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Synopsis of research findings

Proposed enhancements to requirement 3.5.4 on wages level of the Hired Labour Standard after a suspension request was approved

To	Sri Lanka tea producers and relevant supply chain stakeholders
Worshop	13.03.2024
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Project Information

General introduction

This project responds to the suspension request for the requirement in the Fairtrade Standard



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for Hired Labour (HL) 3.5.4. on wage increase specifically in Sri Lanka. The request was submitted by the Network of Asia & Pacific Producers (NAPP), dated 19 October 2023, related to the **extraordinary high inflation situation** that Sri Lanka has experienced during the years 2021 and 2022. This situation brings a lot of challenges that makes it difficult for companies to comply with the requirement on real wage increases.

Following the suspension request, this project addresses the implications of inflation related to wage adjustments and the section of the 3.5.4 requirement that states that “...*companies should ensure that real wages are increased annually to continuously close the gap with the living wage...*”. As part of the preparation for the full HL Standard review which is expected to start in 2024 (according to the Standard Operating Procedures for the Development of Fairtrade Standards/Minimum Prices and Premiums), the requirement 3.5.4 is under a research phase to assess and propose improvements for its overall implementation.

Executive Summary

A summary of the participant’s observations and concerns is as follows:

- Methodology for Living Wage calculation: The methodology used by Richard and Martha Anker has raised concerns among participants due to confusion and mistrust.
- Living Wage Benchmark in Sri Lanka: Questions have been raised about the fairness of Sri Lanka's latest living wage benchmark, particularly considering the economy in 2022.
- Fairtrade Sales vs. Living Wage requirements in Standards: The low percentage of Fairtrade sales compared to total production and the presence of non-certified estates contribute to challenges in implementing living wage standards. Living income vs living wage: While surveys suggest that family incomes often surpass the living wage benchmark when additional family employment is considered. There is a lack of awareness about the living income figure set for Sri Lanka.
- Living Wage Plan and wage ladder vs Forex: Participants support the concept of a Living Wage Plan and setting wage targets autonomously. However, currency volatility raises concerns about maintaining stability and fulfilling commitments to wage increases.
- Clarification on Auditor's Non-Compliance: Potential Issues have been identified with auditors' non-compliance if producers miss targets in the Living Wage Plan. The term "meaningful" in wage improvements is ambiguous.
- Payment Frequency: The discrepancy between monthly living wage calculations and daily wage settings on plantations leads to pay adjustments for workers with fewer workdays, bypassing the set monthly living wage. A standardized pro-rata system is essential for fair living wage calculations.
- Inclusion of In-Kind Benefits: Accounting for in-kind benefits like housing, transport, education, healthcare, and childcare is vital in living wage calculations. These benefits are substantial expenses for companies and should be included in the prevailing wage calculation. The debate exists on whether to exclude these from the methodology or include them with annual audit checks.



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- Country and Sector-Specific Laws: Developing Fairtrade standards necessitates considering country-specific laws and sector-specific requirements.
- Revenue Share Model (RSM) Integration: Incorporating the RSM into Fairtrade standards could help bridge gaps.
- In Sri Lanka's tea sector, centralized wage determination by the government's Wage Board, with triennial announcements, restricts companies from making independent inflation adjustments. Plantation representatives hesitate to commit to annual wage increases but are open to discussing the Living Wage Plan outcomes. Producers oppose trade union involvement, viewing it as irrelevant to the broader population.

Way forward

The findings from this research phase are consolidated in this synopsis paper and will be sent to all participants and will also be published on the Fairtrade International (FI) website. The findings will also provide inputs for the full review for the Hired Labour Standard which will also include a thorough consultation phase in all regions as per Fairtrade Standard setting SOP.

Activity	Timeline
1st workshop with Sri Lankan tea producers	13 th of March 2024
Analysis of research phase	April-May
Publication of consultation in research phase	June
Consultation of the HL Standard (focus on labour conditions and wages)	October 2024

Abbreviations

LWB Living Wage Benchmark
LWP Living Wage Plan
GLWC Global Living Wage Coalition
TU Trade Unions
CBA Collective Bargaining Agreement
NAPP Network of Asia & Pacific Producers

Research outcomes

Research Process

The research phase will serve as the foundation for the comprehensive review of the Hired Labour Standard. Key stakeholders and experts contributed their perspectives and findings.



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Although the research phase that respond to the suspension request required consultation only to Sri Lankan tea producers, other key stakeholders were actively consulted:

- Sri Lankan Tea Producers and NAPP
- Fairtrade Worker's Rights Advisory Committee/Senior Advisor for Workers' Rights.
- Global Product Managers for Banana, Flowers, and Tea.
- FLOCERT Regional Coordinators.

Feedback and Reporting: All feedback gathered during this project will be meticulously documented and reported to the Standards Unit. This information will inform the full review of the Hired Labour Standard, scheduled for Q3 - 2024. The Hired Labour Standard Review Project represents a collaborative effort to enhance labour practices and promote fairness within the industry. By addressing wage levels, we aim to create a more equitable and sustainable future for workers worldwide.

Participants

Eleven participants representing eight different tea plantations in Sri Lanka. General Managers, Managers and Senior Managers were present.

Research outcome

PART 1

Requirement 3.5.4. Living Wage Plan and Report

Core. Year 1.

If the prevailing wage - defined by Fairtrade International- of any worker in your company is below the living wage benchmark - identified and approved by Fairtrade International- you commit to a Living Wage Plan (LWP) with annual self-selected targets -that go beyond inflation adjustments- and timelines to increase wages to continuously reduce or close the gap to a living wage.

To provide verifiable evidence that wages are getting closer to a living wage, the company must report annually on the execution of the plan, whereas both the plan and the report must be based on the Framework for Living Wage Plans and Reports provided by Fairtrade International.

Where a gross living wage benchmark (LWB) has not yet been established or yearly updated, annual increases in the basic wage are required that at a minimum match the annual average inflation of the previous calendar year.

This requirement is not applicable if a sectoral or a company level CBA includes specific clauses related to annual wage improvement -that goes beyond inflation- for those workers whose prevailing wage is below the latest living wage benchmark

Guidance: The wage definition approved by Fairtrade international is based on the Anker methodology that sets the prevailing wage that would be compared to a gross living wage



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benchmark. The mandatory Framework for the Living Wage Plan and Report -defined by Fairtrade International- can be accessed on our web [here](#). The gross living wage benchmarks, as approved by Fairtrade International, are in accordance with those published and periodically updated by the Global Living Wage Coalition (GLWC).

Rationale for the change

- *The proposal follows recommendation from ISEAL to converge to a process to install a mechanism to monitor wage improvements (Living Wage Plan).*
- *While Product Standards set the criterion to define floor/base wages, this criterion is addressed to products with less experience/awareness to achieve living wages.*
- *Companies should have flexibility to set their own targets to comply with increases, nevertheless, targets should be meaningful. The Framework for the Living Wage Plan and Report will define basic principles and guidelines:*
 - *The definition of a prevailing wage that will be used to compare to a living wage.*
 - *Description of stipulated forms of remuneration accountable to reduce the gap to a living wage.*
 - *Examples of targets, timelines, and actions to increase wages.*
 - *A glossary.*
 - *A timeline between [2 and 4 years] to demonstrate wage improvements beyond inflation adjustments. The plan should be presented in year 1, and the first report in year 2. The Plan should be updated in year 5.*
 - *Targets should be established as a percentage of the living wage and must reflect improvements additional to inflation adjustments.*
 - *Guidance to calculate inflation adjustments and what elements of the prevailing wage should be updated by inflation [definition of the basic wage}. This will be applicable for yearly inflation adjustments (Req. 3.5.x AND when living wage benchmarks are not yearly updated by inflation).*
 - *Targets are self-determined by employers, and communicated to workers, nevertheless, the Living Wage Plan is expected to achieve a meaningful improvement in prevailing wages. If a Living Wage Plan cannot close the gap within 4 years, companies must achieve at a minimum [20% increase] in 4 years.*
 - *Templates and rules for reporting wage improvements (i.e. excel sheets with all job categories).*

Feedback:

- **Methodology for Living Wage calculation:** There is evident confusion and mistrust among participants regarding the methodology used by Richard and Martha Anker for calculating living wages. It's crucial to provide clear explanations of these methodologies to alleviate concerns about their relevance and accuracy.



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- **Living Wage Benchmark in Sri Lanka:** The fairness of the latest living wage benchmark for Sri Lanka has been questioned, especially in light of the economic indicators for 2022. Participants noted a discrepancy between the official poverty line (LKR 13,777), the national minimum wage (LKR 16,000), and the living wage benchmark (LKR 47,464). Clarification is needed on these figures and the rationale behind the Global Living Wage Coalition's benchmark.
- **Fairtrade Sales vs. Living Wage requirements in Standards:** The contrast between low Fairtrade sales (less than 2% of total production) and the implementation of living wage standards presents challenges. The existence of non-certified estates adds to this complexity, potentially leading to worker unrest due to increased compliance costs without proportional sales benefits. Living income vs living wage: surveys conducted by plantations suggest that family incomes often exceed the living wage benchmark when other family members are employed outside the plantation. The living wage is perceived by the participants as a sufficient income for an average family in Sri Lanka. Nevertheless, the living income for Sri Lanka is set at LKR 76,266—a figure not widely known among participants.
- **Living Wage Plan and wage ladder vs Forex:** The concept of a Living Wage Plan is well-received, with participants appreciating the autonomy in setting wage targets. However, concerns arise amidst currency volatility. Stability, marked by consistent upward trends, solidifies wage increments. Conversely, a drop in exchange rates can negatively affect company revenues, making the commitment to raise wages difficult to achieve.
- **Clarification on Auditor's Non-Compliance:** Concerns were raised regarding non-compliance raised by auditors when producers fail to achieve planned targets outlined in Living Wage Plan. Clarity is sought on the expectations and handling of such situations. Although a 20% increase in 4 years was presented as the least meaningful increase, participants raised concern on the use of the word “meaningful” in setting improvements for wages which is open to different interpretations from companies and auditors.
- **Payment frequency:** The monthly calculation basis for living wages contrasts with the daily wage setting on plantations. Workers reporting fewer days than available may face pay adjustments, exempting plantations from disbursing the predetermined monthly living wage. This necessitates a unified approach between companies and auditors to adopt a pro-rata system for living wage calculations when reduced workdays occur within a month. Inclusion of in-kind benefits: the inclusion of in-kind benefits such as housing, transport, education, health care, and childcare in living wage calculations is crucial. These benefits represent significant costs to companies and must be accounted for calculating the prevailing wage as opposed to the basic wage. There's was debate on whether to exclude these expenses from the calculation methodology (and only g=focus on the basic wage) or to include them with considerations for company commitments under the Living Wage Plan, subject to annual audits. Additionally, government subsidies like Samurdhi and Aswesuma should be factored in due to their impact on variable taxes paid by companies.
- **Country and Sector-Specific Laws:** Formulating Fairtrade standards requires careful consideration of both country-specific laws and sector-specific requirements to ensure relevance and applicability.
- **Revenue Share Model (RSM) Integration:** Participants mentioned that the integration of the Revenue Share Model (RSM) into Fairtrade standards could bridge the living wage gap.



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Participants are in favour of discussing the inclusion of RSM in the upcoming Fairtrade Hired labour standards consultation.

PART 2

Requirement 3.5.x. Inflation adjustment in wages

Core. Year 0

To prevent the gap to a living wage from growing wider, your company provides verifiable evidence -tables with full salary calculations- that the basic wages -as defined by Fairtrade International- that are below the latest living wage benchmark have been adjusted each year based on the annual average inflation of the previous calendar year.

This requirement does not apply if i) your company or a sectoral CBA includes a clause to adjust basic wages by inflation on a yearly basis; ii) your company applies the same or a higher percentage of the annual wage increase announced by the government each year for the productive sector corresponding to your company; iii) in economic disruptions and crisis -as defined by the respective national government- you provide verifiable evidence that your company is affected by it, and you implement protective measures to prevent the purchasing power of workers from falling dramatically. (i.e., means-tested vouchers for essential goods and/or limited relief cash allowances). When CBAs exist, you negotiate specific additional clauses related to the crisis-affected and fragile setting with the Trade Union that is party to the CBA.

Guidance: The Framework for the Living Wage Plan and Report provides the methodology to adjust wages by inflation.

Rationale for the change

- *This requirement is created to separate the objective of "closing the gap" from the objective of "preventing the gap from growing wider". These increases are independent of the increases for requirement 3.5.4, and companies should comply with both.*
- *In the event of economic disruption or crisis, it is the company that makes the judgement as to how its business is affected, however, the text provides a padlock by requiring agreement and social dialogue to enable recovery efforts - based on consensus - in relation to wages and/or other forms of remuneration.*

Feedback:

- In the context of Sri Lanka's tea industry, it has been observed that wage setting is a centralized process, determined by the government's Wage Board, and CBAs will no longer be achieved. There is an industry-wide practice that stipulates that companies are bound to adhere to the Wage Board values, leaving no room for deviation. Consequently, this structure inherently limits the capacity for companies to make independent yearly



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inflation adjustments.

- The Wage Board announces these wage standards triennially, which means that any adjustments to wages can only occur once every three years.
- Given this scenario, participants expressed concerns regarding the inability of companies to adjust wages in response to inflation, highlighting a potential disconnect between government-mandated wage rates and the desire to achieve living wages through the Fairtrade Standards.

PART 3:

Requirement 3.5.xx Participation in negotiations for wage improvement

Core, Year 0.

Where your company is unionized, you are required to negotiate the substance of the Living Wage plan with trade unions representing workers in your company. You must demonstrate that you have actively conferred with trade unions or workers representatives, i) a formal agreement of the Living Wage Plan and ii) a process of joint monitoring of the Living Wage Plan.

Regardless of the existence of a CBA, your company is required to inform and promote active participation from Trade Unions or workers representatives during the quarterly sessions prescribed in the requirement 3.4.8. This includes providing them information about i) the most updated gross living wage benchmarks approved by Fairtrade International, ii) the company's Living Wage Plan and its means to achieve the latest benchmark in a timeline, iii) the forms of remuneration used to close the gap to a living wage, as approved by Fairtrade International, and iv) annual Living Wage Report that includes how targets were met in accordance to the requirement 3.5.4.

Guidance: the Framework for the Living Wage Plan and Report provides guidance about the forms of remuneration used to close the gap.

Rationale for the change

- *This requirement allows the implementation of the Living Wage Plan in two directions:*
 - *If a company level CBA is in place, companies must give proof of negotiations of the Plan. If a sectoral CBA is in place, companies cannot propose wage increases and any other measures below the terms of those agreements.*
 - *In the absence of a CBA, companies are asked to demonstrate that they conduct information sessions, consultations and encourage the participation of elected workers' representatives in instances prescribed by the Hired Labour Standard.*

Feedback:

- **Worker Representatives' Participation in Wage Improvement:** During the discussion on wage improvements, plantation representatives have shown reluctance to formalize



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agreements for year-on-year wage increases. Nonetheless, they have expressed a willingness to inform and communicate the outcomes of the Living Wage Plan.

- **TU involvement in LWP:** On the other hand, producers have firmly rejected the involvement of trade unions in these discussions. They believe that including trade unions would force introducing a very particular aspect that concerns only Fairtrade plantations that are out of the interest of a broader segment of the population.