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HOW COMPETITIVE AND EQUITABLE IS THE REVENUE SHARING MODEL FOR SRI LANKA'S TEA INDUSTRY? A CRITICAL ANALYSIS OF THE POPULAR RHETORIC OF LOW LABOUR PRODUCTIVITY AND HIGH COST OF LABOUR*

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ABSTRACT

Sri Lanka tea industry is in crisis, and some attribute the reason to low labour productivity, high cost of labour, diminishing profit margins for the investors, and a decreasing global market share. To overcome this crisis, the revenue sharing model has been proposed by corporate establishments. The present paper critically examines the relevance and effectiveness of this model for solving the current crisis. To this end, the profitability of surplus value creation, and labour equity and economic justice to the labour power of the workers were critically interrogated in relation to competitive advantage and value chain competitiveness, productive and unproductive labour, and related theories of surplus value. In this connection, available trade analyses indicate that as compared to its competitors, Ceylon tea continues to enjoy high demand, mainly owing to its intrinsic quality and long established goodwill. Thus, a differentiation strategy over its cost-focused alternative is proposed to secure and strengthen Ceylon Tea's existing market position. The increasing unproductive to productive labour ratio is found overburdening productive labou power; consequently driving the rate of profit down. The relative silence on the high maintenance cost of infrastructure and administration, found to be leaching the profit without directly contributing to production, coupled with the critical neglect of labour power of the plantation workers in the dominant bourgeoisies' narrative, has shifted attention away from the real reason behind the industr y's relative decline. The paper refutes the bourgeoisies' narrative of singling out the supply side of the value chain as the reason behind the current crisis, and suggests to treat the issue as part of a complex and interlinked political, economic, and social whole, which would lead to the holistic answer that alone can remedy the situation.

Key words: Ceylon tea, cost of production, value chain competitiveness, productive and unproductive labour, labour power

* According to the International Tea Committee (2016), Sri Lanka came second only to China (about USD 4.5 per kg) in 2016, fetching the highest unit price for tea of about USD 4.3 per kg. Though Sri Lanka placed third in supplying tea 281,000t in 2016, it placed at the same level as Kenya, which is the largest supplier of tea in the global market recording around 480,000t for the same year. Both the economies earned USD1.2 billion that year (ibid).

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INTRODUCTION

That Sri Lanka's tea industry is in crisis is an observation made by inter-alia the Fair and Sustainable Advisory Services and Nucleus Foundation (2016), Ganewatta and Edwards (2000), and ADB (2016). This argument emphasizes the inefficiency of low productivity and high cost of production (highest vis-a-vis other tea trading countries) as the key reason behind this crisis or the arrested of growth of the industry (Liyanage 2003). Shamalie and Wellala (2012) further identify worker scarcity as the other crucial issue the industry is currently facing. They also posit that low working capital investment on agricultural inputs and 'non-adaptive' or 'non-attuned practices of cultivation' are exacerbating low worker productivity and eventually reduce the profitability of the enterprise.

However, the outlook of export performance of the industry, during 2014 and 2015, indicates another dimension of this crisis by shedding light on the demand side of the global market for Ceylon tea. Sri Lanka tea exports are overwhelmingly dependent on the Middle East, North Africa, and Russia and the other Common Wealth Independent States (CIS) of the former Bolshevik region (Asia Siyaka Commodities PLC 2015). These markets represent more than 90 percent of the total volume traded annually. Cross referring to a study carried out by the Food and Agriculture Organization in 2014, the same study further stresses that this mrket position is precarious due to the obvious relationship between fluctuating oil prices and commodity prices at the Colombo Tea Auction (CTA). Exacerbating this situation, these economies have their own domestic economic and political issues to grapple with, exposing the tea industry to a precarious market position and making it into an export revenue risk.

With regard to the geo-political factors affecting market conditions, the escalating crisis in the Middle East and Noarth African nations in the post-Arab spring context is significant and may prove to be critical. A little over 37 as having highly volatile political and economic conditions. Therefore, relying too much on this market may not be a sustainable strategy. On the other hand, Russia, which is the third largest importer of Ceylon tea, accounting for just above 14 percent of the total volume exported during 2017 and 2018, functions on commodity-based economic growth (Pines 2019). The main commodity traded for revenue in Russia is oil (percent of total Ceylon tea exports between 2017 and 2018 (by taking average values of both these years) were to Iraq, Iran, Libya, and Syria (Tea Exporters Association of Sri Lanka 2019), the very countries considered ibid). However, according to the World Bank, by predominantly relying on commodity markets like oil, the Russian economy is exposed to recessionary pressures in the global economy. The Central Bank of Russia announced in the early quarter of 2019 that their economy is stagnating. One of the main reasons for this economic slowdown, according to the chief economist of BCS Global Markets, is reduced consumption. This state of affairs was reflected in the eight percent drop in the volume of tea exported to Russia between 2017 and 2018. The other key challenge, and obviously the one that has most been paid attention to, is the stable and incremental growth of tea exported from China and Kenya (Asia Siyaka Commodities 2015). This has taken over a considerable share of the global tea market, which once Sri Lanka dominated. Currently, China and Kenya are the two main tea exporters of the world.

In this context, regardless of the claims made by industry stakeholders (excluding labour rights advocates) of the inefficiencies resulting from low productivity and high cost of production, existing data and statistics of exports in both volume and value indicate a picture quite to the contrary. The industry seems to currently be enjoying quite a comfortable market position, particularly owing to the unique taste and color (of the liquor) of Ceylon tea, especially as compared to its competitors.

This situation begs the question as to why Sri Lanka tea industry stakeholders are worried about losing business. An immediate and obvious answer to this question is that even though Sri Lanka tea exporters, over the years, have made a significant contribution to the country's foreign exchange earnings and maintained the market position, their strategic orientation and adaptation to geopolitical changes has weakened. One of the major impediments the contemporary tea industry of Sri Lanka faces is value addition (Kasthurirtane & Poole 2006; Kelegama 2010; Wijewardena 2016). Only a handful of value chains in the industry specialize in differentiation through single origin supply base, packaging, and product development like cinnamon tea, and there has been very little or no clear investment or attempt by the manufacturers or the exporters at least to cater to the captured markets. Merely 37 percent of the tea exported by the country is value added, while the majority of the produce traded in bulk form to overseas multinationals/ large scale blenders is not (Dilmah Ceylon Tea PLC 2019).

Expanding or recapturing European and North American markets requires innovative and strategic thinking, and Sri Lanka's lack of preparedness and adaptation to changing global political and economic realities would not support the industry to grow (Wijewardena 2016). In this connection, the need for the tea industry to diversify from the existing beverage markets (predominantly in the Middle East and Russia) to new products and market segments catering pharmaceuticals, cosmetics, and other forms of commodity industries through innovation cannot be emphasize enough (ibid). On the issue of a common strategy and policy for value addition, the industry is observed to be divided in opinion (Kelegama 2010). On one hand, there are those who urge for a strategy that advocates value adding and capitalizing on the unique selling points of Ceylon tea through trade mark and geographical indication (Fernando 2019). The thrust of this strategy is to differentiate Ceylon tea from the rest of tea supplied to the global market. Then there are those who advocate a strategy entirely focused on price. They argue for competitiveness to be achieved through the supply of greater volumes at more competitive prices. Advocates of this latter strategy urge import liberalization of cheap orthodox tea for bulking and re-exporting at competitive price regimes, through creating tea hubs (Kelegama 2010; Tea Export Association 2015; Molligoda 2017). These contending approaches highlight the limitations of the kind of strategic thinking that has singled out low productivity and high cost of labour as the main reasons behind the growth stagnation and market share loss of Sri Lanka's tea industry. These interrelated arguments have been forwarded through various empirical studies commissioned by Regional Plantation Companies (RPCs) and corporate establishments, whose key ideas may be summarized as follows (as cited in Rajadurai 2016):

a)The industry shall apply cost focus as the overall export trade strategy because the industry has been constrained by the prices which the products fetch and payments to the labour engaged. This is detrimental to increasing revenue seeing as unit price has only increased by 2.79 folds, while the cost of labour has increased by 61 folds.

b)Unit CoP has surpassed unit revenue. During the three-year period from 2015 to 2017, sales margins indicated negative performance (-LKR75.9, -LKR80.9, and +LKR41.6 respectively). As a percentage of revenue share, the labour cost accounts for 80 percent, amounting to 67 percent of CoP. The balance 13 percent of CoP is typically spent on material, depreciation, management costs, and miscellaneous expenses.

c)The burden of providing social amenities to both workers and non-worker residents of the plantations through revenue earned by the firms is further crippling the industry.

d)There is comparatively low productive output in terms of daily green leaf plucked by a worker when compared to the largest exporter of tea (27 percent global tea trade share), Kenya. Plantation workers' daily average output – 18 kg – when measured against the comparable daily output of a Kenyan worker – 60 kg – sheds telling light on this issue, indicating a production gap over 40 kg per day (over 200 percent).

e)Low productive output is because of the outdated 'attendance based labour wage model' instead of employing the preferable 'output based' wage scale method. Hence, the need of changing the model from the current one to an output-based, revenue sharing method of wage is of utmost importance.

The report furthers these arguments and rationale to schematize an elaborative revenue sharing model based on the output of daily volume a worker would pluck as per the bookkeeping entries. This paper wishes to critically look at the rhetoric of RPCs on the issue of low worker productivity, escalating cost of labour, and declining profits from an alternative and more inclusive point of view. In this endeavor, the paper takes a critical and skeptic position on these arguments and their popular rationalization designed to generate greater surplus value or wealth for the shareholders or capitalists.

FRAMEWORK OF ANALYSIS

Critical analysis of the arguments and popular rhetoric established on the issue of low worker productivity, increasing cost of labour, and diminishing profits of the Sri Lanka tea industry, will be based on the following theoretical positions.

a)Competitive advantage of value chains and strategies, based on the seminal work of Porter (1985). The use of this theory is to treat Ceylon tea as an industry value chain, and evaluate the existing arguments based on the premise of the value chain and competitiveness model. In this regard, the importance of trade and geographic branding and product differentiation vis-à-vis Ceylon tea's competitors would be especially emphasized. Perspectively, the industry context will be reviewed and questioned the status quo and quite naturally, by the theoretical adaptation and postulations of lassie-fare or free market economy.

b)Productive and unproductive labour, is used to draw out few critical questions about the use and exchange value of labour, and also to develop an alternative stance on female labour in the discourse of wealth generation and delivering use-value (Marx 2013). Productivity here is explained not only from the point of the capitalist, but also the point of the realities and crucial necessities of labour, whilst bringing in the social dimension of gender. This is essential to understand and relate to the existing rhetoric of the management role for value adding to capital vs. the social role of the women workers in the process of exchanging their labour power, whereby women constitute a significant demography and provide the most extensive labour (hours) compared to their male counterparts (Bass 2015). This endeavor aims at introducing a fair social and political assessment of the issues involved, with a view to arguing for economic and political justice for estate women.

Overall, what is attempted here is to bring out analytical perspectives on the relevant issues from both the demand and supply sides of the industry, while also taking into account the political relation between labour and capital.

ISSUES ANALYSIS

Competitiveness of the Ceylon tea industry

Available trade analyses clearly indicate that the Ceylon tea industry's comparative advantage lies in differentiation of the product based on its intrinsic quality, particularly in high grown tea. Hence Sri Lanka continues to enjoy high rates for its tea, even though her the global market share is diminishing (Kasthuriratne & Poole 2006). Therefore, instead of prioritizing cost competitiveness or adopting a cost-focused strategy, attention should be more on strengthening the existing market position and fortifying the differentiating strategy as a way forward. Capitalizing on the Ceylon tea trade mark and geographic indication is recognized as viable national level strategies in this pursuit.

However, there is a lack of integration and coordination in the industry stemming from the divide between preference for differentiation v cost, depriving Ceylon tea of accomplishing a focused, uniform strategy. Compounding the stagnation here is the fact that the major exporters in the industry are limited to a few markets and have yet to venture into new markets and/ or recapture European and North American market segments.

Hence blaming only production inefficiencies for the revenue stagnation of the industry is not justifiable. The essential question, therefore, is whether the industry is investing enough technology development in adapting to market dynamics, especially on the counts of product development, packaging, and information and knowledge management as key supportive activities that connect/ link or contribute to the margin or surplus value of the industry process.

The aim of this paper is not to venture into analyzing the entire supply chain or value chain of Ceylon tea which, to be useful, requires an empirical exercise, which is beyond the scope of the present inquiry. However, considering the production and supply segment of the supply chain and related value chain activities is important for this analysis. According to the generic supply chain, the raw material or green leaf for the Ceylon tea industry is supplied by RPCs, private plantations, and the majority (about 70 percent of the total supply volume per annum) of smallholders (Kasthuriratne & Poole 2006). The raw material is processed following a systematic and methodical procedure of manufacturing at factories. Hence, the manufacturing of tea as a commodity for the markets occurs at this important and geographically bounded stage of the chain, and this comprises the key value creating activities, which essentially decide the grades and eventually unit price and consequent sales revenue at the markets. Compliance with quality parameters and consumer demand (of taste and colour) are essentially managed in this critical stage of the production and processing chain. Thus, this is required to be maintained as a specialized activity. However, the World Bank (2015) has identified that as a key foreign income generating industry, the enterprises and related public institutions concerning Ceylon tea have not made considerable efforts to infuse technological developments to improve the working conditions of the factories, and energy and processing efficiencies of machinery including essential automation, processing methods, etc. Manufacturing activities make a direct and significant contribution towards surplus value (Marx 2013) and eventually the rate of profit (Moseley 1990) generated through the industry. Strategic and appropriate capital investment through suitable infrastructure and technology are essential, therefore, because they both contribute to greater profit as well as to the improvement of the working conditions of the labour force.

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The production and supply of green leaf is a value critical segment of the supply or value chain of the industry. This segment of the chain and the industry process as a whole have economic, political, and social importance rooted in the historical specificity of the people, who for over a century have been providing their labour power to produce the essential and vital elements of the industry process. Jayawardena (2000) and Bass (2015), opposing the popular bourgeoisie's narrative of better off migrants from South India, narrate the exploited labour and virtual serfdom prevalent in the plantations during the colonial as well as post-independence era. This narrative has been missing in the popular rhetoric of the business elites or 'contemporary managerial class'. It is essential to bring in the perspective of the exploited, under-privileged class, lest we should be left with the bourgeoisies' narrative of 'low labour productivity and high cost of labour' as the sole explanation for diminishing competitiveness and market share of Ceylon tea.

Productive and unproductive labour

Moseley (1990), in his seminal work on 'diminishing rate of profits in post-war America' provides an alternative perspective to the 'productivity and profit' narrative of the bourgeoisie. According to Marx (2013), productive labour contributes or delivers surplus value for the capitalist, by exchanging labour power. Unproductive labour, on the other hand, is maintained by the surplus value and does not create or add value to capital. Labour used for the circulation of commodities, and the supervision of labour annexed to the production of such commodities are broadly categorized as forms of unproductive labour. Moseley (1990), on this premise, argues that in post-war America, a gradual increase of unproductive to productive labour ratio has contributed to the diminishing rate of profits of the industries.

On the same premise, this paper argues that the contemporary Ceylon tea industry, in the production and supply of green leaf, is affected with a similar scenario of increasing unproductive to productive labour ratio, incurring a heavy maintenance cost for the productive labour power and ultimately depleting the rate of profit or surplus value to the capitalist investors. In this light, it adopts a critical view on the role of RPCs in the production function of the supply or value chain. Large conglomerates with significant payrolls or salaries of non-production workers such as managers, supervisors, salespersons, and marketers are not only sapping out the productive labour output from a larger populace, who are in eternal poverty and underprivileged with no or very low social mobility, they are also draining the capitalists' surplus value, which amounts to draining the shareholders' wealth! And this is ironic, given the RPCs' claim and rhetoric of 'low worker productivity' and 'escalating cost of labour' whereby an attempt is made to shift the responsibility on to the labourer who in reality directly contributes to production.

Labour power

Marx (2013) defines labour power as human psychological and physiological capacity of labour, which he or she exercises in producing use-value. Further, Marx argues that in fathoming or taking account of labour power, it is essential to consider it in its totality, meaning in both 'historical and moral' terms. Thus, labour power on the one hand necessitates taking into consideration social and political (historical or contextual) realities, and on the other, the individual wants of the worker that would enable her/ him to successfully render their labour for production. Hence, Marx observes the necessity of both the reproduction and subsistence (maintenance) of individuals in continuing the supply of labour to generate surplus value for the capitalist. Essentially, the process of generating labour power should reckon the wants of the individual as well as the particular social form of labour. Hence, basic survival and living conditions such as food, housing, clothing, etc. are definitely to be provided in the exchange of labour power in creating surplus, while at the same time contextualizing the relevant populace of labour according to their geographical, biological, and socio-political forms.

Such an approach to generating labour power is devoid of any serf-bondage, allowing the labourer ownership of his or her capacity to produce use-value. To this end, training and education of the individuals rendering their labor power will pay off in the exchange value of labour. Marx further articulates that in order to assure circulation and reproduction of labour power, it is essential to cater to the requirements of nurturing the children of labourers. Unless these requirements are met, the circulation of labour power would be interrupted, halting the production of use-value.

Gender and reproductive labour

Bass (2015) points out that women's proportion in the production labour of the tea industry is predominant. There is enough documentary evidence of challenging social and physical environment of work and living in the tea plantation workers, particularly in relation to women who additionally grapple with gender vulnerabilities and patriarchal power structures, which have been historically formed and reinforced through the plantation management process.

The social structural demands for women to carry out both the productive and reproductive work, as compared to male workers, are significantly higher. Even though there admittedly are other, critical issues of social and political injustice against women including various types of violence and harassment reinforced through patriarchal social structures and norms, this paper limits itself to discussing the subduing of reproductive labour as part of women plantation workers' labour power, and analyzing the exchange value of their labour in the process of producing surplus value.

Even though both the government and RPCs have taken measures to provide basic infrastructure of child care, education, and health facilities, in relation to other communities of the country, the conditions and facilities made available to these plantation workers, especially women, are of significantly poorer quality, particularly considering the laborious work this community engages in, in everyday life and work. Hence, the RPCs' quest to generate higher revenues by further reducing expenditure is revolting given the crippling effect it would have on the lives of these labourers. The state, which is supposed to protect the constitutional rights of its citizens, also demonstrates a lukewarm attitude towards redeeming these workers, possibly due to the reluctance to 'upset the cart' of one of the major sources of revenue of the country, violating the accountability expected from the institution. The situation of women in this equation is even more precarious.

Reproductive labour [a notion coined by feminist advocates], reproduces [use-value] free of charge, places women in a central position in the capitalist mode of production. As such, it constitutes a significant portion of the economic transaction (Anderson 2001). To illustrate the significance, Anderson quantifies that at the beginning of the new millennium, in Europe, the economic cost of reproductive labour was in the range of 44 to 104 percent of GDP. Beneria (1979) emphasizes the special role of women as a producer of use-value, who are nevertheless conditioned, if not constrained by, sexual division of labour and power relations in both the organizational and domestic realms through structure as well as practice. Extending this argument, Nandu and Rao (2018) state that the social reproduction of the labour of women and care work, in spite of their clear contribution to sustain labour power, have been long relegated to the non-productive category of activities, reflecting the taken-for-granted treatment of the social and biological renders of reproductive functions. Accordingly, this portion of [productive] work continues to be excluded in the estimation of the exchange value of labour power.

Therefore, it is clear that the argument of both the government and RPCs of 'revenue sapping' and 'profit diminishing factor of' maintenance costs of the plantation worker families as the reason behind diminishing profit margins holds no ground. What is required, hence, is that these patriarchal and mercantilist (virtually colonial) ways of economic and organizational management be replaced by more just and economically efficient mechanisms, in the interest of both the workers as well as the industry.

The other broader issues

On the premise of the above critical arguments, another crucial question emerges as to how far it is justifiable to place the burden of cutting back on the agency cost of RPCs on the workers, particularly given that the benefit of reduced production costs – namely increased profit margins – will not be accrued to them. In a related vein, it is also pertinent to ask how far it is strategic, efficient, and accountable of the state to differentially treat – or tolerate such treatment of – a portion of citizens in the interests of RPCs. The ultimate point here to be emphasized is that there are other critical issues than ones of labour productivity and cost of labour affecting the falling revenues of the Ceylon tea industry. Hence singling out the labour component as the factor hampering the profitability, competitiveness, and sustainability of the industry, and attempting to find a solution explicitly or solely to address this dimension would be futile. The suggestion, therefore, is to develop a broader, inclusive, participatory, novel and innovative model that is sensitive to the historical and social fabric of the labour populace, while critically examining and strategically or objectively committing to enhance and sustain the competitiveness of the Ceylon tea industry.

Conclusion

The objective of this paper was to critically look at how far or not the current proposal of revenue sharing model for the Sri Lanka tea industry serves the interests of competitiveness through productive labour. Thus, the two main premises of 1) businesses profitability of surplus value creation and 2) labour equity and economic justice to the labour power of the workers were critically interrogated in building the analysis.

To this end, the following issues were revisited in light of the popular and firmly advocated issues highlighted by RPCs and their allies:

a)Low labour productivity

b)High cost of labour

c)Diminishing profit margins or surplus value for the investors

These issues were analyzed within the framework provided by competitive advantage and value chain competitiveness, productive and unproductive labour and related theories of surplus value, labour power, and commodity fetishism of the Marxian doctrine. By doing so, the intention was to cover both the demand and supply dimensions of the issue.

Available trade analyses clearly indicate that Ceylon tea continues to enjoy high demand, especially compared to its competitors, mainly owing to its intrinsic quality and long established goodwill, even though it is currently in a precarious situation of witnessing a diminishing share in the global tea market. In order to address this situation, a differentiation strategy over its cost-focused alternative is preferred, to secure and strengthen the existing market position. The paper also found that, as a key foreign income generating industry, Ceylon tea and related public institutions have not taken adequate measures to infuse technological development to improve the working conditions of the factories, as well as the energy and processing efficiencies of machinery including essential automation, processing methods, etc.

The paper argued that the industry is affected with an increasing unproductive to productive labour ratio, creating a heavy maintenance cost for the productive labour power and ultimately depleting the rate of profit or surplus value to the capitalist investors. On this premise, the efficacy and productivity of RPCs in the production function of the value chain may be questioned. The high maintenance cost of infrastructure and logistics of administration that do not directly contribute to the produce are eating into profit margins. These issues are compounded by the critical neglect of labour power of the plantation workers in the dominant bourgeoisies' narrative, which has shifted attention away from pervasive exploitation and gender inequalities in the plantations, among other issues. Consequently, redress is sought on an issue that is more a part of the solution rather than the problem, while the actual problem – i.e. a hierarchy that leeches the system out – is swept under the rug.

As such, the conclusion is that singling out the supply side of the value chain to remedy the growth stagnation and losing market share is neither pragmatic nor justifiable. Merely focusing on issues of low productivity, escalating costs of production, and receding profit margins of RPCs would not serve any purpose, unless they are treated as part of a complex and interlinked political, economic, and social whole.

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