WAGE INCREASE FOR PLANTATION WORKERS

Background

In January 1992, the daily wage for a plantation worker was Rs.60/24. In the 1993 budget, all government employees were promised a salary increase of Rs.500 to be paid in two instalments: Rs.300 in January and Rs.200 in July 1993. For daily paid employees, assuming that they work 25 days a month, the corresponding increases in the daily wage would be Rs.12 in January and Rs.8 in July 1993.

With privatisation in 1992 and with the plantations running at a loss at that time, there was much debate as to whether this wage increase was applicable to the plantation workers. However, based on a gentleman's agreement between the Ceylon Workers Congress and the Lanka Jathika Estate Workers' Union on the one hand and the Employers Federation representing the new plantation companies,an increment of Rs.12/- was granted from January 1993 raising the daily wages to Rs.72/24.

The unions continued to maintain that not only the balance wage increase of Rs.8/- but also the increase of Rs.10/- granted to state employees in the 1995 budget was legitimately due to them and that their daily wage should be raised from Rs.72/24 to Rs.90/24. There was a widespread agitation and a major strike in the plantations based on this demand. However, the companies backed by the Ministry of Plantation Industries had their way and the two unions were forced to agree to accept a consolidated daily wage of Rs.83 from July 1996 to be frozen till the end of 1997.

There was widespread criticism of this agreement by plantation workers who felt that wages should not be frozen but indexed to the cost of living; this would have entitled them to an extra four cents for every unit increase in the index. They would have also preferred a collective agreement in which there was a guarantee of a minimum number of work days a month and no arbitrary changes in work norms or working conditions. However, while the agreement held for nearly 18 months, the resentment of the workers continued to build up with inflation and rising costs of living; the poor performance of CWC candidates at local government elections in March 1997 was a clear demonstration of this displeasure.

Negotiations

It was in this context that negotiations for a wage increase commenced towards the end of 1997. In addition to the CWC and the LJEWU, the Joint Plantation Trade Union Centre representing about 10 other unions is also participating in these talks, ensuring the near 100% participation of the workers. While this will greatly strengthen the negotiating position of the trade unions, it will also be beneficial to the companies in that once an agreement is reached, it will hold and there will be industrial peace for at least the duration of the agreement.

It is reported that the companies have agreed to increase wages by 13% from Rs.83 to Rs.95, in addition to a Price Share Bonus based on the increase in the selling price of tea which is currently expected to be about Rs.5. The unions have rejected this offer and are demanding a minimum wage of Rs.105. The negotiations are now suspended. The unions have given a month's notice of strike to commence on 5th February, 1998.

Cost of Living (COL)

The unions have always demanded that wages be indexed to the cost of living. There has been a steady increase in the index from 1960.8 in July 1996 when agreement was reached for the current wage freeze, to 2257.7 in December 1997. In July 1996, wages for tea plantation workers outside the companies as determined by the Wages Board was Rs.80.52 while the companies fixed a higher wage of Rs.83/- for their employees to remain valid till the end of 1997. On this basis there was a wage differential of Rs.2.48 in favour of the employees in company owned estates.

With the rising COL index, this differential began to be eroded and by June 1997 the gap closed and thereafter Wages Board rates increased gradually to Rs.88.92 in December 1997 . This discrepancy, where workers in company estates suffered, is illustrated in the table below:

	COL Index	Wages Board Rates (Rs/Day)	Company Rates (Rs/Day)
July 1997	2102.2	83.68	83
Aug. "	2106.4	85.45	83
Sept. "	2109.1	85.62	83
Oct. "	2112.5	85.73	83
Nov. "	2181.4	85.87	83
Dec. "	2257.7	88.63	83
Jan. "	-	91.39	-

If this trend continues, the daily wage rate at the end of 1998 would be Rs.120/44 and the average for the year Rs.105/92. This appears to be the reasoning behind the present demand for a wage increase to Rs.105.

Representatives of the plantation workers claim that the present COL index does not reflect the real position as far as the plantation workers are concerned. There can be endless arguments on this matter; the wide variation in the agro-climatic and other conditions within the plantation area might make a single index to encompass the entire plantation sector inappropriate.From their experience, a realistic estimate of the expenditure on food for a family of five persons with two income earners at prices prevailing in Nov/Dec. 1997 is approximately Rs.4,090/-. Assuming that, as indicated by earlier consumer finance surveys, 80% of the total household expenditure of the plantation workers is spent on food, they would incur a minimum monthly household expenditure of Rs.5112. In order to meet this expenditure, assuming that work is provided for 25 days a month and EPF contribution remains the same, the daily wage of a worker needs to be Rs.111/13 as at 1st January 1998.

Since this factor is likely to figure in all future wage negotiations, it might be useful if the companies and the unions cooperate to establish a cost of living index applicable to plantation workers.

Employers' Point of View

Two main reasons have been advanced by the companies for their inability to meet union demands. One, it will immediately increase the cost of production by Rs.15 per kg. They are apprehensive that prices in the world tea market may fall dramatically with excess of production in some countries and devaluation in others; in such a situation, Sri Lanka, already burdened with a high cost of production compared to its competitors, might face difficulties.

The second argument is that a Rs.22 wage hike will cost the industry about Rs.3 billion a year which it can ill afford. The companies are seriously under-capitalised and carry a large debt burden; the gearing ratios are said to be unacceptable being three times the equity. The first priority on windfall profits should be to clear the debt burden and to invest in replanting, soil improvement and factory development and not on wages.

From information available, there are a little over 320,000 workers in the tea plantations managed by the companies and in the private small holdings. They have produced about 250 million kg. of tea in 1997 with an export value of Rs.40 billion. Each worker therefore produces about 2.6 kg. per day with an export value of Rs.416/- assuming that he works for 300 days a year. However, due to absenteeism on the part of the workers and curtailment of the number of days of work provided, the total number of effective man days would be less, perhaps about 80% of what has been assumed above. On this basis, the output of each worker would be 3.25 kg/day with an export value of Rs.520 which at the current exchange rate of Rs.62 gives $ 8.39. The daily wage of the worker for this output is Rs.83 plus perhaps another Rs.30 labour related costs, a total of Rs.108.

If the demand for a wage increase of Rs.22 is granted, then with a 30% labour related costs, the daily wage bill for labour will increase from Rs.108 to Rs.136. To meet this increase, all other factors remaining unchanged, the selling price has to go up by Rs.8.61 per kg. The same result can also be expected if the dollar appreciates from the present value of about Rs.62 to Rs.65.3. Judging from recent trends, there is every likelihood of both a price increase and appreciation of the dollar; it can be argued plausibly that the companies can afford to meet the increased wage bill without suffering losses.

The other argument that the companies are under-capitalised raises an important issue. One of the basic objectives of privatisation was to attract fresh capital for investment in replanting, factory modernisation and improvement of amenities for labour. Confining the bids to Sri Lankan companies with little investment capital has thwarted this objective, whether by design or default. Its outcome has been to force companies to borrow from banks at high rates of interest for meeting both equity and investment needs.

Labour Productivity

Commentators on the plantation economy have stressed that low labour productivity and resultant high labour costs are the major contributory factors for the poor performance of the tea sector in Sri Lanka. This is often repeated; for example, an article in the *Island* claimed that "Our labour productivity on the tea pllantations is half that of Kenya and much below that of South India." This is only a half truth; in plantations which have been run down for decades, with the soil badly eroded and its texture poor, most tea bushes old and long past their prime bearing stage, coupled with stand density of 60 to 80% of the required optimum and rugged terrain which is exhausting for the worker. A tea plucker in Sri Lanka has to cover more than twice the acreage to obtain the same yield in comparison with her counterpart in Kenya or South India.

Cost of Production and Margins

In discussisng profitability, instead of concentrating only on labour costs, one also needs to examine the present structure of marketing and the high costs involved in it. In this connection, we have quoted below some of the relevant statistics from the "State of the Economy" published by the Central Bank in November 1997.

	1996 (First half)	1997 (First half)
Production of tea (Mm.kg)	128.9	129.8
Cost of Production Rs/kg	75.92	81.21
Price Colombo Auction "	98.15	109.37
Profit margin "	22.23	28.16
Prices export fob "	132.30	149.02
Margin between auction and fob price Rs/kg	34.15	39.65
Export earnings Rs.Mm.	15,007.00	17,749.00

From the above table it will be seen that there has been an increase of Rs.11/22 in the auction price from Rs.98/15 to Rs.109/37 and the corresponding increase in the profit margin from Rs.22.23 to Rs.28/16 from the first half of 1996 to the first half of 1997 while the increase in the cost of production per kg. was only Rs.5.29 during these two periods. Prices have continued to increase for all grades of teas throughout 1997 and the margin between the auction prices and fob prices increased from Rs.34/15 to Rs.39/65 between the first half of 1996 and 1997.

The daily average output of tea per worker was approx.2 kg. While the wages went up by Rs.12, ie. Rs.6 per kg, the profit margin for the companies increased from Rs.22/23 to Rs.28/16 and of the brokers from Rs.34/15 to Rs.39/65. To be sure the latter includes some costs but such costs it is understood constitute only a small part of the total cost. ■