

### Project assignment for the approved Standard suspension request of the

#### Hired Labour Standard (HLS) requirement 3.5.4

(4<sup>th</sup> December 2023)

This is a project assignment that follows the approved suspension request for the requirement 3.5.4. in the HL Standard. With the approved standard suspension request and the consequent project assignment for the review of the 3.5.4, the **requirement is suspended from the date of publication of this project assignment.**

This project assignment contains the most important information about the project **“HLS requirement 3.5.4 review for suspension request.”** For additional information, please contact the project manager (contact details below).

#### Rationale for and justification of need for the project:

This project responds to the suspension request for the requirement in the Fairtrade Standard 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 will address 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...”*. The requirement references real wages, meaning wages that are also adjusted for inflation. There is evidence that the requirement 3.5.4 related to real wage increases, during exceptionally high inflation rates, is difficult and/or not feasible to implement.

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 in a research phase to assess and propose improvements for its overall implementation. The project described in this document will address and conduct consultation **only on the inflation-related aspects of the requirement.**

A draft proposal for this project assignment was circulated on 30 October 2023 and requested feedback from interested parties. Fourteen individual feedback forms were received. The stakeholders that participated in the feedback stage were: 4 producers, 2 certified traders, 2 separate forms from 1 producer network, 1 national Fairtrade

organisation, FLOCERT and 4 individual feedback from representatives from Fairtrade's Workers Rights Advisory Committee. This project assignment document has been updated based on the feedback and contains a revised assessment of need, justification and risks as follows:

### Justification of need assessment:

1. Decertification of Sri Lankan tea producers would negatively impact 17,000 workers' opportunity to benefit from the **Fairtrade Premium** (as a reference, Fairtrade Premium earned by Sri Lankan tea organisations in 2021 was €77,487). For the currently certified producer organisations that have been or might get suspended or decertified due to inability to comply with this requirement, the suspension of the requirement would enable them to continue with certification, including making sales on Fairtrade terms with the associated Fairtrade Premium benefits for workers.

2. A suspension of the requirement would ensure that tea **supply chains are not interrupted** and there is an opportunity for growth of Fairtrade tea volumes, that would benefit producers and workers in the long term, if more attention and prioritization is given to the inherent social and labour-specific issues at the production level and low volumes and prices that affect tea supply chains.

3. A suspension of the requirement would avoid disruption of **ongoing projects related to living wages** that national Fairtrade organisations have facilitated with some of the affected producers. The goal of these projects is to calculate and highlight the current gap to a living wage and foster a commitment to wage improvements along the supply chain.

4. Allowing recertification or avoiding more decertifications will allow NAPP to continue to **build capacities** at the producer level and **promote an enabling environment to ensure a social dialogue** within a collective bargaining framework where workers are well informed about their right to a living wage and can participate in negotiations in equal conditions. Currently, wage and labour conditions negotiations between producers, workers and government are ongoing, and a collective bargaining agreement is expected in the upcoming months. NAPP has a unique opportunity to introduce the concept and objectives of a living wage as an inherent part of the Human Rights and Due Diligence policy into the negotiations of a sector-wide collective bargaining agreement.

5. The current requirement 3.5.4 of the **HL Standard doesn't recognise exceptionally high inflationary cycles**, where the feasibility of the requirement implementation is questionable. Although companies haven't provided financial proof of their inability to retro-pay wage adjustments, they have argued that the tea industry and the national economy were disrupted due to inflation in a post-COVID period that also heavily affected other industries' businesses and the government itself declared bankruptcy. **The suspension for wage adjustment** should be held until a new requirement is in place, after the full review and revision of the HL Standard starting in 2024.

6. **Workers' rights should be represented**, especially in critical economic scenarios such as hyperinflation, and at the same time solutions should be part of sound industrial/commercial relations and should focus on a **long-term**. This means that companies cannot go back to a “business as usual” scenario, but rather must propose or agree to an honest and feasible wage improvement plan towards the living wage benchmark, with enough flexibility to cope with cyclical economic fluctuations.

### Risk assessment:

1. The real value of wages of tea workers in Sri Lanka has plummeted since inflation started in September 2021 and no wage adjustment has been published by the National Wage Board of Sri Lanka. **The livelihoods of workers and their families were already seriously affected** during the 16-month period of high inflation (September 2021-December 2022). If no compensation policy for workers is set by the companies, these workers and their families are left with no safety net to meet the most basic needs for a decent living, which goes against the mission and vision of Fairtrade.

*Mitigation:* In the suspension request, the applicants repeatedly expressed that companies are keen to do their utmost for the workers' welfare. NAPP and several national Fairtrade organisations have pledged to continue to work with producers to explore potential solutions to the inflation-linked wage issues. NAPP has also pledged to **build capacities** at the producer level and **promote an enabling environment to ensure a social dialogue** within a collective bargaining framework where workers are well informed about their right to a living wage and can participate in negotiations in equal conditions. The willingness to work together to find solutions for future wage setting must also recognise the hardship already suffered by workers in 2021 and 2022 and find compensation solutions.

2. There is a risk that other hired labour organisations outside of the scope of this suspension project would **also request the same suspension or would postpone wage improvements** for workers, especially with regards to inflation-related wage increases. This is a risk for those workers, as well as for the integrity of the Fairtrade Standards.

*Mitigation:* A suspension should be of limited scope, namely that the suspension only applies to hired labour organisations in Sri Lanka, and that states the exceptionality and recognition of the extraordinary situation of high inflation, and national economic crisis that has affected the country in 2021 and 2022.

3. A suspension applicable only to Sri Lanka will represent a **credibility risk and “unequal treatment of customers” in an accredited system** and won't recognise that there has been good practice and evidence of company efforts that have complied with wage adjustments in countries that also have experienced high

inflation rates.

*Mitigation:* In any suspension request regarding high inflationary cycles, including the current suspension request, applicants should provide sound evidence of the extraordinary situation of high inflation that proves exceptionality in comparison from other countries and/or industries (e.g., (official declarations of economic crisis and its implications issued by official economic dependencies from the government)).

- 4. The timetable for the suspension poses a risk that the wage requirement will not be audited for up to three years**, given the timing of the HL Standard review. The applicants requested a temporary suspension of the requirement, covering the timeframe that the sector-wide collective bargaining process will be ongoing in Sri Lanka. But suspensions are always “indefinite” as defined in the Fairtrade Standards and Pricing Standard Operating Procedure. This means that any audits of tea producers in Sri Lanka conducted until the new HL Standard is in place – meaning 2025 or later if the timeline is extended – **will not include any requirement or check on wage improvement**. This could mean up to three consecutive audits for some producer organisations, where workers’ wages won’t be audited even if economic conditions are normal.

*Mitigation:* The calendar for the HL Standard review should be carefully planned to avoid any delays in its implementation. Decisions for the new Standard, including the requirement 3.5.4, should be made at the end of 2024. When a new Standard is published, it will be applicable to all certified producers, and any suspension for the old version will be automatically lifted.

- 5. If a sectoral CBA is not achieved, there is a risk that the Sri Lankan tea industry will continue to adhere to a practice of fixing wages** after the National Wage Board Ordinance announces the Minimum Wage. Without workers’ agreement of negotiations, a Wage Board Ordinance lacking clear proof of workers free participation and agreement cannot be recognized as a CBA. In Sri Lanka there is a wide-industry practice to set wages using the Minimum Wage as a maximum value which all estates must follow and are not able to pay above in accordance with the industry wage-setting agreement. Once the new HL Standard is in place, and the suspension is no longer applicable, **there is a risk that the Sri Lankan tea industry will again not be in compliance with a future Fairtrade Standard requirement related to adjusting wages by inflation** and making progress toward living wages. The Project assignment will conduct research and consultation regarding the conditions for inflation adjustments but, given the good practice experienced elsewhere, the intention to ensure that real wages are yearly increased will remain unchanged.

*Mitigation:* NAPP has pledged to continue to work with tea estates and government representatives to explore potential solutions related to the living wage requirement. Fairtrade International, through its Global Products, Programmes and Policy unit and the Fairtrade’s Workers’ Rights Advisory Committee should coordinate efforts with NAPP to provide a fundamental advisory role and work on the enabling legal and social conditions

in Sri Lanka. This should include information sessions and advocacy to producer organisations and government about the purposes of the living wage as a human right, and the importance of workers' participation in informed and free negotiations related to wages. Collective bargaining agreement negotiations should refer to the living wage policy as a human right. Yearly inflation adjustments prevent the gap to a living wage from growing wider. This practice is an essential component of the living wage approach, especially after the policy of human rights and environmental due diligence as part of the Corporate Sustainability Due Diligence Directive has been introduced in the European Union.

**Project Start Event:**

New Project Assignment approval by Project Owner (November 2023)

**Project Start Date:**

30 November 2023

**Project End Event:**

Q2 2024

**Project End Date:**

Q2 2024

**Project Goal and Objectives**

**Goal:**

To process the suspension request of requirement 3.5.4 (wage level increase) to find a feasible solution and align the standard with the reality of adjusting wages by inflation in high inflation situations.

**Connection with Theory of Change:**

This project is connected to the Fairtrade goals of fostering sustainable livelihoods, making trade fair and building Fairtrade markets.

More on Fairtrade's Theory of Change can be found at <https://toc.fairtrade.net/>

**Project scope:**

- The project and consultation phase cover only Sri Lanka origin and producer organisations where the Fairtrade Standard for Hired Labour applies and is limited to the inflation adjustment and its implications in accordance with the requirement 3.5.4.

For more information on Fairtrade Standards click [here](#).

**Out of scope:**

- Full revision of the Hired Labour Standard.
- Full revision of topics, other than inflation, related to the 3.5.4 requirement.

<p><b>Project timelines:</b></p> <p><b>Scoping:</b> October-November 2023  <b>Publishing draft proposal for standard suspension*:</b> 30 October  <b>Time for feedback:</b> 14 days  <b>Consolidation of the feedback:</b>  30 October – 13 November  <b>Approval of the suspension request:</b> 28 November 2023  <b>Publication, the requirement is suspended from:</b> 04 December 2023</p> <p><b>Implementation of the review project of the 3.5.4. req.:</b> Q4 2023 - Q2 2024</p>	<p><b>Decision making process:</b></p> <p>The suspension request was approved by the Director of Standards and Pricing Unit and the Chair of the Standards Committee in their capacities as stipulated in the <a href="#">Standard Operating Procedure</a>.</p>
<p><b>Project Owner (Unit):</b>  Eleonora Gutwein (Head of Standards)</p>	<p><b>Project Manager (contact point for the project):</b>  Andrea Urioste (Project Manager)  <a href="mailto:a.urioste@fairtrade.net">a.urioste@fairtrade.net</a></p>