

UTZ' RESPONSE

To the report: 'External Evaluation of the
UTZ tea program in Sri Lanka'

By Nucleus Foundation and Fair & Sustainable Advisory
Services.

June 2016



BACKGROUND

The UTZ tea program in Sri Lanka was launched in 2011 and has been implemented by and in collaboration with local and international partners. Our partners Solidaridad Network, IDH Sustainable Trade, Ethical Tea Partnership, Institute for Social Development (ISD), JDE, Douwe Egberts Foundation, Sri Lanka Standards Institution and the Research Institute of Sri Lanka have played an important role in promoting the UTZ program among tea companies, estates and farmers, and in providing technical assistance for the implementation of the standard.

UTZ wishes to acknowledge the vital contribution of these partners to the implementation of the program in Sri Lanka. The “UTZ tea program” always results from the efforts of different (supply chain) actors working together and independently.

This evaluation takes a systemic look at the performance of the UTZ tea program, and zooms in on the changes after certification reported by the management and workers of certified tea estates, certified smallholder farmers, tea traders and tea buying companies in the final destination markets. A quantitative measurement of the changes was beyond the scope of this evaluation. Instead, the evaluation used a mix of research methods to record, crosscheck and understand the perceptions of different stakeholders with regard to changes and the role and contribution of the UTZ program to those changes. The external evaluators did not limit their inquiry to changes as expected by the UTZ Theory of Change, but also looked for unexpected changes and contextual influences.

This evaluation was independent in the sense that the evaluation team, selected by UTZ after a competitive bid, designed the methodology and gathered data from respondents who remain anonymous to UTZ. The evaluation team is responsible for the findings, conclusions and recommendations, which were discussed with stakeholders in two validation meetings (Sri Lanka and Amsterdam). UTZ made the terms of reference for this evaluation, reviewed the draft report and paid the evaluators for their services.

UTZ adheres to the ISEAL Code of Good Practice for Assessing the Impacts of Social and Environmental Standards (Impacts Code). This entails a commitment to systematically monitor, research and report on the outcomes and impact of the UTZ program. UTZ is also bound to use the evaluation findings to inform stakeholders and to improve the program. For this reason, UTZ has committed upfront to publish the full reports of (impact) evaluations alongside a response that explains how we intend to use the findings.

MAIN FINDINGS

The tea sector in Sri Lanka faces several difficulties

The UTZ program was introduced in Sri Lanka against the backdrop of specific market and structural constraints. Tea is an important export product for Sri Lanka and provides work and income for 400.000 smallholders and 300.000 workers. The demand from Sri Lanka’s main export markets (Russia, United Arab Emirates, Turkey and the Middle East)

was negatively affected by the ruble crisis and by political conflicts in the Middle East. Moreover, these markets do not demand certified tea. The type of tea demanded by the European market (where the demand for certified tea is higher) is not available from Sri Lanka producers. Due to the terrain conditions in Sri Lanka (hills) the cultivation is labour intensive and hence relatively costly. Labour unions have a strong position and wages have increased over the last years, which of course has benefitted the workers. Rising wages however have not prevented labor shortages in the tea sector. Sri Lanka tea faces a strong competition on the world market from Kenya and India.

On the other hand, the villages located on tea estates have become more independent from the tea estates. These villages were established in the past to house the workers of estates, which were responsible for providing housing and services. The residents have diversified their options for work, income, housing and services. This is one of the causes of the labor shortages on tea estates.

Change in mind-set on tea estates

The introduction of the UTZ standard on tea estates requires amongst others setting up an internal management system and training management and workers on good agricultural and manufacturing practices. This has contributed to a mind shift on the work floor. Both management and workers of tea estates report that working relations have improved, and that there is an increased sense of ownership and mutual recognition. The workers appreciate the training opportunities, and experience more appreciation by the management. Management reports reduced absenteeism.

Changes in farming and manufacturing practices

Of the practices required by the UTZ standard, the most notable changes were reported on the better weeding practices (less “clean weeding”, which means that the soil cover is preserved), a safer handling of pesticides and fertilizers, and improved plucking methods. These practices have contributed to a better tea leaf quality and in some cases to increased yields. The post-harvest handling (drying, sorting, transportation, fermenting) has also improved, and equally contributes to improve the final quality of the tea.

Changes in working and living conditions

In addition to the improved working relations and trainings, certification requires the estates to take safety and precaution measure to protect workers from injuries and other hazards. The evaluation has found positive changes in the occupational health and safety, and improved water and sanitation facilities.

Environmental benefits

Only modest improvements were found with regard to reducing the use of pesticides and fertilizers, reducing water use, and with regard to biodiversity conservation and waste management. Adaptation of the tea cultivation to climate change is a concern to most producers in the sector, but there are no clearly articulated policies and practices in place that will enable producers to adapt to climate change on the medium and long term. The short term economic viability of the sector is a more pressing concern.

Low sales of UTZ certified tea

Looking at the market side of the tea chain, the evaluation calls to attention the low sales of UTZ certified tea to date, mentioned by the estates, companies and smallholder tea farmers as a major concern. Low sales of certified tea mean that the producers do not receive an UTZ premium, and have to forego this additional income. When certified sales do take place, the information about the premium is not always communicated back from the sales department to the estates belonging to a same company, and to smallholder farmers linked to the companies, depriving producers of this feedback and financial

incentive from the market. Finally, the tea auction system in Sri Lanka poses technical problems to negotiate the premium for certified tea.

Conclusions

The evaluation concludes that important intrinsic benefits of UTZ certification, such as improved production and management practices, and improved working relations have been internalized by estates in their day to day operations. This implies that after a few years in the UTZ program, these producers are likely to sustain such practices. Their major concern and complaint is the lack of the external economic incentive (the UTZ premium that depends on realizing certified sales) that is also “part of the deal”.

The high labor costs and low profitability of tea production limits the adoption of certain practices that require more labor or long term investments, such as tea bush rejuvenation and improving the soil fertility.

RECOMMENDATIONS

1. In order to restore the short term profitability of tea production producers could experiment with mechanization, outgrower schemes and creating higher job positions for women (the majority of tea pluckers are women), increasing labor productivity and reducing the overall costs of production.
2. Plantations and estates could discuss such investment plans with their workers, to create win-win situations and generate a “buy in” from their work force. The improved relations with the work force to which certification has contributed creates a good starting point for such a dialogue.
3. UTZ and local tea institutions should provide more specific guidance to producers on good agricultural practices aimed at climate change adaptation.
4. UTZ, producers and buyers should promote certified tea from Sri Lanka on the markets, and inform producers about market requirements.
5. The supply of UTZ certified tea from Sri Lanka should expand in pace with the uptake from the markets.
6. The negotiation of UTZ premium via de auction system should be standardized, in order to make premium more transparent to all parties.
7. UTZ and Rainforest Alliance should facilitate combined audits of producers who have multiple certifications, in order to reduce the costs of certification.

UTZ' response

UTZ welcomes the findings of this evaluation, and acknowledges that the positive outcomes are first and foremost the fruit of the commitment and efforts of certified producers, estate managers and their workers. They have received support of UTZ and partners as Solidaridad Network, Institute of Social Development, Douwe Egberts Foundation, Ethical Tea Partnership, national tea institutions and certification bodies. Last but not least, the positive outcomes are also the result of buyers who are committed to source certified tea from Sri Lanka. These collaborations in the supply chain drive and enable producers to adopt sustainable production practices.

We are encouraged by the finding that a range of more sustainable practices that deliver intrinsic benefits to producers and workers have already been internalized and are becoming “the new normal” for many producers.

We share the concerns of certified producers with the low level of certified sales, and understand that they are disappointed with the program in this regard. The UTZ program

is based on the premise that the market (buyers) should recognize and reward the efforts and investments made by producers, by paying a premium and investing in long term buying relationships. We also understand that the current mismatch between supply and demand of UTZ certified tea is due to several factors, such as the low demand for the Ceylon tea in markets where UTZ has more acceptance, contrasting with the low demand for certified tea in markets where Ceylon tea is highly appreciated.

Unfortunately we do not have straightforward solutions for the current mismatch between supply and demand of UTZ certified Ceylon tea. UTZ has a highly dedicated Market Development team that promotes UTZ certified teas from different origins in different markets. This team works closely with UTZ field staff in the producing countries to achieve a better match between supply and demand. To address this concern, the following actions will be taken:

- Share the results of the evaluation with members of the tea program as a way to raise awareness about of the need to increase purchase of certified teas from Sri Lanka.
- Link up quality and buying teams with the UTZ field representative.
- Address existing bottlenecks and gaps (types, qualities, regions, issues).
- Identify opportunities for certified teas from Sri Lanka in UTZ strategic markets.
- Promote UTZ producers and their stories via Customer Marketing by using existing B2B marketing tools: the UTZ Better Business Hub, impact and farmers stories.
- Develop case studies on the use of the premium in worker communities and smallholders to be able to promote the UTZ tea.
- Link up with marketing units of certified producers to identify opportunities for certified teas in existing conventional markets (buyers).

The lack of profitability of the tea sector in Sri Lanka, due to the factors mentioned in the evaluation, poses a threat for the sustainability of the sector. A sector that is not profitable is not sustainable. If this situation is not reversed, the jobs and income of hundreds of thousands of people are at stake. The recommendation to experiment with mechanization and other measures to increase labor productivity deserves attention of producers. The loss of jobs resulting from mechanization can be partially offset by creating more better paid, skilled and productive jobs. Special attention is needed to ensure that women, who currently make up the majority of the work force, have equal opportunities to access those positions.

The relatively strong position of unions in the tea sector in UTZ's view is an important asset. This has not only contributed to improving the wages of tea workers, but it is also important to represent workers in the discussions about the future of the tea sector. After all, workers also have an evident interest in a professional and profitable tea sector. This evaluation shows that workers, when listened to, are keen to collaborate with the management to improve the economic performance and the working conditions on estates. In many consumer markets, the working conditions of workers and the payment of a living wage will gain more prominence in the years to come. Sri Lanka has earned itself a strong position in this respect.

Female farmers should have equal access to better jobs and new business opportunities in the tea sector. It is important that if new production arrangements and business models are piloted in the sector (e.g. sharecropping arrangements), sustainability and equity criteria are built in from the very start.

UTZ addresses climate change adaptation in the control points on good agricultural practices and risk assessment. Specifically, UTZ encourages producers to include climate change in their risk assessment and implement the locally adequate measures to adapt

to climate change. In some countries UTZ is also able to support the implementation of the Code requirements by means of targeted projects, in collaboration with supply chain actors. Such conversations will also take place in Sri Lanka and may lead to setting up climate adaptation and mitigation projects with interested stakeholders.

Since a while combined UTZ and Rainforest audits are possible in Sri Lanka. The staff of certification bodies has received training from UTZ staff. This enables producers to reduce the costs of certification, in case they choose to certify for both standards.

With regard to the recommendation to develop a standard procedure for negotiating premium in the auction system, UTZ proposes that buyers and sellers agree a fixed premium (to be revised periodically), which is added to the knocked down price in the tea auction. The sales invoice from brokers will show the knocked down price, the UTZ premium and the total. UTZ will consult stakeholders in Sri Lanka on this subject, as the implementation ultimately depends on market parties.