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"The Global Business of Forced Labour": Another Attack on Commodity Industries

EXPERT's Column

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Dr. Terry Townsend

Wages paid to unskilled workers in agricultural industries are almost always lower than national average wages paid to all workers in any country. This is a fundamental reason why people move to cities. When governments intervene to set minimum wages and working conditions that are not matched by the value added in the work done by unskilled workers, the predictable result is that businesses evade, circumvent or ignore the minimum requirements, or they go bankrupt.

By the very nature of commodity industries, the value added by workers in agricultural value chains is often below the levels of productivity in service industries or industrial value chains. Agricultural value chains are characterised by large volumes and small margins, that is why they are called "commodities." Small margins in agricultural industries create practical ceilings on wages and benefits that can be paid to workers. Consequently, there is always downward pressure on wages and benefits in such industries as real prices for commodities decline over time.

The Report

"The Global Business of Forced Labour" is a report written by Professor Genevieve LeBaron, at the University of Sheffield in the United Kingdom. The study was funded by the UK Economic and Social Research Council, a public body funded by the UK government. The report was published in 2018.

http://globalbusinessofforcedlabour.ac.uk

The report is essentially a 60-page attack on globalisation, commodity industries and sustainability certification programs. This report focused on the cocoa industry in Ghana and the tea industry in India, but cotton could very well have been the subject of the study, and the results of a study involving cotton would probably not be much different than the results for cocoa and tea.

Dr. LeBaron and her research team conducted in-depth interviews with 120 workers. They surveyed over 1,000 tea and cocoa workers, and they interviewed over 100 business and government leaders. The cocoa industry of Ghana and the tea industry of India were chosen for study because the two countries share a colonial history with Great Britain and because British consumers purchase tea and cocoa.

Dr. LeBaron found that there is a "coherent pattern" of exploitation of farm workers in the tea and cocoa supply chains. She asserts that employers use forced labour to lower the costs of production by under-paying wages and under-providing mandated services for employees. Approximately half of all workers in the tea industry do not have access to potable water, and about one-fourth do not have access to toilets. Workers are sometimes charged for electricity and other services that they do not receive.

Employers also generate revenue by lending to workers at usurious interest rates, leading to situations of debt bondage. Between half and three-fifths of workers in the tea and cocoa industries have gone into debt or have no savings.

Employers also demand that employees perform unpaid work unrelated to the jobs for which they were hired, and about one-fourth of cocoa workers report having performed work for which they were not paid.

Further, workers have difficulty exiting exploitative employment situations because of the relative isolation of cocoa and tea farms.

In both industries, violence, threats, abuse and sexual violence can sometimes accompany economic exploitation.

Dr. LeBaron asserts, without providing evidence, that tea and chocolate companies are "highly profitable," but wages paid to tea and cocoa workers in Ghana and India are less than one-third of the poverty line in each country as estimated by The World Bank. She implies that profits accrue to tea and coffee companies from systematic labour exploitation.

The report also found that ethical certification schemes, such as Fairtrade, Rainforest Alliance, Ethical Trade Partnership, Trustea, UTZ and Kuapa Kokoo are largely ineffective in combating labour abuses. Many producers do not know how the certification systems work, or employers routinely evade standards by complying with requirements for short periods each year during visits by certifiers, and then reverting to exploitative practices when the certifiers leave.

In the study, Dr. LeBaron counsels that labour exploitation is not the result of a few "bad actors" in violation of laws. Rather, she asserts that labour exploitation is embedded in the structure of commodity value chains. She says that forced labour is driven by the low prices received by producers relative to the "high profits" earned by brands and retailers, as well as by the "irresponsible purchasing practices" of the same brands and retailers.

The study concludes that government, industry and workers' organisations should collaborate to create stronger regulatory initiatives that

1) ensure living wages,
2) create worker-driven corporate social responsibility (CSR) programs,
3) provide stronger enforcement of labor standards, and
4) redistribute value along the supply chain.

Implications for Cotton

The findings in the report are almost surely true: wages and benefits paid to unskilled workers in agriculture are low relative to wages paid in service and industrial value chains because productivity is low. If a sister report were compiled to gauge the degree of labour exploitation in cotton producing countries, the results would likely be similar to the findings in this report on the tea and cocoa industries.

The report references the International Labor Organization (ILO) to assert that as of 2016, there were at least 16 million people living in situations of forced labour in the private economy of the world. This is meant to represent an impressively large number. However, world employment is estimated at 3.3 billion, meaning that people living in situations of forced labour account for about 0.5% of world employment.

The study asserts that the tea sector in India provides employment for about 2 million people and is India's largest private employer. (To put the tea industry in perspective, the cotton industry of India consists of about 7 million households, and when family labour, hired labour and employment in transportation and ginning are considered, the agricultural portion of the India cotton value chain employs about 50 million.)

The study repeatedly confuses revenue with profit and asserts repeatedly that "profits" in the tea industry are high or that "profits" are achieved through systematic exploitation of labour. However, there is no data in the report on industry profits, and the authors have no way of knowing whether tea and cocoa producers, brands and retailers are profitable or not.

A Cure Worse Than the Disease

The problem with the report by Dr. LeBaron is not that the findings are incorrect. Rather, the problem is that her recommendations to alleviate labour exploitation are utopian and could never be implemented.

It would be impossible to "ensure living wages" over the long run if worker productivity is less than the minimum-wage target. Employers will eventually go bankrupt. The creation of worker-led corporate social responsibility programs, and stronger enforcement of labour standards might be modestly helpful, but no matter how many programs you have or how vigorously standards are enforced, wages cannot stay above the value of tea or cocoa produced by workers for long.

Finally, the recommendation to "redistribute value along the supply chain" would result in Soviet-style economic distortions that would quickly result in industry collapse. Both Ghana and India have histories of flirting with Soviet-style command and control economies in the years immediately following independence, and the results were decades of economic stagnation.

Even if the recommendations could be implemented, the results would be more harmful to workers than labour exploitation itself.

The fundamental reason that wages and benefits paid in the cocoa and tea industries are less than mandated minimum levels is because deflated prices of tea and cocoa have fallen over the decades since1960, while productivity per worker has probably not changed at all. Tea and cocoa are harvested by hand, and workers can only account for a fixed number of kilograms on any given day. Therefore, if the prices of tea and cocoa are falling, and workers cannot compensate by harvesting more product each day, then wages per day or per kilogram harvested must also fall.

In constant 2010 dollars, the value of a kilogram of tea has fallen from between $4 and $6 in the early 1960s, to about $2 today (World Bank Commodity Price Data (The Pink Sheet). Cocoa prices in 2010 dollars have fallen from between $2 and $4 per kg in the 1970s to about $2 today. (Cocoa prices rose sharply in the late 1970s because of an international buffer stock administered by the International Cocoa Organization (ICO). The buffer stock was initially successful in boosting international prices but then was undermined by non-participating producers. The buffer stock authority ended in 1989.)

As told in the report on page 16, India's tea industry fell into crisis in the 1990s because of lower prices caused by the growth of new tea industries in other regions which reduced Indian exports. As a result of the crisis, Indian tea production declined, plantations closed, and living standards among tea workers fell.

Dr. LeBaron attributes these difficulties to the "pressures of economic globalisation." In this context, the term "globalisation" seems to be used as a pejorative, without reference to the economic gains made by workers in other tea-producing countries.

Further, Dr. LeBaron seems to believe that there would be no impact on tea and cocoa consumption if "living wages" were achieved through the formation of CSR programs, stronger enforcement of labour standards and redistribution of earnings along the value chain. The world economy is highly competitive. Tea must compete with orange juice, coffee, milk, energy drinks, bottled water and soft drinks for market share among consumer purchases. Indian tea must compete with tea grown in Kenya, Vietnam, and elsewhere. Rising wages will result in higher prices for tea, which will inexorably result in reduced consumption. How will that benefit tea workers? Likewise, cocoa must compete against other forms of sweets, and cocoa from Ghana must compete with Cote d'Ivoire and other producers for market share. Rising wages would mean rising prices and lower consumption, which would translate into lower living standards among tea producers.

Conclusion

The report by Dr. LeBaron provides extensive documentation of labour abuses in two commodity industries, and she provides evidence (as if more evidence were needed) that certification schemes are no guarantee of ethical sourcing practices.

The descriptions of labour abuses by Dr. LeBaron are undoubtedly accurate, and anyone with pragmatic experience in commodity industries knows that certification schemes are easily subverted. However, Dr. LeBaron confuses concomitant behavior with causation, she asserts that abuses are systemic rather than episodic, and she ignores the role of commodity industries as engines of economic development and improved living standards. While this report is focused on tea and cocoa, additional reports are likely, and cotton will surely be targeted.

(The views expressed in this column are of the authors and not that of Cotton Association of India)

Celebrating Nariyali Poornima

Members of the Cotton Association of India performed the annual ritual of Dariya Poojan at Girgaum Chowpatty on Saturday, August 25, 2018. CAI President Shri. Atul Ganatra accompanied by Additional Vice President Shri. Vinay Kotak, and others including Shri. Shyam Makharia, Shri. Arun Sekhsaria, Shri. Alok Makharia, Shri. Pankaj Narshi, Shri. Manoj Bangdiwala, Shri. Dinesh Nagda, Shri. Ram Niranjan Verma, Shri. Janardhan Verma, Shri. Jitendra Sharma and Shri Abhay H. Shah performed the pooja and prayed for all-year-long prosperity of the cotton trade.

Production of Fibres

(In Mn. Kg)

As on	Raw Cotton (Oct.-Sept.)	Synthetic			Cellulosic	Sub Total
		PSF	ASF	PPSF	VSF	
2016-17 (P)	--	898.97	96.37	3.64	364.99	1363.97
2017-18 (P)	--	852.29	93.19	3.51	369.82	1318.81
2018-19 (P) (Apr-June)	--	197.37	24.05	0.94	95.73	319.09
2016-17						
April	--	73.56	8.86	0.37	30.32	113.11
May	--	77.07	9.39	0.44	31.72	118.62
June	--	77.46	9.28	0.45	21.87	109.06
July	--	79.32	8.07	0.30	30.41	118.10
August	--	79.92	8.20	0.35	31.96	120.43
September	--	76.96	9.02	0.22	31.14	117.34
October	--	79.51	6.75	0.16	32.46	118.88
November	--	71.06	7.10	0.24	31.18	109.58
December	--	71.65	7.28	0.29	32.09	111.31
January	--	72.68	7.78	0.20	32.11	112.77
February	--	63.78	7.42	0.20	28.24	99.64
March	--	76.00	7.22	0.42	31.49	115.13
2017-18 (P)						
April	--	72.23	7.62	0.26	30.51	110.62
May	--	75.90	7.79	0.32	29.59	113.60
June	--	71.90	7.65	0.24	31.55	111.34
July	--	75.73	8.47	0.13	35.52	119.85
August	--	73.58	9.49	0.32	33.14	116.53
September	--	68.91	8.42	0.32	29.35	107.00
October	--	70.40	8.84	0.32	32.86	112.42
November	--	72.25	7.68	0.32	31.30	111.55
December	--	70.10	7.00	0.32	30.84	108.26
January	--	72.36	6.17	0.32	30.89	109.74
February	--	61.04	7.00	0.32	26.06	94.42
March		67.89	7.06	0.32	28.21	103.48
2018-19 (P)						
April	--	64.90	7.36	0.31	31.04	103.61
May	--	68.42	7.76	0.31	32.90	109.39
June	--	65.05	8.93	0.32	31.79	106.09

(P)= Provisional

Source : Office of the Textile Commissioner

COTTON EXCHANGE MARCHES AHEAD

Madhoo Pavaskar, Rama Pavaskar

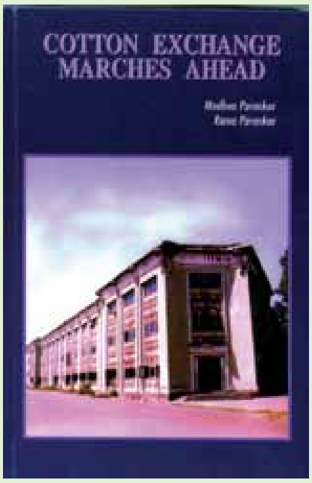
Chapter 8

Cotton Exchange Goes Global

(Contd. from Issue No.18)

ICAC Meetings

At the 57th Plenary Meeting of the ICAC held at Santa Cruz in Bolivia from October 12 to 16, 1998, Mr. Kotak, as a member of the Indian delegation, once again presented a paper on "Efforts to Reduce Cotton Contamination in India". Stressing that contamination is a major factor affecting competitiveness of cotton against other fibres, Mr. Kotak painstakingly reported at length the efforts undertaken by the various agencies in India to reduce contamination of natural origin as well as of man-made origin through all stages including, handpicking, ginning, baling and storing. He concluded by emphasizing the need to develop a disciplinary system of consistent education and quality control to succeed in reducing cotton contamination. Mr. Kotak's paper was very much appreciated by the participants and constituted one of the statements of the Plenary Meeting.



The 57th Plenary Meeting made an important departure from the past and agreed to a proposal to form a Private Sector Advisory Panel to ICAC. The mandate of the Panel was to foster communication between the private sector and the member governments by advising the Standing Committee and the Plenary Meetings of the ICAC on strategic issues critical to the long term growth of the cotton industry and development of cotton, as also to explore opportunities for the financial support of ICAC and its activities. Of Course, the basic character and structure of the ICAC as an inter-governmental organization was not affected by the constitution of the Panel. But since most governments are more often than not likely to be neutral on the issues pertaining to competing fibres, the Private Sector Advisory Panel may be expected to play a pivotal role in the deliberations and activities of ICAC in the future.

The first Panel comprised 14 members from different countries representing the diverse cotton interests. Mr. Suresh Kotak, the President of the East India Cotton Association, was the obvious choice from India. Not surprisingly, he was nominated by the Government of India.

At its first meeting held on June 18, 1999 at Washington DC, the Private Sector Advisory Panel recommended that the ICAC Secretariat should seek co-operation from the Common Fund for Commodities for funding cotton promotion programmes and development of cotton infrastructure, particularly in the developing cotton producing countries. The Panel also strongly suggested that the role of ICAC need to be expanded with the help of the private sector to educate (a) the cotton producers and their co-operatives in the use of risk management tools, (b) the world cotton community on the fair trade practices, (c) the cotton trade and industry on the fibre quality requirements of the spinning industry and (d) the consuming public at large on the importance of cotton as a friendly environmental product compared to other fibres.

The 59th Plenary Meeting of the ICAC was held at Cairns in Australia during November 5-10, 2000, at which the research oriented Mr. Suresh Kotak once again read a comprehensive paper on "Present and Potential Efforts for Cotton Promotion in India". The paper focussed on the multiple promotional activities for cotton aimed in the direction of consumers at one end, and the textile industry at the other. In conclusion, Mr. Kotak drove home the point to all the participants "that promotional efforts need to ensure that cotton and all its manufactures, including blends, by-products and products from residues, are positioned in the market as premium brands and customers seek them out while shopping at the retail level".

It was as if a consequence of Mr. Kotak's lucid and logical exposition on cotton promotion that the representatives of as many as 12 cotton associations met in Cairns to form a consortium for developing and registering an International Cotton Emblem to establish an international recognised symbol of cotton content and quality in consumer products. The East India Cotton Association was one of the active participants at this meet, and formally joined, the Consortium in March 2001. Clearly, the Cotton Exchange continues its loyalty to King Cotton, and looks forward to restoring his premier position in the realm of textile fibres.

Going Global

Through its close association with the ICAC and active participation in the deliberations at the annual plenary sessions, not only does the Cotton Exchange remain in touch with all the major developments affecting the international cotton economy, but it has received worldwide recognition as well. In fact, it hogs most of the limelight in the Indian delegation. As a result, several overseas cotton trade associations have gladly accepted the Honorary Membership of E.I.C.A. These include (1) American Cotton Shippers Association, Memphis (U.S.A), (2) Bremer Baumwolborse, Bremen (Germany), (3) Centro Algodonero Nacional, Barcelona (Spain), (4) Gdynia Cotton Association, Gdynia (Poland), (5) Japan Cotton Traders Association, Osaka (Japan), (6) Liverpool Cotton Association, Liverpool (U.K.), and (7) Karachi Cotton Association, Karachi (Pakistan). In turn, as stated earlier, the Gdynia Cotton Association has pre-eminently honoured Mr. Suresh Kotak, the present President of the Cotton Exchange, by appointing him on its Board of Directors and conferring on him a special award. Truly, the Cotton Exchange has now gone global to enter with pride and praise the 21st Century of the third Millennium.

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UPCOUNTRY SPOT RATES

(Rs./Qtl)

Standard Descriptions with Basic Grade & Staple in Millimetres based on Upper Half Mean Length [By law 66 (A) (a) (4)]							Spot Rate (Upcountry) 2017-18 Crop AUGUST 2018					
Sr. No.	Growth	Grade Standard	Grade	Staple	Micronaire	Strength /GPT	20th	21st	22nd	23rd	24th	25th
1	P/H/R	ICS-101	Fine	Below 22mm	5.0-7.0	15	12598 (44800)	12598 (44800)	12598 (44800)	12598 (44800)	12598 (44800)	12598 (44800)
2	P/H/R	ICS-201	Fine	Below 22mm	5.0-7.0	15	12738 (45300)	12738 (45300)	12738 (45300)	12738 (45300)	12738 (45300)	12738 (45300)
3	GUJ	ICS-102	Fine	22mm	4.0-6.0	20	9420 (33500)	9420 (33500)	9448 (33600)	9448 (33600)	9448 (33600)	9448 (33600)
4	KAR	ICS-103	Fine	23mm	4.0-5.5	21	10179 (36200)	10179 (36200)	10236 (36400)	10292 (36600)	10292 (36600)	10292 (36600)
5	M/M	ICS-104	Fine	24mm	4.0-5.0	23	11107 (39500)	11107 (39500)	11164 (39700)	11192 (39800)	11192 (39800)	11192 (39800)
6	P/H/R	ICS-202	Fine	26mm	3.5-4.9	26	12963 (46100)	12991 (46200)	13020 (46300)	12991 (46200)	12963 (46100)	12963 (46100)
7	M/M/A	ICS-105	Fine	26mm	3.0-3.4	25	11107 (39500)	11107 (39500)	11107 (39500)	11079 (39400)	11079 (39400)	11079 (39400)
8	M/M/A	ICS-105	Fine	26mm	3.5-4.9	25	11501 (40900)	11501 (40900)	11501 (40900)	11473 (40800)	11473 (40800)	11473 (40800)
9	P/H/R	ICS-105	Fine	27mm	3.5.4.9	26	13020 (46300)	13048 (46400)	13076 (46500)	13048 (46400)	13020 (46300)	13020 (46300)
10	M/M/A	ICS-105	Fine	27mm	3.0-3.4	26	11642 (41400)	11642 (41400)	11642 (41400)	11614 (41300)	11614 (41300)	11614 (41300)
11	M/M/A	ICS-105	Fine	27mm	3.5-4.9	26	12092 (43000)	12092 (43000)	12120 (43100)	12120 (43100)	12120 (43100)	12120 (43100)
12	P/H/R	ICS-105	Fine	28mm	3.5-4.9	27	13076 (46500)	13104 (46600)	13132 (46700)	13104 (46600)	13076 (46500)	13076 (46500)
13	M/M/A	ICS-105	Fine	28mm	3.5-4.9	27	12963 (46100)	12963 (46100)	12963 (46100)	12935 (46000)	12935 (46000)	12935 (46000)
14	GUJ	ICS-105	Fine	28mm	3.5-4.9	27	13132 (46700)	13132 (46700)	13132 (46700)	13104 (46600)	13104 (46600)	13104 (46600)
15	M/M/A/K	ICS-105	Fine	29mm	3.5-4.9	28	13244 (47100)	13329 (47400)	13329 (47400)	13273 (47200)	13273 (47200)	13273 (47200)
16	GUJ	ICS-105	Fine	29mm	3.5-4.9	28	13413 (47700)	13469 (47900)	13469 (47900)	13441 (47800)	13441 (47800)	13441 (47800)
17	M/M/A/K	ICS-105	Fine	30mm	3.5-4.9	29	13357 (47500)	13357 (47500)	13357 (47500)	13357 (47500)	13357 (47500)	13357 (47500)
18	M/M/A/K/T/O	ICS-105	Fine	31mm	3.5-4.9	30	13638 (48500)	13638 (48500)	13638 (48500)	13610 (48400)	13610 (48400)	13610 (48400)
19	A/K/T/O	ICS-106	Fine	32mm	3.5-4.9	31	14229 (50600)	14229 (50600)	14229 (50600)	14201 (50500)	14201 (50500)	14201 (50500)
20	M(P)/K/T	ICS-107	Fine	34mm	3.0-3.8	33	16731 (59500)	16731 (59500)	16731 (59500)	16647 (59200)	16647 (59200)	16647 (59200)

(Note: Figures in bracket indicate prices in Rs./Candy)