of the visits themselves, which only occur every three years.

2.4.2 National legislation

Because the ill-treatment of workers is so often associated with discriminatory legislation in the producing countries, it is imperative that national legislation be corrected in any concerted effort to improve their conditions.

- The legacy of colonialism in establishing separate laws governing estates provides exemptions from other constitutional and labour rights protection. Legislation should apply as comprehensively to estate labour as to other forms of labour.
- Existing legislation ignores the category of casual workers – who compose an increasing proportion of plantation labour – thereby excluding them from any protection against exploitation. They should be covered under protective legislation.
- The ethnic minorities that often make up the plantation population are discriminated against, particularly in Sri Lanka where some 300,000Hill-country Tamils are denied citizenship. These workers should be granted the same rights as the rest of the population.
- Current legislation on labour rights needs to be much better enforced. For the Plantation Labour Act in India, for example, the maximum penalty for any offence is only Rs.500 ($10.61). A second prosecution invites a penalty of Rs.1000 ($21.22). Legislation must be tougher and more punitive to offenders for plantations to reform.

2.4.3 A way out for estate workers

There is currently a problem of dependency on the plantation which traps families in a vicious circle within the estate. Although they may not be happy working for the plantation, they have no education to seek other jobs and fear losing their homes should they leave the plantation. On a most basic level, transport networks are inadequate and expensive, further isolating families within the plantations and restricting their opportunities to find other means of living.

There should be greater funding for improving transport and educational opportunities for families on plantations. This would serve to not only allow ill-treated estate workers to find better jobs, but also exert pressure on plantations to reform if they are to avoid a serious drainage on their labour. Ideally, the government should be ensuring that these most basic facilities are provided, and the plantation management should be complying in its own interest for higher productivity if not in the name of human rights. In the absence of such a government and management, fair trade has been filling the gap.

2.4.4 Fair Trade

Fairtrade production conditions:

- Small scale farmers can participate in a democratic organisation.
- Plantation/factory workers can participate in trade union activities and have decent wages, housing, and health and safety standards.
- No child or forced labour.
- Programmes for environmental sustainability.

Fairtrade terms of trading:

- A price that covers the cost of production.
- A social 'premium' to be used by the producers to improve their living and working conditions.
- Advance payment to avoid small producer organisations falling into debt.
- Contracts that allow long term planning and sustainable production practices.

Fair trade has the potential to improve the lives of both estate workers and smallholders. In Darjeeling, for example, Oxfam's suppliers have used the premium on school buildings, facilities for the handicapped, better drinking water, etc. on their estates. For Kayonza, a tea factory for smallholders in Uganda, fair trade has funded a health unit, and maintained the roads which are so essential to ensuring that the growers get the best price for their crop. They now also have internet access, which means they can communicate directly with buyers in Europe and have instant access to market information.

The impact of fair trade: Shiragami's story[77]
Thirty-six year old Shiragami has worked as a tea picker on the Nilgiri estate in southern India for the last 17 years. Before the estate became registered with the Fairtrade Foundation, the picture was very bleak. Shiragami says: "The working conditions were bad as there was no system for plucking the leaf, no regulation for working hours, and also daily wages were very poor." For four years she was given no contract. "Without a contract I still had no security. Permanent labour was very rare."

With the change of management, improvements were made not only on the tea production side, but also to housing and other welfare areas. A fund scheme was introduced which allows the workers the opportunity to have an advance on their pay or a bank loan for unplanned expenses. Paid maternity leave for 3 months was introduced, creche facilities were greatly improved with trained medical staff on stand-by. The primary school on site was better equipped with more books, equipment and trained teachers.

Both Shiragami's children are at school. Her 12-year-old son, Rajasekeran, is at a nearby secondary school which is provided by the government with support from the estate. 9-year-old daughter, Vidya, is still at primary school.

The premium from selling fair trade tea will also go toward a vocational training college intended to help tea workers' children find work in other industries. The estate also provides grants so that some children can go on to further education.

As of 1998, 6000 growers benefited from the sale of fair trade teas and 30 tea estates were registered with the mark throughout Africa and Asia, and the numbers are growing. As yet, however, fair trade tea constitutes only a very small proportion of the market and demand will need to expand before this practice can be more widespread in producing countries.

2.4.5 Strengthening producers' associations for smallholders

Smallholders are in great need of increased support. Even in Kenya where they have been organised under the Kenya Tea Development Authority (KTDA), their yields are only 60% or less of those of plantations[78].

An examination of the performance of the KTDA sheds some light on how the smallholder can best be organised. Generally speaking, its services were based on sound principles and sometimes worked to the benefit of farmers, but it erred in the administration and communication of these services.

The authority's services to farmers were broadly divided into agricultural services (green tea leaf inspection, collection and field development), factory operations and selling and distribution of made tea.

- Green leaf collection: Smallholders generally suffer from a lack of infrastructure to ensure that their green leaf is processed quickly enough for quality tea. The KTDA was meant to act as an

[77] Fairtrade Foundation
[78] Liberalisation of the smallholder tea sub-sector, IPAR policy brief

efficient collection agent to solve this problem, but it failed to adequately supervise the tea collection. There were problems of delayed collection, transportation and underestimation of weight because of the poor roads network and transport co-ordination, lack of gunny bags and the unacceptable attitudes of tea leaf collection/weigh clerks.

- Input supply: The KTDA enjoyed economies of scale in its purchases which could be passed on to farmers in terms of lower costs for the items. Fertilisers were provided on credit to increase input use to plantation levels, but it is common knowledge that some of the fertiliser is not applied on tea, but on other crops.
- Payment for green leaf: The KTDA should have been a reliable source of income for smallholders, who would no longer have to worry about unscrupulous middlemen. However, farmers complained of the small seasonal payments paid by the KTDA and there were no farmer friendly agreement with regard to final payments, which were considered to take far too long before they reached farmers.
- Capturing value: Smallholders relied on the KTDA to add value to their tea in order to get higher prices, but KTDA factories were often poorly managed. KTDA factories also carried out only minimal processing before selling the bulk tea at auction, despite the opportunity to get significantly higher prices with branded tea. The authority had, however, established itself as a major tea seller in the overseas markets in a closed tea marketing system among well-known sellers and buyers. This made it more financially attractive for individual factories to sell their teas through the KTDA than to do it directly themselves.
- Transparency: The lack of transparency in the provision of almost all of the KTDA's services created mistrust in the farmers, who perceived the directors not to be wholly answerable to them. The farmers required more information on issues such as auction prices, marketing charges including brokerage fees to factory directors and why there were differences in tea payments to different factories and regions.

While it is clear that a strong association has great potential to benefit smallholders, it is less certain whether a parastatal monopoly like the KTDA is the best way of doing this. A more successful framework might include a farmers' association with no financial involvement in tea to monitor the industry and protect the smallholders' interests, and a number of management agents to provide the services. These management agents should be large enough to capture the benefits of the former KTDA's clout, but numerous enough to provide farmers with a choice.

2.4.6 Diversification

Producing countries can capture more value in the tea supply chain by diversifying into value-added production. Currently auctions account for the largest proportion of the tea trade in major producing countries – about 84% of the total tea traded in 1997[79] - despite the fact that branded tea fetches prices which are six times higher than bulk exports. Value can be added either by exporting the tea in blended and packaged form, or by promoting the origin of teas from a particular region and then marketing the teas with a clear indication of their origin.

The Tea Boards of many producing countries are already involved in the latter, but there needs to be greater promotion and monitoring of the regional 'brands'. Consumers readily recognise the value of names such as Assam, Ceylon (Sri Lanka) and Darjeeling, but regulation of how these labels are applied is very poor. For example, Nepalese tea has been known to be processed in Darjeeling and then sold as Darjeeling tea[80], which undermines the credibility of the Darjeeling brand regardless of the quality of Nepalese tea. A Darjeeling mark awarded only to tea certified as genuine and of

[79] Dealing with price risks, Intergovernmental Group on Tea, Committee on Commodity Problems, FAO, September 1999

[80] Darjeeling sees threat in tea from Nepal, Financial Times July 24 2001

marketable quality could be promoted on all certified Darjeeling consumer products, which would increase the value of these teas, and similarly for other origins.

Capturing value through blending and packaging in the producing country is more difficult. To fit consumer preferences, it is often necessary to blend teas from many different countries, and doing this could be expensive in a developing country given the lack of South to South infrastructure and import restrictions between producer countries. With single country/region origin tea, however, exporting in packaged form should be easier and more profitable.

Section 3: Tea and the Environment

Tea has a great impact on the environment. In 1999, the area of land cultivated by tea in just the five major producing countries (China, India, Indonesia, Kenya and Sri Lanka) amounted to one million acres.

Tea is grown in monoculture, which reduces bio diversity. In the absence of other plants to maintain the ecological balance, intensive use of pesticides and fertilisers is needed to protect the plants against pest infestation and to enhance productivity, leading to the soil being leached out.

The nature of the chemicals being used makes this problem all the more serious. The tea gardens are using chemicals such as Aldrin 20E, Carbofuran 30, Endosulfan 35 EC, Malathion 50 EC, Tetradifon 8 EC and Calixin 80 EC, most of which are listed as hazardous and toxic and some of them are banned.

Pollution in tea plantations is strongly linked to the ill-treatment of workers. The spraying of pesticides is usually done by untrained casual daily wage workers, mostly children and adolescents, who are illiterate and cannot read the warnings or the instructions on the containers. Their lack of knowledge leads to improper use of the chemicals. The compulsory gap 8-10 day gap between spraying and plucking is designed to protect the workers, but managers do not abide by it, at once putting the workers in danger and resulting in a high degree of toxicity in the soil and water. The inadequate provision of toilets for workers exacerbates the water pollution created by pesticides, destroying fish and aquatic life and causing a particularly serious problem where such water is used for drinking by the local population.

The unsafe use of chemicals not only puts the workers and the environment in danger, but also leaves traces of harmful pesticides and insecticides in the processed tea. According to a report published in the Economic Times (January 4, 1999), the European Tea Committee in its findings claimed a high incidence of pesticides in Indian tea exported to overseas markets.

Other environmental problems identified by Oxfam in South Asia include the disposal of plastics in waterways, deforestation and, particularly in Darjeeling, landslides and erosion.

Destruction of wildlife in West Bengal

At least 10 leopards and 5 elephants have died in the last two years due to leakage of pesticides through waste water from tea gardens in West Bengal[81]. A number of rivers flowing through sanctuaries and reserve forests get residual pesticides drained from tea gardens. Sometimes toxicity of these rivers go up to an alarming level, as environmental research groups like Ashoka Trust for Research in Ecology and Environment and Peoples Science Institute have found.

Pesticides worth Rs.730m ($15.5m) are annually used in North Bengal's 104,226 ha of tea gardens. Since usage of high yielding tea plant varieties has gone up and since these are highly susceptible to pests the use of pesticides too has gone up. When mixed with other solvents, these pesticides exert massive toxic effect on environment for a long duration, affecting birds, animals and humans.

“Wild animals accumulate these toxins in their body through regular intake of river water containing these. This causes cancer, uncontrolled gene mutation, weakening of egg shell and visceral organ damage. Already there are visible signs of that also," says District Forest Officer (Wildlife) R Das.

Despite the evidence against harmful pesticide use, planters fear that yields will decline dramatically without it.

3.1 Policy Response: viability of organic tea-growing

While there is clear evidence that the monoculture of non-organic tea contributes to grave environmental problems, some aspects of tea-growing make organic farming more difficult for tea than for other crops.

Common to all crops are the high costs of certification and lower yields during the period of conversion, and tea is no exception. However, organic tea-growing also faces greater risk with respect to higher labour costs and lower-than-anticipated demand.

In an industry where the cost of labour can be as high as 60% of the total cost of production, a significant increase in labour costs can pose a serious financial risk. Organic agriculture is considerably more labour intensive than non-organic agriculture, with the main areas of cot increase being in weeding and in producing and applying sufficient compost. For tea, where chemical fertilisers are applied at a few hundred kg per hectare, compost and oilseed cake are required in tonnes per hectare, shooting the cost of labour upward.

The market for organic tea is also not as promising as for other organic produce. Although demand for organic produce is growing rapidly in Europe, the market remains small, at less than 1% of the market in 1999. Furthermore, while the trend is for continued growth, current research suggests that tea is not a product type where there is particularly strong demand for organic varieties. The price premium that organic tea now receives will not be sustainable with higher organic production. Another important aspect for demand for organic tea is that it is currently restricted to Europe, which consumes only a minor part of the world tea production.

Nevertheless, the few tea growers already converted to organic production have reported success. The Samabeong factory in Darjeeling, for example, was one of the first to convert to organic and now has yields equal to or even greater than its pre-organic period. Meanwhile, the environmental benefits of organic production are undeniable. In the case of Oothu in South India, the conversion saw bird life in the tea fields increase, insect life, the most affected by the use of chemicals, resumed as old food chains were restored.

[81] Leakage of tea garden pesticides kills 10 leopards, 5 elephants, The Times of India, May 23 2001

Annex 1: Plantation wages in Kenya, Sri Lanka, India and Malawi

Kenya

The majority of tea pluckers who are employed by estates in Kenya are bound by a collective agreement signed by the Kenya Tea Growers' Association (KTGA) and the Kenya Plantations and Agricultural Workers' Union (KPAWU).

The average wage is Kshs 3931.2 ($50.76 on exchange rates of April 30 2001) per month, which is less than most industrial workers earn. Francis Atwoli, General Secretary of KPAWU, considers that a family of four with two wage earners can only earn about one quarter of the amount needed to provide clothing, food, housing, education, healthcare and a modest amount for savings[82].

Sri Lanka

A new wage deal was signed between the three main tea unions and the Employers Federation of Ceylon in March 2001 setting the daily rate for plantation workers at Rs 121 ($1.34). This is computed on three components:

a. daily wage Rs.101
b. price share supplement Rs.15
c. attendant's incentive Rs.5

The attendant's incentive if for workers who have attended work over and above 75% of the days they were offered work. The Employers' Provident Fund (EPF) and Employers' Trust Fund (ETF) are paid only for the daily wage of Rs.101.

The minimum daily wage set by the Tea Growing and Manufacturing Trade-Wages Board is Rs.111 ($1.23), consisting of the minimum daily wage (Rs.101) and the additional allowance to private sector employees (Rs.16), which is provided under the Public Security Ordinance.

India

According to official government figures, average daily earnings in tea plantations is 28.08 rupees ($0.60 on exchange rates of July 20 2001). The evolution of tea plantation wages through the various rounds of occupational wage surveys is as follows[83]:

	1958-59	1963-65	1974-79	1985-92	1993-
Wage in rupees	1.66	2.15	5.51	15.86	28.08

Average daily earnings for other plantation sectors in the current round are:
Coffee – Rs 24.39 ($0.52)
Rubber – Rs 40.24 ($0.85)
Cotton – Rs 77.77 ($1.65)

Figures released by the Indian government's Labour Bureau in July this year provide a breakdown of wages in tea plantations[84]:

	Average daily wage rates (Rs)									
	Men		Women		Adolescents		Children		All workers	
	Min	Max	Min	Max	Min	Max	Min	Max	Min	Max
Plantation labour	19.04	25.97	19.45	29.11	17.35	20.06	8.66	15.21	18.77	27.11
Driver	36.25	72.40	0.00	0.00	0.00	0.00	0.00	0.00	36.25	72.40
Supervisor	29.22	64.48	32.38	69.97	0.00	0.00	0.00	0.00	29.25	64.53
Watchman	23.89	33.42	0.00	0.00	0.00	0.00	0.00	0.00	23.89	33.42

[82] Fairtrade Foundation
[83] Average daily earnings in (Rs .00) in various rounds of occupational wage surveys, Labour Bureau, Government of India
[84] Labour Bureau, Government of India

Residual	25.44	25.44	0.00	0.00	0.00	0.00	0.00	0.00	25.44	25.44
All occupations	19.85	28.56	19.45	29.12	8.66	20.06	8.66	15.21	19.14	28.21

There is no government minimum wage for the tea sector; wages are set by tripartite negotiation between employers, trade unions and State governments. In Assam, wage negotiations are bipartite and include only the employers and the ACMS (Assam Cha Mazdoor Sangh) trade union, but there are indications that the state government wants to get more involved. There are a large number of competing unions in India, so despite high levels of unionisation, the workers have little real power.

Wage rates vary widely between regions. In January 1999 minimum daily rates were[85]:

Region	Wage in Rs	Wage in $
Assam	31.60	0.67
West Bengal	32.30	0.69
Kerala	61	1.29
Karnataka	52	1.10
Himachal Pradesh	51	1.08
Tamil Nadu	56	1.19

These rates are likely to be current.

In Assam, the pluckers are given an incentive of Rs 0.27 per kg of tea leaves plucked over and above the given task (21-24 kg) during the peak season. In some gardens, the plucking is also given on contract at Rs 0.90-1.00 per kg for the whole day. An average worker during the peak season plucks 30-35 kg a day. According to ABITA, every permanent worker should also be provided with 9.78 kg of foodgrain per week at a subsidised rate. The amount of foodgrain provided varies from garden to garden.

Wages vary within regions as well. Specific tea estates in North Bengal:

Tea estate	Daily wage (Rs)	Required weight of tea leaves (kg)	Extra leaf price (Rs per kg)	Ration (kg)
Singtom, Darjeeling	32.30	8	0.90-1.25	3.3
Kalchini, Jalpaiguri	30.60	…	…	6 (+3 for each child)
Rheabari, Jalpaiguri	32.30	24	0.32	…

… information not available

Malawi

The Tea Association of Malawi Ltd. (TAML) and the Plantation and Agricultural Workers' Union are bound by the current collective agreement signed on May 1 1999.

The minimum daily wage is K25 ($0.44), for a 48 hour, six day, working week. Pluckers have a target of 44kg per day and receive K0.57 per extra kg plucked.

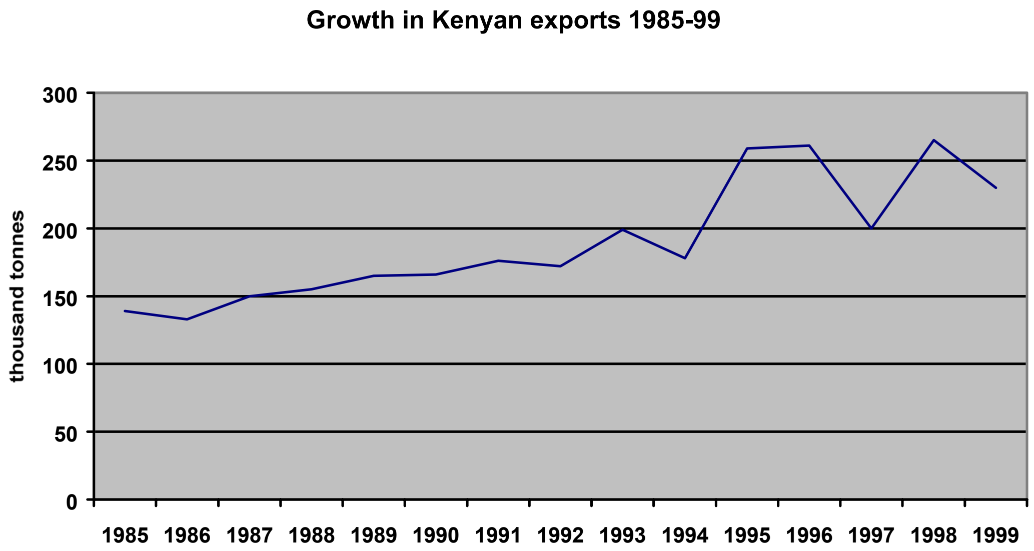
Theoretically women receive the same pay as men, although much of the field work, traditionally carried out by women, is paid on a piece rate basis for which a five hour day is not uncommon. Although officially no children work on the plantations, youths from 14 years old are allowed to work an 8 hour shift for which they receive approximately three quarters the pay of adults[86].

[85] Brewed in the sweat of forced labour, National Campaign on labour Rights, 1999
[86] Fairtrade Foundation

Annex 2: Producing country profiles

Kenya

Production of tea in Kenya has expanded enormously since independence, from 18m kg of made tea in 1963 to 249m in 1999. At present Kenya is the biggest black-tea exporter in the world, having overtaken Sri Lanka in the early 1990s, although a bad harvest in 1999 put it in second place for that year. It has been estimated that Kenya will account for 20-23% of world exports by 2005.



At this level of market share, there arises the danger that any significant increase in Kenya's tea production might have a negative effect on international tea prices, especially given the stagnant or declining demand for tea in Kenya's traditional markets, particularly Europe. The problem is aggravated by the efforts of neighbouring countries such as Uganda and South Africa in vigorously developing their tea sectors to supply more or less the same markets.

Another problem afflicting the Kenyan tea sector is the concentration of exports to just a few countries. With the vast majority of exports going to the UK, Pakistan and Egypt, Kenya will experience a crisis if any one of these markets is destabilised. There is a need to expand into other potential markets, especially in the Middle East, Africa and some parts of Asia.

Big players in Kenya

In 1999 Kenya's tea production by company/managing agent was as follows[87]:

Company	Factories	Production (kg)	% of national output
Brooke Bond Kenya Ltd.	11	26,846,838	10.8
African Highlands Produce Co. Ltd.	5	17,271,981	6.9
Eastern Produce Co. Ltd.	7	14,591,929	5.9
George Williamson Kenya Ltd.	3	8,462,606	3.4
KTDA	45	153,855,368	61.8
Others	12	27,789,296	11.2

[87] Tea Board of Kenya

Total	83	248,818,018	100.0

Most large plantations are organised under the Kenya Tea Growers' Association (KTGA), whose membership is restricted to those with more than 10 hectares in farm area and represent 38% of Kenya's total tea output.

As the largest plantation company, Brooke Bond Kenya (Unilever) has a major presence in the country, as indicated by the representation of Kericho in Kenya's football league by "Brooke Bond" football team. The company has 18 plantations with 22,000 workers, with approximately 100,000 people dependent on it for health care.

Housing and health care on Brooke Bond Kenya estates:
The employees and families live in cement-walled, corrugated metal-roofed duplex style houses, situated close together in large housing areas. The houses usually have 1.5 rooms, which a wood or charcoal-burning fireplace, one door, and two unscreened windows.

Approximately 100,000 people are considered eligible to use Brooke Bond's health care system, which includes the Brooke Bond Central Hospital in Kericho. This hospital's importance in providing health care for the population is such that, when the US National Center for Infectious Diseases wanted to investigate malaria in Kenyan Highlands, it took virtually all its data from this hospital. The hospital has 67 beds, two physicians, and two clinical officers, and averages 50 to 80 hospitalized patients per day and 20,000 outpatients per year. Three outlying medical centers, each with a clinical officer, see 15,000 to 20,000 patients per year; and 26 dispensaries, each with a nurse provider, see approximately 180,000 to 240,000 outpatients per year. (11)

African Highlands Produce Co (formerly Finlays), the second largest plantation company, has a monopoly on the orthodox market in Kenya as Finlays owns the only orthodox factory in Africa, called Saosa in Kericho. All 45 KTDA factories are for the production of CTC tea. Because Finlays supplies the Sainsbury supermarket chain with all its tea and ground coffee, it can safely be assumed that all Sainsbury's orthodox Kenya tea is from this one factory. It has been estimated that, for Sainsbury's "Kenya" tea bags, less than 3% of the final price of the product consists of the wage of the plantation worker.

The leading tea packing firm is Kenya Tea Packers Ltd., which buys 7% of KTDA's output.

Sri Lanka

Sri Lanka is a country that has been successful in capturing more value in the tea supply chain through value-added production. Value-added production opens opportunities for market differentiation in that tea of different qualities or levels of blending/processing can be sold to different types of markets depending on market tastes and purchasing power. Statistics indicate that value-added production can achieve a 500% premium on the made-tea price. Sri Lanka started value-added production in the early 1980s and now exports more than 70% of its tea in value-added form.

In recent years, Sri Lanka has had to adjust to the decline in consumption in Russia, which was traditionally supplied by India and Sri Lanka, by finding an opening in the United Arab Emirates, and UAE was the largest importer of Sri Lankan tea in 1999.

Top 5 importers of Sri Lankan tea in 1999

Big players in Sri Lanka

More than half the tea crop in Sri Lanka is produced by small farmers but the plantation sector is again dominated by a few large companies.

Finlays produces 16 million kg of tea in Sri Lanka. Finlays Colombo also owns, markets and packs the Swan (Alwazatea) brand in the Middle East.

John Keells Holdings Ltd., Sri Lanka's largest conglomerate, owns 20 estates (including Strathspey, Brunswick, Gonakalles, Kandehena, Kirkless, Luckyland) producing 10 million kg of tea per annum.

Tata Tea has the majority stake in Watawala Plantation Ltd. which has 20 estates south of Colombo producing 8 million kg of tea, amongst other produce. One such estate is in Hatton, shown in the box below. Tata Tea also manages Kahawatta Plantation Ltd. in Sri Lanka.

Largest exporter of tea in 1998 was Akbar Brother Group with 31 million kg. In 1999, the same company exported over 29 million kg.

India

As well as being the world's largest producer of tea, India is also the world's largest consumer, with an increasing domestic consumption that is likely to lead to the country being a net importer.

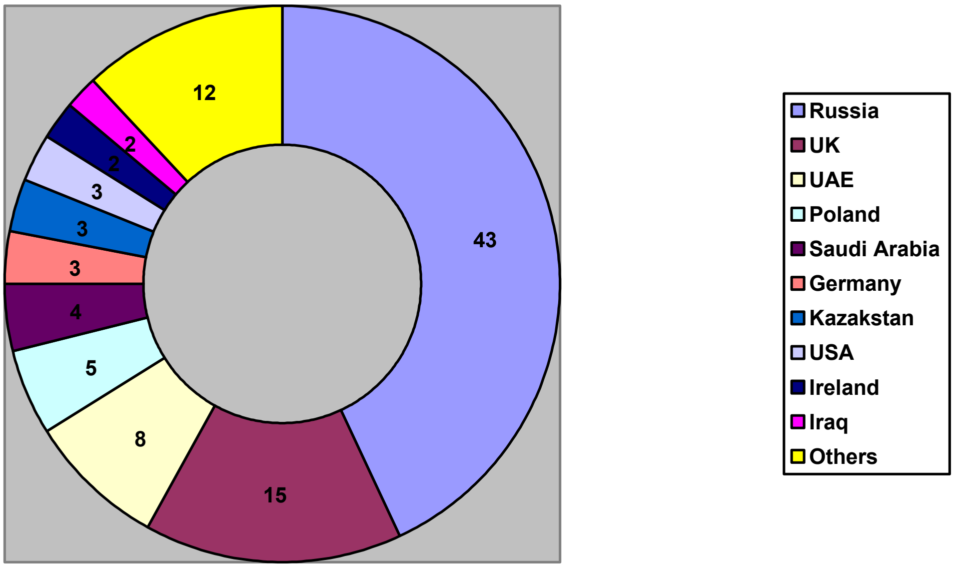
Indian tea is found at both ends of the quality spectrum. While Darjeeling is considered 'the champagne of teas' and fetches enviable prices, one can cite the low quality tea produced in the Kerala region; the fall in prices for lower quality teas will stand in the way of the investment needed to improve production and yields in this part of India. The Indian decision in 1998 to cut import duties on tea from Nepal, Bangladesh and Sri Lanka should bring about strong competition in this part of the market.

It is not only low quality teas that are facing tough international competition. Darjeeling, already suffering from production stagnation and falling prices, is under threat from the discovery of an identical aroma and light golden liquor in tea from the Nepalese hills in the district of Ilan. As well as a target of 46m kg for overall tea production by the end of the decade from less than 8m kg now, Nepal's national tea policy announced in 2000 also aims to have at least 65% of this decade-end production in the form of whole leaf orthodox tea. Darjeeling customers in Germany and Japan, the two most important destinations for Darjeeling tea, have already discovered that some orthodox tea can be sourced from Nepal at attractive rates. Darjeeling planters must cut production costs or face accelerated decline. Some factories are certain to cease production.

Recently, the devaluation of the Sri Lankan rupee and Kenyan shilling has made Indian tea even less competitive in export markets. Goodricke Group, the third largest tea producer in India, stated: "We have to reduce costs by cutting down on labour and becoming more mechanised. Otherwise, there is no survival." This focus on cost-cutting could exacerbate working conditions for tea estate workers.

India has also been struggling to adjust to the decline in the Russian market. After the UK, Russia is the world's second biggest tea market, and was traditionally supplied by India and Sri Lanka. In the search for new markets, India exported over 170m kg of tea in the first 10 months of 1998 to Iran, Libya, and Iraq, while continuing its export efforts to Europe, and to the UK in particular. In a production and export scenario 2000 status paper, the thrust markets were identified as Iran and UAE for North Indian tea, and Iraq, Jordan, Syria, Turkey and Libya for South Indian tea. Russia remains, however, India's largest customer, and Russia's rapidly declining demand for tea (Russian tea imports fell by 37% between Jan-April 1999 and Jan-April 2000) poses a serious worry for India's export trade.

Indian exports by country in % in 1999



Big players in India

Leaders in the Indian domestic branded teas market:

1. Hindustan Lever Ltd.
2. Tata Tea Ltd. – 21% share

Unsurprisingly, the same two companies also feature prominently as buyers of tea in India. In 1999, Hindustan Lever bought 33.4% of the total tea sold at the Guwahati tea auction, while Tata Tea bought 12.9%.

Hindustan Lever claims to be also India's largest tea exporter and the world's largest packet tea marketer. Of the top ten tea brands in India, 7 are from Hindustan Lever: Red Label, Taaza A1, 3 Roses, Super Dust, Top Star and Ruby Dust.

Tata Tea has 54 tea estates in India: 21 in Assam, 4 in West Bengal, 24 in Kerala and 5 in Tamil Nadu. It also has 10 blending and packaging factories, including a CTC factory at Kakajan, Assam, processing nearly 100,000 kg a day, a fully automated factory at Madupatty in Munnar and the Chundavurrai factory also in Munnar, the world's largest Orthodox tea factory with a daily processing capacity of 106,000 kg.

Contending the position of India's biggest exporter of tea was Williamson Magor, the tea-making division of Eveready Industries India Ltd. Its polypack unit at Chuapara tea estate in the Dooars region has a processing and packaging capacity of 15,000 kg a day. Approximately 90% of the unit's tea is sourced from Williamson Magor's tea estates spread over mostly in Assam and Dooars. (13) However, in April this year Williamson Magor underwent a split, leaving the group with 25 tea gardens producing 35 million kg of tea, while George Williamson took control of the remaining 34 with an output of 20 million kg (14). In 2000 it held $4^{th}/5^{th}$ place in India's branded tea sector, but was aiming for 3^{rd} place, after Hindustan Lever and Tata Tea.

Four auctioneers are licenced to operate on an All India basis (i.e. all six auction centres: Guwahati, Calcutta, Siliguri, Cochin, Coonoor and Coimbature): J. Thomas, Carritt Moran, Contemporary Targett and Paramount Tea Marketing. The largest broking houses are as follows:

Rank	Company	Broking volume (kg)	% of Indian auction market
1	J. Thomas and Co. Pvt. Ltd.	155 million	33.3
2	Carritt Moran and Co. Ltd.		24
3	Contemporary Targett Pvt. Ltd.	55 million	12