

FINAL REPORT

RESEARCH ON SUPPLY CHAIN IN THE TEA SECTOR IN INDONESIA

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To:

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INTRODUCTION

Background

Tea is an important commodity with many benefits to human life. Drinking tea has become a culture in countries like Japan, Britain, and China and the catechin it contains is a cure to a number of illnesses. As a commodity, tea sustains lives of growers, pickers, factory workers as well as brings in foreign exchange to tea producing countries. Global tea consumption and production keep growing. Production increased from 3,152,987 in 2003 to 3,233,216 tons in 2004, while consumption from 1,344,200 in 2003 to 1,414,400 tons in 2004¹. In terms of trade, global tea export increased from 1,397,389 tons in 2003 to 1,522,290 tons in 2004.

Indonesia is tea fifth largest tea producer in tea world, after India, China, Sri Lanka and Kenya, with 65% of tea product for towards export. The large export volume, however, has little impact on welfare of tea plantation workers and smallholders. The majority of growers are oriented more to domestic market of green and jasmine tea, while export is dominated by large plantation, both state and private. Many researches come to the conclusion that growers are put under the pressure to sell fresh leaf to collectors and processing factories for low prices which can not cover the production cost before tea leaves wither and the quality drops.² Although the Indonesia tea sales orient to export, the price of tea leaves at smallholder level is same as its domestic sales (IDR 600 – 800 per Kg in October 2006 and has increased from IDR 1000 to 1100 between November 2006 and May 2007³). The smallholders' revenue in West Java, the centre of national tea production, is at an average of IDR 403.000/Household/month, which is lower than the local minimum for physical needs estimated at IDR 505,000/Household/month.⁴ The wages of picker at both small and large plantations are also often below living wages (only IDR 150 – 350 per Kg)⁵.

The Indonesian tea sector is highly fragile to changes and impact from the condition and structure of the international market. The tea price is fluctuating but tends to keep falling in Indonesia over the last nine years. The highest price in the period was US \$ cent 170.25 per Kg in 1998 and the lowest US\$ cent 95.49 in 2003⁶.

The high tea production has attracted multinational enterprises to enter the Indonesian tea sector. Operating with huge capital, the multinationals are holding more power to influence the whole supply chain in the tea sector, either for better or for worse. They certainly play important roles in developing the tea industry and trade. At the same time, they put pressure on other players.

The civil society groups have long been bringing multinationals under scrutiny and demanding that they operate in responsible ways to prevent negative impact on people and communities. Ethical consumer groups demand that companies produce goods in manners that treat workers fairly and trade with fair prices that will allow small players to stay within the supply chain, and pay attention to environmental issues.

Problems

The Indonesian tea sector is characteristic of rural economy of developing country, which is characteristic of poverty. Its history started with exploitation in the Dutch colonial era. Its post independence history has not been better. And with the increasing presence and power of cross-border business that globalization brings about, it is still relevant to ask how the state of the sector is nowadays. This study, therefore, was started with this question, but was dedicated to answer the question on the state of supply chain the whole tea sector and to identify problems it faces. Specifically, this study was dedicated to seek answers to problems which may be formulated as the following.

- How is the state of trade of the Indonesian tea commodity at the national and international level?
- Who are actors in the supply chain and market in the Indonesian tea commodity?
- To what extent have the actors practice CSR especially along the supply chain of the tea sector?
- What are critical issues in the tea sector?

¹ International Tea Committee, "Annual Bulletin of Statistics 2005"

² Researchers in Research Institute for Tea and Cinchona at Gamburg, Bogor, 30 May 2007, interview by author

³ Smallholder in Cikalong Wetan – Bandung, 31 May 2007, interview by researcher. The smallholders do not know why they get higher prices.

⁴ Researcher in Research Institute for Tea and Cinchona at Gamburg, 24 Juni 2007, email to author

⁵ Kompas, "Teh, Konservasi dan Tenaga Kerja...", 24 October 2003

⁶ International Tea Committee, "Annual Bulletin of Statistics 2005"

Objectives

- To document tea state of trade of the Indonesian tea commodity at the national and international levels.
- To increase knowledge of supply chain and market of the Indonesian tea commodity.
- To analyze the extent of social responsibility of tea companies on the supply chain, particularly towards smallholders in the tea sector.
- To analyze critical issues in the tea sector and give recommendation for these

Methodology

This study combines desk and field researches on two major players in the Indonesian tea sector, PT Sinar Sosro and PT Unilever Indonesia Tbk. and their supply chains as a case study. Data were collected from literature review on the Internet, publication, and in the printed media as well as through In-depth interview and direct/on-site observations.

The study was originally designed to be carried out with support from the companies under research. It was expected that the companies under research would be open to cooperate at least to some extent and provide balanced information (data). However in practice, the management of both PT Sinar Sosro and Unilever Indonesia initially refused cooperation with this research. However eventually a human resource manager of PT Sinar Sosro in Ungaran, Central Java and two managers from Unilever agreed to be interviewed. The field study was however conducted without cooperation from both companies. The findings of this study were made available to the (national) management to allow for comments and correction of factual mistakes. Both companies objected to it being published.

During 2006 one worker in general administration and one worker in bottling process of PT Sinar Sosro Cakung, two workers in security of PT Sinar Sosro Cibitung and 1 worker in sales of PT Sinar Sosro Wonogiri were interviewed informally. The union leader and three executives of UI Union in Cikarang were interviewed at the Office of SPSI Bekasi. Informal interviews were also done with two workers in maintenance of UI .

Interviews were also carried out with suppliers of both companies, with the following composition of interviewees: one factory manager, one human resource manager, one worker in packaging process, one worker in administration, and 1 Union representative of PT Sariwangi AEA; one general manager, one IT manager of PT KBP Chakra (the company supplies UI); one production manager, three pickers, one worker in sorting process, one worker in packaging process, and leader of Union of PTPN VIII ; also interviewed were two exporters taking part in tea auction, one manager of tea sales in KPB PTPN, chairman and secretary of Indonesian Tea Association, one official of Agriculture Department of West Java, and a number of NGO activists, as well as one former director of PTPN.

The second field research during 2007 was carried out through in-depth interviews with the Chief and two staff of West Java Provincial office of Plantation, one staff of Agriculture Department, five growers, three workers of private plantation companies, eight workers of state plantation companies and five workers of independent growers, General Manager and HRD Manager of PT Kabepe Chakra, three staffs of PTPN VIII, two staffs of Jakarta Tea Auction, six tea researchers at Research Institute for Tea and Cinchona at Gambung, three staffs CCDC and one staff of Indonesian Tea Association.

Note:

The limited time was a major barrier to this study. The contact process with companies was time consuming and left little time to adjust with availability of interviewees. Time available was too short to build trust from interviewees, especially workers. Most interviewees were not willing to give the data they had and some even refuse to respond to certain questions. Lack of trust also has an effect on the unwillingness to provide researchers with proof documents (salary forms, etc.).

The actors of supply chain in the Indonesia tea sector have closed relationship. They know each other and respectful the persons whose powerful in Indonesian tea sector especially persons in PTPN. Most of the actors which ones the interviewed people are former staffs in PTPN. Even, the former directors of PTPN are also involved in the Indonesia tea trading as private companies.

Unilever's financial contribution to the Indonesian Tea Association and the high dependence on Unilever in tea buying caused uneasiness and precautionous ness on the side of stakeholders to reveal data during interviews. Financial Report of Indonesian Tea Association shows that the largest member contributions from 2003 to 2006 were made by PTPN VIII (IDR 47 to 59 million) and Lipton Tea Supply/PT Unilever Tbk (IDR 45 to 54 million)⁷. Tea plantation companies, both state-owned and private, always try not to damage their relations with Lipton/Unilever as large buyer.

⁷ Asosiasi Teh Indonesia, "Laporan Kegiatan dan Keuangan Asosiasi The Indonesian Tahun 2006", 2007

CHAPTER I

OVERVIEW OF THE GLOBAL TEA MARKET AND TRADE

Tea originates and grows in subtropical highland regions of cool weather. Countries with such regions, such as India, Sri Lanka, Kenya, China, Indonesia and Turkey, are well known as tea producer. Global tea production totaled 3,233,216 tons in 2004, 70% share of which is black tea and the remaining percentage green tea.

Global tea production continues to grow. Annual growth was noted to be 2.6% in 2004. From 1985 to 1995, the global tea production grew by 10%, while from 1995 to 2004 it grew by 28%⁸.

Table 1. World Production of Tea

Country	1995	2000	2003	2004
India	756,016	846,483	857,055	820,216
China	588,423	683,324	768,140	835,231
Sri Lanka	246,424	306,794	303,254	308,089
Kenya	244,525	236,286	293,670	324,609
Indonesia	143,675	162,586	169,819	164,817
Turkey	102,713	130,671	155,000	165,000
Japan	84,804	89,309	91,930	100,262
Vietnam	40,200	70,000	93,000	95,000
Argentina	32,000	63,000	60,000	63,000
Bangladesh	47,673	52,639	58,298	55,627
Malawi	34,526	42,114	41,693	50,090

Source: ITC, "Annual Bulletin of Statistics 2005"

China notes the highest tea production growth among the producing countries, while India, despite being one of the biggest producers, has been noting its national production falling in the last few years. 118 factories in the country every now and then choose to temporarily halt production, and 24 have even closed down⁹.

Tea is also a reliable source of foreign exchange gain for its producing countries. Nearly 1,522,290 tons of the world's tea is aimed for export, with Kenya noting the largest export. In 2004, Kenyan tea export made up 22% of the global tea export, followed by Sri Lanka and China, each with a share of 19% and 18%, respectively.

Table 2. World Export of Tea

Country	2002 (ton)	2003 (ton)	2004 (ton)
Kenya	272,459	269,268	333,802
Sri Lanka	285,985	290,567	290,604
China	252,273	259,980	280,193
India	198,087	170,277	179,957
Indonesia	100,185	88,175	98,572
Vietnam	74,812	59,900	70,000
Other	254,124	259,222	269,162
Total	1,437,925	1,397,389	1,522,290

Source: ITC, "Annual Bulletin of Statistics 2005"

Global tea import for consumption increased from 1,344,200 tons in 2003 to 1,414,400 tons in 2004¹⁰, and from 1,461,500 metric tons in 2005 to 1,467,900 metric tons in 2006, with the Russian Federation as the largest importer for consumption.¹¹

Table 3. Summary of Import of Tea for Consumption in each country

Country	Metric Tons						
	2000	2001	2002	2003	2004	2005	2006
Russian Federation	156,200	153,700	162,600	165,700	166,200	173,000	166,500
United Kingdom	133,500	136,600	136,600	125,300	128,800	128,200	135,400

⁸ ITC, "Annual Bulletin of Statistics 2005"

⁹ ITC, "Annual Bulletin of Statistics 2005"

¹⁰ ITC, "Annual Bulletin of Statistics 2005"

¹¹ ITC, "Supplement to Annual Bulletin of Statistics 2006"

Pakistan	111,426	106,822	97,822	118,309	120,017	139,261	127,000
USA	88,290	96,668	93,474	94,174	99,484	100,060	108,997
Egypt	63,355	56,403	78,942	49,860	71,803	73,500	79,000
Japan	57,773	60,056	51,487	47,132	56,196	51,451	48,096
Iraq	52,600	62,700	82,000	37,800	51,000	56,000	66,000
Other	609,456	659,251	671,075	709,825	732,800	740,028	736,907
Total	1,272,600	1,332,200	1,374,000	1,348,100 ¹²	1,426,300 ¹³	1,461,500	1,467,900

Source: ITC, "Supplement to Annual Bulletin of Statistics 2006"

The per capita tea consumption varies from country to country, depending on the habit of drinking tea and the level of knowledge of its efficacy. Ireland notes the highest tea consumption in the world.

Table 4. Apparent Consumption of Tea Per Head

Country	Average Consumption per Head In Kg
Ireland Republic	2.96
Qatar	2.51
Kuwait	2.34
Iraq	2.25
United Kingdom	2.20

Source: ITC, "Annual Bulletin of Statistics 2005"

The Market Structure

The tea market structure is characteristic of the tendency towards monopsony in the upstream and monopoly in the downstream, of the state of the domestic price highly vulnerable to changes in the global market, and of involving both small businesses (smallholders, traders) and large corporations. The market structure puts smallholders at the bottom-end of a long supply chain with barely weak bargaining position to define prices.

Domestic prices depend very much on the price level at the international market, which is set through auction, in which exporters, as well as domestic and multinational companies take part. Three top auction venues that hold strong influence on the international tea prices are Mombassa (Kenya), Colombo (Sri Lanka) and Kolkata (India).

Table 5. Monthly Average Prices of the Tea Sold on Auctions for all tea in Producing Countries

Auction/ year	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Total
Kolkata Indian Rupees/Kg													
2001	84.99	74.49	59.67	84.62	88.88	95.51	95.14	79.44	74.36	64.88	65.32	63.37	76.39
2002	59.09	53.50	46.70	60.87	75.56	89.41	90.70	73.45	72.84	76.13	71.40	67.85	67.40
2003	69.49	71.19	57.54	69.52	65.94	72.36	83.68	69.76	63.66	65.98	85.21	66.98	67.98
2004	60.13	60.05	61.94	93.04	81.03	93.72	87.65	86.65	85.39	83.56	83.33	72.19	80.17
2005	59.78	60.36	57.23	93.46	71.52	83.68							
Colombo Rs/Kg													
2001	154.64	155.03	150.82	145.06	134.76	130.53	129.60	136.37	142.64	145.53	154.58	149.98	143.54
2002	154.46	159.21	160.83	152.74	142.09	137.14	133.53	144.15	154.87	155.13	149.31	148.26	148.66
2003	154.10	144.16	142.46	139.48	140.15	139.16	145.17	150.64	153.69	157.47	160.57	157.10	148.32
2004	160.63	163.99	167.61	170.91	168.69	155.35	167.64	187.87	195.37	211.65	211.99	209.90	180.18
2005	196.82	190.59	193.06	188.20	174.34	164.89							
Jakarta US \$ c /Kg													
2001	115.68	106.99	108.19	104.49	93.79	85.60	90.07	93.32	96.83	90.23	91.06	90.29	96.68
2002	92.33	97.45	104.23	103.05	102.58	99.04	102.00	102.78	104.00	103.62	105.27	104.74	101.11
2003	103.13	96.87	98.96	100.03	97.43	92.24	85.94	93.04	92.92	93.33	95.53	97.19	95.49

¹² ITC, Annual Bulletin of Statistics 2005 and 2006 present different figures concerning global tea import for consumption.

¹³ ITC, Annual Bulletin of Statistics 2005 and 2006 present different figures concerning global tea import for consumption.

2004	98.21	97.91	102.89	105.98	104.92	102.73	98.71	102.40	106.34	105.80	106.14	99.45	102.22
2005	109.42	108.42	92.94	111.10	108.18	105.07							
Mombasa US \$ c /Kg													
2001	186.56	172.24	167.25	143.66	146.26	142.51	153.44	147.73	138.92	136.79	140.22	142.87	153
2002	145.63	150.44	153.98	148.67	136.21	145.12	148.03	149.13	156.39	154.25	151.53	147.25	149
2003	150.76	142.87	150.65	150.06	152.25	150.27	154.45	155	158.27	167.47	162.01	158.73	154
2004	163.10	164.75	159.07	154.04	150.86	150.48	153.22	157.42	163.36	150.71	145.60	149.34	155
2005	150.63	148.25	148.28	146.62	140.76	139.19							

Source: ITC, "Annual Bulletin of Statistics 2005"

Tea price keeps falling, despite the fact that demand continues to soar (see table 5 and table 6). The assumption that production higher than consumption naturally tends to bring down prices does not work. Corporation maintains much stronger power than other players along the supply chain easily manipulate supply and demand. Large buyers such as Unilever, Van Rees, Finlay and Tata Tetley, play significant roles in the tea price setting. The large companies have influence on supply, demand and price movement of tea through their buying policy¹⁴. Their decision on the tea price in the auction (Mombassa, Colombo and Kolkata) becomes barometer of global tea price.

Table 6. APPARENT GLOBAL CONSUMPTION OF TEA

THOUSAND METRIC TONS				
YEAR	PRODUCTION	RETENTIONS (A)	IMPORTS (B)	GLOBAL CONSUMPTION (C)
1996	2,679	1,553	1,149	2,702
1997	2,759	1,557	1,200	2,757
1998	3,023	1,720	1,245	2,965
1999	2,941	1,682	1,234	2,916
2000	2,936	1,609	1,272	2,881
2001	3,061	1,674	1,332	3,006
2002	3,081	1,645	1,372	3,017
2003	3,198	1,803	1,345	3,148
2004	3,310	1,775	1,425	3,200
2005	3,420	1,869	1,446	3,315

Source: International Tea Committee, Annual Bulletin of Statistics, 2006

International Trade Rules

International trade regulations in the tea sector are as follows¹⁵:

Maximum Residue Level (MRL)

Food export regulations require that the amount of pesticide residue – of cyflutryn, cypermethrin and fenvalerate – should not exceed the MRL defined by the export destination countries. For tea import, Japan lists 140 kinds of pesticides, and set MRL for 58. European market MRLs for 133 pesticides, while the US 11. Each developed country has its own MRL standard set in compliance to the demands from their consumer. Though it is considered necessary to harmonize MRL in a standard CODEX, any agreement between the producing and importing countries has not been reached.

The Bioterrorism Act (TBA)

TBA is an act ratified against the backdrop of the September 11, 2001 terrorist attack, which gives mandate to the US Food and Drug Administration to comprehensively prevent any biological harm that may result from food and drug, both produced by American industries and imported.

¹⁴ pf. Joris Oldenziel, Geertje Otten & India Committee of the Netherland, "Sustainabilitea", SOMO, 2006

¹⁵ Rohayati Suprihartini, "Hambatan Non Tariff pada Perdagangan Teh Dunia Berpangkal pada Budidaya dan Pengolahan", INFO TEH, 17th edition, January 2006, p. 7-10

International Standard Phytosanitary Measure (ISPM) 15/ Wood Pallet Certification

ISPM 15, issued by Food and Agriculture Organization (FAO) in March 2002, requires that wood container for food packaging should be made of

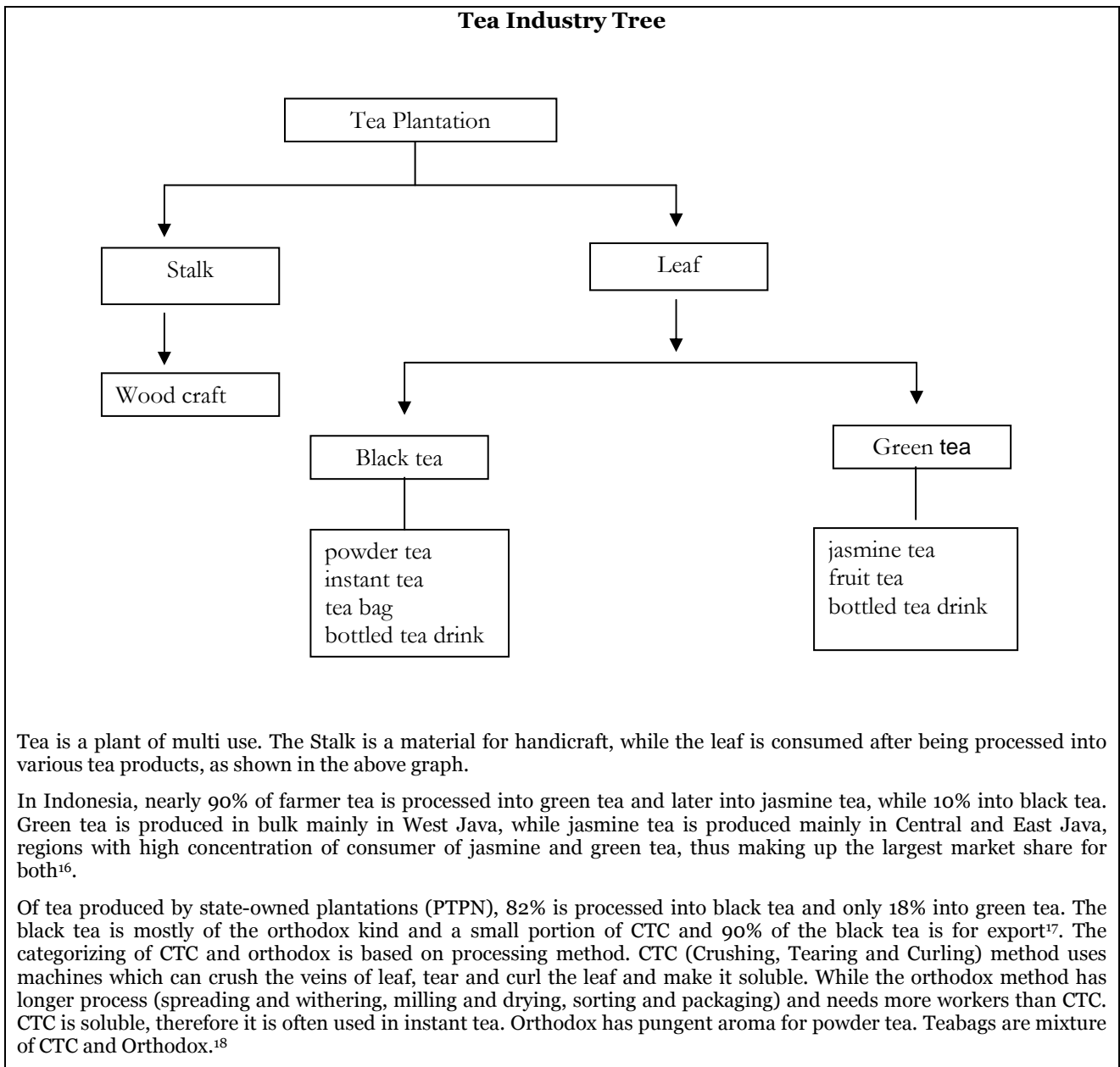
- legally acquired timber
- quality timber (non-bark, not hollow, pliant, and insect-free/sterile)
- treated timber (heated, fumigated)
- timber certified by accredited authorities

Hazard Analysis Critical Control Point (HACCP)

HACCP is standard quality management required by a number of developed countries importers, comprising harm analyses (physical, chemical, and biological) along the supply chain to ensure safe and quality food.

CHAPTER II
PROFILE OF THE INDONESIAN TEA SECTOR

Not a native plant, tea was first introduced in 1686 by Dr. Andreas Cleyer ornamental plant. In 1728, the Dutch colonial government brought in tea seeds in large amount to grow in Java. The effort ended in failure. Dr van Siebold initiated another import of tea seeds, this time from Japan, in 1824. Jacobson started up the first tea plantation in 1828, an initiative that later brought commercial benefit to the Dutch colonial government and led to its policy of *Kultuurstelsel*, in which tea became one of the plants that people are obligated to grow.



Though a tea plantation does not require area as large as those for rubber, palm oil and sugar cane, its productivity ranks third in the Indonesian plantation sector, after palm oil and sugar cane. As the figure on Table 7, production is rather steady actually with a more pronounced fall towards the end. The area

¹⁶ Ita Setiawati and Nasikun, "Teh: Kajian Sosial – Ekonomi", Aditya Media, 1991

¹⁷ Alex Supit, Carlina Susanto Adiwilaga & A. Soeharto., "Pemasaran Teh yang Agresif", Asosiasi Teh Indonesia (ATI), November 1998

¹⁸ Ita Setiawati and Nasikun, "Teh: Kajian Sosial-Ekonomi", Aditya Media, 1991

cultivated declined somewhat over the years. Productivity fluctuates strongly with a more pronounced fall from 2001 towards 2003.

Table 7. Production, Immature Area and Yield in Indonesia, 2000- 2004

No	Item	Year					Growth
		2000	2001	2002	2003	2004 *)	2004 over 2003
I. Production (Ton)							
1	Rubber	1,501,428	1,607,461	1,630,359	1,792,348	2,065,817	15.26
2	Oil Palm	7,000,507	8,396,472	9,622,344	10,440,834	11,806,550	13.08
3	Coffee	554,574	569,234	682,019	663,571	634,893	-4.32
4	Tea	162,587	166,867	165,194	169,821	164,818	-2.95
5	Pepper	69,087	82,078	90,181	90,740	94,371	4.00
6	Clove	59,879	72,685	79,010	116,415	110,507	-5.07
7	Cocoa	421,142	536,804	619,192	695,361	644,245	-7.35
8	Sugar Cane	1,690,004	1,725,467	1,755,354	1,634,358	2,171,714	32.88
9	Tobacco	204,329	199,103	192,083	200,875	166,841	-16.94
II Immature Area (Ha)							
1	Rubber	3,372,421	3,344,767	3,318,359	3,290,112	3,262,267	-0.85
2	Oil Palm	4,158,079	4,713,435	5,067,058	5,283,557	5,447,562	3.10
3	Coffee	1,260,687	1,313,383	1,372,184	1,381,730	1,252,023	-9.39
4	Tea	153,675	150,872	150,707	143,604	142,765	-0.58
5	Pepper	150,531	186,022	204,068	204,364	209,572	2.55
6	Clove	417,598	429,300	430,212	442,331	429,935	-2.80
7	Cocoa	749,917	821,449	914,051	961,107	971,728	1.11
8	Sugar Cane	340,660	344,441	350,722	338,244	370,064	9.41
9	Tobacco	239,737	260,738	256,081	256,926	210,394	-18.11
III Productivity/Yield (Kg/Ha)							
1	Rubber	646.81	686.39	696.01	764.65	839.01	9.72
2	Oil Palm	2,780.07	2,840.38	2,909.32	3,045.24	3,167.27	4.01
3	Coffee	625.45	610.64	702.93	709.39	619.61	-12.66
4	Tea	1,420.09	1,523.94	1,469.50	1,441.93	1,424.37	-1.22
5	Pepper	800.45	836.14	821.97	819.23	823.46	0.52
6	Clove	189.97	222.79	246.05	285.56	287.42	0.65
7	Cocoa	891.78	956.39	924.07	1,101.12	1,189.03	7.98
8	Sugar Cane	4,960.97	5,009.47	5,004.97	4,831.89	5,868.48	21.45
9	Tobacco	866.45	767.58	760.38	781.84	792.99	1.43

Source : Directorate General of Estate Crops Production Development

Note : *) Preliminary Figure

-) Data not available

50% of Indonesia's teas are grown on medium altitudes (800 -1200 m) and 20% and 30% respectively on high (>1,200 m) and low altitudes (500 – 800 m). The low altitudes is the medium grown which have low quality.¹⁹

As altitude is a determining factor to quality, tea estates are mostly located in West Java, a region naturally endowed with broad area of highland.

Table 8. Tea Area by Districts 1999 – 2004

No	Province	Year						Growth
		1999	2000	2001	2002	2003	2004*)	2004 over 2003
1	Nanggroe Aceh Darussalam	-	-	-	-	-	-	-

¹⁹ Rohayati Suprihatini, Citra Teh Indonesia Di Mata Para Pembeli Teh Dunia, 18 October 2004, http://www.ipard.com/art_perkebun/oct10_04_oha-I.asp

2	North Sumatera	11,662	10,091	10,378	10,378	9,009	9,009	0
3	West Sumatera	5,753	6,991	5,526	5,383	4,971	4,935	-0.72
4	Riau	-	-	-	-	-	-	-
5	Jambi	2,625	2,625	2,575	2,625	2,625	2,625	0
6	South Sumatera	1,511	1,522	1,521	1,521	1,535	1,579	2.87
7	Bangka Belitung	-	2	2	2	2	1	-0.50
8	Bengkulu	1,375	1,430	1,464	1,481	1,499	1,479	-1.33
9	Lampung	202	92	71	71	71	58	-18.31
10	DKI Jakarta	-	-	-	-	-	-	-
11	West Java	114,374	111,981	110,722	110,876	106,149	105,422	-0.68
12	Banten	-	32	32	32	0	0	0
13	Central Java	12,587	12,192	11,974	11,715	11,113	11,040	-0.66
14	DI. Yogyakarta	306	303	298	310	310	305	-1.61
15	East Java	4,555	4,523	4,422	4,426	4,433	4,425	-0.18
16	Bali	-	-	-	-	-	-	-
17	Nusa Tenggara Barat	-	-	-	-	-	-	-
18	Nusa Tenggara Timur	-	-	-	-	-	-	-
19	West Kalimantan	-	-	-	-	-	-	-
20	Central Kalimantan	-	-	-	-	-	-	-
21	South Kalimantan	-	-	-	-	-	-	-
22	East Kalimantan	-	-	-	-	-	-	-
23	North Sulawesi	-	-	-	-	-	-	-
24	Gorontalo	-	-	-	-	-	-	-
25	Central Sulawesi	1,760	1,760	1,760	1,760	1,760	1,760	0
26	South Sulawesi	129	131	127	127	127	127	0
27	Sout East Sulawesi	-	-	-	-	-	-	-
28	Maluku	-	-	-	-	-	-	-
29	North Maluku	-	-	-	-	-	-	-
30	Irian Jaya	-	-	-	-	-	-	-
	Indonesia	156,839	153,675	150,872	150,707	143,604	142,765	-0.58

Source : Directorate General of Estate Crops Production Development

Note : *) Preliminary Figure

-) Data not available

As is clear from table 6 the land use for tea growing has been decreasing steadily over recent years, due to a shift to palm oil, vegetables and other crop considered more profitable. Smallholders also choose to sell their land out²⁰.

Table 9. Tea Production by Province, 1999 – 2004

No	Province	Year						Growth 2004 over 2003
		1999	2000	2001	2002	2003	2004*)	
1	Nanggroe Aceh Darussalam	-	-	-	-	-	-	-
2	North Sumatera	22,608	18,044	17,513	18,473	17,132	16,971	-0.94
3	West Sumatera	5,111	5,526	6,606	6,356	6,244	6,407	2.61
4	Riau	-	-	-	-	-	-	-
5	Jambi	5,233	5,430	6,068	5,675	5,670	5,375	-5.2
6	South Sumatera	2,298	2,437	2,529	2,647	2,601	2,543	-2.23
7	Bangka Belitung	-	1	1	1	1	0	-100
8	Bengkulu	1,168	978	1,102	1,443	1,862	1,517	-18.53
9	Lampung	14	25	40	34	34	39	14.71

²⁰ Evy, "Harga Teh Rakyat Anjlok, Petani Jual Tanah", Kompas, 11 March 2004, <www.kompas.com> (27 May 2006)

10	DKI Jakarta	-	-	-	-	-	-	-
11	West Java	100,695	110,960	113,840	111,142	115,813	111,620	-3.62
12	Banten	-	5	5	4	0	0	0
13	Central Java	17,883	12,956	12,580	12,989	13,801	14,254	3.28
14	DI. Yogyakarta	28	68	72	75	95	122	28.42
15	East Java	5,660	5,332	5,700	5,554	5,426	4,805	-11.44
16	Bali	-	-	-	-	-	-	-
17	Nusa Tenggara Barat	-	-	-	-	-	-	-
18	Nusa Tenggara Timur	-	-	-	-	-	-	-
19	West Kalimantan	-	-	-	-	-	-	-
20	Central Kalimantan	-	-	-	-	-	-	-
21	South Kalimantan	-	-	-	-	-	-	-
22	East Kalimantan	-	-	-	-	-	-	-
23	North Sulawesi	-	-	-	-	-	-	-
24	Gorontalo	-	-	-	-	-	-	-
25	Central Sulawesi	128	643	673	680	1,021	1,042	2.06
26	South Sulawesi	177	182	139	121	121	123	1.65
27	South East Sulawesi	-	-	-	-	-	-	-
28	Maluku	-	-	-	-	-	-	-
29	North Maluku	-	-	-	-	-	-	-
30	Irian Jaya	-	-	-	-	-	-	-
	Indonesia	161,003	162,587	166,867	165,194	169,821	164,818	-2.95

Source : Directorate General of Estate Crops Production Development

Note : *) Preliminary Figure

-) Data not available

The decreasing acreage should naturally affects the overall national tea production growth however production has remained rather steady (table 8). The tea producing regions of Central Java, Yogyakarta and West Sumatra have even seen production growth (see table 9). West Java produces 70% of the total national tea, followed by North Sumatra and Central Java. As can be seen in table 6 productivity (production/hect) varies considerably over time.

EXPORT DEVELOPMENT

In 2000, the tea industry contributes IDR 1.2 trillion (0.3% of the non-oil-and-gas revenue) to the national GDP and contributes US\$ 110 million to the foreign exchange gain.²¹ The foreign exchange gain from the tea sector tended to fluctuate : US\$ 88 million (1995), US\$ 114 million (1998), US\$ 104 million (2002), US\$ 96 million (2003), US\$ 116 million (2004), US\$ 122 million (2005)²². 65% of the total production is for export, after the government encouragement of export-oriented economy.²³

Orientation towards the export market, somehow, has implication to the Indonesian tea sector, making it highly dependent and vulnerable to the international market, especially in terms of tea price. When supply in the international market hits some level of surplus, domestic prices drastically fall, which affects smallholders severely, as they are forced to sell their tea at lower prices that hardly compensate their production costs.

Both exports and a lesser extend production fluctuate strongly. The weak competitiveness was the main cause to the decline. The price of Indonesia tea in export market has been fluctuated (see the section on prices below).

²¹ Rohayati Suprihartini dan A.Imron Rosyadi, "Evaluasi Kebijakan Produksi dan Perdagangan Teh Dalam Rangka Meningkatkan Daya Saing The Nasiona", 2003

²² Insyaf Malik dan Atik Dharmadi, "Peluang dan Tantangan Industri Teh Indonesia di Era Globalisasi", Buku Panduan: Rapat Tahunan Anggota 2006, Asosiasi Teh Indonesia, April 2007

²³ Asep Mh. Mulyana, "Harga Ekspor Terpuruk, Jabar Garap Pasar Teh Lokal", Bisnis Indonesia, 3 December 2004, <www.bisnis.com> (16 April 2006)

Table 10. Production growth and Export development in the Indonesian tea sector

Year	Production (Tons)	Growth	Export (Tons)	growth
1993	164,994		123,926	
1994	139,222	-15.62%	84,916	-31.48%
1995	154,013	10.62%	79,227	-6.70%
1996	169,417	10.00%	101,532	28.15%
1997	150,840	-10.97%	66,843	-34.17%
1998	152,063	0.81%	67,219	0.56%
1999	161,003	5.88%	97,847	45.56%
2000	157,371	-2.26%	105,581	7.90%
2001	172,897	9.87%	99,721	-5.55%
2002	172,792	-0.06%	100,185	0.47%
2003*	179,228	3.72%	124,001	23.77%
Average		1.20%		2.85%

*) Preliminary Figure

Source: ATI

With export volume moved between negative and positive growth, the sector gained a positive growth in 2003 only to decline again the following year to 88,176 tons, due to a number of factors, but mainly the falling consumption in England and other European countries.

Factors influencing Indonesian tea export:

- Global Tea demands and supply worldwide. Global tea demand increases amid the limited supply from certain countries may push up Indonesian tea export.²⁴
- Type and quality of tea products. In comparison with other exporting countries, Indonesia does not heed the variety of tea products demanded by the market, which tends to keep its export low. In 2006, Indonesia ranked sixth as the world's big tea exporter, after Sri Lanka, Kenya, China, India and Vietnam.²⁵
- Tea price. According to Chief of Indonesian Tea Association, increases in the global tea price will encourage producers to turn to the global market, thus increasing the Indonesian tea export.²⁶
- Tariff barrier. Till early 2007, Indonesian tea producers preferred the revocation of VAT 10% to tariff adjustment. As the VAT 10% has been revoked, Indonesian tea players turn to tariff adjustment. A research by the Tea and Kina Research Centre found out that Indonesia sets a low import tariff, 5%, while other producing countries set higher tariff. Sri Lanka set an import tariff at 25%.

Table 11. Import tariff set by importing countries on Indonesian tea products

Country	Import Tariff	
	Bulk Tea 090220, 090240	Packaged tea product 090210, 090230
Sri Lanka	25%	25%
India	113%	114% 30% (instant tea)
China	15% (MFN) 100% (out of MFN)	15% (MFN) 100% (out of MFN)
Kenya	25%	25%
Malawi	50% (black tea) 10% (green tea)	50% (black tea) 10% (green tea)
Japan	3% (black tea) 17% (green tea)	12% (Packaged black tea) 10% (the instant tea)
Taiwan	17,6% green tea and black tea 25% (oolong tea)	
Turkey	145%	145%

Source: ITC (2006)²⁷

²⁴ Insyaf Malik, Ketua Asosiasi Teh Indonesia, 15 November 2006, interview by author

²⁵ ITC, "Supplement to Annual Bulletin of Statistics 2006"

²⁶ Reuters, "Ekspor Teh Indonesia 2006 diperkirakan Meningkatkan 29 Persen", 8 June 2006, http://www.kpbptpn.co.id/news.php?news_id=319

²⁷ Asosiasi Teh Indonesia, "Buku Panduan Rapat Tahunan Anggota 2006", 19 April 2007, Bandung

- Non-tariff barrier. Respondents mentioned the following as non-tariff barriers to Indonesian tea export: Ethical Tea Partnership, Maximum Residue Level (MRL), Hazard Analysis Critical Control Point (HACCP), International Standard Phytosanitary Measures (ISPM) 15/Wood Pallet Certification and the Bioterrorism Act (TBA). With the imposition of HACCP in European markets since 1 January 2006, it is predicted that Indonesian tea export to European markets decrease by 15 to 20%.²⁸

Table 12. Targeted Countries of Indonesian Tea Export 2004

Country	Percentage
Russia	15.4
England	14.4
Malaysia	9
Pakistan	8.6
Germany	7
US	7
Poland	5.4
Netherlands	5.3
Others	27.9

Source: Kompas, 8 September 2005

In 2001, Indonesia ranked seventh in the list of the largest exporting countries in terms of value, with a share of 3.9% (an increase from 5.4% in 1997) of the world export (overall tea export), after India (18.9%), China (17.1%), Sri Lanka (15.2%), Kenya (7.9%), England (7.9%) and United Arab Emirates (4%) (See Table 12).

However, it finds its export market shrinking and is losing hold on its main export market in Pakistan, England, the Netherlands, Germany, Ireland, Russia, the US, Singapore, Malaysia, Syria, Taiwan, Egypt, Morocco, and Australia²⁹.

Table 13. Export Market share of Exporter Countries 1997-2001 in term of Value

Exporter	Year	Total of export market share (%)	Market share of Export			
			The Bulk Black Tea (%)	The Bulk Green Tea (%)	The Packaging Black Tea (%)	The Packaging Green Tea (%)
Vietnam	1997	0.6	0.6	3.0	0.2	0.2
	2001	0.8	0.9	3.5	0.1	0.1
China	1997	19.5	15.0	77.4	6.7	57.1
	2001	17.1	11.9	66.6	4.2	62.1
Bangladesh	1997	0.8	1.4	0	0.1	0.3
	2001	0.3	0.4	0	0.2	0
Germany	1997	3.2	3.5	2.1	3.3	1.8
	2001	2.7	2.0	4.3	3.2	4.0
India	1997	15.1	15.7	1.5	19.3	3.8
	2001	18.9	22.8	2.0	20.3	0.9
Indonesia	1997	5.4	8.2	1.7	1.9	0.4
	2001	3.9	6.0	2.6	1.4	0.2
Japan	1997	0.7	0	3.8	0.1	6.1
	2001	0.8	0.1	6.0	0.1	4.8
Kenya	1997	13.8	23.7	0.2	0.6	0.4
	2001	7.9	14.0	0.6	0.9	0.1
Sri Lanka	1997	14.0	12.2	0.9	23.0	1.2
	2001	15.2	15.6	2.6	20.3	2.9

²⁸ Rohayati Suprihatini, Research Institute for Tea and Cinchona at Gamburg, "Hambatan Non Tariff pada perdagangan The Dunia Berpangkal pada budidaya dan pengolahan", INFO TEH, 17th edition, January 2006

²⁹ Rohayati Suprihartini, "Pertumbuhan, Komposisi Produk, Distribusi, dan Daya Saing Teh Indonesia di Pasar Dunia", INFO TEH, 15th edition, December 2003

United Arab Emirates	1997	0.2	0	0	0	4.2
	2001	4.0	1.9	0.2	9.3	0.2
England	1997	8.6	2.6	0.3	23.3	3.1
	2001	7.9	2.3	1.2	19.9	4.1
United State	1997	1.0	0.6	1.5	1.5	1.9
	2001	1.2	0.6	1.3	1.7	3.2

Source: International Trade Center (2002)³⁰

Unlike Japan, England, the US and United Arab Emirates, who import tea for further processing into downstream product, thus creating added value to their tea, before exporting at higher prices, Indonesia still relies on the export of bulk tea, which is primary/upstream product and, therefore, is destined to see its export market shrinking even more. The following table shows that Indonesia is a small tea exporter in terms of downstream tea product. The weak development of downstream industry curtails the competitiveness of the Indonesian tea sector in the international market.

Table 14. Tea Exporter Composition in 2001

Exporter country	The Bulk Black Tea		The Packaged black tea		The Bulk Green Tea		The Packaged green tea	
	Ton	%	Ton	%	Ton	%	Ton	%
Japan	593	3.4	581	3.4	9,262	53.4	6,895	39.8
China	132,522	37.6	27,086	7.7	103,679	29.4	89,230	25.3
England	25,643	15.8	129,196	79.5	1,931	1.2	5,834	3.6
Sri Lanka	173,856	55.3	132,248	42.1	4,108	1.3	4,131	1.3
India	254,144	65.0	132,348	33.9	3,190	0.8	1,263	0.3
Vietnam	9,867	59.9	912	5.5	5,478	33.3	212	1.3
Indonesia	67,090	85.5	9,288	6.0	4,102	8.4	273	0.1

Source: International Trade Center (2002)

While 85.5% of Indonesia's tea export is still in the form of bulk black tea, the market for the same commodity has been shrinking everywhere, except for a few countries (United Arab Emirates, Russian Federation, Japan, and Poland) where its market still grows.

As the downstream industry is not well developed, the export of downstream products is tiny, 6.1%. Much attention needs to be paid to the downstream sector to create added value to boost competitiveness. The industries with the highest added value are tea-flavored and tea-extract industries. With a ratio of tea-flavored product at 0,859, every IDR 1,000 gain in product value implies an increase in added value of IDR 859.

Table 15. Added Value Ratio of Product

The kind of industry	Added Value Ratio
The packaging green tea	0.448
The Packaging black tea	0.443
The extract tea	0.603
Tea flavored	0.859

Source: Badan Pusat Statistik³¹

Till early 2007, the main barrier to the development of the downstream industry was the imposition of the value-added tax of 10% (see section on government policy below). Others are lack of investment incentives, absence of tariff harmonization, and lack of consistent governmental support. The VAT 10% discouraged the proper development of the downstream sector, to the effect that producers opted more for exporting bulk tea rather than processed/packaged tea (see table 13). Though the VAT 10% was revoked in January 2007, it still has its effect. Since Provincial Office of Taxation has not issued the implementation guidance of the policy, PTPN VIII as producer avoids the risk by charging the VAT 10% to buyers at Bandung Tea Auction.

³⁰ Rohayati Suprihartini, "Pertumbuhan, Komposisi Produk, Distribusi, dan Daya Saing Teh Indonesia di Pasar Dunia", INFO TEH, 15th edition, December 2003

³¹ Rohayati Suprihartini, "PPN, Biang Kerok Terhambatnya Pengembangan Industri Hilir Teh di Indonesia", INFO TEH, 16th edition, December 2004, p.5-

Table 16. Volume and value of Indonesian Tea Export

year	Export	
	Volume (Tons)	Value (000 US\$)
1997	66,843	88,837
1998	67,219	113,208
1999	97,847	97,140
2000	105,582	112,105
2001	107,144	112,105
2002	100,184	103,427

Source: www.bisnis.com

Based on the volume and value of export, the profitability is decreasing (see table 17). But if it recalculated in rupiah, profitability has remained rather stable.

Table 17. Profitability

Year	Volume (A)	Value (B)	Profitability (B/A) US\$	EXC (IDR)	Profitability (IDR)
1997	66,843	88,837	1.32904	2909.4	3866.7
1998	67,219	113,208	1.684167	10013.6	16864.6
1999	97,847	97,140	0.992774	7855.2	7798.4
2000	105,582	112,105	1.061781	8421.8	8942.1
2001	107,144	112,105	1.046302	10260.9	10736
2002	100,184	103,427	1.03237	9311.2	9612.6

TEA IMPORT

Tea import shows a tendency to increase. In 2002, the tea import reached 3,526 tons, an increase from 2,632 tons of the previous year. In overall, the increase was driven by the massive opening of Chinese, Vietnamese and Thai restaurants³².

Table 18. Volume and value of Import 1997-2002

year	Import	
	Volume (Tons)	Value (000 US\$)
1997	2,817	2.87
1998	3,995	4.35
1999	619	61
2000	2,632	3.09
2001	2,632	3.09
2002	3,526	3.65

Source: www.bisnis.com

The imported products are mainly downstream products. During the period of 1997-2002, tea import grew by 4.2% per year. The main imported product is bottled green tea with annual growth of 11.8% and bottled black tea with annual growth of 28.4%.³³

³² Asep Mh. Mulyana, "Harga Ekspor Terpuruk, Jabar Garap Pasar Teh Lokal", *Bisnis Indonesia*, 3 December 2004, <www.bisnis.com> (16 April 2006)

³³ Rohayati Suprihartini, "Studi Banding Pemasaran Teh India dan Indonesia", *INFO TEH*, 6th edition, August 1999, p.18-22.

TEA CONSUMPTION

Indonesia noted the lowest tea consumption in the world, with annual per capita of 0.31 kg. Indonesians consume tea at home (90.5%) and outside (hotels, restaurants, and the like)³⁴. Despite the annual growth, tea consumption does not contribute significantly to domestic tea sales. Lack of information on the health benefit of drinking tea may have been the main cause to the low consumption.

Table 19. The Growth of Tea Consumption in Indonesia 1999-2003

Year	Consumption (Tons)	Growth (%)
1999	62,905	-
2000	59,211	(5.9)
2001	66,299	11.9
2002	68,015	2.6
2003	69,647	2.4

Source: www.bisnis.com

Bottled tea industry is competing severely with bottled mineral water and soft drink industries, taking 30% percent of the market share. Mineral water, carbonated soft drink and other products – such as juices – take 40%, 20% and 10% share of the market, respectively.

PRICES

Jakarta Tea Auction, held on Wednesdays at the Joint Marketing Office of state-owned plantations (Kantor Pemasaran Bersama PTPN/KPB PTPN), is the reference for the tea prices at the smallholder level.

The tea price at JTA is refers to that in Colombo Tea Auction (CTA) since both countries share similarities in agro climate, tea clones and production of orthodox tea. Prior to 1990, price at JTA was always higher than that at CTA and in 1979 it was 200% higher. Since 1990, however, tea price at JTA has been lower than that at CTA – in 2005, it was only 58% of the CTA price.³⁵

Regarding such reverse, experts have been mentioning several causes, among others are internal weaknesses of the Joint Marketing Office (KPB), shift in buyer preference, inconsistent quality of the Indonesian tea, lack of proper supporting policies and facilities from the government, as well as the high freight cost to the England, the world's first market of tea.³⁶

Table 20. The Price of Indonesian Tea in Export Market

Year	2001	2002	2003	2004
Price/Kg (US Cent)	96.36	101.33	95.53	101.92

Source: Suara Merdeka 6 January 2005

Price of the Indonesian tea has been fluctuating from year to year, following the supply/demand state in the international market. It was relatively high in 2002, fell 2003, rebounded in 2004, though in the last, prices are far lower than those at Colombo Tea Auction, which was US\$ Cent164.47/Kg and in Kenya, US\$ 163.00 /Kg.

³⁴ Rohayati Suprihartini, "Studi Banding Pemasaran Teh India dan Indonesia", INFO TEH, 6th edition, August 1999, p.18-22.

³⁵ Rohayati Suprihartini, "Harga Teh Indonesia Periode 2003-2005 dan Permasalahannya", INFO TEH, 17th edition, January 2006, p. 25-30

³⁶ Rohayati Suprihartini, "Harga Teh Indonesia Periode 2003-2005 dan Permasalahannya", INFO TEH, 17th edition, January 2006, p. 25-30

Table 21. The Comparison between Indonesian Tea Price and The Other

Country	Price/Kg (US\$ Cent)
Indonesia	101.92
Sri Lanka	164.47
Kenya	163.00
Limbe (Malawi)	99.37

Source: Suara Merdeka 6 January 2005

The Chief of Indonesian Tea Association told that production cut by 40% in Kenyan tea sector in November 2005 – February 2006 due to dry season in the country was expected to have positive impact to the Indonesian tea price³⁷. The Indonesian tea sector was enjoying an average price of US\$1.6/kg, the highest in the last eight years. Even its tea of premium quality enjoyed a price at US\$ 2.6/kg, which was 100% increase.³⁸

TEA COMPANIES

After its independence, Indonesia took over tea estates from the Dutch and turned them into state-owned companies. While changes have been made, the companies still use the same technologies and machinery left by the Dutch.

The private sector also enters into the tea business, in both upstream and downstream of the sector. As data from Statistik Indonesia 2004 reveals, 143 estates, state-owned and private combined, are operating in Indonesia

Table 22. Tea companies operating in Indonesia

Company	Location
Agropangan Mandiri, PT	Jakarta
Agroraden	Cirebon
Anugerah, CV	Bandung
Arteri Megah, PT	Jakarta
Bantar, PT	Jakarta
Bukit Sari, PT	Jakarta
Cipta Monang Pratama, PT	Jakarta
Duta Serpack Inti, PT	Jakarta
Fajar Nusa Rifindo, PT	Jakarta
Gopek Cipta Utama, PT	Slawi
Gunung Subur, PT	Surakarta
Indonesia Nature Tea Company	Medan
Jakarana Tama, PT	Jakarta
Kopthindo	Bandung
Maskapai Perkebunan Moelia, PT	Jakarta
Mekarwangi, CV	Bandung
MP Indorub Sumber Wadung, PT	Jakarta
Multikemindo Majutama, PT	Jakarta
Nyalindung, PT	Bandung
Padakersa, CV	Jakarta
Pagilaran, PT	Yogyakarta
Pasir Luhur, PT	Jakarta
Perkebunan Gunung Rosa Djaya, PT	Jakarta

³⁷ Aiz, "RI Berpotensi Isi Kekosongan Pasar Teh Inggris", Kompas, 15 February 2006

³⁸ Aiz, "RI Berpotensi Isi Kekosongan Pasar Teh Inggris", Kompas, 15 February 2006

Perkebunan Nusantara VI, PT (Persero)	Padang, Jambi, Jakarta
Perkebunan Nusantara VII, PT (Persero)	Bandar Lampung
Perkebunan Nusantara IX, PT (Persero)	Semarang
Perkebunan Nusantara XII, PT (Persero)	Surabaya
Perusahaan Teh Giju	Cirebon
Rumpun Sari Kemuning, PT	Jakarta
Rumpun Sari Medini, PT	Jakarta
Sarana Mandiri Mukti, PT	Jakarta
Sari Bumi Kawi	Blitar
Sinar Inesco, PT	Bandung
Sinar Maluku	Jakarta
Sinar Sosro	Jakarta
Tatar Anyara Indonesia, PT	Jakarta
Van Rees Indonesia, PT	Jakarta
Varuna Tirta Prakarsya, PT (Persero)	Jakarta
Yoosuf Akbani	Jakarta

Source: Asosiasi Teh Indonesia

Ten largest tea plantations are state-owned, resulting from mergers of smaller plantations. Following is a list of ten largest tea companies in Indonesia.

Table 23. The Big Eleven of Plantation Companies in Indonesia

Rank.	Company	Location
1.	<u>PT. Perkebunan Nusantara VIII</u>	<u>West</u> Java
2.	<u>PT. Perkebunan Nusantara IV</u>	<u>North</u> Sumatra
3.	<u>PT. Perkebunan Nusantara VI</u>	West Sumatra/ <u>Jambi</u>
4.	<u>PT. Perkebunan Nusantara XII</u>	<u>East</u> Java
5.	<u>PT. Tatar Anyar Indonesia</u>	<u>West</u> Java
6.	PT. Hasfarm	South <u>Sulawesi</u>
7.	PT. Melania Indonesia	<u>West</u> Java
8.	PT. Lam Teh	<u>West</u> java
9.	<u>PT. Perkebunan Nusantara VII</u>	<u>Lampung</u> / South <u>Sumatera</u>
10.	<u>PT. Mitra Kerinci</u>	West Sumatra/ <u>Jambi</u>
11.	<u>PT. Perkebunan Nusantara IX</u>	<u>Central</u> Java

Source: Joint Marketing Office of PTPN

EMPLOYMENT

Tea plantations are classified in the labor-intensive industry group. In 1999, the tea plantations absorbed 300,000 workers and supported 1.2 million lives³⁹. In 2005, 172,602 smallholders relied on the tea sector for living. Acreage-worker ratio was 0.75. The downstream industry of tea processing absorbs 51,422 workers,⁴⁰ with high concentration in the bottled black tea industries, 66% of the total workforce in the downstream sub sector.

Table 24. The Total Workforce in The Downstream Sub sector

The kind of industry	Workforce (worker)
The packaging green tea	8,956
The Packaging black tea	34,159
The extract tea	6,403
Tea flavored	1,904
Total	51,422

Source: Badan Pusat Statistik⁴¹

GOVERNMENT POLICY

The government of Indonesia does not seem to give proper concern and attention to its tea sector. Department of Industry and Trade does not considered tea an important commodity and has never made any significant intervention for instance by supporting the sector through special input or output subsidies.

Tea is not touched upon in the decisive policy document released by Research and Development section of Agriculture Department, Prospect and Policy Direction for top 17 agricultural commodities. A lot of stakeholders in Indonesian tea sector hope that tea will be included in the top commodity group in order to get special facilities/treatment or subsidies from government like the palm oil sector.

Two important government policies concerning the tea sector are:

1. *Decree of the Minister of Forestry No 629/1998 regarding the setting of price of tea bought from smallholders.*

It was aimed at ensuring reasonable tea price for smallholders and to prevent unfair competition among tea processing factories. The Decree requires that price setting should be carried out jointly by tea processing companies and smallholders or smallholder organizations with reference to the formula set by Tim Penetapan Pembelian Pucuk (Tea grower price setting team), which is as follows

HP = R (HJ-B)

HP : Tea price paid to smallholders/growers at factory level, in IDR/Kg wet tea.

R : Average of saturated tea leaves rendered dried tea leaves, affirmed in percentage (%)

HJ : Real price weighed average export and local sales average (FOB) each companies 2 weeks earlier, affirmed in IDR/Kilogram.

B : Production costs that entailed refined cost, marketing and dried processing cost that spent by companies, affirmed in IDR/Kilogram of dried tea leaves

This policy hardly works in practice. Tea processing factories tend to set the price without involving smallholders/growers due to lower bargaining position of the latter.

2. *Law No.18/2000 regarding Value-added Tax, effective since January 2001, and started the imposition of VAT in the tea sector.*

The law freed tea smallholders/growers from the VAT. Processing companies and large traders, who resell to exporters and/or domestic processing companies, are required VAT of 10% of the value added. Exporting is

³⁹ Rohayati Suprihartini, "Pertumbuhan, Komposisi Produk, Distribusi, dan Daya Saing Teh Indonesia di Pasar Dunia", INFO TEH, 15th edition, December 2003

⁴⁰ Rohayati Suprihartini, "PPN, Biang Kerok Terhambatnya Pengembangan Industri Hilir Teh di Indonesia", INFO TEH, 16th edition, December 2004, p.5-7

⁴¹ Rohayati Suprihartini, "PPN, Biang Kerok Terhambatnya Pengembangan Industri Hilir Teh di Indonesia", INFO TEH, 16th edition, December 2004, p.5-7

VAT-free. However, exporters are required to pay VAT of 10% of the value added, if they sell to domestic processing companies and/or to other exporters.

VAT was imposed, at first, only on black tea, which was opposed by the tea industry. Demand from the industry to make black tea a VAT-free good ended with the government deciding to impose VAT on green tea in addition to black tea.

The VAT policy has been considered a violation of the principle of economic benefit, as it leads to high opportunity cost, thus turning a barrier to the development of downstream tea industry in Indonesia. It is also considered incompatible with the characteristics of agricultural commodities. The policy has led to the following issues ⁴²:

- It incurs financial burden, while taxation information system is still weak and confirmation is nearly difficult.
- The imbalances in the market make it easier for monopsony holder to transfer tax burden to other players, especially smallholders.
- Oversupply in the global market put pressure on tea prices.

The VAT policy, however, may be considered void with the issuance of Government Regulation (Peraturan Pemerintah) No. 12/2001 regarding Import and/or Delivery of Particularly Taxed Strategic Goods Freed from VAT.

3. Government Regulation (Peraturan Pemerintah) No. 7/2007 regarding Third Amendment to Government Regulation (Peraturan Pemerintah) No. 12/2001 regarding Import and/or Delivery of Particularly Taxed Strategic Goods Freed from VAT.

The Government Regulation revokes VAT for a number of commodities, including tea. In practice, however, VAT 10% still prevails on auction of green tea at CCDC (Cooperative Commodity Development Centre). PTPN VIII as the selling party chooses not to bear risk imposed by the VAT due to absence of technical guidance on the application of the Government Regulation.

4. Import Tariff

The Indonesian government sets tariff of 5% for import of all tea products. The tariff is lower than those set by other countries, e.g. Import tariff in India is 113% on all products of bulk tea and 114% on packaged tea, see table 10). This implies that Indonesian tea exporting to India would bear a burden 23 times as high as that born by Indian exporting to Indonesia. Stakeholders in the tea sector have been urging the government to harmonize tariff with other tea producing countries.

⁴² Rohayati Suprihartini, "PPN, Biang Kerok Terhambatnya Pengembangan Industri Hilir Teh di Indonesia", INFO TEH, 16th edition, December 2004, p.5-7

CHAPTER III
PROFILES OF TWO BIG PLAYERS:
UNILEVER AND SINAR SOSRO

PT UNILEVER INDONESIA TBK

A. History

Lever's Zeepfabrieken N.V was established on 5 December 1933, under the notarial act No.23 in Batavia (Mr. A.H. van Ophuijsen, which was approved with Gouverneur Generaal van Nederlandsch-Indie's letter No.14 dated 16 December 1933, registered No.302 at Raad van Justitie on 22 December 1933 and published in Javaasche 9 January 1934 Additional Note No.3. The company started operation in the same year. The company changed its name into PT Unilever Indonesia by notarial act No.171 dated 22 July 1980.

With permit of the Capital Market Supervisory Agency (Bapepam) No. SI-009/PM/E/1981 dated 16 November 1981, PT UI initially offered 15% of its shares in the Jakarta Stock Exchange (JSX) and Surabaya Stock Exchange (SSX). PT Unilever Indonesia, thus, becomes a publicly listed company and changed its name into PT Unilever Indonesia Tbk under the notarial act No.92 dated 30 June 1997.

Annual shareholder meeting, 13 June 2000 decided that the company also operates as the main distributor of its products and provides market research services. Annual shareholder meeting, 24 June 2003 approved stock split from IDR 100 per share into IDR 10 per share.

PT Unilever Indonesia Tbk produces soap, detergent, butter, dairy-based food, ice cream, tea-based drink, and cosmetics. With toiletries products take a share of 65% of all products and 35% food and beverage (F&B), the company is a toiletries giant in the Indonesian market. Since the composition is just the reverse of Unilever International's, that is 65% F&B and toiletries 35%, PT Unilever Indonesia Tbk is trying to balance the proportion through acquisition deals with smaller market leading brands. In the last six years, PT Unilever Indonesia Tbk (UI) has made six acquisitions and joint ventures, the major ones being Kecap Bango, Taro, and Sari Wangi.

Sari Wangi was originally a brand of PT Sariwangi AEA, a company founded by J.A. Supit in 1988 and operating with two main subsidiaries, PT Sariwangi AEA in Citeureup and PT Sariwangi AEA in Gunung Putri Mercedes. In 1990, UI got into a deal with the Sari Wangi group, in which UI acted as the single domestic distributor for Sari Wangi tea. The factory PT Sari Wangi AEA in Citeureup was the only subsidiary to which the deal applied. Gradually, UI supplied all the machinery, raw material, and tea package, while PT Sari Wangi AEA in Citeureup Factory was responsible employment (labor/workers), production, land, and building.

In 1995, the deal was renewed to allow UI management to also handle production management in Sariwangi in Citeureup and the whole personnel management of PT Sariwangi AEA in Citeureup was transferred to PT Sariwangi AEA in Gunung Putri Mercedes, which produces another brand of tea aimed at the export market, mainly Australia.

2000, UI, now having its own tea factory located in Cikarang, West Java, returned responsibility for production management to Sariwangi for its PT Sariwangi AEA in Citeureup factory. With its own employment, management, land and building, PT Sariwangi AEA in Citeureup produces the Sari Wangi brand for UI, who still owns machinery, raw material, package and handles the marketing of the same brand.

For the Lipton brand, PT Unilever Indonesia has factory in Cikarang⁴³. But there are indications that other companies (like PT Sari Husada, PT Outsuka Indonesia, PT Aqua Golden Mississippi and Greenfields Indonesia) also produce (packed) Lipton tea for Unilever⁴⁴.

B. Ownership

According to Consolidated Financial Statement 2003 and 2004, the main shareholders (other shareholders hardly control more than 5% of the shares) are

- Maatchappij voor Internationale Beleggingen (Mavibel) B.V. Rotterdam, the Netherlands, controlling 85% of the shares (6,484,877,500 shares with nominal value at IDR 10 per share).
- The Indonesian public (1,145,122,500 shares are publicly traded at JSX and SSX).

⁴³ A worker of PT Unilever Indonesia Tbk, 18 August, interview by author

⁴⁴ Badan Pemeriksa Obat dan Makanan (POM), "POM-Kategori Produk-Unilever"

C. Products

Products of UI are categorized into Ice cream products - Walls; Personal Care – Lifebuoy, Lux, Clear, etc; Home Care – Molto, Sunlight, Wipol, etc; and Food & Beverage – Sariwangi, Bango, Blue Band, Royco, etc. In overall, UI controls 400 brands.

As for tea products, PT Unilever Indonesia Tbk controls Lipton and Sari Wangi brands.

Lipton distributes the following products in Indonesia:

Table 25. Product Name of Lipton Brand and Its Production Facility in Indonesia

Name of product	Producer
Lipton Ice Tea Rasa Mangga (powder/bottled)	PT Aqua Golden Mississippi
Lipton Ice Tea Rasa	PT Otsuka Indonesia
Lipton Ice Tea Tea Mix Rasa Mangga	PT Sari Wangi AEA
Lipton Ice Tea The	PT Aqua Golden Mississippi
Lipton Ice Tea The Instant Rasa Mangga	PT Unilever Indonesia Tbk.
Lipton Ice Tea Teh Rasa Apel	PT Sari Wangi AEA
Lipton Ice Tea Teh Rasa Lemon	PT Sari Wangi AEA
Lipton Ice Tea Teh Rasa Lemon	PT Otsuka Indonesia
Lipton Ice Tea Teh Rasa Mangga	PT Otsuka Indonesia
Lipton Lipton Tea Latte Rasa Choccomint	PT Unilever Indonesia Tbk.
Lipton Lipton Tea Latte Rasa Hazelnut (powder)	PT Unilever Indonesia Tbk.
Lipton Lipton Tea Latte Rasa Moka	PT Unilever Indonesia Tbk.
Lipton Mangga	PT Greenfields Indonesia
Lipton Minuman Herbal Rasa Peppermint	PT Unilever Indonesia Tbk.
Lipton Minuman Serbuk Chamomile (tea bag)	PT Unilever Indonesia Tbk.
Lipton Minuman Teh Rasa Lemon	PT Greenfields Indonesia
Lipton Minuman Teh Rasa Mangga	PT Lasallefood Indonesia/PT Suba Indah Tbk.
Lipton Minuman Teh Rasa Mangga	PT Unilever Indonesia Tbk.
Lipton Minuman Teh Rasa Mangga	PT Unilever Indonesia Tbk.
Lipton Minuman Teh Susu	PT Sari Husada

Source: Badan Pemeriksa Obat dan Makanan (POM), www.pom.go.id, download 16 June 2006

Table 26. Product Name of Sari Wangi Brand in Indonesia

Name of Product	Producer
Sari Wangi Teh Madu	PT Unilever Indonesia Tbk.
Sari Wangi Teh Seduh	Perusahaan Teh 2 Burung
Sari Wangi Teh Seduh (Melati)	Perusahaan Teh 2 Burung
Sariwangi Teh	PT Pertiwi Agung/Landson
Sariwangi Teh	PT Sari Wangi AEA
Sariwangi Teh Celup (Jumbo Potbag)	PT Sari Wangi AEA
Sariwangi Teh Celup (Teh Aroma)	PT Unilever Indonesia Tbk.
Sariwangi Teh Celup (Teh Hijau)	PT Unilever Indonesia Tbk.
Sariwangi Teh Celup (Teh Kelat)	PT Unilever Indonesia Tbk.
Sariwangi Teh Celup melati	PT Unilever Indonesia Tbk.
Sariwangi Teh Celup Melati (Jumbo Potbag)	PT Sari Wangi AEA
Sariwangi Teh Malati	PT Sari Wangi AEA
Sariwangi Teh Melati	PT Pertiwi Agung/Landson
Sariwangi Teh Rasa Jahe	PT Unilever Indonesia Tbk.
Sariwangi Teh Rasa Jeruk Nipis	PT Unilever Indonesia Tbk.
Sariwangi Teh Rasa Susu	PT Unilever Indonesia Tbk.
Sariwangi Teh Rasa Vanilla	PT Unilever Indonesia Tbk.

Source: Badan Pemeriksa Obat dan Makanan (POM), www.pom.go.id, download 16 June 2006

PT Sariwangi AEA produces 50 tons tea per week, or 200 tons per month. The company originally produced only sacheted Sari Wangi tea. Since 2003, it also produces Sari Wangi bag tea of two variants, the one with yellow package for the middle and lower price/quality range and the other with green package for middle and upper price/quality range.

Sari Wangi products which are distributed to supermarket in Surakarta are:

- Sariwangi Teh Asli : bag black tea of 2 grams, in box package of various sizes (100 bags, 50 bags, and 25 bags) and in sachet containing 5 bags.
- Sariwangi Teh Hijau Asli : non-fermented bag green tea of 1.85 grams, in box package containing 25 bags.
- Sariwangi Teh Wangi Melati : bag yasmine tea of 2 grams, in box package of 25 bags.
- Sariwangi Teh dengan Jahe : 18-gram sachet of instant tea powder with ginger flavor, in box package of 5 sachets. Its variations are milk-flavored, honey-flavored, and lemon-flavored tea.

D. Market and Sales

A multinational targeting both domestic and global market and facing tight competition from competitors, such as P&G, Wings, Indofood and Orangtua/ABC, while precise figures on sales were not made available by the company UI claims that 95% of the population uses at least one of the products in its product range.

UI's Annual Report 2005 stated noted its total sales of IDR 9.99 trillion, with IDR 1.44 trillion net profits, an IDR 0.02 trillion decrease from the previous year, which was IDR 8.98 trillion. Yet, the company managed an increase of 10.24% to its turnover.

As for tea products, Lipton is directed to serve foreign market while Sari Wangi brand is sold in the domestic market only.

E. Business Strategy

The business strategies of the entire UI are:

- The acquisition good brands. UI adopts the acquisition strategy to expand its market share. UI just acquires the companies which have good brands and market. By acquisition, UI can maintain good reputation for its brands, market foothold and networks. This strategy also makes relatively quick return on investment.
- To constant monitor the market for new demands in order to bring in highly innovative products.
- To promote products through social activities, which is effective in building positive image and in showing the social responsibility of UI. UI with the lifebuoy brand conducted campaign with theme "Washing Hand" for children and mother to ensure consumer that washing hand is the effective way to prevent diarrhea. UI with Rinso brand also conducted social activity with theme "brave to be dirty is good" for the children. Rinso think that children need to have experiences and interaction with nature although their clothes will be dirty after that. Unfortunately, the social activity has not been conducted yet in tea sector.
- to promote the products though advertising. The budget for advertisement is higher than the other tea companies. Promotional budget for Teh Celup Sariwangi for instance is IDR 11,444 million only

Table 27. Price and Advertising Budget in Tea Companies

	Unilever	Others	
	Teh Celup Sari Wangi	Teh Celup Sosro (Sinar Sosro)	Teh Celup 2 Tang (Tang Mas)
Price	IDR 3,315/25 bags	IDR 3,575/25 bags	IDR 2,950/25 bags
Budget for advertisement	IDR 11,444 million	IDR 2,335 million	IDR 20 million

Source: Dyah Hasto Palupi, "Aktivitas 360 Derajat Unilever Indonesia", Swa, 17/XXII/24 August-6 September 2006, p. 32-42

F. Supply Chain of Unilever

1. Small growers/smallholders

smallholders/small growers are those who grow tea on land acreage of 0.8 to 2 hectares and sell tea without processing ((sorting, withering, breaking up, fermentation, drying, sifting and packing) due to lack of

financial capacity, technology, skills and human resources and receive direct cash payment. Unilever does not buy directly from growers due to limited quantity and low quality of their products,⁴⁵ but rather from large private companies (one of which is PT Kabepe Chakra), state plantations (one of which is PTPN VIII) and Jakarta Tea Auction (for tea from other state plantations and PT Tatar Anyar). However Unilever might sources indirectly from small holders through its suppliers such as PT Kabepe Chakra and PTPN VIII which buying small quantities from small growers (see also boxed text below).

Dedeh Aisyah, a partner of PT Kabepe Chakra

Dedeh Aisyah, mother of six, is a smallholder in Rancabali, Bandung, with 4 hectares of land inherited from her parents. Since seven years ago, she grows tea with barely minimum techniques and skills passed on to her. Each hectares produces about 700 Kg of dry tea leaves annually, far lower than the production level by tea plantations, which is 1.8 tones/hectare/year. When the tea price fell, once to IDR 700/kg, she could hardly afford production cost, especially for fertilizer and wage of workers.

Now, Dedeh Aisyah and four fellow growers are beneficiaries of facilitation and assistance from PT Kabepe Chakra. The company also provides tea seedlings and IDR 1 million in cash for fertilizer procurement. Dedeh now produces 3,000 to 3,500 kg per hectare annually.

Source: Yuli Tri Suwarni, Company works to improve traditional tea smallholders, The Jakarta Post, 1 August 2007

2. Collectors/Traders

Normally tea smallholders of greater financial capacity act as collector within their own village or sub-district (Kecamatan), buying tea from smallholders and sell them to private tea processing companies. Interview with smallholders/growers and data from secondary sources reveal that collectors take little margin, normally IDR 100-200 per Kg, which smallholders consider as compensation to transport cost. PTPN VIII produces itself 99% of the tea it sells, and buys the remaining portion from grower cooperatives who act as collectors.⁴⁶

3. Large private estates

Private tea estates normally have the capacity (financial, technology, skills and human resources) for tea processing, and buy tea, in addition to their own, from smallholders in cash and from collectors either in direct cash or in two weeks after transaction, then sell dry tea to ready-to-consume tea producers, packers or exporters. For instance UI is supplied the green tea by PT KBP Chakra (the company which also supply green tea for Coca Cola)⁴⁷.

PT Kabepe Cakra

Badruddin set up PT Kabepe Chakra, starting with buying Dewata tea plantation (600 hectares) from Tiedeman van Kerchem, a Dutch entrepreneur, in 1956. Now the company operates five tea and rubber plantations, with a combined acreage of 4,000 hectares and employing 3105 workers.⁴⁸ In 1990, his son Rachmat Badruddin took over at the helm.

The largest private tea plantation company in Indonesia, PT Kabepe Chakra supplies large tea processing companies in the country and exports to a number of other countries. It focuses on green tea, exporting 5,476 tones annually, which makes up about 57% of Indonesia's green tea export.⁴⁹ The company also buys black tea from a number of plantations and from Jakarta Tea Auction to cater orders.

In 2007, PT Kabepe Chakra started buying directly from smallholders. To increase tea quality, the company provides training, managerial and technical assistance, market facilitation, and financial assistance to smallholders. To empower local smallholders It has allocated IDR 500 million, of its own means but also with assistance from banks and large buyers such as Unilever⁵⁰.

Unilever PT Kabepe Chakra's most important client. After Unilever cut off tea supply from a Chinese company which refused to pay the company's claim regarding pesticide content, it now increases its tea supply from PT Kabepe Chakra.⁵¹ Unilever plays a role in marketing as well as company development. According to Chakra, Unilever. Other buyers and the bank contributed significantly to rebuild a burnt-down housing complex of Chakra's employees/workers.⁵²

⁴⁵ Is Hartanto, Tea Manager of Tea Buying Department of PT Unilever Indonesia Tbk., 17 November 2006, interview by author

⁴⁶ staff at PTPN VIII, interviewd by research assistant, 28 June 2007. He could not provide data/information on smallholders who become partners of PTPN VIII.

⁴⁷ Manager of PT KBP Chakra, 12 October 2006, sms with author

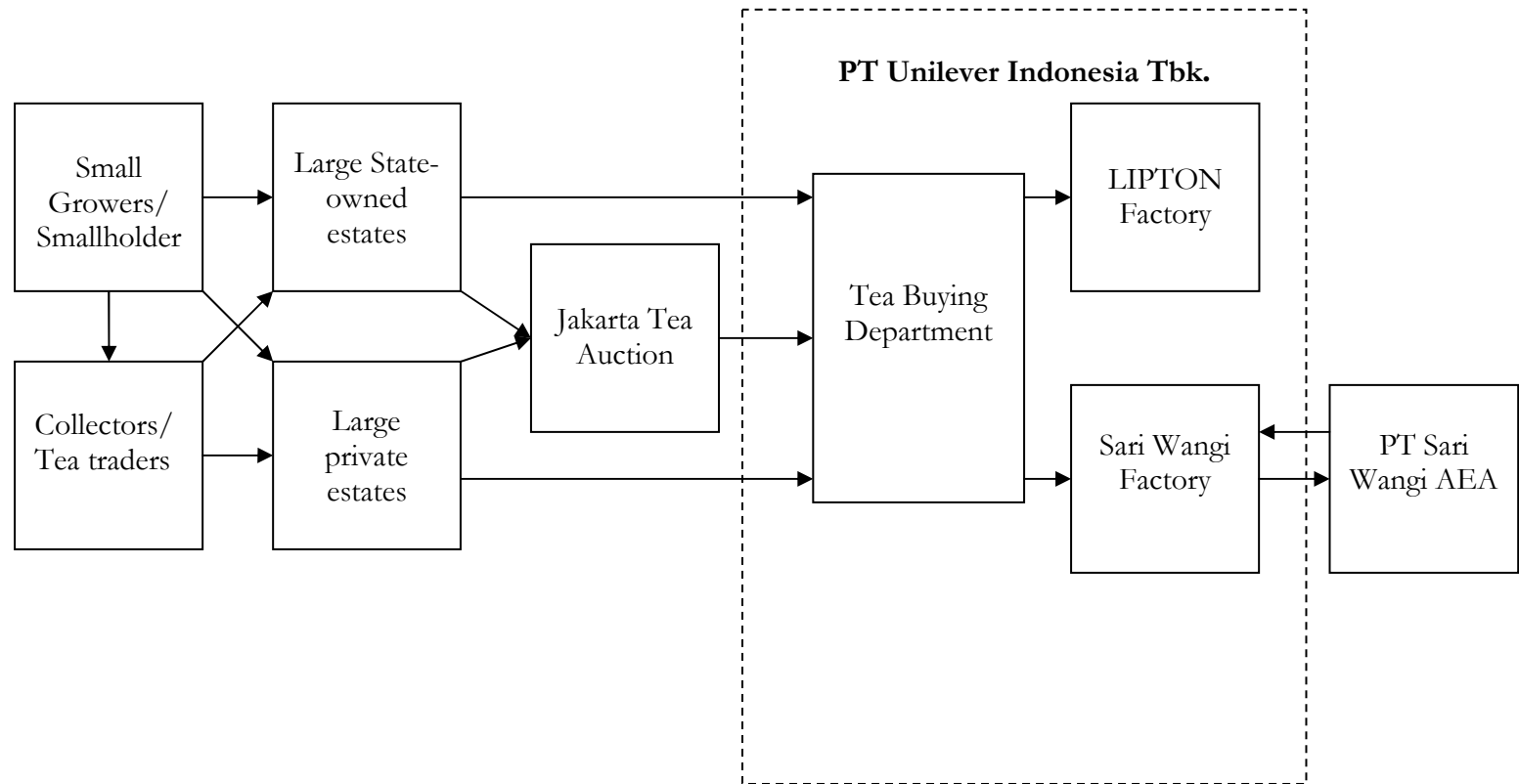
⁴⁸ www.chakratea.com, (21 July 007)

⁴⁹ Yuli tri Suwarni, "Company works to improve traditional tea farmers",The Jakarta Post, 1 August 2007

⁵⁰ Yuli tri Suwarni, "Company works to improve traditional tea farmers",The Jakarta Post, 1 August 2007

⁵¹ A manager of PT Kabepe Chakra, 1 July 2007, interview by author

⁵² A manager of PT Kabepe Chakra, 19 April 2007, interview by author



4. Large state-owned estates

These estates produce, process and sometimes pack tea. They sell the bulk tea through Jakarta Tea Auction or directly to tea companies, packers and exporters. Via the auction and directly they supply the bulk of the tea to UI. The biggest supplier of UI in the auction is PTPN VIII⁵³.

PT Perkebunan Nusantara (PTPN) VIII

PT Perkebunan Nusantara VIII (PTPN VIII/State Plantation VIII) was established 11 March 1996, as a result of merger of PT Perkebunan Nusantara XI, PT Perkebunan Nusantara XII and PT Perkebunan Nusantara XIII. Plantations currently operated by PTPN VIII were previously private foreign (Dutch, English, French, and Belgium) companies nationalized.

PT. Perkebunan Nusantara VIII produces five commodities: tea, rubber, Cinchona, cocoa, and oil palm. Of the total amount of tea the company sells, 99% are produced in its own plantation, and only 1% is bought from smallholders. Data provided by the company's marketing department, tea production relies on 21 estates with orthodox machinery, located in Pasir Malang, Kertamanah (also with CTC machines), Malabar, Purbawindu, Pasir Yunghuhn, Santosa, Talun, Sedep, Sinumbra, Sperata, Rancabolang, Papandayan, Cisaruni, Dayeuh Manggung, Ciater, Montaya, Goalpara, Pasir nangka, Tanawatee, Pangheotan and Panglejar and 11 estates with CTC., located in kebun Arumsari, Kertamanah, Walini, Arum, Bukanagara, Gunung Mas, Harendong, Kondang, Sukawana, Parakansalak and Tambaksari.

All premium products are marketed via State Joint Marketing Office (KPB PTPN), which is known more as *Jakarta Tea Auction*, with five main buyers: Lipton Unilever, L. Elink Schuurman, PT. Sariwangi, Trijasa and Vanrees. Products of off-grade quality are marketed through Kantor Lelang Komoditi Agro (Agro-commodity Auction) in Bandung, on Tuesdays of the fourth week of the month, with two active buyers: PT. Selamat Prama Artha (PUSKOPAU) and CV. Sejatera Jaya.

5. Jakarta Tea Auction

JTA is the barometer of Indonesian tea price. Auction is held on Wednesdays, with 20 companies taking part, but only 7 of them active, including Lipton, L. Elink Schuurman (The) BV and Van Rees BV. A large proportion of the tea auctioned are from state-owned estates.

6. Tea Buying Department

It is a division at PT Unilever Indonesia Tbk. – identified as Lipton during auction, though it also buys tea for the production of Sari Wangi. Human resource management of Tea Buying Department is put directly under Unilever Head office, instead of being under PT Unilever Indonesia,⁵⁴ and it has its own office separate from IU office. Not only supplying UI, but also Unilever's companies worldwide, the Department buys nearly 70% of tea at JTA and also buys tea from private and state companies directly.

7. Lipton factory

Lipton factories in Australia and Vietnam have been closed down and relocated to Indonesia, hence UI needs more supply of dry tea to serve demand in both countries⁵⁵. UI Management (Tea Manager of UI and General Manager Unilever Peduli Foundation) refused to provide comment on the questions about the closure of Lipton factory in Australia and Vietnam.⁵⁶

8. Sari Wangi factory

Besides PT Sariwangi AEA, UI also has one factory of its own that produces Sari Wangi, which is located in Jababeka industrial estate, Cikarang, Bekasi. UI set the production volume for both factories, on the basis of sales volume of the previous month.

⁵³ various sources including interviews and secondary literature (Document of Jakarta Tea Auction 26 July 2006 and 2007)

⁵⁴ Worker of PT Unilever Indonesia Tbk, 18 August 2006, interview by author

⁵⁵ Worker of PT Unilever Indonesia Tbk, 18 August 2006, interview by author

⁵⁶ Is Hartanto and Oktii Damayanti, PT Unilever Indonesia Tbk, 17 November 2006, interview by author

Workers Union of PT Unilever Indonesia

Serikat Pekerja (SP) PT Unilever Indonesia was established in 1972.⁵⁷ SP PT Unilever Indonesia consists of *Serikat Pekerja Unilever Jakarta* and *Serikat Pekerja Unilever Surabaya*, counting 2554 members, all of whom are permanent workers. Contract and outsourced workers are not members of the Union. The company provides the Union with office a number of facilities, among others and mainly, room, computer, telephone line, and freedom for union leaders and activists to be off-work for union activities, transport expenses (normally flying with Garuda Indonesia and bulletin board).

The Union has negotiated 16 Collective Agreement with PT Unilever Indonesia Tbk since 1974.⁵⁸ Every two years, *Serikat Pekerja Unilever Jakarta* and *Serikat Pekerja Unilever Surabaya* meet to prepare Collective Agreement, funded by PT Unilever Indonesia.

The Collective Agreement specifies job classes and wage levels. For instance, a new worker holding senior high school certificate/qualification is in job class 4 with salary range of IDR 857,413 – 1,309,376. Following is the job classes and salary range as of 1 January 2005:

Job Class	Minimum	Maximum
4	857,413	1,309,376
5	926,007	1,426,193
6	1,000,086	1,561,545
7	1,080,094	1,730,060
8	1,166,500	1,918,792
9	1,259,821	2,130,176
10	1,310,214	2,396,517
11	1,441,235	2,698,815
12	1,585,358	3,041,923
13	1,743,895	3,431,356
14	1,918,284	3,873,356
15	2,110,112	4,375,030
16	2,321,123	4,944,425

The Union and the company agree to maintain harmonious and dynamic industrial relations through bipartite meetings as the following:

- Bipartite I: at local/branch level, between managers and union leaders, quarterly
- Bipartite II: at regional level, between regional management and union leaders.
- National Bipartite: national level, between Head office management (HRD) and union leaders from Surabaya and Jakarta Units, six-monthly.

9. PT Sariwangi AEA

UI acquired PT Sariwangi AEA to produce the sachet Sari Wangi bagtea, of both yellow and green packages. Sariwangi AEA makes available the workers, management, land and building, while UI the machinery, raw material, packaging and marketing. UI also imposes on its partner quality and OSH standards.

Labor Conditions at PT Sariwangi AEA

PT Sariwangi AEA produces UI's bag tea of Sariwangi brand in UI processing factory in Citeureup, West Java. The company provides and is responsible for human resources, while UI the warehouse, production facilities/equipment and raw material. PT Sariwangi AEA in Citeureup, by July 2006 employs 618 workers, 267 are permanent workers and 351 contract. A large majority of workers (78%) are female workers.⁵⁹ The total number of workers may fluctuate monthly following the ending and new signing of contracts.

The company applies three-month contract, normally without renewing. After the contract ends, workers should wait until the company considers the need for additional workers and summons them for a new contract. Recruitment of contract workers is made in two ways, internally and externally. Internal recruitment is done via personal relations of the existing workers/employers with relatives or friends, who are considered qualified and/or in need of employment, to

⁵⁷ Worker of PT Unilever Indonesia Tbk, 18 August 2006, interview by author

⁵⁸ Worker of PT Unilever Indonesia Tbk, 18 August 2006, interview by author. In the first field research, *Serikat Pekerja PT Unilever Indonesia* were in the process of formulating their Collective Agreement 2007-2008 (the 17th), no copy of which could not obtained by researcher, in the second field study.

⁵⁹ PT Sariwangi AEA Citeureup, "Data Karyawan per July 2006", 2 August 2006

work with the company. External recruitment is done by opening employment ads in the media or announcement to the surrounding communities.

PT Sariwangi AEA pays wages above the minimum regional standard (UMR), which is IDR 737,000. Salary and wages of permanent workers are paid by bank transfer (Bank Lippo Citeureup) and in direct cash for contract workers. The company gives three kinds of benefits: Annual holiday benefit (Tunjangan Hari Raya), which is base salary/wage plus package of holiday present, delivered two weeks before the Id al-Fitri; Replacement benefit (Tunjangan Penggantian) to workers who replace fellow workers deciding to be off-work for being ill or for family matters; Living expense benefit (Tunjangan Kemahalan), which is 10% of base salary/wage, when living expenses increase drastically, as the case in 2001.⁶⁰

Permanent workers of PT Sariwangi AEA Citeureup and PT Sariwangi Gunung Putri are members of Serikat Pekerja PT Sariwangi (PT Sariwangi labour union, established in 2001. PT Sariwangi uses Company Regulation (Peraturan Perusahaan) in labor affairs. The time this research was carried out, Serikat Pekerja PT Sariwangi was negotiating a Collective Agreement with the company. The company provides the Union with office room, meeting room, hall, allows Union leaders to be off-work for union-related businesses and supports the union with financial assistance for its activities.⁶¹

G. Policy and Practice of Company

CSR Policy. Unilever Indonesia's CSR Report stated that social responsibility of the company is not only realized in voluntary contribution or philanthropy, but also and rather in its daily operation. UI formulate CSR as⁶²

- *Impact of company operation: achieving the best with conscience: beyond providing jobs, developing human resources for both company and community. UI constantly improve it performance through implementation of its business conduct at both national and international level and compliance to the standard of Environmental performance (PROPER) and international operational standards (ISO).*
- *Impact in the value chain: achieving mutual success with community: PT Unilever Indonesia Tbk partners with independent distributors to promote entrepreneurship, create jobs, and contribute to local businesses. UI, thus, introduces standard conduct for suppliers, Business Partner Code and Supplier Quality Management Program (SQMP).*
- *Voluntary contribution, responding to community: UI encourage its employees to engage in social issues through voluntary social activities with orphanage, street children, rural poor, and refugees. The contributions are coordinated under Yayasan Unilever Indonesia Peduli (UPF), which has four programs in the following areas*
 - *SMEs development*
 - *Water resources*
 - *Recycling*
 - *Community health education*

Each program is carried out in accordance with four main strategies, which are as follows

- *A program needs to be related to business activity of UI*
- *Development of pilot programs that are potential for replication in many places*
- *Collaboration with NGOs, government offices, educational institutions and other companies*
- *Replication*

CSR Initiatives in the tea sector. Unilever Indonesia takes part in the Ethical Tea Partnership (ETP) which is established to promote CSR in the tea sector, with the long-term objectives that its member will produce tea in socially responsible ways. ETP covers six issues related to living and employment standards: employment (including minimum age and wage levels), education, maternity, health and safety, housing, and basic rights. The ETP scheme monitors and grades suppliers according to (performance on) these issues. ETP

⁶⁰ A manager of PT Sariwangi AEA, 15 August 2006, interview by author

⁶¹ A worker union of PT Sariwangi, 22 July 2006, interview by author

⁶² PT Unilever Indonesia Tbk., "Berpada dalam Cita Bersama Masyarakat & Lingkungan", 2005

members can but are not obliged to source tea from ETP graded suppliers. Unilever will not declare the percentage/volume sourced in Indonesia from ETP suppliers.

Regarding CSR in the supply chain, UI set policies concerning direct suppliers, such as PT Sariwangi and PT Sariwangi AEA. (Business Partner Code and Supplier Quality Management Program (SQMP)). UI conducts audits first tiersupplier of raw material/bulk tea (like PT Chakra and PTPN) solely for quality compliance with product standard before they start supplying UI. There is no concern for on social responsibility of the suppliers toward the workers in this audit. UI's buying in the auction is based on the two criteria, first quality and secondly, price. Meanwhile, compliance to social and environmental standard is not yet a criterion for its tea buying.⁶³ UI has just planned to include certification on social and environment in buying criteria⁶⁴. In general it should be mentioned UI is not an exception in all of the transactions in the Indonesian tea sectors (both of in auction and in directly buying) there is only concern for product quality, price and timely delivery.

The UI union confirms in the interview that the company complies with national legislation, which they consider a barely minimum standard considering that UI serves also the global market and makes high revenues.

UI has not implemented CSR policies in tea sector yet. Process of ETP has not given significant effect to improve income of actors in supply chain, let alone smallholders⁶⁵. PT Unilever Indonesia Tbk does not apply ETP criteria when buying tea in Indonesia⁶⁶. It prefers to buy through auction and from tea plantation, focusing on quality and price as the main criteria.⁶⁷ Most of Indonesian tea plantations do not comply with ETP standard.⁶⁸

Research Institute for Tea and Cinchona at Gambung have just surveyed ETP in 17 plantations, of which six comply, 3 fail to comply, 3 under review, and 5 have not been reviewed⁶⁹. They do not survey the other Indonesian plantations which have adapted ETP⁷⁰

PT SINAR SOSRO

A. History

The sosrodjojo family started its tea business with the opening of PT Gunung Slamet, a factory to process jasmine tea Cap Botol in Slawi, Central Java, in 1940. The business developed fast and the family established another tea processing company in 1953 to produce the brands Teh Cap Botol, Teh Cap Poci and Teh Celup Sosro. In 1965, the family introduced Teh Cap Botol in Jakarta with promotion strategy of tasting (cicip rasa). In 1970 the family began production of bottled tea with its brand The Cap Botol with its first bottle design. The second design was introduced in 1972.

The Sosrodjojo family (three sons: Soegiharto, Soetjipto, and Surjanto, the eldest - Soemarsono joined in 1976) established PT Sinar Sosro in Ujung Menteng, Bekasi, West Java, on 17 July 1974, to produce bottled tea, the first in Indonesia and in the world. The third bottle design was introduced and used up to date.

For market outreach, PT Sinar Sosro established the second factory in Gresik, East java, in 1978, the third in Tambun, Bekasi, West Java, in 1981, under its subsidiary PT Union Multipack, which produces non-bottled tea, and the fourth in Tanjung Morawa, Medan, North Sumatra, under its subsidiary PT Toba Sosro Kencono, in the same year, and the fifth in Ungaran, Central java in 1991.

1 August 1989, the six sons of Soemarsono (the eldest of Sosrodjojo's sons) sold the shares they controlled to Soegiharto Sosrodjojo. In June 1992, the son of Surjanto Sosrodjojo also sold his shares to Soegiharto.

⁶³ Is Hartanto, Tea Manager of PT Unilever Indonesia Tbk, 25 June 2007, sms to author

⁶⁴ Is Hartanto, Tea Manager of PT Unilever Indonesia Tbk, 25 June 2007, sms to author

⁶⁵ various sources including interviews and secondary literature which told that the suppliers of PT Unilever Indonesia only sell the tea from their own plantation and did not buy the tea leaves from smallholders.

⁶⁶ Is Hartanto and Okti Damayanti, management of PT Unilever Indonesia Tbk, 18 November 2006, interview by author. Is Hartanto, the tea manager, stated that he did not know more about ETP as he had not obtained information from Unilever head office. However, he was asked for assistance by Pricewaterhouse Copper in term of access for ETP audit team. Okti Damayanti, general manager of Unilever Peduli Foundation, stated she did not know anything about ETP.

⁶⁷ Is Hartanto, Tea Manager of PT Unilever Indonesia Tbk, 25 June 2007, sms to author

⁶⁸ A manager of PT KBP Chakra, 14 November 2007, interview by author. He stated that many tea plantation companies in Indonesia would not be able comply with ETP standard if the latter is not adjusted to the local context. He complained about the use of fresh graduate staff in the process of Pricewaterhouse Copper audit. Fresh graduate staff are considered of lacking the sufficient experience in auditing, and might misjudged the plantation companies.

⁶⁹ Rohayati Suprihatini, Research Institute for Tea and Cinchona at Gambung, 27 July 2007, sms to author

⁷⁰ Rohayati Suprihatini, Research Institute for Tea and Cinchona at Gambung, 23 November 2007, email to author

The management of the company maintained good performance despite changes in shareholding and established new factories. The sixth factory located in Pandeglang started operation in 1996, the seventh in Gianyar, Bali, in 2000, the eight in Cibitung, in 2002, and the ninth in Palembang, in 2006.

B. Ownership

After the sons of Soemarsono Sosrodjojo and Surjanto Sosrodjojo sold their shares, the Soegiharto and Soetjipto took full control of PT Sinar Sosro, each through its own holding company. Soetjipto and his two sons established their holding company PT Indosigma Investa Kencana on 26 June 1997, while Soegiharto and his five sons theirs PT Anggada Putra Rekso Mulia on 27 November 1997.

Sinar Sosro Bond Prospectus 2001 reveals the following composition of shareholding

PT Anggada Putra Rekso Mulia	: 75.7%
Soegiharto	: 10.5%
PT Indosigma Investa Kencana	: 5.8%
Soetjipto	: 4.1%
Soegiharti Widjaja (wife of Soegiharto)	: 3.7%

The 2003 Financial Report of the company reveals the following changes

PT Indosigma Investa Kencana	: 5.4%
Soetjipto	: 4.6%
Soegiharti Widjaja (wife of Soegiharto)	: 3.4%

In 2001, PT Sinar Sosro released IDR 100 billion value of bonds to finance expansion. By 2005, Pefindo put A+ to Sinar sosro's bond performance due to its quick return on investment. The 2003 Financial Report states the total asset of the company is IDR 857 billion.

C. Product

PT Sinar Sosro's products are put into three categories:

- Bottling: Teh Botol Sosro, bottled Fruit Tea, S-Tee and Tebs
- One-way product (OWP): bagtea, TBK (Teh Botol Kotak/tea in box container) 200, TBK 250, FTG (Fruit Tea Kaleng/Cans), Tebs Can, and Happy Jus
- Bottled water: Freso and Air Sosro. Air Sosro later was replaced by Prim-A, produced by PT Tirta Purbalingga Adijaya (TPA), which is controlled by the Soegiharto family through its holding, PT Anggada Putra Rekso Mulia.

PT Sinar Sosro's factories are equipped with modern facilities and machinery, mostly imported from Germany. Total production capacity of seven factories (excluding that in Palembang and Cibitung) is 62,919 liter/hour. Daily operations use three shifts.

D. Market and Sales

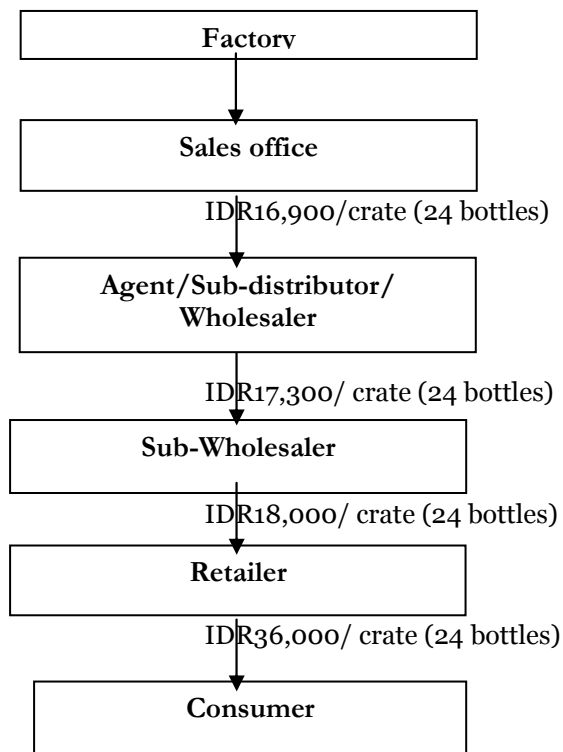
PT Sinar Sosro produces mainly for domestic market and controls 90% of domestic market, in terms of bottled tea, with 600,000 outlets in both traditional and modern markets, nationwide.

Prior to 2004, the products were distributed by its seven distribution companies, one of which is PT Sasana Caraka Mekarjaya. PT Sinar Sosro now distributed its own products through its Sales Offices (kantor Penjualan/KP) located in districts capital and cities, in 11 distribution regions (Kantor Penjualan Wilayah//KPW).

The company also exports to Australia, Vietnam, Brunei Darussalam dan US, with one export representative office in Singapore.

After KP, there are three levels down the distribution line to consumers:

1. Agent/sub distributor/wholesaler, buying products from PT Sinar Sosro at a price around IDR17,300/crate (1 crate = 24 bottles)
2. Sub wholesaler/subagent, buying products from agent/subordistributor/wholesaler at a price around IDR 18,000/crate
3. Retailer, buying products from sub wholesaler and/or subagent at a price around IDR36,000/crate



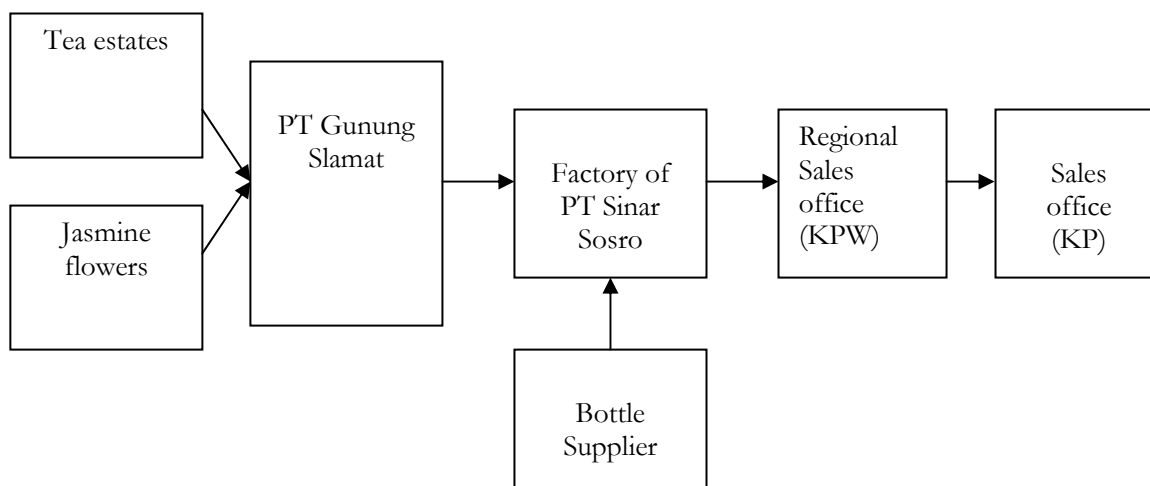
Financial Report 2003 notes sales at IDR 1 trillion, with a net profit of IDR 46.1 billion, which is relatively small due to liabilities up to IDR 444 billion, while the company takes relatively narrow margin. 2004 sales were estimated at 146 million crates.

E. Business Strategies

Facing harsh challenges from competitors (PT Unilever Indonesia Tbk. and Coca Cola, among others, who release products of various flavors), Sinar Sosro introduces product of different flavors under different brands, a strategy in which new products are designed to compete with those released by competitors in order to secure Teh Botol Sosro as market leader.

PT Sinar Sosro always stresses on 'good intention' and loyalty of employees, in order to gain and retain quality human resources and to minimize worker turnover. The management operates with thick atmosphere of personal/human relations in engaging with workers to prevent serious operational problems.

F. Supply Chain



1. Tea Plantation

PT Sinar Sosro has its own tea estates in West java, with a total acreage of 1,587 hectares

- **Garut.** 455 hectares, 1,000 – 1,250 meters above the sea level, managed by PT Agropangan Putra Mandiri
- **Cianjur.** 400 hectares, 1,000 – 1,250 above the sea level, managed by PT Agropangan Putra Mandiri
- **Tasikmalaya.** 723 hectares, 800-950 meters above the sea level, managed by PT Sinar Inesco

2. Jasmine grower

PT Gunung Slamet is supplied jasmine from independent growers in Slawi, Central Java. The relation between both parties are purely transaction-based.

3. PT Gunung Slamet

PT Gunung Slamet processes dry tea in Slawi – Central Java and supplies all factories of PT Sinar Sosro, which requires it to operate 24 hours a day, employing 400 workers in three shifts (06.00-14.00, 14.00-22.00 and 22.00-06.00).

4. PT Sinar Sosro Factory

Head office of PT Sinar Sosro, located in Cakung, East Jakarta, determines production target for each of its factories, on the basis of sales report from its sales division.

5. Bottle Supplier

Since 1974, PT Sinar Sosro always reinvests in bottling and currently has 438 million crates, which is nearly twice of the Indonesian population.

Two main bottle suppliers are Mulia Glass and Iglas. Data from both companies reveal that annually, of the total orders for bottles made by Sinar Sosro, 39.6% is for The Botol Sosro. Order for bottle for Fruit Tea and S-Tee has increase by 300% each in 2003-2004⁷¹.

6. Regional Sales Office

KPW coordinates distribution of Sinar Sosro products at regional level and supervise sales offices. It reports to sales division of PT Sinar Sosro.

⁷¹ Teguh Sri Pambudi, "Sosro, Mengalir Sampai Jauh", Swa, 10/XXI/12-25 May 2005, p.32-38

7. Sales office

KPs distribute the products at district/city level and collect returnable glass bottles.

CSR policy and practice. PT Sinar Sosro does not have any Corporate Social Responsibility (CSR) program. It only engages in incidental social activities, such as blood donation and building water tank for the surrounding community (interview with Personnel Manager of PT Sinar Sosro Ungaran).

Neither has it CSR program/activity for its supply chain. Most suppliers are part of Sosro group, whose management relies heavily on communitarian values. Interview with workers reveals that they feel comfortable and happy with such values. In practice, the communitarian spirit is manifested in *apel pagi* and *apel sore*, meeting between workers and management in the morning before working hours and in the afternoon, after working hours, respectively, to discuss problems and seek acceptable solutions to both the company and workers. The management maintains good personal/human relations with workers.

PT Sinar Sosro divides its office into two division: factory for production and marketing office. There is labor union in factory otherwise there is no labor union in marketing office. The worker in marketing office told that there was labor union in marketing office. But the management abolished the labor union after there are conflict between the activists of labor union and management of PT Sinar Sosro.

CHAPTER IV

CRITICAL ISSUES IN THE TEA SECTOR

Working condition

Forced labor

Productive labour force in the rural communities surrounding and on the tea estate have limited choices of employment. Most work in these areas is centred on tea production related work (picking, working in the tea factories, applying chemicals, with picking being by far the most demanded one (related to the estate). Transferred from one generation to another, tea picking becomes the only skill they rely on for living. As a consequence, tea pickers preserve very weak bargaining power before the companies almost in all issues. They are normally either contract worker or temporary worker with low wages and their rights hardly recognised.

Child labor

The management personnel and workers interviewed did not confirm any case of child labour. However, the local custom/tradition allows people to get married in early ages (13 – 17 years of age). Children may have got married at the age of 13 to 15 and work in the plantation to earn living, but they are no longer considered child labour⁷².

Freedom of association and right to collective bargaining

Union tradition is still very weak in Indonesia. The existence of a union may result from a minimum effort to comply with government regulation or buyer's demand. When necessary, companies dissolve its union as the latter is normally considered a threat, as is the case with Central Java sales office of PT Sinar Sosro. PT Sinar Sosro also tries to take over the mediating role of union by setting up morning and afternoon meetings, weekly meetings, and general meetings between the management and workers, without any union.

To control activities of unions, companies normally intervene to ensure that elected union executives are those who have joined for a relatively long time, thus loyal to the management. A case with this research shows that the unions at Sinar Sosro and Sariwangi would give out their data only if the production manager approved of it.

Some companies provide facilities for union activities, as the case of Unilever Indonesia, which pays air travel expenses and accommodation/lodging expenses for activities of union executive as well as office space and computer and flexible time to allow unions to carry out activities⁷³. Such facilities are frequently interpreted as good will of the company and unions are cautious to give out data that, in their view, may tarnish the company image. Also it should be noted that the role of unions is undermined by increasing casualisation of work: the majority of the workers in processing plants is non-permanent and therefore not unionised. The union getting restless that the non-permanent worker is more increased while the union can not cover non-permanent workers. It also happens in the plantation. The non-permanent pickers are not with a union either.

While some companies in the tea sector have Collective Agreement with workers (PT Sinar Sosro and PT Unilever Indonesia Tbk), some do not (PT Sariwangi Union is setting collective agreement/PKB now). Where union does not exist, as the case of sales office of PT Sinar Sosro, Company Regulation is put in place. Normally, however, Collective Agreement does not cover contract workers and outsourcing workers.

The executives of union in the plantation have closed relation with the management of company. Most of them were elected by company to lead the union. The executive of union refused to give the collective agreement.

Freedom from discrimination

Discrimination occurs in the use of company facilities by permanent workers, contract workers and outsourcing workers. At UI, only permanent workers may use the cafeteria. Contract workers are provided vouchers to take meals from the same cafeteria, while outsourcing workers find their own meals outside the

⁷² A picker in PTPN VIII, 20 July 2006, interview by author

⁷³ A worker of PT Unilever Indonesia Tbk, 18 August 2006, interview by author

factory. The company covers hospitalisation of permanent workers. Contract and outsourcing workers are provided clinic by the company.

In the tea estates, more female workers work in the field and only male workers become supervisors. At Sinar Sosro, male workers far outnumber female workers for reason of physical strength.

Wages, benefits and livelihoods

Especially for pickers, most of them are of non-permanent status. In overall, pickers make up the largest portion of workers in the tea sector. The portions of temporary and permanent pickers in both state (PTPN VIII) and large private (Chakra) estates are relatively balanced. All pickers at smallholders estates are non-permanent. Most workers at processing factories are of permanent status, but they make up the smallest portion in the overall tea sector, since the operation relies on machines and they work as operators. Most of the workers at blending and packing factories are non-permanent workers.

Name	12/12	29/12	29/12	30	123	192	506	190	215	148	511	454
Jumat	97	148										
Anis	50		51				2/2	8/2	2/2	22/2		
Encep	91	23	63				37		47	24		
Ental	34	18					79	20	68	59		
Hrip	91	50					10		25	24		
Hendra	45		35						20	60		
Brian	69	28					27	17	36	33		
Ening	45		38				33	19	36			
Ne's Sari	62	13					20	14	58	38		
Ddet	33						24	21	20	14		
Sarimin			30				16	10	23	14		
Steung												
Hrip			70				24	14				
Fiti			69				50	57				
Fari							16	7	26	15		
							36	50	54	44		
							331	221	463	505	481	

552 = 1320
P. L. Sinar
2007

Picture: smallholder's document of picker's performance

The pickers at smallholder-owned small estates are independent, non-permanent workers which are paid IDR 70,200-1,021,800 (US\$7.8 – 113.5) monthly. Non-permanent pickers at large plantations, both private and state companies, are paid around 156,000 - 409,500 (US\$ 17.3 – 45.5) monthly. Permanent pickers in both big private and state companies get fixed wages (not per Kg), which is not set on the basis of the amount (kg) they collect, at an rough average of 508000 (US\$ 56.4). This fixed wage is based on the length of time working with the company, though differences in wages are not significant. For instance, a picker who has worked at PTPN VIII for six years is paid IDR 530,000, while another picker of four years is paid IDR 501,000.⁷⁴ Pickers at large plantations normally pick under tight control from their supervisor, thus yield less tea leaves than their counterparts working at small estates.

⁷⁴ various sources including interviews and secondary literature

Table 28. Pickers' Tea Leaf Yield

		Wages of picking of tea leaves per Kg (IDR)	Amount of Tea leaves. /day (kg)	Revenue/day (IDR)	Total Revenue 1 month = 26 days (IDR)
Pickers in small plantation (owned by smallholders or private companies)		250 ⁷⁵ 300 ⁷⁶	25-35 ⁷⁷ 9-131 ⁷⁸ Average yield of tea leaves is 10-40 kg/day ⁷⁹	6250-8750 2700-39300	162,500 - 227,500 70,200 - 1,021,800
Big state/private plantation Perkebunan besar Negara/Swasta	Non-permanent	300 ⁸⁰ 400 ⁸¹ 450 ⁸²	20 ⁸³ -35 ⁸⁴	6000-7500 8000-10000 9000-15750	156,000 - 195,000 208,000 - 260,000 234,000 - 409,500
	Fixed/permanent				508000 ⁸⁵

Wages of pickers at grower's estates, non-permanent workers at state plantations and a portion of pickers at private large plantations in West Java are below the regional minimum wage in West Java in 2006, which was IDR 516,840⁸⁶ Permanent workers at state plantations are paid a bit more than the regional minimum wage.

Tabel 29. The Regional Minimum Wage

No	Province	2003 IDR	2004 IDR	Increase %
1	Nangroe Aceh Darussalam	425,000	550,000	29,41
2	North Sumatra	505,000	537,000	6,34
3	West Sumatra	435,000	480,000	10,34
4	Riau	437,500	476,875	9,00
5	Jambi	390,000	425,000	8,97
6	South Sumatra	403,500	460,000	14,00
7	Bangka Belitung	379,500	447,923	18,03
8	Bengkulu	330,000	363,000	10,00
9	Lampung	350,000	377,500	7,86
10	West Java	320,000	366,500	14,53
11	DKI Jakarta	631,000	671,550	6,43
12	Banten	475,000	515,000	8,42
13	Central Java	340,000	365,000	7,35
14	D.I. Yogyakarta	360,000	365,000	1,39
15	East Java	274,000	310,000	13,14
16	Bali	410,000	425,000	3,66
17	NTB	375,000	412,500	10,00

⁷⁵ a picker in smallholder-owned small plantation, 31 May 2007, interview by author

⁷⁶ a smallholder in Cikalongwetan, 31 Mei 2007, interview by author

⁷⁷ a picker in smallholder-owned small plantation, 31 May 2007, interview by author

⁷⁸ Smallholder's documentation. The picking of 100 Kg is rarely gained everyday by picker

⁷⁹ Smallholder's documentation

⁸⁰ a non-permanent picker of Big State Plantation, 19 June 2007, interview by author

⁸¹ a non-permanent picker of Big State Plantation, 19 June 2007, interview by author

⁸² A Manager of PT KBP Chakra, 14 November 2006, interview by author

⁸³ A non-permanent picker of Big State Plantation, 19 June 2007, interview by author

⁸⁴ A fixed picker of State Company of PTPN VIII, 21 July 2006, interview by author

⁸⁵ The permanent pickers of state plantation, 21 July 2006, interview by author

⁸⁶ Danny Setiawan, Governor of West Java Province, Refleksi Pembangunan Jawa Barat, 3 January 2007, http://www.bapeda-jabar.go.id/bapeda_design/dokumen_informasi.php?c=347&t=1, (1 November 2007)

18	NTT	350,000		
19	West Kalimantan	400,000	420,000	5,00
20	South Kalimantan	425,000	482,212	13,46
21	Central Kalimantan	425,000	482,250	13,47
22	East Kalimantan	540,000	572,652	6,05
23	Maluku	370,000	450,000	21,62
24	North Maluku	370,000	400,000	8,11
25	Gorontalo	410,000	430,000	4,88
26	North Sulawesi	495,000	545,000	10,10
27	South East Sulawesi	390,000	470,000	20,51
28	Central Sulawesi	410,000		
29	South Sulawesi	415,000	455,000	9,64
30	Papua	600,000	650,000	8,33

Source: Depnakertrans, 21 January 2004

The wage of permanent factory workers in either private or state companies ranges from just above to twice the regional minimum wage (IDR 480,000 – IDR 1,000,000 or US\$53 – 111). The wages of contract workers or outsourced factory workers are however below the regional minimum wage. Most workers in the Indonesian tea sector are contract workers.

Picture: Receipt of non-permanent worker in state plantation

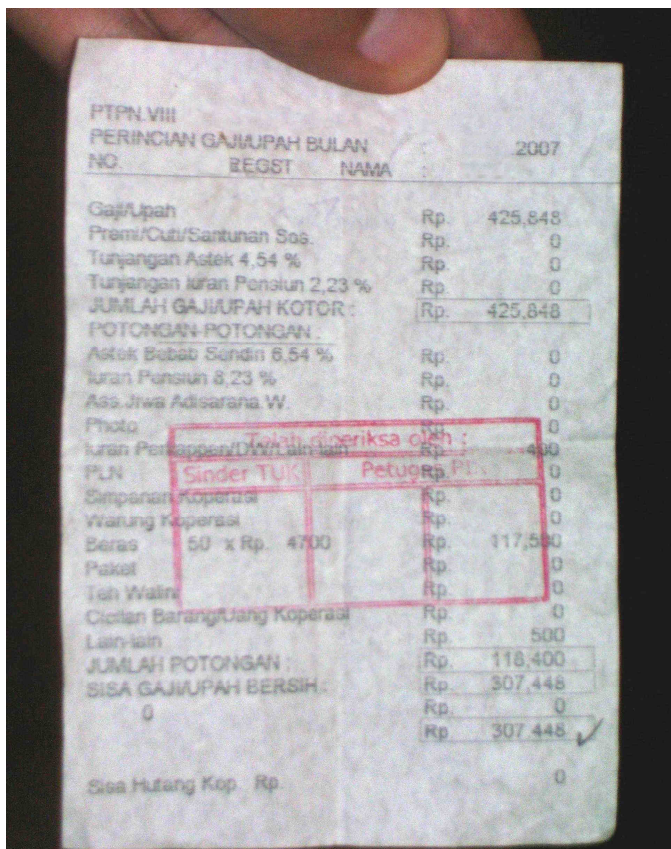


Table 30. Status&Benefit

	UNILEVER INDONESIA		SARWANGI A.E.A	
	Permanent	Non Permanent	Permanent	Non Permanent
Worker status percentage	32,3%	67,7% (include outsourcing)	44%	56%
Benefits:				
Housing	Yes	No	No	No
Schooling	Yes	No	No	No
Transportation	Yes	Yes	No	No
Annual Holiday benefit	Yes	Yes	Yes	Yes

Source: various sources including interviews and secondary literature

Living cost for a picker's family covers food, transportation, health and education. Total of monthly living cost for a family of four is estimated to be about IDR 470,000 – 788,000 (US\$ 52.2 – 87.5). With such wage level and living cost, workers in small plantation normally cannot afford sending their children to junior high school⁸⁷ and those in big plantation cannot send their children to senior high school⁸⁸. Because of the low wage, workers normally seek side jobs for additional income⁸⁹.

Table 31. Living cost of pickers

No	Type of needs	Amount	Price/Unit	Period			Total Cost Monthly	
				Daily IDR	Weekly IDR	Monthly IDR	Minimum IDR	Maximum IDR
1.	Rice	1-2 kg/day ⁹⁰	4,700-5,200 ⁹¹	9,200-10,400			276,000	312,000
2.	Snack			1,000-10,000 ⁹²			30,000	300,000
3.	Food			3,000 ⁹³			90,000	90,000
4.	Transport					56,000 ⁹⁴	56,000	56,000
5.	Junior High School					15,000-25,000 ⁹⁵	15,000	25,000
6.	Health ⁹⁶		3,000-5,000 ⁹⁷				3,000	5,000
TOTAL							470,000	788,000

Source: various sources including interviews and secondary literature

The expenses of workers in factories include meal (the workers in factory spend IDR 15,000 per day for meal), housing (the workers in big factories are given benefit of housing), schooling (they must pay IDR 20,000 – 100,000 per month for their children education plus the transportation IDR 1,000 – 5,000 per day). Sometimes, the workers in the tea factory can save some of their money, but the pickers cannot.

⁸⁷ A picker in small plantation owned by private company in Kemuning, 11 July 2006, interview by author

⁸⁸ Ninuk M Pambudy dan Susi Irvaty, *Waktu Bergulir Sangat Lambat di Kebun The*, 24 July 2006, <http://www.kompas.com/kompas-cetak/0607/24/swara/2827823.htm>

⁸⁹ A worker in sorting process of PTPN VIII, 21 Juli 2006, interview by author.

⁹⁰ A picker in smallholder-owned small plantation, 31 May 2007, interview by author

⁹¹ A picker in smallholder-owned small plantation, 31 May 2007, interview by author

⁹² A non-permanent picker of Big State Plantation, 19 June 2007, interview by author

⁹³ A picker in smallholder-owned small plantation, 31 May 2007, interview by author

⁹⁴ A non-permanent picker of Big State Plantation, 19 June 2007, interview by author

⁹⁵ A non-permanent picker of Big State Plantation, 19 June 2007, interview by author

⁹⁶ Non budgeter

⁹⁷ A picker in smallholder-owned small plantation, 31 May 2007, interview by author

Table 32. Benefit for Permanent Worker

Benefit	State Company		Private Company
	Picker	Worker	Picker&Worker
Housing	Yes	Yes	Yes (UI&Chakra) No (Sariwangi&Sosro)
Medical check-up in company's clinic	Yes	Yes	Yes
Annual holiday benefit of one month of wage	Yes	Yes	Yes
Annual bonus	Yes	Yes	Yes No (Sariwangi)
Monthly pension benefit	Yes	Yes	No
School facilities for worker's children and tuition assistance for bright children	Yes	Yes	Yes (UI&Chakra) No (Sariwangi&Sosro)
Protective equipment	No	Yes	Yes
Transportation	No	No	Yes (Unilever) No

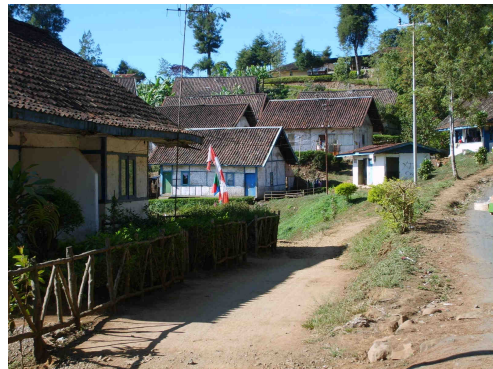
Source: various sources including interviews and secondary literature

Independent, non-permanent workers in state company are paid on the basis of the amount of picked leaves, are provided annual holiday benefit and annual bonus of three times of monthly wage.⁹⁸ They receive none of the above mentioned other benefits.

Permanent pickers do sometimes protect themselves on their own account, independent, non-permanent workers in state and private company normally work without protective clothing and equipment.



Picture: safety aid clinic in PTPN VIII Pasirmalang



Picture: housing in PTPN VIII

The pickers start working at 07.00 am and finish 02.00 pm. The workers in factory work for 8 hour per day. The workers in factory are divided into 3 shifts (06.00 am – 02.00 pm, 02.00 pm – 10.00 pm, 10.00 – 06.00). The shifts depend on the company demand.

⁹⁸ A pickers-contract worker- of PTPN VIII, 19 Juni 2007, interview by assistant researcher.

Health and safety

Pickers protect often themselves from injuries by putting on gloves, boots, apron and hats. . Sometimes private plantations such as PT Chakra provide gloves, boots, apron (a piece of clothing worn to keep the inside clothes clean) and hats for its all its pickers (both permanent and temporary). However state plantations and other private plantations (such as Kemuning) and smallholders do not provide such equipments. Thus, pickers should obtain the equipments with their own expenses. However masks to protect oneself from inhaling pesticides when applying these chemicals are not used and not provided. Companies provided clinic for all workers, but cover only hospital expenses of permanent workers.



Picture: Shoes for pickers in PT KBP Chakra



Picture: protection equipments of PTPN VIII

Job security

As tea picking is temporary (not continuous), most workers are contract, outsourced, or temporary workers, with low job security, lack of regular income and are not entitled to most benefits and to use company facilities such as housing, schooling, free medical in hospital, pension

Social issues

Gender

Most of the workers in the tea sector are the pickers and most of them are female. Their highest education is only junior high school. They just have skill picking the tea leaves, handed down by the previous generations. They have to seek jobs for additional income for their family, but they do not any choices. The female pickers think that the job as picker is more better than only stay at home. They acquiesce in working in the field and being paid low wages.⁹⁹

“Dhuh, di sini mah susah teh*....”

Life of a temporary picker in Pangheotan, Bandung

As usual, 06.30, Ninin (not the real name), a woman of 24 years old stars her activities. She puts on her boots, junak (the basket for tea picking) and a hat, all of which she had to buy herself. Ninin is a temporary picker at PT. Perkebunan Nusantara VIII Panghetoan, Bandung.

“It is difficult here to be a permanent worker. You have to have a lot of money,” Ninin said when asked when she could be a permanent worker. “After 10 years one of my friends has finally become a permanent picker, but it takes others sometimes only 2 years,” she added. How was that possible? “I don’t know such things. If you have money, it’s easy. As for me, the most important thing is that I have a job to support my family.”

Ninin has been working at the plantation for only one year. As a temporary picker, her monthly earning depends on the amount of tea she picks, leaving her without fixed wage. She normally picks 20 to 25 kg of tea leaves a day, earning her IDR 300 to 400 for each kilogram she collects. IDR 300 per kilogram would give her full month wage of IDR 156,000 to 195,000. Many times, however, she does not receive the full amount, for instance if she buys rice on credit from the company’s estate shops. Mother of a six year old, she works for additional income to supplement her

⁹⁹ Pickers, interview by author, 2006,2007

husband's monthly salary of IDR 400,000 who works as a weed picker at the same estate. The total monthly income of the family many times does not cover expenses. Daily expenses for her child (sweet, snack, etc) may be as high as IDR 10,000, while Ninin herself needs nutritious meals to keep herself picking continuously during the day.

"Tea pickers eat a lot, five times a day is normal," she observed. The first picking session is from 07.00 to 09.30, with the first weighing session started at 09.30. The second session is from 10.00 to 12.00, with the second weighing at 13.30. Pickers normally take the weighing sessions to eat.

Pickers who have become permanent workers receive fixed monthly wages, and facilities such as housing, healthcare service, pension, and children education tuition fee. Wage of permanent pickers is IDR 508,000¹⁰⁰. By contrast, Ninin is entitled to bonus and annual holiday benefits only. She is free to take any day off, notifying the estate master is sufficient. Taking a day off will however always reduce her monthly wage. However even permanent pickers still need additional income, mostly by providing motorbike transport services, called *Ojek*, earning IDR 15,000 to 20,000 per day.

Each permanent worker is obliged to meet the daily minimum target of 35-45 kg. Non-permanent workers are divided into groups, each with a maximum target, varied from day to day. For instance, Ninin is in a group of twenty with a target of 200 kg, which the group should meet but should not exceed. Permanent and non-permanent workers always work on different locations each being supervised by a different estate master.

(*)*Teh*, Sundanese way of addressing older female.

Land use

Over the decades the sector has been plagued by conflicts over land. Two recent cases occurred in Bengkulu, Sumatra and West Java. In the first case, a private-owned estates PT Agro Tea acquired 105 hectares of protected forest and land of coffee (and vanilla) growers illegally¹⁰¹. In the second, PTPN VII was in conflict with the locals over the land it used.¹⁰²

Isolation and access to public facilities

Tea plantations normally cover vast track of land in remote isolated areas. Because estates often do not allow non-company locals access to company premises such as roads they tend to make it more difficult for them to obtain daily necessities, normally spending 2 hours on relatively expensive transport to reach public facilities. Another consequence is that workers are isolated from and hardly interact with the locals.



Environmental issues

Tea estates are monoculture with serious impact on soil fertility and only regular fertilization can reverse the impact¹⁰³. As small growers hardly get good price, they hardly afford regular fertilization, which further affects productivity.

Factory waste

¹⁰⁰ A picker who have worked in the state-owned for 22 year, 19 June 2007, interview by author

¹⁰¹ www.antara.co.id, "Ratusan Hektar Hutan Lindung Dirambah Perusahaan Teh", April 2004

¹⁰² Daniel, ELSPPAT, 24 July 2006, telephone call with author

¹⁰³ E.H. Pasaribu, "Pemupukan Fosfat Alam Pada Tanaman Teh Menghasilkan", Prosiding Pertemuan Teknis Teh Nasional 1999, Pusat Penelitian Teh dan Kina Gambung 2000. Farmers in Cikalong Wetan and Pasir Malang – Pangalengan, interviewed by author, 2006

Tea processing factories produce both solid and liquid wastes. PT Sinar Sosro in Central Java processes its solid waste into fertilizer for its estates. The Sinar Sosro factory in East Java has breached local environmental law. From 2003 to 2005 their waste emissions were above legal limits. The government did not impose penalty on the company, as its wastes were considered organic, thus being harmless¹⁰⁴ they were however forced to fix their waste processing installation.

Economic issues

The falling tea price has been most burdensome to smallholders/growers. As this meant that they could no longer cover the operational cost (mainly input cost: high fertilizer price). Smallholders/growers frequently come to the last solution, sell the tea estate or change to more profitable commodities.

Farmers interviewed always complained about the falling price of tea leaves. The price differs from region to region. When told that nominally the price had increased, they stated that the price increase could not cover the production costs, hence they insisted that the price was falling. The following are data obtained from Mr Uka Sutisna, a farmer in Cipada, Cikalong Wetan, Bandung:

Table 33. Price of Tea Leaf

YEAR	PRICE
2005	IDR 700 /Kg
January 2006 – July 2006	IDR 800 /Kg
August 2006 – December 2006	IDR 900 /Kg
January 2007 – Now	IDR 1000 /Kg

Source: Uka Sutisna, smallholder Cikalong Wetan

Table 34. Price of Tea leaf based on village

VILLAGE/ DISTRICT	MONTH/YEAR	PRICE	SOURCE
Cikalong Wetan	13 January 2004	IDR 450 -700	Pikiran Rakyat, 13 January 2004
Kertajaya, Simpenan Sukabumi	31 July 2004	IDR 850	http://kompas.com/kompas-cetak/0407/31/daerah/1180200.htm
Sukabumi	August 2005	IDR 700 - 750	Pusat Penelitian dan Pengembangan Sosial Ekonomi Pertanian Badan Penelitian dan Pengembangan Pertanian Departemen Pertanian 2005
Wanayasa, Purwakarta	March – April 2006	IDR 600	Kompas, 24 April 2006
Bandung	6 November 2006	IDR 400 - 800 (When the price in international market IDR 1.000- 1.500/kg)	http://indobic.or.id/berita_detail.php?id_berita=2088
Cikalong Wetan & Pasir Jambu	30 August 2007	IDR 1500	Pikiran Rakyat, 30 August 2007
Garut, Cianjur, Majalengka	30 August 2007	IDR 1200 - 1300	Pikiran Rakyat, 30 August 2007
Cianjur	July – August 2007	IDR 600-700	http://www.hupelita.com/baca.php?id=1617
Cianjur	27 September 2007	IDR 400	http://www.hupelita.com/baca.php?id=1617

¹⁰⁴ Daru Setyo Rini, an activist of "Lembaga Kajian Ekologi dan Konservasi Lahan Basah"-ECOTON, June 26, 2007, phoned by author

Another serious issue in the sector is the increased use of automated picking. Many pickers lost their source of income while being replaced by Leaf cutting machines. PTPN VI had used 15 machines for their plantation Kayu Aro in Jambi. The company thereby saved IDR 27.5 million per machine per month. One machine can replace 25 workers. The company will add up to 56 machines. It will result in the lay-off of 60% of the 2360 pickers who working in this plantation¹⁰⁵.

Since January 2006, PTPN VII also had used 28 leaf cutting machines on the Gunung Dempo plantation. One machine can replace 15 pickers. The company moves 420 pickers to maintenance plantation. PTPN VII will add up to 40 machines. The company commits that it does not lay-off its pickers.¹⁰⁶

Trade issues

Market imbalances

The tea market structure characteristic of monopsony in the upstream sector and monopoly in the downstream sector. This structure creates a long supply chain that put smallholders at the bottom end without bargaining power and allows large corporations to influence prices. Tea prices at smallholder level that are set by exporters and processing companies change weekly, while the prices of packed tea that they produce are relatively stable. It is likely that the Unilever Indonesia significantly influence prices at tea auctions, because the company buys 70% of the auctioned tea¹⁰⁷.

Temporary transaction

In general there is no structural relationship between actors in the tea supply chain. Contacts are made only during transaction and deal with specific quality and price concerns.¹⁰⁸ The use of contracts is uncommon in the transaction between small growers

Processing companies settle buying transaction with growers within two weeks from the deal and after receiving the commodity from smallholders.¹⁰⁹ Normally, growers deliver the commodity upon transaction. Two weeks for the settlement is considered burdensome to growers, who then opt to sell to collectors, for immediate cash. Processing companies prefer to buy from collectors, as the amount delivered suffices to keep production continue, something which may fail when buying from individual growers.¹¹⁰

Buying through auction follows the rules set by the auction office. Payment shall be made at the latest 20 days after the date of contract. If buyer does not settle payment, its contract will be cancelled and the company is prohibited from participating in the auction and is fined 10% of the contract value.

¹⁰⁵ Kompas, "Pemetik Diganti Mesin", 2 June 2006

¹⁰⁶ Kompas, "Pemetik Teh Diganti Mesin", 22 August 2006, <http://kompas.com/kompas-cetak/0608/22/sumbagsel/2895251.htm>

¹⁰⁷ A Researcher Institute for Tea and Cinchona at Gambung, 13 November 2006, interview by author

¹⁰⁸ Cecep Komar, Chief of Tea Sales, KPB PTPN, office of KPB PTPN, 4 September 2006, interview by author

¹⁰⁹ A smallholder in Cikalong Wetan, 13 November 2006, interview by author

¹¹⁰ A staff Dinas Perkebunan Porvisi Jawa Barat, 20 July 2006, interview by author

CHAPTER V

CSR IN THE TEA SECTOR

CSR Practice in Indonesia

Corporate Social Responsibility (CSR) is a term relatively alien to the Indonesian tea sector, as evident in interview with tea businesspeople (directors and managers of PTPN and private companies, growers and the local government) attending a tea seminar in Bandung on 18 July 2006. Few of private companies who have trade relations with foreign companies know of ETP and Sustainable Tea as CSR initiative.¹¹¹ The term CSR Initiative is known in limited circles in the Indonesian Tea Association, PTPN management, and private companies.

To date, CSR is still a concept at discourse level, interpreted and carried out as incidental, philanthropic activities, such as building water tanks for the local communities, blood donor, financing haj pilgrimage, and the like. Beneficiaries are mostly those having direct relations with companies such as local communities and workers. CSR in the supply chain is an alien concept. Companies focus more on parties with which they are directly related merely to ensure the supply of quality products. Relations between actors in the supply chain are temporary, short-term, and transaction-based, focusing solely on business terms of product quality and the agreed payment.

There are multinationals who have CSR programs, but little has been done in the tea sector. There are also CSR initiatives in the tea sector, but hardly bring about significant improvement in the bottom-end of the supply chain, smallholders/growers. CSR is more an effort to fulfill procedural requirements, rather than realization of responsibility.

Unilever introduced Sustainable Tea to stakeholder in Indonesian tea sector since 1999. Then the Indonesian environmental experts have promoted and developed it. Sustainable Tea becomes a market demand or label which every tea plantation should have it. Sustainable Tea is a system in tea production aiming at promoting economic, social and ecological sustainability of tea estates.¹¹² The core of the scheme is to produce with minimum input to achieve some level of productivity and quality that meet both current and future market demand. Sustainable Tea requires that:

- The side effect of production on soil fertility, water and air quality as well as biodiversity be minimized and when possible, driven towards positive impact.
- Renewable resources are used and the use of non-renewable resources be minimized.
- Surrounding communities be protected and their welfare be improved.
- Ecology be sustained

Sustainable Tea has the following indicators¹¹³:

- Higher soil fertility
- Erosion mitigation
- Increased soil nutrition
- Pest management
- Sustained biodiversity
- Increased value of product
- Increased use of renewable energy, especially thermal energy, in tea processing
- Managed use of both drinking water and irrigation water
- Better relations with employee, community, customer, supplier, government (central and regional)

CSR Initiatives in tea sector

Integrated Sustainability

Indonesian tea companies originally paid attention to environmental issues due to pressure from consumers, bank, insurance companies and shareholders, which demand that every management decision needed to take into account Best Environment Options (BEO), Best Available Techniques Not Excessive Cost (BATNECC)

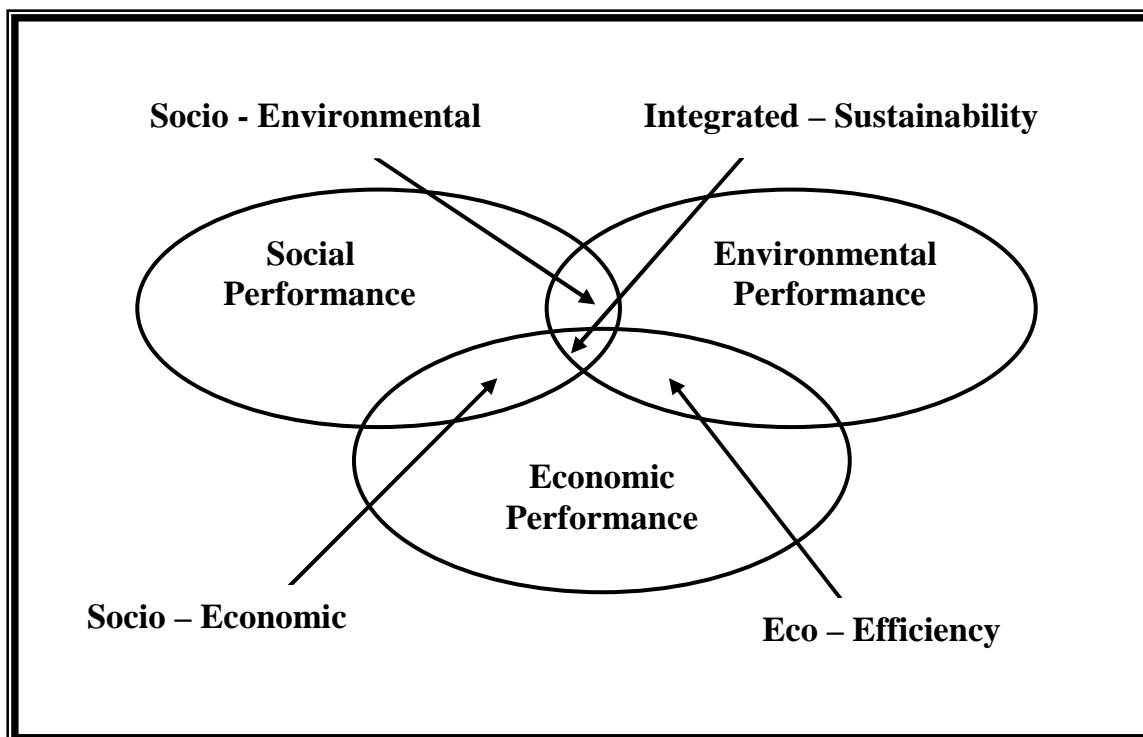
¹¹¹ Marketing manager, PT Bali Agro, Joint Marketing Office PTPN, 26 July 2006. She told that she didn't know about CSR and the initiative, most of exporters in the Jakarta Tea Auction only concern with quality and price of tea. A assistant manager of Tea Buying Department, PT Unilever Indonesia Tbk, 11 October 2006, telephone call with author. He told that he didn't know about CSR and ETP, they only have job description to buy tea with concern in quality and price of tea.

¹¹² Rohayati Suprihartini, "Hambatan Non Tariff pada Perdagangan Teh Dunia Berpangkal pada Budidaya dan Pengolahan", INFO TEH, 17, January 2006, p. 7-10

¹¹³ Rohayati Suprihartini, "Hambatan Non Tariff pada Perdagangan Teh Dunia Berpangkal pada Budidaya dan Pengolahan", INFO TEH, 17, January 2006, p. 7-10

and Environmental Impact Assessments (EIA)¹¹⁴. Cleaner production and Environmental management System (EMS) are put in place, the first to ensure sound supporting environment in terms of sustainable development and the second to provide guidance towards sound environmental performance that complies to regulations and takes into account social and economic demands as well as the risk of environmental degradation. Both are complemented with eco-efficiency, effectively/productively using natural resources in social and economic activities with prior consideration of the impact on the environment. It requires not only to reduction of production cost, but also efficient use of energy and material to minimize pollution.

The industry then learn to pay attention to social issues, despite in discourse, with the new view that business should also bring maximum benefit to all parties, either directly or indirectly (stakeholders). The integrated sustainability can be reached by considering the financial activity, environmental activity and social activity. Financial performance may be measured from the asset, profit, market share and dividend. Environmental performance from whether or not business operation cause environmental degradation and harm to lives. The social performance from the capacity to recognize and accommodate different interests of stakeholders.¹¹⁵ Financial, environmental and social performance are put together in a set of interrelated indicators (the graph below) called sustainability indicators, to be achieved through some level of balances.



Source: R.G.S. Soeria Danoe Ningrat, Pengembangan Paradigma Baru bagi Industri The Indonesia untuk Menuju Pembangunan Berkelanjutan, November 1998

3P (Profit, People and Planet)

Indonesian tea sector interpret 3P (Profit, Planet and People) as creating profit by taking into account the environment, community and workers¹¹⁶. Profit is used to finance and ensure long-term operation, while concern on the environment is to ensure sustainable natural resources and concern on community and workers is inalienable because they are always part of business (operating machines to produce good and consumers).

¹¹⁴ R.G.S. Soeria Danoe Ningrat, "Pengembangan Paradigma Baru bagi Industri The Indonesia untuk Menuju Pembangunan Berkelanjutan", November 1998

¹¹⁵ R.G.S. Soeria Danoe Ningrat, "Pengembangan Paradigma Baru bagi Industri The Indonesia untuk Menuju Pembangunan Berkelanjutan", November 1998

¹¹⁶ Atik Dharmadi, secretary of Asosiasi Teh Indonesia, 18 Juli 2006, interview by author

Ethical Tea Partnership (ETP)

Originally called Tea Sourcing, the organization was established in 1997 by UK tea packing companies to monitor working condition in tea plantation to ensure that tea products that reach consumers are produced in socially responsible ways.¹¹⁷ It changed into Ethical Tea partnership in September 2004¹¹⁸.

Today ETP is a global organization with 18 blending and packing companies as members, producing 50 brands sold in more than 30 countries. The members are Accord Tea Services Ltd, Matthew Algie & Co Ltd, Bettys & Taylors of Harrogate Ltd, DJ Miles & Co Ltd, Drie Mollen, Finlay Beverage Limited, Gold Crown Foods Ltd, Imporient UK Ltd, Keith Spicer Ltd, Metropolitan Tea Co Ltd, The Nambarrie Tea Company Ltd, Sara Lee, The Tetley Group, R Twining & Company Ltd, Unilever (Europe), Tazo Tea Company, Williamson Fine Teas Ltd, The Windmill Tea Co Ltd¹¹⁹.

The main concerns of ETP are¹²⁰:

- Employment is freely chosen
- Freedom of association and the right to collective bargaining are respected
- Working condition are safe and hygienic
- Child labor shall not be used
- Total remuneration packages are negotiated between unions and employers
- Agreements are in place regarding working hours
- No discrimination is practiced
- No harsh or inhumane treatment is allowed

Three phases in ETP monitoring:

- Questionnaire, distributed to estates to be completed and returned. ETP members do not buy tea producers who fail to complete and return the questionnaire.
- Monitoring visit, a monitoring team from PricewaterhouseCoopers visit tea producer.
- Grading. Tea producers are put into categories, based on monitoring results, for improvement programs. ETP does the grading.

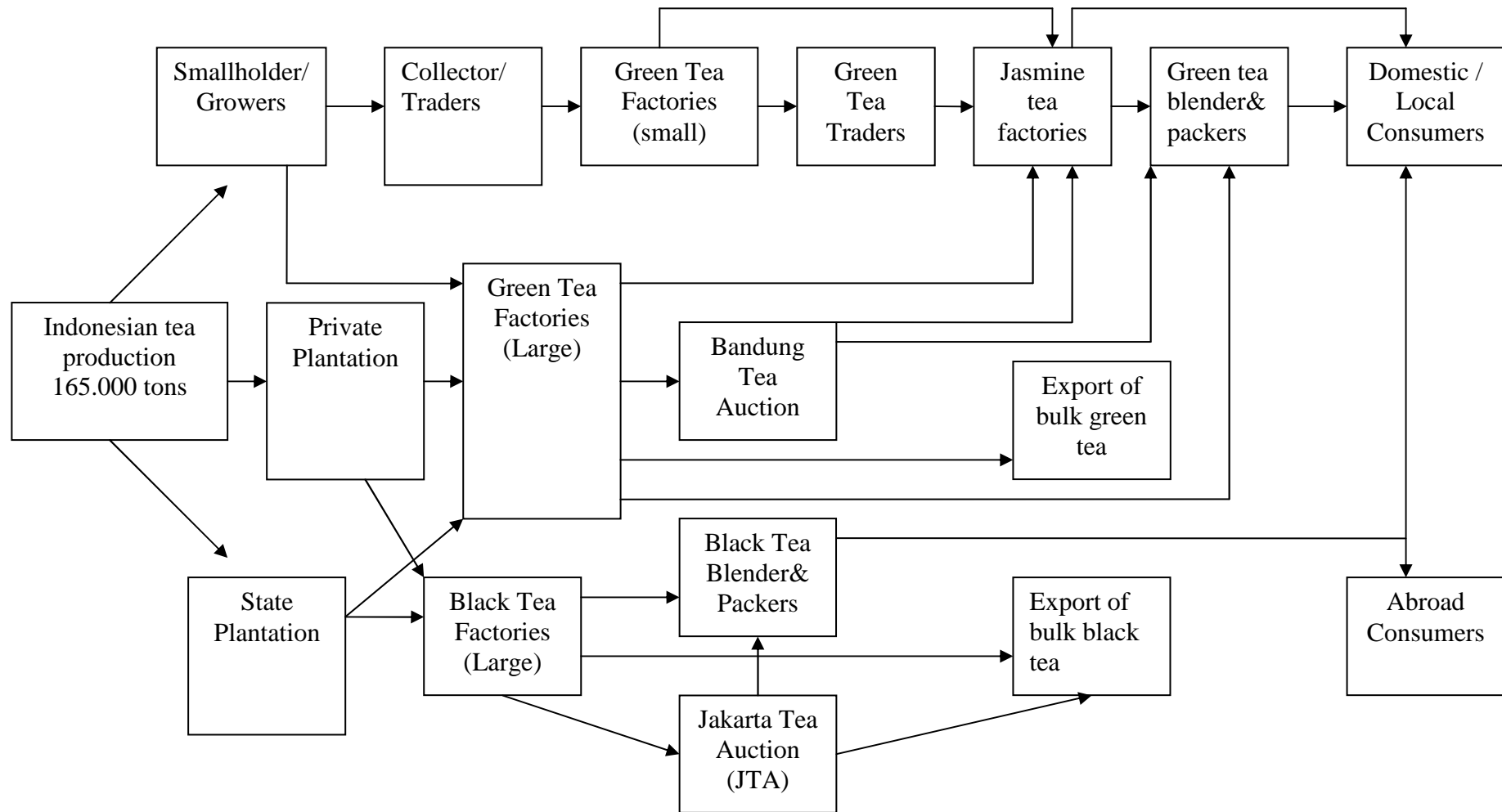
¹¹⁷ www.ethicalteapartnership.org

¹¹⁸ Joris Oldenziel, Geertje Otten & India Committee of the Netherland, Sustainability, SOMO, 2006

¹¹⁹ www.ethicalteapartnership.org

¹²⁰ www.ethicalteapartnership.org

CHAPTER VI
Value chain analysis



Source: INFO TEH No.16 December 2004

Supply chain

Stakeholders in the tea sector:

Indonesian producer are normally divided in to three groups: smallholder plantations and larger private and government estates. Besides these actors, there are collector/trader, factory, blender and packers, Bandung tea auction and Jakarta tea auction, exporter and importer.

- Smallholders/growers:

44% of tea growing area in Indonesia belongs to smallholders/small growers. Compared to that of private and state plantations (more or less 0.75 ton/ha) smallholder estates are of low productivity¹²¹.

Table 35. Area and Production of Tea by Category of Producer 1995 – 2005

Year	Area (Ha)				Production (Ton)			
	PR / Smallholders	PBN / Government	PBS / Private	Total	PR / Smallholders	PBN / Government	PBS / Private	Total
1995	61,202	49,390	41,839	152,431	32,593	87,432	33,988	154,013
1996	65,372	43,282	33,828	142,482	34,256	96,624	38,537	169,417
1997	64,498	43,240	34,484	142,222	32,619	88,259	32,770	153,648
1998	65,841	50,446	40,752	157,039	34,137	91,076	41,612	166,825
1999	65,272	49,157	42,410	156,839	34,561	86,099	40,343	161,003
2000	67,100	44,263	42,312	153,675	39,466	84,132	38,989	162,587
2001	67,580	44,554	38,738	150,872	40,160	86,207	40,500	166,867
2002	66,289	44,608	39,810	150,707	44,773	80,426	39,995	165,194
2003	64,742	41,988	36,874	143,604	47,079	82,082	40,660	169,821
2004*)	63,304	44,409	35,053	142,766	47,147	81,763	35,535	164,445
2005**)	63,390	44,404	35,053	142,847	47,638	81,903	35,535	165,076

Source : Directorate General of Estate Crops Production Development

Note : *) Preliminary Figure

-) Data not available

In terms of acreage, smallholders are categorized into small, medium, and large smallholders, each with different levels of revenue and profit. Varied acreages entail varied monthly profit. Smallholders make profit IDR 160,000 – 500,000 (US\$ 17 – 55) per month, medium-size smallholders IDR 1.5 – 2 million (US\$166 -222), and large smallholders IDR 3 – 8 million (US\$ 333 – 888). Payment is made cash, normally within 2 weeks¹²².

Table 36. Comparison of Smallholder/Grower Plantations in Ciwidey

	Category of Smallholder/Growers		
	Small 0.25 -5 ha	Medium 5 – 10 ha	Large > 20 ha
Acreeage			
Labor force	2–5 workers (smallholder and workers)	6-15 workers (smallholder, foreman and workers)	16-100 workers (smallholder, administration staff, foreman and workers)
Processing factory			Has processing factory

¹²¹ See Table 35. Area and production of Tea by Category of Producer 1995-2005

¹²² Manager of PT KBP Chakra, 21 July 2006, interview by author

Tea sales	- Directly to smallholder-owned (individual) factory - collector	- Directly to smallholder-own (individual) factory - The Large Private Plantation	- to his factory or directly to other smallholder-own factory - The Large Private Plantation
Profit ¹²³	IDR 160,000 - 500,000 (US\$ 17 - 55) per month	IDR 1,500,000 - 2,000,000 (US\$166 -222) per month	IDR 3,000,000 - 8,000,000(US\$ 333 - 888).per month

Source: Keri Lasmi Sugiarti and Shelly Novi HP, Bentuk dan Dinamika Hubungan Buruh-Majikan, Faktor-Faktor yang Mempengaruhi, dan Dampaknya terhadap Posisi Tawar Buruh, November 2002, Akatiga

Growers may sell tea to smallholder-owned factories, collector, or large private tea processing companies. To cut/eliminate transport cost due to the fuel price hike, most of the smallholders sell their tea to collectors. Those who sell to smallholder-owned factories normally do so because they received aid from the latter (seed and initial capital) and normally they are bound in kinship.

Due to the fact that tea need immediate processing and the number of smallholders being disproportionate to buyers (collector, smallholder-owned factory, large private company), the latter normally have greater power to set the price.

Smallholders/growers set worker wages around the local minimum wages levels. Workers are mostly from the nearby communities, who do not demand housing and transport facilities. Smallholders only provide pickers the net/bucket to collect tea during harvesting other pickers is themselves responsible for bringing along/buying other equipment (gloves, hats, and apron) they might need.

- Private plantation

35053 ha of Indonesian tea area are owned by private estates¹²⁴. They have workers more than 100 people. Private estates take a share of 24% of the total acreage with productivity of 1.01 ton/ha in 2005¹²⁵, which is high when compared to that of smallholder/growers. Financial capacity for proper plant/estate management keeps the productivity stable.

Private plantations normally have their own factory to process tea before selling it to blending and packing companies or export. Private plantations do not sell their product through auctions. So far only PT Tatar Anyar Indonesia sells its product through auction.

Acreage of a private plantation may be up to hundreds of hectares. It also buys tea in large amount from collectors and large growers at prices it sets. Since private plantations buy tea with strict requirements, only collectors and large growers sell to them. Price of bulk tea produced by private plantations is set through agreement with buyers with reference to, thus prone to weekly changes following, Jakarta Tea Auction.

Relations between private plantations and their buyers are purely of business nature, the companies provide products as required by buyers in terms of both quality and quantity, while buyers make payment within the agreed span of time, normally 1-3 month.

For export, private plantations pay more attention to export requirements that are set by both Indonesia and the destination countries such as MLR and HACCP certification Payment normally takes longer period of time.

- Large State plantation

State-owned plantations (PTPN) take a share of 31% of the total tea acreage, with very high productivity, 1.84 ton per hectare. Financial capacity and research on plant productivity may be a supporting system to the high productivity. The biggest tea company in Indonesia is PTPN VIII. PTPN VIII has 25,981.67 ha of tea plantation. It is about 1/6th of Indonesian tea plantation area

Large state plantations have tea drying facilities, the production of which depends very much on supplies of green leaf from their own plantation as PTPN hardly buy tea from smallholders or collectors. The processed tea is sold directly to blending and packing companies and to exporters, either directly or indirectly through auctions. Prices are set in reference to JTA prices. Prices of any sales done outside the auction are set 3% higher.

¹²³ data in 2001

¹²⁴ See table 35. Area and production of Tea by category of Producer 1995-2005

¹²⁵ See Table 35. Area and production of Tea by Category of Producer 1995-2005

Products of PTPNs are mostly for export and the companies are strict in heeding tea quality, standards and requirements set by importing countries, but they also produce packed black tea for domestic market.

Most of workers at PTPNs are permanent workers, with facilities and treatment in accordance with the minimum standard set by the government. Non-permanent workers do not enjoy housing facility, health benefit.¹²⁶

- Auction

Jakarta Tea Auction is the reference for tea price. It is specialized in the auction of black tea produced by state plantations and private estates (though so far only one private estate takes part in the auction, PT Tatar Anyar Indonesia)¹²⁷. Bandung Tea Auction is for green tea.

Cooperative Commodity Development Centre (CCDC)

CCDC, an organization for stakeholders committed to improve agribusiness development in West Java, was established with West Java Gubernatorial Decree No.525.22/Kep.143-Binprod/2002, dated 11 February 2001, is meant to be a Center for joint efforts in developing plantation commodities. For its focus on tea, the center is widely known as CCDC Teh Jawa Barat.

The organization was established to advance tea industry in West Java through joint activities in entrepreneurship and tea-related institutional development, information sharing, and to increase bargaining position of stakeholders in the tea sector. The CCDC collaborates with West Java Provincial Plantation Office.

In practice, *Cooperative Commodity Development Centre* mostly facilitates tea promotion and marketing through auctions. At its offices *Kantor Lelang Komoditi Agro*, which also auctions other agribusiness commodities such as rice, eggs, and tomatoes? CCDC also performs other functions such that of intermediary (between vendors and buyers), communicator (extension of information concerning human resource improvement), creation (to increase *bargaining position* of tea producers), mediator (to settle conflicts in the tea sector), and negotiator (representative in negotiation and marketing for its members). They also stimulate stakeholders in the tea sector to increase quantity and improve quality.

The CCDC auction is held each month for green tea and mostly caters the domestic market. Producers that sell their products on this auction include PT. Selamat Prama Artha (PUSKOPAU), CV. Sejahtera Jaya, PT. Ciwangi, Cikalongwetan, PT. Sariwangi, Bogor, and individuals.

Jakarta Tea Auction is hosted by Kantor Pemasaran Bersama PTPN and is held every Wednesday at 10 a.m., with sample already available two weeks before auction. KPB PTPN acts on behalf of producers. Participants are foreign buyers with Indonesian legal standing, Indonesian companies and individuals representing foreign buyer large Indonesian traders (Tea Traders, Blenders and Packers)¹²⁸.

Jakarta Tea Auction is dominated by Lipton (Tea Buying Department of PT Unilever Indonesia), which buys 70% of all tea auctioned¹²⁹ nearest competitor is L. Elink Shuurman (The) BV, which buys at most 20% of the tea, sold.

The relations between auction and buyers are merely of transactional nature: the auction provides a trade environment and its sole concerns are quality and quantity of product to be delivered to buyers. Auction management and staff are not aware of standards or requirements set by importing countries, neither are they aware of CSR Initiatives.¹³⁰

¹²⁶ worker's family, PTPN VIII, 22 July 2006, interview by author

¹²⁷ Cecep Komar, Chief of Tea Sales, KPB PTPN, office of KPB PTPN, 4 September 2006, interview by author

¹²⁸ KPB PTPN, "Tata Cara dan Peraturan Jakarta Tea Auction dan Free Sales", Jakarta 21 December 2004

¹²⁹ observation during tea auction and interview exporters in Jakarta Tea Auction 26 July 2006.

¹³⁰ Cecep Komar, Chief of Tea Sales, KPB PTPN, office of KPB PTPN, 4 September 2006, interview by author



Picture: Jakarta Tea Auction



Picture: Bandung Tea Auction

- Blending and packing (processing) companies

Blending and packing companies are supplied by private plantations and state plantations either directly or through auctions. These are companies of strong capital, fixed market segment, and stable production..

Among the many actors in the Indonesian supply chain, blending and packing companies may hold the biggest power. They can put pressure on other parties in the supply chain, though the reverse is nearly impossible. This is evident in the stable price of their products, while the price of processed tea they use as base material is volatile (auction). In addition to influencing prices they may dictate requirements in terms of product quality and monitor and audit suppliers

- Exporter

Indonesian tea exporters hardly heed CSR in trade transactions. The sole concern is buying quality product at lowest possible price, which means high profit, since these are traders who rely on margins and not on regular income like agent who depend on fees.

Other actors

- Collectors

Collectors are traders who benefit from smallholder/grower's problems of transporting their tea to processing factories. Collectors are problem solver to the problem of transportation cost, especially for small growers, since the latter may sell tea to collectors at prices slightly lower, and in good times higher, than that to smallholder-owned processing factories.

- Green tea processing factories

These normally belong to large smallholders. By capacity, green tea processing factories may be divided into three categories: small scale, producing 0.01-0.1 tons per day; medium scale, 0.10-0.12 tons per day; and large scale, 2-25 tons per day¹³¹.

- Jasmine tea processing factories

These factories process green tea and jasmine and sell the product to blending and packing companies.

¹³¹ Ita Setiawati and Nasikun, "Teh: Kajian Sosial-Ekonomi", 1991

CHAPTER VII

CONCLUSION AND RECOMMENDATION

Conclusion

This study comes to the following conclusions:

1. The supply chain in the Indonesian tea sector puts the highest pressure on small holder smallholders/growers. The market structure characteristic of monopsony puts smallholders at the bottom end of a long supply chain without bargaining power to set prices of their own product.
2. The government hardly intervenes in the tea sector favoring free market regulation which seems beneficial to the more powerful actors in the supply chain.
3. The industry has limited capacity to create value added to products. Indonesia exports mostly bulk tea, while imports of more value added products are increasing. This has been aggravated by the government policy of VAT 10%.
4. Most actors in the tea sector know little about CSR and CSR initiatives. Only few export-oriented companies know of CSR and CSR initiatives.
5. CSR is still at the level of discourse among the management of large tea companies, who interpret it as incidental, philanthropic activities, instead of structural well-managed programs directed at core business level
6. CSR initiated by multinationals receives little response from stakeholders because standards are created in a top-down fashion and do not lead to fairer prices and little to the sustainable development of the tea sector. CSR is relegated to fulfillment of procedural requirements.
7. Blending and packing companies are the most influential actors in the supply chain especially in price setting. The reverse, however, is nearly impossible.
8. Most of worker in the Indonesian tea sector are non-permanent. Most of them are female. Because of their background, they acquiesce in working in the field and being paid low wages.
9. The position of pickers is threatened with replacing the cutting leaf machines.
10. The main constraint of this research is on access to the Indonesian tea company. They did not give permit the researchers to interview and collect data of the company.

Recommendations

This study recommends that

1. The government intervenes (shows concern and lend support) to create conducive climate for development of the tea sector, especially through incentives and subsidies to actors with weak bargaining position in the market structure.
2. The government encourages large national and private estates– and especially blending and packing companies to take up and implement CSR in the supply chain.
3. Consumers need to be encouraged to take position against malpractices in this sector by addressing corporate accountability of the packing and blending companies which through their influence and bargaining power are best equipped to positively contribute to a more sustainable tea sector.
4. Promotion of and campaign on CSR should be conducted more intensively in the Indonesian tea sector.

Annexes

Institution	Research Question
Government (Department of Trade and Industry)	<ol style="list-style-type: none"> 1. How has the Indonesian tea sector growth? 2. How is the forecast of Indonesian tea sector? 3. What are the threats and opportunities for tea from Indonesia in the Indonesian and international market? 4. How far has the government play role in the development of the tea sector? 5. Does the government play a role in determining relation in the supply chain? 6. Does government set CSR requirements on actors in the supply chain especially on the tea company in Indonesia? 7. What are the policy/regulation that the government set for Indonesian tea sector? 8. Is the government thinking about divesting its interest in national tea production? Why is this so or why not? If applicable how will be these companies be privatised?
Asosiasi Tea Indonesia	<ol style="list-style-type: none"> 1. How has the Indonesian tea sector growth? 2. How is the forecast of Indonesian tea sector? 3. What are the threats and opportunities for tea from Indonesia in the Indonesian and international market? For instance to capture more value added? 4. How far has the government play role in the development of the tea sector? 5. What are the pattern in the supply and distribution chain of tea? Is there monopoly system in such supply chain? 6. Which parties are involved in the chain? 7. How is the relationship between actors in the supply chain? 8. Which are the most significant and powerful players in the supply chain? 9. Does the government play a role in determining relation in the supply chain? 10. Do companies implement CSR programme in the supply chain? What are the activities of their programme? How do they implement their CSR activities? 11. Do importing companies/buyers set CSR requirements on for instance working conditions on actors in the supply chain? 12. What is your opinion about the issues in tea sector? How should we solve these problems? 13. What is your perspective on the current market and future of the 14. tea market (strategy)? 15. What are the margins for the various actors in the tea supply chain for export and domestic consumption? 16. Number of employees in tea sector and contribution to GDP
Tea companies	<ol style="list-style-type: none"> 1. Who do you supply? 2. How is your tea distributed? 3. How is the relation between agencies in the distribution chain (contracts, what kind requirements, do you get paid on time etc)? 4. Who set the tea price? 5. How is the price set? 6. What are the determining factor in price setting? 7. What are the component of the production cost? 8. What is the average cost (what are your margins)? 9. What are the facilities the farmer receives from the clients? 10. What are training the farmer receives from the clients? 11. What kinds of constrains or problems do you experience in business

	<p>(for growth or ather, perhaps lack of investments, debts, low prices etc)?</p> <ol style="list-style-type: none"> 12. What kind of inputs do you use and how much of it per hec/year? 13. Do you have protective clothing and do you use it when applying agrochemicals? 14. What do you consider to be opportunities and threats to your business (tea farming)? 15. What do you consider to be opportunities and threats to the tea sector in Indonesia and worldwide? 16. Do you experience any negative environmental impact of your operations (problems with land degradation, soil fertility, erosion etc)? 17. if applicable what are the working conditions of your employees (contracts, wages, bonus, housing, facilities, holidays, overtime, working hours, health insurance, pensions)? 18. Are there any CSR demands made on your production by your clients if so please specify? If so how are these communicated to the workers? 19. If CSR demands are made by clients how do they check for compliance how often and by whom? 20. Do you focus on sustainable production? If so how? 21. Can workers dispose of arable land to grow crops for their own consumption? 22. How old is the plantation and how about the ownership (is it bought from local communities, is ownership disputed?)? 23. Can you inform us about your water management? For instance do you use irrigation (what is the source), do you use drainage systems, do you treat the water (to clear it from agrochemicals), is the drainage water the same water that is used for drinking water purposes and/or does it get mixed? 24. How do you prevent soil erosion (grasses) and protect soil fertility (intercropping)? 25. How much do you pay pickers/factory workers? What are their benefits? What kind of facilities do you provide? What are their rights and how are these laid down/communicated?
Farmers/producers (in case they process and pack tea)	<ol style="list-style-type: none"> 1. Who do you supply? 2. How is your tea distributed? 3. How is the relation between agencies in the distribution chain (contracts, what kind requirements, do you get paid on time etc)? 4. Who set the tea price? 5. How is the price set? 6. What are the determining factor in price setting? 7. What are the component of the production cost? 8. What is the average cost (what are your margins)? 9. What are the facilities the farmer receives from the clients? 10. What are training the farmer receives from the clients? 11. What kinds of constrains or problems do you experience in business (for growth or ather, perhaps lack of investments, debts, low prices etc)? 12. What kind of inputs do you use and how much of it per hec/year? 13. Do you have protective clothing and do you use it when applying agrochemicals? 14. What do you consider to be opportunities and threats to your business (tea farming)? 15. What do you consider to be opportunities and threats to the tea sector in Indonesia and worldwide? 16. Do you experience any negative environmental impact of your operations (problems with land degradation, soil fertility, erosion etc)?

	<ol style="list-style-type: none"> 17. if applicable what are the working conditions of your employees (contracts, wages, bonus, housing, facilities, holidays, overtime, working hours, health insurance, pensions)? 18. Are there any CSR demands made on your production by your clients if so please specify? If so how are these communicated to the workers? 19. If CSR demands are made by clients how do they check for compliance how often and by whom? 20. Do you focus on sustainable production? If so how? 21. Can workers dispose of arable land to grow crops for their own consumption? 22. How old is the plantation and how about the ownership (is it bought from local communities, is ownership disputed)? 23. Can you inform us about your water management? For instance do you use irrigation (what is the source), do you use drainage systems, do you treat the water (to clear it from agrochemicals), is the drainage water the same water that is used for drinking water purposes and/or does it get mixed? 24. How do you prevent soil erosion (grasses) and protect soil fertility (intercropping)? 25. How much do you pay pickers/factory workers? What are their benefits? What kind of facilities do you provide? What are their rights and how are these laid down/communicated?
Processing and packing factories	<ol style="list-style-type: none"> 1. Who do you supply? 2. How is your tea distributed? 3. How is the relation between agencies in the distribution chain (contracts, what kind requirements, do you get paid on time etc)? 4. Who set the tea price? 5. How is the price set? 6. What are the determining factor in price setting? 7. What are the component of the production cost? 8. What is the average cost (what are your margins)? 9. What are the facilities the farmer receives from the clients? 10. What are training the farmer receives from the clients? 11. What kinds of constrains or problems do you experience in business (for growth or ather, perhaps lack of investments, debts, low prices etc)? 12. What kind of inputs do you use and how much of it per hec/year? 13. Do you have protective clothing and do you use it when applying agrochemicals? 14. What do you consider to be opportunities and threats to your business (tea farming)? 15. What do you consider to be opportunities and threats to the tea sector in Indonesia and worldwide? 16. Do you experience any negative environmental impact of your operations (problems with land degradation, soil fertility, erosion etc)? 17. if applicable what are the working conditions of your employees (contracts, wages, bonus, housing, facilities, holidays, overtime, working hours, health insurance, pensions)?
Exporter	<ol style="list-style-type: none"> 1. What are the export destination? 2. What are the export value? 3. When are export periods? 4. What are the export requirements/conditions? 5. What are the export requirements/conditions set by the importer? 6. What are the origin of the exported commodity? 7. What are the barriers in the national and international export market?

Agent	<ol style="list-style-type: none"> 1. What are the requirements to fulfil to become agent of the company? 2. What are the most preferred/sought after tea product? 3. What is the sales volume of tea? 4. What are the facilities the agent receives from the company? 5. How is sales price? 6. What are the determining factors in price setting?
Retailer	<ol style="list-style-type: none"> 1. What are the requirements to fulfil to become retailer of the company? Must the retailer have big capital, networking, certain skill or certain condition to be retailer of the company? 2. How is their relationship with company? Is there any agreement or contract? 3. What are the most preferred/sought after tea product? 4. What is the sales volume of tea? 5. What are the facilities the retailer receives from the company? 6. How does the retailer determine sales price? How much the margins of their profit? 7. What are the determining factors in price setting? 8. Does the retailer have private label tea? What are the requirements you must fulfil to get such label? What are the requirements CSR?
Workers	<ol style="list-style-type: none"> 1. How long has the worker worked in their company? 2. How much their wage? 3. How much their cost of living? 4. What are the facilities (free housing, schools) and benefits (pensions, health insurance) the worker receives from the company? 5. What training do the workers receive from the company? 6. How are their working conditions? (working hours, paid overtime, contracts, flexibilisation, freedom to organise and bargain collectively, pensions, health care etc, at least cover the eight ILO labour rights) 7. What are the policy/regulation that the company set on its workers? 8. Does your company provide you protective gear (clothing) when applying chemicals, if so do you always use them? 9. What would you describe as the most serious work related problems? And what are the major obstacles in improving working conditions for instance the right to bargain collectively? 10. Education you have received? 11. Can you dispose of arable land to grow crops for your own consumption? 12. Have they experienced any kind of (sexual) harassment/discrimination?

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