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FINAL REPORT

The Business Costs of Ethical Supply Chain Management: South African Wine Industry Case Study

by

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NRET - Natural Resources and Ethical Trade Programme

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Summary

The funder of this research, the Department for International Development (DFID), wishes to enhance the private sector's contribution to sustainable development by encouraging business practices that embrace social, environmental and financial responsibility. Ethical supply chain management is a critical aspect of responsible business in developing countries. Work by The Natural Resources and Ethical Trade Programme (NRET) and the Ethical Trading Initiative (ETI) has shown that trading partners in the North and South are willing to develop this approach to managing social and environmental performance, but have highlighted the need to understand the cost implications more thoroughly. In particular, there is concern that improved social performance will increase employment costs, and lead either to companies avoiding such approaches or to reduced foreign direct investment in developing countries.

This case study of the South African wine industry's experimentation with ethical labour codes is one of three such studies that seek to answer the following questions:

1. How much does complying with ethical standards cost each participant in the supply chain?
2. How large are the gains in labour productivity, management efficiency and other factors that arise from introducing ethical standards?
3. How can the compliance costs be distributed among participants in the marketing chain (including the consumer)?

The other two case studies involve the cut-flower and tea industries in Kenya. Findings from these studies are presented in separate reports.

South Africa's wine industry has been grappling with great social, legislative and competitive change. Against this background, the Ethical Trading Initiative, a UK based membership organisation of retailers, unions and NGOs, has recently been piloting its base code of labour standards[1]. The process is as much about learning how to adapt the code to the local social, economic and legislative environments as it is about certifying the wine businesses that have volunteered to pilot test the code. Consequently none of these businesses has yet been declared compliant. By contrast, one wine business, which is unconnected with the ETI pilot, has recently been certified under the Council on Economic Priorities' SA8000 labour code, thereby providing an interesting research comparison.

Key findings of the research

- Compliance with ethical labour standards is only one of many issues with which South Africa's wine industry is currently grappling. Social change, new legislation, agricultural deregulation, the rapidly changing European wine markets and competition from other wine producing countries are forcing the industry to become more dynamic. Businesses that fail to adapt face a bleak future.

[1] Other pilot projects have been conducted in Zimbabwe, Costa Rica and China.

- Because nearly every wine business starts compliance from a different base, it is unlikely that any two businesses will face identical compliance costs. This is particularly the case in the Western Cape wine industry, where conditions both across and within the wine regions vary greatly. Broad generalisations about compliance costs should therefore be avoided.

- Setting the level of the ETI living wage is fraught with difficulty. While it might be reasonable to talk about an "average wine industry worker family" in terms of its composition, the costs of living that a family faces in different locations vary significantly. Furthermore the lack of cost of living data for rural locations in South Africa means that there is no benchmark against which to set the living wage.

- For the ETI pilot project companies studied for this research, by far the largest compliance costs are associated with raising worker wages. Changing the ex-ante level of the living wage has a dramatic effect on estimated compliance costs.

- The second largest category of costs is management time spent on planning, implementing and maintaining compliance.

- By comparison, the largest costs borne by the company that has now achieved SA8000 certification come under the categories of health and safety, auditing and management systems. Costs under this last category are by far the largest and almost entirely consist of the cost of management time required to plan and implement SA8000 prescribed management systems. This requirement for formal systems is not currently a feature of the ETI code.

- The ability to bear compliance costs varies considerably among the case study companies. For large and progressive employers the costs are not at all onerous. At the other end of the scale, certain categories of wine farmer would face bankruptcy unless a very gradual approach to compliance was adopted.

- There is a clear discrepancy between market equilibrium wage rates in the wine industry and worker remuneration that provides a decent standard of living for a family. The introduction of the living wage is bound to increase the costs of employing workers in the majority of wine businesses that comply with the ETI code.

- A widely adopted living wage that is too high above market equilibrium rates will create persistent unemployment in wine producing regions.

- Allowing the companies to differentiate between the terms and conditions of permanent workers and those of seasonal workers would reduce compliance costs significantly. The Western Cape wine industry currently relies on seasonal labour during harvest but if pushed too hard, the industry will probably increase its capital investment in machines and hire fewer seasonal workers.

- Anecdotal evidence from wine companies that have long maintained high levels of worker welfare suggests that if companies genuinely embrace the spirit of the ETI code, they will benefit in terms of higher labour productivity and more efficient management.

- Supermarkets face low costs of operating ethical supply chain management policies based on the ETI code. Monitoring and evaluation costs will be the largest cost component, assuming that these are borne by the supermarkets.

- The prospect of UK supermarkets directly compensating South African wine businesses for their compliance costs is unlikely, not least because of the difficulty of measuring each supplier's costs. Supermarkets would also argue that the labour and managerial productivity gains from compliance would at least partly offset compliance costs.

- By the same token, supermarkets are unlikely to increase retail prices in order to compensate suppliers. Such action would force supermarkets to abandon their long standing pricing strategies and their policies of giving the best possible value to their customers.

Introduction

The Department for International Development (DFID) wishes to enhance the private sector's contribution to sustainable development by encouraging business practices that embrace social, environmental and financial responsibility. Ethical supply chain management is a critical aspect of responsible business in developing countries. Work by The Natural Resources and Ethical Trade Programme (NRET) and the Ethical Trading Initiative (ETI) has shown that trading partners in the North and South are willing to develop this approach to managing social and environmental performance, but have highlighted the need to understand the cost implications more thoroughly. In particular, there is concern that improved social performance will increase employment costs, and lead either to companies avoiding such approaches or to reduced foreign direct investment in developing countries.

This case study of the South African wine industry's experimentation with ethical labour codes is one of three such studies that seek to answer the following questions:

4. How much does complying with ethical standards cost each participant in the supply chain?
5. How large are the gains in labour productivity, management efficiency and other factors that arise from introducing ethical standards?
6. How can the compliance costs be distributed among participants in the marketing chain (including the consumer)?

The other two case studies involve the cut-flower and tea industries in Kenya. Findings from these studies are presented in separate reports.

South Africa's wine industry has been grappling with great social, legislative and competitive change. Against this background, the Ethical Trading Initiative, a UK based membership organisation of retailers, unions and NGOs, has recently been piloting its base code of labour standards for the last two years[2]. The process is as much about learning how to adapt the code to the local social, economic and legislative environments as it is about certifying the wine businesses that have volunteered to pilot test the code. Consequently none of these businesses has yet been declared compliant. By contrast, one wine business, which is unconnected with the ETI pilot, has recently been certified under the Council on Economic Priorities' SA8000 labour code, thereby providing an interesting research comparison.

[2] Other pilot projects have been conducted in Zimbabwe, Costa Rica and China.

Part 1. South Africa – the Suppliers

1.1 Background Information

Economic climate

By most standards, and particularly by those of Sub-Saharan Africa, South Africa's economy is stable. Inflation steadily declined from a high of 8.6% in 1997 to approximately 5% in 2000. Although national income growth slowed from 3.1% to just 1.7% in 1997, the economy has since recovered and is expected to have grown by 3% in 2000. For the first time in a decade, changes in GNP per capita are expected to be positive over the next three years. The Rand has devalued substantially over recent years, and, much against the African trend, South Africa's terms of trade have improved over the last three years, a reflection of the country's growing service, tourism and manufacturing industries.

Business climate

The South African government generally supports manufacturing and service industries. Regulatory law and commercial practices have much in common with those of North America and Europe. Over the last decade, the country's highly competent business professionals and entrepreneurs have maintained a high level of business confidence, despite wage inflation pressures from organised labour and periods of high real interest rates.

Since 1994, black economic empowerment and affirmative action has encouraged a growing number of black businessmen to enter service industries such as entertainment and cell phone communications. More traditional industries, particularly in agriculture and agribusiness, remain dominated by whites.

Agriculture has undergone a period of massive change since deregulation in the early nineties. Although a "cost-price squeeze" has consequently accelerated, farmers have generally reacted by altering their production methods, thereby maintaining profitability. According to a study conducted by the University of Stellenbosch *"Macro level analysis show that the sector as a whole has benefited from this process; however, there have been winners and losers in the process"* (Vink 2000). In general, producers of field crops (such as maize and wheat) have lost out to horticulturalists, while livestock farmers have seen modest gains in profitability. The devaluation of the Rand has significantly helped farmers and agribusinessmen whose production is export oriented.

Social climate

The World Bank's country brief for South Africa gives a succinct description of the country's living conditions:

"While South Africa's per capita income of about $3,170 [1999] places it among the middle-income countries, its income disparities are among the most extreme in the world. Thirteen per cent of the population (about 5.4 million people) lives in "first world" conditions. At the other extreme, 53 per cent of the population (about 22 million people) lives in "third world" conditions. In this group, only one quarter of households have access to electricity and running water; only half have a primary school education; and over a third of the children suffer from chronic malnutrition. Reducing inequality and poverty, and tackling unemployment, among the highest in the world, are some of the key challenges faced by the post-apartheid government"

1.2 Unemployment in South Africa

In 1995, official statistics put the level of unemployment at 29.3% of the economically active population. The figure declined to 21% in the following year but now varies between 25 and 35%. However, the general view is that official figures significantly understate the true level of unemployment.

Unemployment is a major cause of concern. It is linked, inter alia, to lawlessness, alcoholism and substance abuse. Unless the economy can generate more jobs for unskilled black and coloured people, the social outlook for everyone in South Africa is uncertain. Compared with managerial salaries, wages for unskilled workers are very low. However, given the large pool of unemployed labour, it is unlikely that job creation will be accompanied by widespread improvements in employment terms and conditions for unskilled workers. Looking at the problem another way, forcing higher wages onto the current labour market is likely to cause even more unemployment as employers seek higher labour productivity in return for the increased cost of employing unskilled labour. This problem is currently one of the central concerns within negotiations for setting minimum agricultural wages.

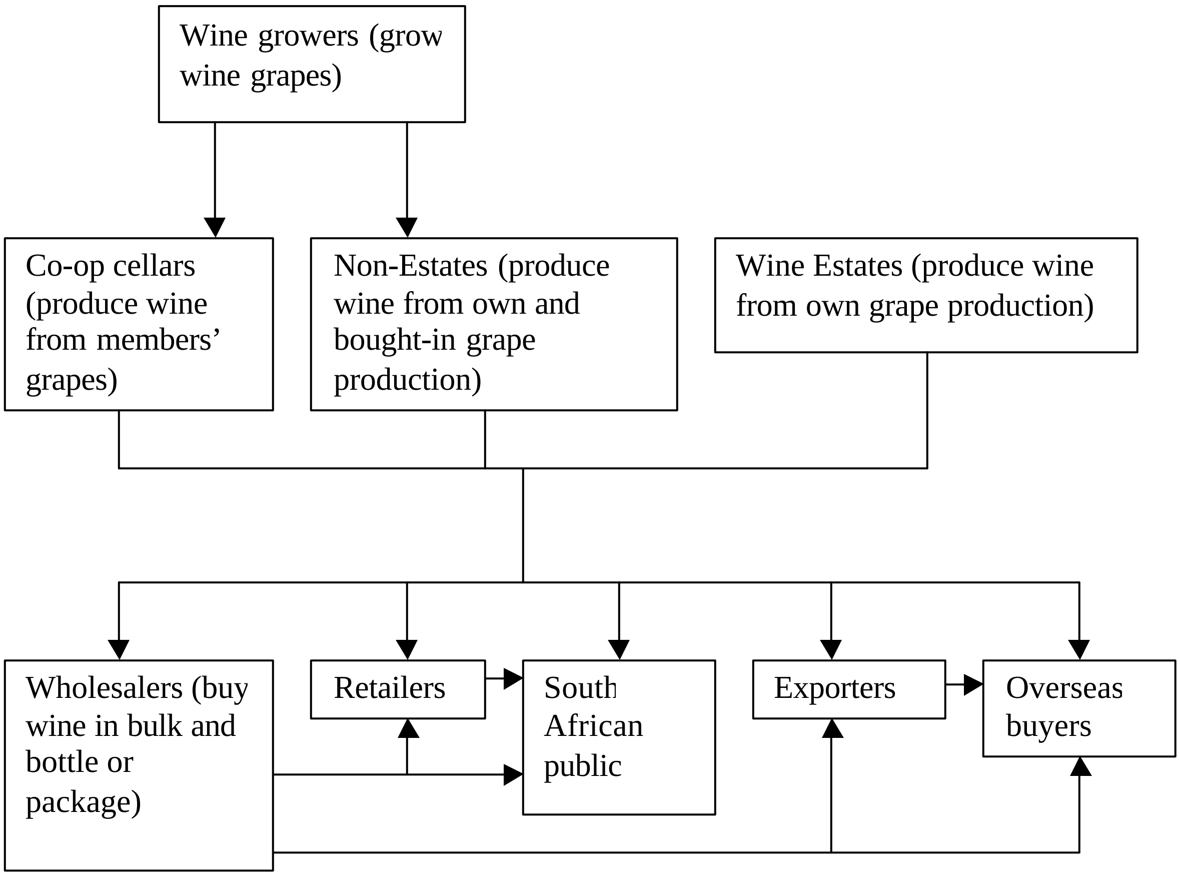
1.3 The Western Cape wine industry

The world's sixth largest producer, South Africa's wine industry is concentrated in several areas of Western Cape province. Its importance to the province is significant, not just for local employment and revenues from wine production but also because of its lure to tourists.

In terms of volume, the co-operative sector continues to dominate wine production. However, in recent years, technological improvements have decreased the minimum economic size of wine production and allowed the estates and non-estates (see figure 1 for an explanation of the distinction) to enter the market with relatively low volume production of medium and high quality wines.

Figure 1 describes the structure of the industry and the flows of products between the various participants in the supply chain. The complicated nature of the flows reflects recent marketing innovations that are creating direct links between wine producers and all types of buyers. The previously dominant role of wholesalers has been undermined by the greater responsibility that wine producers are taking for their own marketing.

Figure 1. The South African Wine Industry – Structure and Marketing Flow Diagram



Adapted from Ewert et al (1998)

In general, product flows to UK supermarkets are much simpler. Supermarket buyers usually have direct contact with South African wineries and either buy directly or through UK wine importers. Own label wines are bottled either by wine producers or through wholesalers.

The UK is by far the most important export market for the South African wine industry. In 1999 UK buyers purchased approximately 14.5 million litres of wine. Belgium was the second largest buyer, with purchases of just over 5 million litres.

1.4 Wine Industry Profitability

According to figures calculated by researchers at the University of Stellenbosch (Ewert et al 1998) growing wine grapes is relatively profitable. Table 1 gives estimated real (adjusted for inflation) internal rates of return (IRR[3]) and establishment costs for four fruit crops. Wine grapes not only require less initial investment but also give a higher return on investment.

Table 1. Establishment costs and returns on investment in for selected fruit crops		
	IRR (real) (%)	Establishment costs per ha excluding land
Apples	16	57,418
Table grapes	23	61,995
Pears	18	57,418
Wine	30	49,908

Source: Ewert et al (1998) from authors' own calculations and the Department of Water Affairs

There are, however, serious concerns that profitability will be short lived. The South African wine industry has a long history of boom and bust, the latter invariably associated with overproduction of low quality grapes and wines. International wine markets are increasingly demanding medium and high quality wines. Red wines in particular have gained considerable importance. Dominated by the somewhat unwieldy co-operatives, South Africa's wine industry is currently overproducing low quality white wine cultivars. This situation is sustainable while demand for grape juice concentrate and table grapes remains strong but many people fear hard times ahead. The more innovative and, one has to assume, more profitable private Estates and Non-Estates have been able to tailor their output much more closely to changing international preferences.

1.5 Employment

The rising fortunes of the wine industry over the last decade have seen an expansion of its workforce. However, employment growth has not been as large as the increase in land planted to wine cultivars. This implicit rise in labour productivity has been encouraged by a combination of better farm management (largely a result of industry deregulation), new labour legislation that increases the costs of employment, and employers' fear of the rise of formally organised labour (Ewert et al. 1998). Mechanisation has increased considerably over recent years. Between 1995 and 1996 the number of mechanical grape harvesters in the industry rose by over 50%. Given the relative costs of labour and capital, this increased use of machinery seems unjustified. However, government labour policy has introduced incremental "hidden" managerial costs of employing workers. In this light, the decision to mechanise is not so perverse and underlines a growing substitutability between labour and capital (Vink 2000). Undoubtedly there is also a conservative core of farmers that has hitherto refused to accept and adapt to the changes imposed by new labour legislation.

[3] The internal rate of return measures the return on capital used in an enterprise after investment and operating costs have been met. You can compare IRRs with returns from deposit accounts, treasury bills and alternative commercial investments as a means of deciding whether to invest money.

1.6 Labour relations – the move from paternalism to formal labour relations

The introduction of comprehensive labour legislation is eroding the influence of paternalism on farms. Under this traditional system, all power lies with the farmer, who has the moral obligation to care for his workers and their families. The extent to which workers benefit has been variable. In cases where it has worked well (to the extent that workers have been well looked after) the introduction of formal labour legislation and unionisation has put a strain on relationships between workers and farmers. Enlightened industry participants admit that empowerment of black and coloured people requires the formalisation of labour relations but there appears to be a majority of farmers who resent the changes and who currently refuse to comply with certain aspects of the new legislation. Their geographical remoteness and the limited capacity of the Department of Labour to enforce legislation means that this intransigence has largely gone unchallenged.

1.7 Labour legislation

Over the last ten years the South African legislature has added several labour laws to the statute books, making the country's labour legislation amongst the most comprehensive in the world. The following is a list of major pieces of labour legislation. A more detailed summary is contained in Appendix 1.

- Basic Conditions of Employment Act – the BCEA (1997). Covers hours of work, leave, contractual and pay information provided to workers, overtime payments, procedures for termination of employment, child labour, and the regulation of temporary employment agencies. Although the act does not include a minimum wage for agriculture, it permits the Minister for Labour to implement minimum terms and conditions within particular sectors and areas.
- The Occupational Health and Safety Act (OHSA 1993). Provides protection for workers who are injured at work. Employers are required to make regular payments into a compensation fund.
- The Compensation for Occupational Injuries and Diseases Act (1993). Requires employers to pay into a central government fund, from which employees can draw in the event of work related injury or illness.
- The Unemployment Insurance Act. Under the provisions of this act, workers and employers are required to pay into the national Unemployment Insurance Fund. Recently unemployed workers are entitled to payments from this fund.
- The Skills Development Act and the Skills Development Levies Act (1999). Designed to ensure that sufficient funds are available to for training employees. Most farm businesses are too small to incur levy payments.
- The Labour Relations Act (1995). Covers freedom of association, organisational rights for unions, industrial action and unfair labour practices.
- The Employment Equity Act (1998). Promotes equal opportunities and fair treatment in employment.
- The Extension of Security of Tenure Act (1997). Designed to give agricultural workers protection against unfair evictions. It is viewed by many farmers as giving

too much protection, hence widespread talk about housing workers off farm and making greater use of casual labour.

1.8 Ethical Labour Codes - ETI and SA8000

Based on International Labour Organisation (ILO) conventions and recommendations, ethical labour codes are seen by many Northern organisations as a way of improving worker welfare in Southern factories and farms that supply buyers in industrialised countries. In the South African wine industry, two labour codes are currently in use. The London based Ethical Trading Initiative (ETI) has been running a pilot project to test approaches to implementing its basic code with volunteer wine producers. The project involves supermarkets and unions from the UK, wine producers, local NGOs, academics and unions in what is designed to be a multi-stakeholder approach to implementation and monitoring. In contrast, the Social Accountability International's SA8000 labour code has been established for longer and has established a clearer set of rules and procedures that are monitored and verified by third party auditors. Other differences, and the many similarities, are noted below.

Given their common parentage, the provisions of the two codes are very similar and fall into the same categories:

Forced labour. Both codes prohibit the use of forced labour and the practice of lodging deposits or identity papers with employers. The use of forced labour is a criminal offence under the Basic Conditions of Employment Act. If such labour is used in the South African wine industry, it is extremely rare.

Discrimination: Both codes prohibit discrimination in hiring, compensation, access to training, promotion, termination or retirement based on race, caste, national origin, religion, age, disability, gender, marital status, sexual orientation, union membership or political affiliation. All of these requirements are covered under the South African Employment Equity Act of 1998. While most wine cellars comply with the law, adherence on wine farms[4] is poor. Discrimination in remunerating women appears to be widespread but farmers often justify lower wages by claiming that women work shorter hours and do less strenuous work. Black workers often find difficulty finding work on farms in Western Cape, where the majority of workers are coloured.

Harassment or Abuse: The codes prohibit physical abuse and discipline, verbal abuse and threats, and sexual and other harassment. Anecdotal evidence suggests that some farmers continue to harass and abuse their workers.

Child Labour: Both codes prohibit all child labour under the age of 15 or the national legal minimum, whichever is greater. Young people between the ages of 15 and 18 must be put on light duties and be given sufficient opportunity to further their education. The

[4] Using the phrase "wine farms" is a convenient simplification. Most farms that grow wine grapes are mixed.

codes require employers to identify and fund a remediation programme that allows previously employed children to catch up with their schooling. The South African Basic Conditions of Employment Act (BCEA) makes employing children under the age of 15 a criminal offence. The only incidence of child labour on wine farms that I heard of occurs when children of farm workers help their parents out of school hours. This is not necessarily done with the knowledge of farmers. The practice of directly employing children was unknown to the people I interviewed during my research.

Freedom of association and the right to bargain collectively: Under both codes, companies are expected to respect workers' rights to join trade unions and to bargain collectively. These rights are protected in South Africa's Labour Relations Act of 1995. Trade union activities are controversial in the wine industry. Most farmers and cellar owners believe that the majority of unions are poorly organised and do little for their members other than collect union dues. At least a portion of wine industry workers would agree and, partly as a result of this, the extent of unionisation remains low. However, farmers may also deliberately withhold information on unions from their workers in the hope of maintaining "paternalistic" relationships.

Wages and other compensation: Compliant companies must provide remuneration for a standard working week that meets industry or national minimums, and regardless, is sufficient to meet basic needs and provide some discretionary income. The term "living wage" is often used in this context. Clear and regular documentation on wages and deductions should be provided to workers, and deductions for disciplinary reasons are prohibited. Under SA8000, auditors are expected to apply a "food basket cost" formula for calculating the living wage. ETI has yet to define a methodology for calculating a living wage, although has published a discussion paper. There are currently no wine industry or agricultural minimum wages in South Africa. However, agricultural minimum wages will soon emerge as a result of negotiations between government, civil society and the industry. Wages on many wine farms are undoubtedly low, but the government is unlikely to set high agricultural minimum wages for fear of distorting local labour markets and creating more unemployment. By contrast, wages in wine cellars are generally regarded as meeting "living wage" levels.

Hours of work: Companies are required to comply with national laws or industry standards, whichever provides the greatest protection. Regardless, a standard working week should not be more than 48 hours and overtime should be voluntary and not exceed 12 hours per week. One day a week should be free of work. South African legislation contained in the BCEA is more strict than the ETI and SA8000 codes. Normal working weeks should not be more than 45 hours and the maximum amount of overtime per week is 10 hours. The act does however allow employers to request temporary exemptions from these limits in exceptional circumstances. Wine industry employers frequently apply for and receive exemptions due to the highly seasonal nature of their businesses. In general, farm workers work between 45 and 48 hours per week. Complying with overtime legislation on farms is particularly difficult given the variety of tasks that workers perform in scattered locations around the farm. Clocking in and out is not possible. Even if they do not comply with the letter of the law, progressive farmers comply with the spirit by compensating workers on mutually agreed terms.

Health and Safety: The codes require safe and hygienic working environments, health and safety training, and, where provided, worker accommodation to be "clean, safe and meet the basic needs of the personnel". The South African Occupational Health and Safety Act is a comprehensive piece of legislation that extends beyond the provisions of labour codes. Most wine industry employers meet the majority of requirements. South African law is not explicit on the quality of worker housing. Some guidance may be available from local authorities but no standards are binding. The state of worker accommodation in the wine industry varies widely. Depending on proximity to local towns, many cellars do not provide worker accommodation. Occasionally they help permanent workers to buy properties locally. Where cellars do provide housing, conditions are generally good. Farm workers are often provided with housing, although the standards tend to be low.

Employment relationship: The codes require adherence to national laws and practices. Labour only contracting, apprenticeship schemes or informal arrangements should not be used to avoid legal and financial obligations. Most wine farms and cellars comply with the BCEA regarding their permanent workers. However, employment relations with casual workers (including the wives of permanent male farm workers) do not always comply with the law.

Management systems: Here the SA8000 code is more explicit than its ETI cousin. It requires employers to implement formal systems and procedures for managing all aspects of labour relations, remuneration, contracts and welfare. The only piece of SA legislation that requires specific management procedures is the Occupational Health and Safety Act, under which employers are required to appoint a senior member of the management team as a health and safety officer and to develop a plan for improving procedures at the workplace.

1.9 Compliance costs

Estimating compliance costs is a tricky task. In the case of the ETI code, estimation is ex-ante (i.e., based on prediction and extrapolation) because none of the participants in the pilot project has yet emerged from the monitoring process and been declared compliant. Given that no one has fully interpreted the ETI code in the South African wine industry context, estimating the compliance requires many assumptions. For instance, no formal guidance currently exists on what constitutes a living wage or adequate worker housing. Similarly, ETI has yet to resolve the methodologies for monitoring and verifying compliance.

To add to the difficulties, auditors are usually willing to listen to explanations of special circumstances. A recent example in South Africa involved the employment of casual labourers during harvest time. Even though these workers were deemed to be receiving less than the living wage, the auditor took into account the employer's socially responsible policy of providing employment rather than mechanising the harvest, which would have reduced the employer's costs.

Given the need to make numerous assumptions, it is important to make them explicit. This is a central component of the methodology developed for this study. Appendix 2 contains most of the assumptions used in estimating the compliance costs. The other assumptions appear in the main text.

One of the biggest questions involved in measuring compliance costs of codes that make frequent references to national legislation is "what are companies complying with, law or code?" I have taken a pragmatic approach by estimating costs associated with all actions necessary to meet the standards set out in the codes. This acknowledges the reality that while laws exist, enforcement is not always thorough. Codes force companies to meet relevant labour legislation that they would not otherwise feel any pressure to comply with. A lingering problem is expressed by the statement "I was going to do that anyway". In practice, I excluded compliance costs in cases where there was credible evidence that future plans included the relevant expenditure.

Because nearly every company and farm starts compliance from a different base, it is unlikely that any two organisations will face identical compliance costs. This is particularly the case in the Western Cape wine industry, where conditions both across and within the wine regions vary greatly. Broad generalisations about compliance costs should therefore be avoided.

Monitoring and Verification[5]

For the ETI code of practice, I have assumed that the ETI and its supermarket members will bear the costs of the monitoring visits (as has happened during the pilot project). Consequently, discussion of these costs therefore appears in Part 2 of this report. Companies that decide to comply with the SA8000 code do so entirely autonomously and hence bear the monitoring and verification costs. Compared with the ETI code, the longer established SA8000 code has a clear set of monitoring and verification procedures that are used by accredited third party audit companies. In the SA8000 example presented in this report, compliance has already been achieved and hence the monitoring costs are actual (ex-post) figures.

Housing

ETI and SA8000 code terminology gives little indication of what standards worker housing should meet. "Clean, safe and meeting the basic needs for the worker" clearly gives a lot of latitude for interpretation within local contexts. As the minimum standard for the wine industry in South Africa, I have assumed that houses must be permanent

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[5] In this analysis, monitoring is taken to mean a process of measuring a company's performance against the requirements of a standard, while verification refers to third party checking of the monitoring methodology and independent certification against the standard.

weathertight structures and have ceilings, running water, a flush toilet, electricity, concrete floors and separate sleeping and cooking areas.

Living wage

Calculating and implementing a living wage is like opening Pandora's box. One starts by asking who is living wage for, an individual or a family? Assuming we are talking about a family, how big is it? How many wage earners provide for it? How many children does it have? What ethnic food preferences does the family have? What are the costs of housing and utilities? What is a fair level of discretionary income? And the list goes on. The answer to many of these questions depends on where the wage earner lives. Town dwellers have different costs to rural dwellers and in the case Western Cape wine industry, families living in the Vredendal area, for example, will experience a different cost of living to those living in the Stellenbosch area. To add further complications, cost of living data for rural areas of the Western Cape are currently unavailable. The only short term answer is to use data for urban dwellers and assume that costs of living are not substantially different. This is clearly not an ideal solution and underlines the importance of conducting sensitivity analysis to see the effects of changing the level of the living wage.

To make sense of these issues, I have made some broad generalisations. I have assumed that the average "wine industry family" is coloured (as opposed to black), has five members and has one and a half full time wage earners. Given these parameters, the following living wage levels can be derived from various annual cost of living studies and informed opinion from within the wine industry:

Table 2. Costs of living and living wage estimates for Western Cape Province

	Cost of living (R/month)	Living wage[6] (R/month)
UNISA[7] Bureau of Market Research*, Minimum Living Level (MLL)	1573.26	1048.84
UNISA Bureau of Market Research*, Supplemented Living Level (SLL)	2066.33	1377.55
UPE[8], Health and Development Research Institute**, Household Subsistence Level	1292.63	861.75
Informed opinions from wine industry observers, "absolute minimum" living wage	1300 – 1400	866.67 - 933.33

Sources: * Bureau of Market Research (2000)
** Health and Development Research Institute (2000)

Note that not all the figures in Table 2 are directly comparable. Whereas the UNISA figures include tax, education, medical and household equipment replacement expenditure, the UPE figures do not. The difference between the UNISA's MLL and

[6] Equals Cost of Living divided by 1.5.
[7] University of South Africa
[8] University of Port Elizabeth

SLL figures is explained by the inclusion of recreation and entertainment, personal care, contributions to pension unemployment and burial funds, and extra household materials, clothing, transport and food. As a minimum, all figures include costs of housing, utilities and transport.

As the starting figure for the compliance cost analysis, I decided to take the median living wage derived from the UNISA Minimum Living Level. The subsequent sensitivity analysis compensates for the ambiguity of the living wage concept by reporting the results from re-running the financial models for the highest and lowest wage levels contained in Table 2.

1.10 Local labour market distortions

Two recent research findings point to the potential negative impact of the widespread application of living wages that are significantly above equilibrium market rates. Firstly, Vink (2000) found that substitutability between agricultural labour and capital has increased over recent years. Secondly, Ewert et al (1998) found that Western Cape wine industry labour markets are highly localised. Furthermore, there are many social and educational barriers facing wine industry workers who want to find work outside their immediate geographic location or within other industries. These findings point to the uncomfortable prospect that if labour codes introduce unrealistically high living wages, the result may be an increase in persistent unemployment in wine producing areas.

1.11 Case study companies

Four companies released information for this study:

Fairview is a well known South African non-estate that produces medium and high quality wines mainly for the export market. Within South Africa, the company is probably better known for producing cheese. The owner, Charles Back, has a reputation for being one of the best employers in the wine industry, and in 1999 he decided to seek certification under SA8000. In late 2000, Fairview received confirmation from BVQI (a Council on Economic Priorities accredited certification body) that it complied with the standard. Compliance has meant that Fairview has had to impose labour standards on its grape suppliers. This report presents compliance costs both for Fairview and one of its five grape suppliers.

Graham Back Wines (GBW) is a similarly progressive employer that has long maintained a high standard of worker welfare on its farms and in its cellar. The company is unusual among wine estates in that it is large enough to employ a dedicated human resources manager. GBW is currently participating in the ETI wine pilot because the code will give international recognition of its high employment standards and because the company management wanted to contribute to an initiative that it felt was important for the South African wine industry.

Sonop Savisa is a Swiss owned company that produces bulk, and medium quality wine. The company purchased Sonop wine farm and winery in 1992 and has since been steadily improving worker welfare. The main strategy has been the creation of the Winds of Change Community Property Association, which has allowed farm workers to own and manage their own residences, community facilities and a small area of vineyard. Compliance with the ETI code was seen as an natural progression of their activities. In this report, Sonop Savisa refers to the combined farm and winery.

Vredendal Co-operative combines a winery and a wholesaling operation. It has 160 farmer members in an area that is not noted for high levels of worker welfare. Vredendal is one of the largest co-ops in Western Cape and, together with its member farmers, is regarded as representative of co-operative wine producers. This report presents compliance costs both for Vredendal Co-op cellar/wholesaling and for a notional "average" farmer member.

1.12 Results

Tables 3 and 4 report the estimated costs of compliance for each of the case study companies. The figures have been estimated using a set of base assumptions that are given in Appendix 2. The most important assumption is that the basic living wage is calculated from the Bureau of Marketing Research Minimum Living Level (MLL) figure for 2000 (refer to Table 2). This and one other assumption are subjected to sensitivity analysis in the next section.

Table 3. Costs of compliance (all figures in pounds sterling)

	Year 1*	Year 2	Year 3	Year 4	Year 5	Year 6
Fairview	14940	3628	2613	2613	3501	2613
Fairview grape supplier	603	2022	2022	2022	2022	2022
Graham Beck Wines	482	2298	2298	2298	2298	2298
Sonop Savisa	1045	8158	8158	8158	8158	8158
Vredendal Cellar	2090	27572	27572	27572	27572	27572
Vredendal Co-op Farmer	1045	8916	9323	9730	10137	10544

Source: Author's calculations
* Year 1 is assumed to be used for planning compliance actions. No incremental capital or non-managerial operating expenses are incurred during this period

Notice that in the majority of cases, costs in years two to six are constant[9]. Fairview figures differ because of the need to re-apply for SA8000 certification after three years. The Vredendal Co-op Farmer faces rising annual costs because he is assumed to be upgrading worker housing over a five year improvement plan.

The particularly large cost estimated for Fairview in year 1 is explained by the intense managerial effort required to implement the management systems required under the SA8000 scheme, and the expense of paying auditors' and consultants' fees.

[9] As expressed in August 2000 values.

After seeing the estimates for its business, The Sonop Savisa management was concerned that the figures do not reflect the socially responsible approach it takes to employment. Since submitting data to me in January 2001, the company has increased the minimum wage from R840 to R975 per month. The management also points out that the average size of workers' families on the farm is closer to 4 than the 5 assumed in the cost of compliance estimate. Taking these factors into account reduces the cost of compliance costs in years 2 to 6 from £8158 to £149 per annum.

The ability to bear these costs varies considerably among the case study companies. For large and successful companies such as Fairview and Graham Beck Wines, the estimated costs in Table 3 are not onerous. Sonop Savisa's estimated costs are about 0.1% of its annual turnover, and, one assumes, could be easily absorbed by the company. Fairview's grape supplier's costs represent about 1.3% of annual turnover and given that post tax profits are probably 5 to 10% of turnover, the costs begin to look substantial. However, farm turnover is likely to increase substantially in coming years as new cultivars bear and allow the farmer to sell more grapes to Fairview.

The most worrying scenario is faced by the Vredendal Co-op farmer, whose compliance costs would quickly make wine grape production unprofitable. By year 6, his compliance costs would be approximately 30% of his annual farm turnover, creating the likelihood of bankruptcy.

Whereas Table 3 reports the evolution of compliance costs over time, Table 4 gives a cross-sectional view by breaking down the aggregate costs for year 3 of compliance (in reality, it is the second full year of compliance because year 1 is assumed to be used for planning compliance actions). The cost categories are broken down into the generic headings contained in both the ETI and SA8000 codes. This layout hopefully gives a clear indication of which areas of the codes create the greatest compliance costs for the case study companies.

Table 4. Breakdown of costs in year three of compliance						
	Fairview	Fairview grape supplier	Graham Beck Wines	Sonop Savisa	Vredendal Co-op Cellar	Vredendal Co-op farmer
Code Category	£	£	£	£	£	£
Forced labour	0	0	0	0	0	0
Discrimination	**	**	**	**	**	**
Harrassment or abuse	0	0	0	0	0	0
Child labour	0	0	0	0	0	0
Freedom of association and the right to bargain collectively	***	***	***	***	***	***
Wages and other compensation						
Cost of introducing minimum living wage*						
Permanent staff	0	1638	0	645	12966	3126
Non-permanent staff	0	0	1581	6421	6609	3913
Hours of work						
Incremental overtime cost of introducing living wage						
Permanent staff	0	0	0	33	1579	96
Non-permanent staff	0	0	424	527	2251	0
Health and safety						
Upgrading, maintaining and servicing housing	0	0	0	0	0	775
Upgrading sanitary equipment at workplace	0	0	0	50	0	37
Upgrading chemical store	0	0	0	0	1859	183
Protective gear for workers	1145	0	0	0	0	239
Training	498	0	0	0	0	12
Regular employment is provided	0	0	0	0	0	0
Management systems						
Management time spent on planning compliance	0	0	0	0	0	0
Management time spent on maintaining compliance	100	287	184	92	995	498
Monitoring and verification	746	0	0	0	0	0
Sub total	2489	1925	2188	7769	26259	8879
Miscellaneous (5%)	124	96	109	388	1313	444
Total	2613	2022	2298	8158	27572	9323

Source: Author's calculations
* The introduction of the basic living wage is assumed to inflate the wages of workers who were previously earning more than the living wage level. In effect, all workers have their wages increased by the difference between the wage of the lowest paid worker and the basic living wage.
** Costs of eliminating discrimination are assumed to be contained within the cost of introducing the basic living wage
*** The costs of ensuring free association and the right to collective bargaining are marginal and are assumed to be covered under the 5% miscellaneous costs.

The largest compliance costs are associated with introducing the living wage for permanent and casual workers. Unsurprisingly, the businesses that have had a long history of improving worker welfare face zero or minimal costs in this respect.

Interestingly, most of the businesses will bear zero or minimal capital expenditure costs, although the figures in Table 4 conceal the fact that the Vredendal Co-op farmer's capital expenditure increases due to his five year worker housing upgrade plan. In year six, when capital investment costs reach their maximum, the farmer's incremental investments in housing will cost him an estimated £1938.

Costing management time is arbitrary and complicated by the fact that in two businesses, compliance was handled by more than one level of management. Ultimately I decided to use the best estimates provided by the management of each business. The figures should be treated as very approximate indicators of the scale of management costs.

Monitoring and verification costs are zero for all businesses except Fairview because I have assumed that the costs are picked up by other organisations. In the case of Fairview's grape supplier, Fairview covers the cost, while the costs of the monitoring visits to the ETI pilot project businesses are currently paid by the ETI and its supermarket members. I have assumed that these arrangements will continue.

1.13 ETI vs SA8000 Compliance Costs

Comparing Fairview's and Graham Beck Wines' costs provides an interesting insight to the relative costs of complying with the SA8000 and ETI codes. Both companies are progressive employers and therefore one would expect that if they complied with the same code, they would experience similar costs. In fact Graham Beck Wines' ETI costs and Fairview's SA 8000 costs in year 3 sum to similar amounts (Table 4), yet the composition of the costs is somewhat different. This is for two reasons:

- Whereas Graham Beck Wines bears incremental costs of paying non-permanent staff higher wages, Fairview does not. However, this difference might be illusory. Graham Beck Wines (and the other ETI pilot project companies) might be able to argue successfully that non-permanent workers, especially those involved in the harvest, should not receive the same terms and conditions as permanent workers. The reasons for this are outlined in the next section.
- Fairview, unlike Graham Beck Wines, bears incremental costs of providing protective gear and training to workers. It is unclear whether this reflects a genuine difference between the codes, higher existing standards at Graham Beck Wines or merely the different interpretations of essentially identical standards.

The major cost differences occur in year 1 of compliance (Table 3). Not only does Fairview bear auditor and consultant fees it also has to invest considerable management time to implement the SA8000 prescribed management systems. Under these cost categories, Fairview has paid approximately £14,000 more than Graham Beck Wines.

1.14 Changing the assumptions – sensitivity analysis

Table 5 gives the results of changing the assumption on the level of the basic living wage. Note that Fairview and its grape supplier are excluded from the analysis because the living wage has already been set by the SA8000 accredited audit company. The "High" estimate in Table 5 corresponds to using a living wage (R1377/£138 per month) derived from the Bureau of Market Research Supplemented Living Level index (refer to Table 2).

The “Low” estimate relates to a living wage level (R862/£86 per month) derived from the UPE Household Subsistence Level index (again, refer to Table 2).

Table 5. Sensitivity Analysis: Changing the living wage						
	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Graham Beck Wines						
High	482	6981	6981	6981	6981	6981
Low	482	193	193	193	193	193
Sonop Savisa						
High	1045	26834	26834	26834	26834	26834
Low	1045	909	909	909	909	909
Vredendal Cellar						
High	2090	119414	119414	119414	119414	119414
Low	2090	6008	6008	6008	6008	6008
Vredendal Co-op Farmer						
High	1045	15676	16083	16490	16896	17303
Low	1045	5063	5470	5877	6284	6691
Source: Author’s calculations						

Clearly the setting of the ETI living wage in South Africa will have a large effect on compliance costs. For instance, in the case of Vredendal cellar, increasing the living wage from the low to the high level (a rise of about R500 or £50 per month) increases overall compliance costs by a factor of about 20.

Employment terms and conditions for casual workers feature strongly among the more controversial issues raised by the implementation of labour codes in the South African wine industry. Both the ETI and the SA8000 codes call for casual and permanent workers to be treated in a similar way. However, much of the harvest work done by seasonal wine industry workers can be easily mechanised, and indeed this is increasingly happening (Ewert et al 1998). As mentioned previously, an employer who pays casual workers less than equivalently skilled permanent staff was recently treated sympathetically by auditors, who argued that the casual jobs would give way to machines if wage parity was enforced. Table 6 presents the results of sensitivity analysis that examines the cost implications of not paying casual workers the “living wage”[10].

Table 6. Sensitivity Analysis: Casual worker terms and conditions						
	Year 1*	Year 2	Year 3	Year 4	Year 5	Year 6
Graham Beck Wines						
With living wage	482	2298	2298	2298	2298	2298
Without living wage	482	638	638	638	638	638
Sonop Savisa						
With living wage	1045	8158	8158	8158	8158	8158
Without living wage	1045	1416	1416	1416	1416	1416
Vredendal Cellar						
With living wage	2090	27572	27572	27572	27572	27572
Without living wage	2090	20633	20633	20633	20633	20633
Vredendal Co-op Farmer						
With living wage	1045	8916	9323	9730	10137	10544
Without living wage	1045	4808	5215	5622	6029	6435

[10] Note that living wage is for a normal working week with no overtime.

The impact of allowing employers to differentiate casual and permanent workers through remuneration would be substantial. In the most extreme case, Sonop Savisa's estimated compliance costs would decline by 80%. Commenting on the acceptability of allowing this discrimination within labour codes is beyond the scope of this research.

Something that the sensitivity analysis may fail to capture is the practice of employing farm workers' wives for substantial periods of the year but treating them as casual workers, thereby denying them full worker benefits. This practice, which is common on less progressive Western Cape wine farms, is illegal under RSA labour law.

1.15 Business benefits from compliance

Why are wine producers willing to bear the cost and disruption that labour code compliance brings? One could argue that the main motivation is to assure future sales to overseas buyers[11]. Sales to UK supermarkets are very important to the majority of Western Cape's medium and high quality wine producers. If market preservation is the dominant motivation, one might expect wineries and farmers to do everything to ensure compliance without necessarily entering into the spirit of the code. Genuine welfare benefits to their workers might therefore be negligible. However, there are reasons why the "spirit of the code" might appeal to the industry. This section discusses these motivations.

Labour productivity

Healthier, wealthier and happier workers tend to be more productive. They also contribute more to the management of a business. Ultimately this can mean cost savings. Unfortunately, due to the infancy of labour code compliance in the South African wine industry, there is no empirical evidence that labour standards improve worker productivity. However, there is evidence supporting the general view that improving worker welfare has a positive effect on productivity. In one wine company that has consistently been investing in worker welfare improvements, labour productivity rose by 101% in the vineyard and 55% in the cellar between 1998 and 2000. The manager reports that no capital investment occurred during this period and therefore concludes that productivity gains were largely a result of greater motivation among the workers[12]. The almost inevitable corollary of this improved productivity is that the size of the workforce has been reduced.

Management

Exposure both to new management techniques required by labour codes and to the audit process may give management new skills and experience that improve overall

[11] It is interesting to note that at least one domestic buyer, Woolworths, is increasingly insistent on its suppliers complying with various social and environmental codes.
[12] The manager is probably playing down the role he has taken in rationalising production. Clearly, better management can also improve labour productivity.

management efficiency. As with labour productivity, there is so far little evidence in the South African wine industry to indicate the truth of this proposition. However, the manager of Fairview is convinced that the management systems that SA8000 compliance has forced him to implement have increased his efficiency. The absence of formal management systems in the ETI code may mean that management benefits from compliance are not as great.

Longer term business relationships

Although discussion of long term business commitments between buyers and suppliers has yet to emerge within the ETI South African wine pilot, such arrangements would probably encourage suppliers to comply with the code more willingly. Long term supply contracts, for instance, might not only persuade wine producers to make investments in worker welfare but also encourage potential lenders to extend the necessary finance.

Part 2. The UK – the Buyers

2.1 ETI monitoring and verification costs

The retailer members of ETI who have been participating in the South African pilot project have yet to decide who will bear the monitoring costs. In all likelihood each retailer member will incorporate the ETI base code within their own company code and decide individual policies on who will bear the cost (the potential problem of suppliers having to comply with multiple but essentially identical labour codes has yet to be resolved within the ETI membership). The ETI pilot has spent much time experimenting with methods of monitoring[13] in an attempt to develop the optimal multi-stakeholder mix. In South Africa, this has involved representatives from UK supermarkets, a legal expert, NGOs, local unions and an appropriate mix of men and women. Costs to the supermarkets have been minimised by combining the monitoring trips with pre-scheduled technical and buying visits.

During the pilot project, good co-ordination between the numerous organisations involved has not always been possible. The ETI members contacted during this research recognise that when the code is rolled out on a larger scale, a more streamlined monitoring methodology will be necessary. For the purposes of this study, I have assumed that monitoring will involve a professional local auditing company. Such companies have the personnel and logistical capacity to deal with large numbers of monitoring visits. Using audit companies is probably the most expensive practical option, and therefore my assumption serves to put an upper limit on the ETI code monitoring costs in South Africa.

Working on the basis of a two person audit team (one man and one woman) who have the appropriate balance of skills prescribed by ETI, I estimate the cost of a one day monitoring visit at R12,000 (£1,200 at the August 2000 exchange rate) plus another R4,000 (£400) for documentation. The number of monitoring visits required under the ETI code has yet to be established. I have assumed one initial visit at the full cost indicated above and then one follow up visit per year at half the cost. Consequently, under normal circumstances, first year monitoring costs per wine business should not exceed £1,600, while subsequent years' costs should be no greater than £800.

2.2 Other costs borne by buyers

One can argue that the costs of involvement with ETI should also be added to the ethical supply chain management costs borne by retailers. Current corporate membership fees are approximately £25,000 per annum, to which retailer staff time must be added. However, when these costs are divided by the numerous suppliers from which each retailer buys, the costs of ETI involvement become very small indeed.

[13] Issues of verification have yet to be considered.

2.3 Sharing compliance costs along the supply chain.

The apparently simple notion that compliance costs should be shared between suppliers in the South and buyers in the North becomes complicated when one considers the following issues:

- Costs will be different for each supplier. Every company starts compliance from a different base of worker welfare. Compliance costs across suppliers will therefore vary dramatically. To be fair, compliance costs would have to be estimated for each supplier.
- In practice, certain aspects of compliance costs, particularly those associated with management, can only be estimated arbitrarily.
- If suppliers embrace compliance in the right spirit, benefits from gains in both worker productivity and management efficiency may go all, or part of the way, to outweighing the costs.

Instead of directly compensating suppliers for their compliance costs, multiple retailers may be better advised to support initiatives that encourage suppliers to enter compliance with willing hearts. For instance, in the South African wine industry, human resource management capacity building and education on labour legislation would probably help many wine farmers to see the benefits of compliance. A commitment from the retailers to enter long term business relationships with suppliers would also encourage wine farmers and cellars to invest in compliance.

If one could overcome all the problems of measuring the costs and benefits of compliance and decide an adequate level of compensation to suppliers, a possible solution may be to add an appropriate amount to the retail price of each bottle of wine sold to consumers. The evidence of the effect on sales of marginally increasing the price of a bottle of wine is contradictory. Opal and Nicholls (2000) claim that price elasticity of demand is not particularly large for medium and high quality wines. By contrast, a supermarket buyer contacted during the research claimed that the impact of moving from one price point[14] to the next (a difference of only 26 pence) has a major impact on sales.

Whatever the truth about price sensitiveness, most multiple retailers will not increase retail prices in response to ethical supply chain management, at least not in the short term. Firstly, such a move would require the retailers to abandon the price point system to which all of them, except Asda, cling so tenaciously. Secondly, retail price increases would contradict company policies on giving the best value for money to consumers as possible.

[14] Wine, along with most other products on supermarket shelves, is sold according to price points (the familiar "£3.99", "£6.49" etc.).

Part 3. Key findings and conclusions

- Compliance with ethical labour standards is only one of many issues with which South Africa's wine industry is currently grappling. Social change, new legislation, agricultural deregulation, the rapidly changing European wine markets and competition from other wine producing countries are forcing the industry to become more dynamic. Businesses that fail to adapt face a bleak future.

- Because nearly every wine business starts compliance from a different base, it is unlikely that any two businesses will face identical compliance costs. This is particularly the case in the Western Cape wine industry, where conditions both across and within the wine regions vary greatly. Broad generalisations about compliance costs should therefore be avoided.

- Setting the level of the ETI living wage is fraught with difficulty. While it might be reasonable to talk about an "average wine industry worker family" in terms of its composition, the costs of living that a family faces in different locations vary significantly. Furthermore the current lack of cost of living data for rural locations means that there is no benchmark against which to set the living wage.

- For the ETI pilot project companies studied for this research, by far the largest compliance costs are associated with raising worker wages. Changing the ex-ante level of the living wage has a dramatic effect on estimated compliance costs.

- The second largest category of costs is management time spent on planning, implementing and maintaining compliance.

- By comparison, the largest costs borne by the company that has now achieved SA8000 certification come under the categories of health and safety, auditing and management systems. Costs under this last category are by far the largest and almost entirely consist of the cost of management time required to plan and implement SA8000 prescribed management systems. This requirement for formal systems is not currently a feature of the ETI code.

- The ability to bear compliance costs varies considerably among the case study companies. For large and progressive employers the costs are not at all onerous. At the other end of the scale, certain categories of wine farmer would face bankruptcy unless a very gradual approach to compliance was adopted.

- There is a clear discrepancy between market equilibrium wage rates in the wine industry and worker remuneration that provides a decent standard of living for a family. The introduction of the living wage is bound to increase the costs of employing workers in the majority of wine businesses that comply with the ETI code.

- A widely adopted living wage that is too high above market equilibrium rates will create persistent unemployment in wine producing regions.

- Allowing the companies to differentiate between the terms and conditions of permanent workers and those of seasonal workers would reduce compliance costs significantly. The Western Cape wine industry currently relies on seasonal labour during harvest but if pushed too hard, the industry will probably increase its capital investment in machines and hire fewer seasonal workers.

- Anecdotal evidence from wine companies that have long maintained high levels of worker welfare suggests that if employers genuinely embrace the spirit of the ETI code, they will benefit in terms of higher labour productivity and more efficient management.

- Supermarkets face low costs of operating ethical supply chain management policies based on the ETI code. Monitoring and evaluation costs will be the largest cost component, assuming that these are borne by the supermarkets.

- The prospect of UK supermarkets directly compensating South African wine businesses for their compliance costs is unlikely, not least because of the difficulty of measuring each supplier's costs. Supermarkets would also argue that the labour and managerial productivity gains from compliance would at least partly offset compliance costs.

- By the same token, supermarkets are unlikely to increase retail prices in order to compensate suppliers. Such action would force supermarkets to abandon their long standing pricing strategies and their policies of giving the best possible value to their customers.

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Appendix 1. An Overview Of Legislation Covering South African Employees Engaged In The Agricultural Sector

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Introduction

In the past 10 years, a number of acts have been passed providing greater protection for farm workers in respect of their tenure security and labour rights at the workplace.

These enactments include:
the Basic Conditions of Employment Act 75 of 1997 ('the BCEA');
the Occupational Health and Safety Act of 1993 ('OHSA');
the Compensation for Occupational Injuries and Diseases Act of 1993 ('COIDA');
the Labour Relations Act 66 of 1995 ('The LRA'),
the Employment Equity Act 55 of 1998 ('The EEA');
the Skills Development Act and Skills Development Levies Act ('The SDA' and 'the SDLA');
the Extension of Security of Tenure Act 62 of 1997 ('ESTA');
the Unemployment Insurance Act ('UIF') and
the South African Constitution containing the Bill of Rights.

This overview looks at the most important aspects of each of the above-mentioned enactments and the means of enforcement of the rights set out therein.

The Basic Conditions of Employment Act 75 of 1997 (and The Codes of Good Practice) ('The BCEA')

The BCEA lays down minimum standards for employees. The act applies to all workers and employers except members of the National Defence Force, National Intelligence Agency, South African Secret Service and unpaid volunteers working for charities. All the provisions set out below apply to workers engaged in the agricultural sector, including casual workers. However, certain sections of this legislation do not apply to employees who work for less than 24 hours in a month for an employer.

Hours of work

An employee may not work more than 45 hours in any week, 9 hours a day if a worker works 5 days or less a week, or 8 hours a day if a worker works more than 5 days a week. If overtime is needed, workers must agree to it and they may not work more than 3 hours overtime a day or 10 hours overtime a week. Overtime must be paid at 1.5 times the workers' normal pay or by agreement get paid time off.

More flexibility of working time can be negotiated if there is a collective agreement with a registered trade union. Employees may agree to work up to 12 hours in a day and work fewer days in a week.

An individual or collective agreement may permit the hours of work to be averaged over a period of up to eight months. A worker who is bound by such an agreement cannot work more than an average of 45 ordinary hours a week and an average of five hours of overtime a week over the agreed period. A collective agreement for averaging has to be re-negotiated each year.

A worker must have a **meal break** of 60 minutes after 5 hours work. But a written agreement may lower this to 30 minutes and do away with the meal break if the worker works less than 6 hours a day. A worker must have a daily rest period of 12 continuous hours and a weekly rest period of 36 continuous hours, which, unless otherwise agreed, must include Sunday.

A worker who sometimes works on a **Sunday** must get double pay. A worker who normally works on a Sunday must be paid at 1.5 times the normal wage. There may be an agreement for paid time off instead of overtime pay.

Workers working between 6:00 at **night** and 6:00 in the morning must get extra pay or be able to work fewer hours for the same amount of money. Transport must be available but not necessarily provided by the employer. Workers who usually work between 11:00 at night and 6:00 in the morning you must be told of the health and safety risks. They are entitled to regular medical check-ups, paid for by the employer. They must be moved to a day shift if night work develops into a health problem. All medical examinations must be kept confidential.

Workers must be paid for any **public holiday** that falls on a working day. Work on a public holiday is by agreement and paid at double the rate. A public holiday is exchangeable by agreement.

Leave

A worker can take up to 21 continuous days' paid **annual leave** or, by agreement, 1 day for every 17 days worked or 1 hour for every 17 hours worked. Leave must be taken not later than 6 months after the end of the leave cycle.

A worker can take up to 6 weeks' paid **sick leave** during a 36 months cycle. During the first 6 months a worker can take one day's paid sick leave for every 26 days worked. An employer may want a medical certificate before paying a worker who is sick for more than 2 days at a time or more than twice in 8 weeks.

A pregnant worker can take up to 4 continuous months of **maternity leave**. She can start leave any time from 4 weeks before the expected date of birth or on a date a doctor or midwife says is necessary for her health or that of her unborn child. She also may not work for 6 weeks after the birth of her child unless declared fit to do so by a doctor or midwife. A pregnant or breastfeeding worker is not allowed to perform work that is dangerous to her or her child. The employer is not required to pay an employee during her maternity leave (unless there is an agreement that provides for this), however, the employee is entitled to draw benefits from the Unemployment Insurance Fund during this time.

Full time workers employed longer than 4 months can take 3 days paid **family responsibility leave** per year on request when the worker's child is born or sick or for the death of the worker's spouse or life partner, parent, adoptive parent, grandparent, child, adopted child, grandchild or sibling. An employer may request proof that this leave was needed.

Job information and payment

Employers must give new workers information about their job and working conditions in writing. This includes a description of any relevant council or sectoral determination and a list of any other related documents.

Employers must keep a **record** of at least the worker's name and job; time worked; money paid and date of birth for workers under 18 years old. An employer must pay a worker in South African money; daily, weekly, fortnightly or monthly (depending on the agreement between the parties in this regard) in cash, by cheque or direct deposit.

Each **payslip** must include the employer's name and address, the worker's name and job; the period of payment; the worker's pay; the amount and purpose of any deduction made from the pay and the actual amount paid to the worker.

An employer may not **deduct** any money from a worker's pay unless that worker agrees in writing or the deduction is required by law or permitted in terms of a law, collective agreement, court order or arbitration award.

Termination of employment

A worker or employer must give **notice to end an employment contract** of not less than 1 week, if the employee is employed for four weeks or less, or 4 weeks if the employee has worked for more than 4 weeks[15]. Notice must be in writing except from a worker who cannot write. Workers who stay in employer's accommodation must be given 1 month's notice of termination of the contract or be given alternative accommodation until the contract is lawfully terminated.

[15] An employer giving notice does not stop a worker from challenging the dismissal in terms of the Labour Relations Act or any other law.

An employer must pay a worker who is dismissed due to the employer's operational requirement pay equal to at least 1 week's **severance pay** for every year of continuous employment with that employer.

Child labour

It is a criminal offence to employ a child under 15 years old. Children under 18 may not do dangerous work or work meant for an adult.

Temporary employment services

Labour brokers (i.e. those persons who employ employees on a contract basis, and hire out the services of these employees to farmers) are viewed as employers, and must comply with the provisions of the BCEA in so far as their contract workers are concerned. In terms of the BCEA, the farmer who makes use of the labour broker’s contract employees is jointly and severally liable for any infringements of this legislation in respect of those workers contracted to work on the farm.

Monitoring, enforcement and legal proceedings

The Department of Labour is responsible for enforcing the BCEA. Labour inspectors are required to advise workers and employers on their labour rights and obligations. They may inspect, investigate complaints, question people and inspect, copy and remove records.

If an infringement of the legislation has taken place, an inspector is required to issue a compliance order to the employer. The employer is entitled to challenge the compliance order in the Labour Court.

A minimum wage for agricultural workers

According to recent research, the average wage for male farm workers in the Western Cape is R640 per month, while the average wage for women workers is in the region of R480 per month. At present there is no minimum wage for workers in the agricultural sector. However, the BCEA allows the Minister of Labour to further regulate terms and conditions of employment for employees in a particular sector and area. The Employment Conditions Commission is in the process of investigating a minimum wage for the agricultural sector[16].

[16] In terms of section 55(4), a sectoral determination may set minimum terms and conditions of employment, including minimum rates of remuneration; provide for the adjustment of minimum rates of remuneration; regulate the manner, timing and other conditions of payment of remuneration; prohibit or regulate payment of remuneration in kind and prohibit or regulate task based work, piecework, home work, and contract work in respect to the sector and area concerned.

A number of organisations have made submissions to the Commission in this regard[17]. In their submission to the Department of Labour, the Centre for Rural Legal Studies has proposed an initial modest hourly wage rate that will contribute to the eradication of absolute poverty among workers in agriculture, and a phased in approach where the minimum wage will ultimately reflect the current average wage within the sector.

Their proposal for a minimum wage is that there should be a standard minimum for workers in agriculture, applicable equally to permanent and temporary workers and to men and women of all races. This should be set at a low level initially but increased in real terms over a period of five years and annually adjusted according to the consumer price index, weighted for food prices, after the first five-year phase. They also propose that the legislation should allow a limit of 30% of the cash wage for payment in kind.

They have recommended this approach "in order to minimise a knee jerk job shedding response by employers while at the same time improving workers incomes and livelihoods in the short to medium term, while securing the basis for agricultural growth and job security in the long term" (CRLS 2000)

The Department of Labour has not yet published draft legislation in this regard, but it is expected that this will be done before the end of this year.

[17] The COSATU submission to the Employment Conditions Commission is a minimum wage of R1200 per month for farm workers (including the value of payment in kind). They propose that the minimum cash wage for those receiving payment in kind should be set at R900 per month.

The Occupational Health and Safety Act of 1993 (‘OHSA’)

In terms of the Occupational Health and Safety Act, employers are required to provide and maintain a work environment that is safe and without risk to the health of employees.

Employers are required to conduct a risk assessment, which involves identifying hazards, assessing the risk that these pose to the health and safety of employees and recording the results of the risk assessment.

Employers are required to implement appropriate measures to eliminate or control hazards identified in the risk assessment and must supply employees with information about and train them in the risks to their health and safety and the measures taken to eliminate or minimise these risks.

Elected worker health and safety representatives and committees are entitled to participate in the risk assessment and control of hazards. There must be at least one health and safety representative for every 50 employees.

Employees have a duty to take reasonable steps to protect their own health and safety and that of other employees, and can even refuse to obey instructions that **may pose a danger to their health and safety.**

Monitoring, enforcement and legal proceedings

Employers are required to report accidents or health and safety incidents to the Department of Labour. Inspectors of the Department of Labour are responsible for the enforcement of this legislation.

The Compensation for Occupational Injuries and Diseases Act Of 1993 (‘COIDA’)

This act provides protection for employees who are injured at work. The act requires that employers must pay a prescribed amount of money into a central fund (the compensation fund) each month. The amount that must be paid in depends upon the danger of the industry concerned, how many workers are employed and the wages paid to those employees. All employees are covered by this legislation except for domestic workers in private households.

If an employee is injured in an accident arising out of and in the course of his/her work or if s/he contracts a disease or illness as a result of his/her occupation, s/he is entitled to claim from this fund.

Payments are made for temporary disability, permanent disability, medical expenses, and death (in which case the family may claim loss of support). The amount that the employee is able to claim depends upon his/her wages at the time of the accident.

Compensation is usually 75% of the monthly wage (up to a maximum amount that is amended from year to year) for the duration of the illness/disability.

Monitoring, enforcement and legal proceedings

The Department of Labour is responsible for the implementation of this legislation.

The Unemployment Insurance Act ('UIF')

Most employees are covered by the Unemployment Insurance Act (including farm workers), however domestic workers in private homes are not covered. Every worker covered by the Fund is expected to pay 1% of his/her wage in contributions to the fund each month, and the employer is required to contribute an equal amount of 1% to the fund.

Employees who have worked for 13 weeks or more in the last 12 months are entitled to claim benefits from the fund in cases where they become unemployed, they take maternity leave or adopt a child or if they are ill for more than 2 weeks.

Dependants of workers who died while still employed are entitled to claim the UIF benefits of the deceased employee.

The fund will pay out 45% of the employees wage for the time that s/he is ill/unemployed/ or on maternity leave, up to a maximum of 6 months. To obtain this maximum benefit, the employee must have worked for three years. Benefits are paid at a rate of one week's benefit for every six weeks worked.

In order to claim benefits, the employer is required to complete the employee's "blue card". If the employee does not have such a card, the employer is required to apply for this from the Department of Labour. The employee is then required to register at his/her nearest Department of Labour office.
Monitoring, enforcement and legal proceedings
Once again, the Department of Labour bears the responsibility of ensuring that this legislation is implemented.

The Skills Development Act and Skills Development Levies Act ('The SDA' And 'The SDLA')

The Skills Development Act was implemented in 1999 to encourage skills development and training of employees. The Skills Development Levies Act requires every employer in South Africa who is registered with the South African Revenue Services for PAYE or has an annual payroll in excess of R250000 to contribute one percent of their wage bill to a Sectoral Education and Training Authority (SETA).

In terms of this legislation, 80% of the amount paid can be reclaimed by the employer in respect of training initiatives for employees. Levies are payable to the South African Revenue Service (SARS), which acts as a collecting agency for the Department of Labour and SETAs.

During the first year, the amount payable will be half of a percent of the total amount of remuneration paid to employees. From the second year and onwards 1% of the total amount of remuneration paid to employees must be paid.

The levies paid to SARS will be deposited into a special fund from where 80% of it will be distributed to the relevant SETAs, and the balance (20%) will be paid into the National Skills Fund.

Up to 27 SETAs have been established to cover all sectors in South Africa, including primary agriculture. The members of a SETA include employers, trade unions, government departments and bargaining councils where relevant, from each industrial sector. SETAs will in turn pay levy-grants to qualifying employers, while the National Skills Fund will fund skills development projects not within the scope of SETAs. In the first year of the levy grant scheme the employer can recover in grants a minimum of 50% of the levy paid on condition that s/he meets all the requirements for the different grants. While larger farms are likely to have to contribute to the skills development fund, smaller farms that employ fewer workers are unlikely to have to contribute, as wages in the sector are usually very low, and the total wage bill is therefore unlikely to exceed the prescribed amount.

Monitoring, enforcement and legal proceedings

The Department of Labour is responsible for the enforcement of this legislation.

The Labour Relations Act 66 of 1995 ('The LRA')

The Labour Relations Act regulates individual and collective labour relations at the workplace.

The act provides for **freedom of association**. Employees have an unfettered right to belong to any union of their choice.

The act provides for **organisational rights** for unions. Unions that are sufficiently representative of employees at the workplace are entitled to trade union access to the workplace to communicate with their members and the deduction of trade union levies. Majority unions have the right to elect trade union representatives at the workplace and the right to disclosure of information for the purposes of collective bargaining with an employer.

The Act also regulates **industrial action** at the workplace. Workers have a right to strike in most instances (there are some exceptions) provided they have followed the procedures laid down in the legislation or any collective agreement. Employees on a legal strike may not be dismissed for striking, however the principle of no work no pay applies during this time.

The LRA governs individual labour relations in so far as discipline and fair labour practices are concerned. There is a code of good practice governing **dismissal.** This sets out principles that should govern discipline at the workplace and the types of procedures employers should follow before taking a decision to dismiss. An employee may only be dismissed for reasons of serious or repeated misconduct, incapacity (ill health, disability or poor work performance) or by reason of the operational requirements of the business (redundancy, retrenchment etc). If the reason for the dismissal relates to misconduct or incapacity, the employer is required to hold a fair hearing before taking the decision to dismiss. Where an employee is dismissed for operational requirements, the employer is required to consult with affected employees (or their union) about ways to avoid or minimise the dismissal, ways to minimise the adverse effects of the dismissal and to change the timing of the dismissal as well as severance pay[18].

The LRA prohibits **unfair labour practices**. An unfair labour practice is defined as any unfair act or omission that arises between an employer and an employee involving the unfair conduct of the employer relating to the promotion, demotion or training of an employee, or relating to the provision of benefits to an employee; the unfair suspension of an employee or any other disciplinary action short of dismissal of an employee; or the failure or refusal of an employer to reinstate or re-employ a former employee in terms of an agreement.

Monitoring, enforcement and legal proceedings

[18] The BCEA and the LRA currently prescribe minimum severance payment of one week's wage per continuous and completed year of service.

All disputes concerning rights set out in this legislation must be referred to the Commission for Conciliation Mediation and Arbitration (the CCMA) for conciliation. If the dispute remains unresolved, it must either be referred to the CCMA for arbitration or the Labour Court for adjudication, depending upon the nature of the dispute in question. For examples, dismissal for reasons of operational requirements must be referred to the Labour court for adjudication, while dismissals for reasons of misconduct and incapacity must be referred to the CCMA for arbitration.

While the CCMA is accessible to most farm workers, the Labour Court is not. The CCMA commissioners travel to the rural areas to hear disputes arising in those areas, however the Labour Court is based in Cape Town. Invariably, parties require legal representation when referring disputes to the Labour Court. The procedures of the CCMA are less formal, and it is for this reason that legal representation is not a prerequisite in having ones matter dealt with at this forum (in fact, legal representation is generally not permitted in dismissal disputes).

The Employment Equity Act 55 of 1998 ('The EEA')

The most important of the South African enactments in addressing unfair discrimination against employees is the Employment Equity Act. The purpose of the Act is to achieve equity in the workplace by promoting equal opportunity and fair treatment in employment through the elimination of unfair discrimination and implementing affirmative action measures to redress the disadvantages in employment experienced by designated groups[19], to ensure their equitable representation in all occupational categories and levels in the workforce.

Chapter 2 of the Employment Equity Act provides that no person may unfairly discriminate, directly or indirectly, against an employee in any employment policy or practice, on one or more grounds including race, gender, pregnancy, marital status, family responsibility, ethnic or social origin, colour, sexual orientation, age, disability, religion, HIV status, conscience, belief, political opinion, culture, language, and birth. In terms of section 1 of the EEA, "employment policy or practice" includes (but is not limited to) recruitment procedures, advertising and selection criteria, appointments and the appointment process, job classification and grading; remuneration, employment benefits and terms and conditions of employment; job assignments; the working environment and facilities; training and development; performance evaluation systems; promotion; transfer; demotion; disciplinary measures other than dismissal; and dismissal. Chapter 3 of the EEA promotes affirmative action measures at the workplace. However, the requirements of Chapter 3 of the EEA are only binding on designated employers. The act defines a designated employer as "a person who employs 50 or more employees or a person who employs fewer than 50 employees but has a total annual turnover that is equal to or above the applicable minimum annual turnover of a small business in terms of

[19] The designated group refers to women (of all races) and black people (a generic term used to describe all persons who are not white, including Coloured people and Indian people)

the Schedule to the National Small Businesses Act of 1996". The current turnover level for the agricultural sector in terms of this schedule is R2 million per annum.

Chapter three provides that all designated employers must implement affirmative action measures for designated groups to achieve employment equity. Affirmative action measures are measures intended to ensure that suitably qualified employees from designated groups have equal employment opportunity and are equitably represented in all occupational categories and levels of the workforce. Such measures must include: identification and elimination of barriers with an adverse impact on designated groups; measures which promote diversity; making reasonable accommodation for people from designated groups; retention, development and training of designated groups (including skills development); and preferential treatment and numerical goals to ensure equitable representation.

In order to implement affirmative action measures, a designated employer must consult with employees over the preparation and implementation of an employment equity plan; must conduct an analysis of the workplace profile as well as an analysis of workplace practices and policies in order to identify barriers which adversely affect people from designated groups; must prepare an employment equity plan; and must report to the Director-General on progress made in the implementation of the plan.

Monitoring, enforcement and legal proceedings

While the CCMA and the Labour Court are responsible for enforcement of Chapter Two of the legislation (i.e. the sections prohibiting unfair discrimination), the Department of Labour is responsible for the enforcement of Chapter Three (i.e. the section requiring designated employers to draft an employment equity plan and to submit reports on the implementation of the plan to the Department)

The Extension of Security of Tenure Act 62 of 1997 ('ESTA')

This act applies to all occupiers on land that is not zoned as a township or for township development, provided they are occupying the land with the consent of the owner or person in charge and they earn less than R5000 per month. Most farm workers living on agricultural land are therefore covered by this legislation.

In drafting legislation to give greater tenure security to farm workers, the Department of Land Affairs recognised that a large percentage of rural South Africans did not have secure tenure to their homes, and were vulnerable to evictions. There were (and still are numerous) undesirable spin-offs of evictions, in that they promote conflict, social instability and cause great hardship to those evicted, particularly in light of the fact that there is limited alternative accommodation available to evictees in rural areas

This legislation was passed in order to decrease the imbalance of power between agricultural land owner and occupier by providing both parties with specific rights and also by placing specific responsibilities on both parties, in line with constitutional principles and principles of equity[20].

The act also limits evictions by determining the circumstances that must exist before an eviction is permissible[21].

The act provides for fairer procedures which must be followed before an eviction is permissible and provides for the gradual realisation of real tenure security for agricultural

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Occupiers rights
- to reside on and use land which they were residing on and using on or after 4 Feb 1997, as agreed with the owner (e.g. the right to graze cattle on the land)
- to services as have been agreed upon with the owner/person in charge (e.g. the right to sanitation and electricity)
- to receive visitors at reasonable times and for reasonable periods
- to receive postal or other communication (e.g. the right to receive telephone calls)
- to family life, in accordance with the culture of that family (occupiers of single sex hostels erected before 4 Feb 1997 do not have this right).
- not to be denied or deprived of access to water
- not to be denied or deprived of access to educational or health services (e.g. mobile clinics visiting the farm)

Occupiers duties
- not to intentionally or unlawfully damage the property of the owner or person in charge
- not to intentionally or unlawfully harm other persons occupying the land
- not to threaten or intimidate other lawful occupiers
- not to help unauthorised persons, such as land invaders, set up new dwelling on the land
- not to allow visitors to cause damage
- not to damage the relationship between themselves and the owner to such an extent that it breaks down irretrievably
- to comply with important and fair terms of any agreements with the owner
- to respect the owners fundamental rights (e.g. the right to privacy)

Owners' rights
- to impose reasonable conditions in respect of visitors, that are necessary to safeguard life or property, or to prevent undue disruption of work
- to hold occupiers liable for any conduct of their visitors causing damage to others while on the property, if the occupier, by taking reasonable steps, could have prevented such damage.
- to have a trespassing animal in the care of the occupier impounded if the occupier has been given the prescribed notice to remove the animal, but has failed to do so.

Owners responsibilities
- To respect the fundamental rights to occupiers, as well as the rights given to occupiers in terms of this act
- To follow fair procedures prior to taking a decision to terminate the consent of an occupier to reside on the land
- Not to prejudice an occupier for exercising any of his/her rights in terms of this act.
- Not to deny or deprive an occupier of access to water, educational or health services.
- To provide services as agreed upon with the occupier (e.g. electricity or transport)

[21] For example, an occupier's consent to live on land may not be terminated if the occupier has lived on the farm for 10 years, and s/he is over the age of 60 or s/he is an ex-employee on the farm and is now disabled.

land occupiers through the provision of government subsidies for on- or off-farm developments[22].

Monitoring, enforcement and legal proceedings

ESTA is enforced in the Magistrates Court and through the Land Claims Court. The Department of Land Affairs is however responsible for the implementation of Chapter 2 of the act, which provides for grants to enable occupiers and other persons who need long term security of tenure to acquire land or rights in land.

This legislation, more than any other, has had a massive impact on labour recruitment trends in the sector. In the past, male farm workers applying for permanent employment were virtually guaranteed housing on the farm. This is no longer the case. In many cases, vacant houses are not being filled by land owners as the legislation makes it more difficult to evict workers when their services have been terminated. The trend is now to make more use of contract labour who live off the farm.

Implementation and enforcement

Despite the existence of an abundance of legislation to protect the rights of workers, this has had little impact on the working environment for most farm workers. Only a small minority of farms have implemented the provisions of the enactments listed above.

There are a numerous reasons for this. Most farm workers are not aware of their rights. In situations where they are aware of their rights, fear of victimisation or reprisals at the workplace may prevent them from enforcing their rights[23].

Farm workers invariably do not have access to organisations to assist them with the enforcement their rights[24]. In the rare event that farm workers are unionised, the work pressure on unions combined with their limited capacity and resources sometimes result in cases being poorly handled.

Farm workers do not have access to legal representation with the enforcement of their tenure and labour rights as they do not have the means to employ attorneys. The Legal Aid Board is slow to fund civil or labour law litigation. Moreover, most legal practitioners are not willing to work on a legal aid basis. The courts (such as the Labour Court) are therefore inaccessible to the average farm worker.

Lastly, those bodies charged with the responsibility of assisting farm workers with the enforcement of their rights lack the capacity to provide an effective service in the rural

[22] The present government subsidy for farm workers applying to purchase their own land or housing is R16000. While this subsidy exists in theory, farm workers have struggled to access this through the Department of Land Affairs for a variety of different reasons.
[23] As farm workers are dependent upon the farmer for so many aspects of their well-being and livelihood, the consequences of victimisation are serious for any family living on the farm.
[24] Only about 5% of farm workers belong to unions.

areas in particular. I have pointed out that the Department of Labour is responsible for the enforcement of a number of different acts, including the BCEA, OHSA, UIF, Skills Development and Employment Equity. However, they have very few inspectors based in the rural areas where problems with non-enforcement of the various acts mentioned are vast.

The impact of labour legislation on farm employment

While legislation provides important protection for employees, it has increased the cost of labour on farms.

Research by Sunde (1999) confirms the decrease in the number of permanent workers employed on farms, and a shift towards the "casualisation of the workforce". This is marked by an increased use of temporary labour on farms as a means of cutting labour costs in order to remain competitive.

A report on labour trends in the Ceres Valley conducted by Andries du Toit and Fadeela Alley that shows that there was threat of a large scale shift in the direction of massive retrenchments and the increased use of casual labour. Some farmers have already been moving in this direction, reducing on farm permanent labour by 50% and sometimes as much as 75%.

Employers cite different reasons for this, the most common being the increased cost of permanent labour, owing to legislation such as the Basic Conditions of Employment Act, the Extension of Security of Tenure Act and the Labour Relations Act, as well as economic pressure owing to international trade liberalisation where South African products now compete in terms of quality and price with an ever increasing supply of similar products from other nations across the world.

Appendix 2. Assumptions and Workings

Fairview - assumptions and workings

Exchange rate	
£1 (Rand, August 2000)	10.05
US$1 (Rand, August 2000)	7.2
Weighted average nominal cost of capital (1:1 borrowed to equity)	18.0%
Living wage	
Net basic living wage (R/month)	1049
(family of 5, 1.5 wage earners, including costs of housing and utilities)	
Permanent workers	
Total number of permanent workers	100
Non-cash wage (Rand/month)	276
Pension scheme and UIF deductions	1%
Average gross cash wage (Rand/month)	1634
Average net cash and non-cash wage (Rand/month)	1891
Lowest gross cash wage (Rand/month)	966
Lowest net cash and non-cash wage (Rand/month)	1230
Total cost of introducing living wage for permanent workers (Rand/month)*	0
Average gross cash wage after the implementation of basic living wage (Rand/month)	1634
Non-permanent workers	
Number of non-permanent workers	75
Period of non-permanent work (months)	7.0
Non-cash wage as a proportion of cash wage	5%
Pension scheme and UIF deductions	1%
Average gross cash wage (Rand/month)	724
Average net cash and non-cash wage (Rand/month)	752
Lowest gross cash wage (Rand/month)	650
Lowest net cash and non-cash wage (Rand/month)	676
Total cost of introducing living wage for non-permanent workers (Rand/month)*	28258 *
Average gross cash wage after the implementation of basic living wage (Rand/month)	724
Overtime	
Legal overtime rates under Basic Conditions of Employment Act (BCEA) (% of normal cash wage)	150%
Number of overtime hours worked by permanent workers per year	6700
Number of overtime hours worked by non-permanent workers per year	0
Increased annual overtime bill from implementing basic living wage for permanent workers (Rand)	0
Increased annual overtime bill from implementing basic living wage for non-permanent workers (Rand)	0
Housing	
Number of houses	33
Incremental cost of house renovation (Rand)	0
Average life of renovation (years)	10
Annualised cost of renovation (Rand/house)	0
Incremental house maintenance cost (R/month/house)	0
Incremental household services costs (R/month/house)	0
Total annual compliance costs per house (capital and running costs in Rand)	0
Protective gear	
Cost of providing protective gear (Rand)	36000
Average life of protective gear (years)	5
Annualised cost of safety gear (Rand)	11512
Sanitary equipment at workplace	
Cost of making improvements to sanitary equipment (Rand)	0
Average life of sanitary equipment (years)	10
Annualised cost of sanitary equipment improvements (Rand)	0

Chemical stores

Cost of making improvements to chemical stores (Rand)	0					
Average life of chemical store (years)	10					
Annualised cost of chemical store (Rand)	0					
Management						
Cost of a manager month	21667					
Manager months spent planning compliance	4.8					
Manager months to maintain compliance (per year)	0.046					
Summary of Compliance Costs						
	Year 1 Rand	Year 2 Rand	Year 3 Rand	Year 4 Rand	Year 5 Rand	Year 6 Rand
Forced labour	0	0	0	0	0	0
Discrimination	**	**	**	**	**	**
Harassment or abuse	0	0	0	0	0	0
Child labour	0	0	0	0	0	0
Freedom of association and the right to bargain collectively	***	***	***	***	***	***
Wages and other compensation						
Cost of introducing minimum living wage*						
Permanent staff	0	0	0	0	0	0
Non-permanent staff*****	0	0	0	0	0	0
Hours of work						
Incremental overtime cost of introducing basic living wage						
Permanent staff	0	0	0	0	0	0
Non-permanent staff	0	0	0	0	0	0
Health and safety						
Upgrading, maintaining and servicing housing****	0	0	0	0	0	0
Incremental cost of installing sanitary equipment at workplace	0	0	0	0	0	0
Upgrading chemical store	0	0	0	0	0	0
Protective gear for workers	0	11512	11512	11512	11512	11512
Training	0	14713	5000	5000	5000	5000
Regular employment is provided	0	0	0	0	0	0
Management systems						
Management time spent on planning and implementing compliance actions	103999	0	0	0	0	0
Consultant	3000	0	0	0	0	0
Management time spent on maintaining compliance	0	1000	1000	1000	4000	1000
Monitoring and Verification costs						
Fairview	21000	7500	7500	7500	13,000	7500
Suppliers	15000	0	0	0	0	0
Sub total	142999	34725	25012	25012	33512	25012
Miscellaneous (5%)	7150	1736	1251	1251	1676	1251
Total (Rand)	150149	36461	26263	26263	35188	26263
Total (£)	14940	3628	2613	2613	3501	2613
Total ($)	20854	5064	3648	3648	4887	3648

Chemical stores	
Cost of making improvements to chemical stores (Rand)	0
Average life of chemical store (years)	10
Annualised cost of chemical store (Rand)	0
Management	
Cost of a manager month	43333
Manager months spent planning compliance	4.8
Manager months to maintain compliance (per year)	0.046

Summary of Compliance Costs

	Year 1 Rand	Year 2 Rand	Year 3 Rand	Year 4 Rand	Year 5 Rand	Year 6 Rand
Forced labour	0	0	0	0	0	0
Discrimination	**	**	**	**	**	**
Harrassment or abuse	0	0	0	0	0	0
Child labour	0	0	0	0	0	0
Freedom of association and the right to bargain collectively	***	***	***	***	***	***
Wages and other compensation						
Cost of introducing minimum living wage*						
Permanent staff	0	0	0	0	0	0
Non-permanent staff*****	0	0	0	0	0	0
Hours of work						
Incremental overtime cost of introducing basic living wage						
Permanent staff	0	0	0	0	0	0
Non-permanent staff	0	0	0	0	0	0
Health and safety						
Upgrading, maintaining and servicing housing****	0	0	0	0	0	0
Incremental cost of installing sanitary equipment at workplace	0	0	0	0	0	0
Upgrading chemical store	0	0	0	0	0	0
Protective gear for workers	0	0	0	0	0	0
Training	0	0	0	0	0	0
Regular employment is provided	0	0	0	0	0	0
Management systems						
Management time spent on planning and implementing compliance actions	207998	0	0	0	0	0
Consultant	3000	0	0	0	0	0
Management time spent on maintaining compliance	0	2000	2000	2000	4000	2000
Monitoring and Verification costs						
Fairview	21000	7500	7500	7500	13,000	7500
Suppliers	15000	0	0	0	0	0
Sub total	246998	9500	9500	9500	17000	9500
Miscellaneous (5%)	12350	475	475	475	850	475
Total (Rand)	259348	9975	9975	9975	17850	9975
Total (£)	25806	993	993	993	1776	993
Total ($)	36021	1385	1385	1385	2479	1385

* The introduction of the basic living wage is assumed to inflate the wages of workers who were previously earning more than the living wage level.
In effect, all workers have their wages increased by the amount equivalent to the difference between the wage of the lowest paid worker and the basic living wage.
** Costs of eliminating discrimination are assumed to be contained within the cost of introducing the basic living wage
*** The costs of ensuring free association and the right to collective bargaining are marginal and are assumed to be covered under the 5% miscellaneous costs.
**** 20% of housing stock is assumed to be renovated each year over a five year improvement plan
***** BVQI (the SA8000 auditors) has accepted that Fairview should not be penalised for its socially responsible policy providing employment to casual labourers.
BVQI reasons that Fairview would benefit financially if it mechanised and therefore should not be expected to bear the cost of paying a "living wage" to casual labourers

Fairview Grape Supplier - assumptions and workings

Exchange rate	
£1 (Rand, August 2000)	10.05
US$1 (Rand, August 2000)	7.2
Weighted average nominal cost of capital (1:1 borrowed to equity)	9.0%
Living wage	
Net family living cash income (R/year)	18000
Permanent workers	
Total number of permanent workers	10
Non-cash wage (Rand/month)	390
Pension scheme and UIF deductions	8.5%
Average gross cash wage (Rand/month)	867
Average net cash and non-cash wage (Rand/month)	1150
Lowest gross cash wage (Rand/month)	693
Lowest net cash and non-cash wage (Rand/month)	991
Semi-permanent women workers (wives of permanent male workers)	
Number of non-permanent workers	10
Period of non-permanent work (months)	10.0
Non-cash wage as a proportion of cash wage	0%
Pension scheme and UIF deductions	0%
Average gross cash wage (Rand/month)	650
Average net cash and non-cash wage (Rand/month)	650
Lowest gross cash wage (Rand/month)	650
Lowest net cash and non-cash wage (Rand/month)	650
Net family cash income	
Number of families	10
Average family cash income	16467
Lowest family cash income	14820
Total cost of introducing living family cash income (Rand/year)	16466
Non-permanent workers	
Number of non-permanent workers	30
Period of non-permanent work (months)	5.0
Non-cash wage as a proportion of cash wage	5%
Pension scheme and UIF deductions	0%
Average gross cash wage (Rand/month)	867
Average net cash and non-cash wage (Rand/month)	910
Lowest gross cash wage (Rand/month)	650
Lowest net cash and non-cash wage (Rand/month)	682
Total cost of introducing living wage for non-permanent workers (Rand/month)*	0
Average gross cash wage after the implementation of basic living wage (Rand/month)	867
Overtime	
Legal overtime rates under Basic Conditions of Employment Act (BCEA) (% of normal cash wage)	150%
Number of overtime hours worked by permanent workers per year	0
Number of overtime hours worked by non-permanent workers per year	0
Increased annual overtime bill from implementing basic living wage for permanent workers (Rand)	0
Increased annual overtime bill from implementing basic living wage for non-permanent workers (Rand)	0
Housing	
Number of houses	10
Incremental cost of house renovation (Rand)	0
Average life of renovation (years)	10
Annualised cost of renovation (Rand/house)	0
Incremental house maintenance cost (R/month/house)	0
Incremental household services costs (R/month/house)	0
Total annual compliance costs per house (capital and running costs in Rand)	0

Protective gear

Incremental cost of providing protective gear per permanent worker (year)	0
Sanitary equipment at workplace	
Cost of making improvements to sanitary equipment (Rand)	0
Average life of sanitary equipment (years)	10
Annualised cost of sanitary equipment improvements (Rand)	0
Chemical stores	
Cost of making improvements to chemical stores (Rand)	0
Average life of chemical store (years)	10
Annualised cost of chemical store (Rand)	0
Management	
Cost of a manager month	12500
Manager months spent planning compliance	0.14
Manager months to maintain compliance (per year)	1.11

Summary of Compliance Costs

	Year 1 Rand	Year 2 Rand	Year 3 Rand	Year 4 Rand	Year 5 Rand	Year 6 Rand
Forced labour	0	0	0	0	0	0
Discrimination	**	**	**	**	**	**
Harrassment or abuse	0	0	0	0	0	0
Child labour	0	0	0	0	0	0
Freedom of association and the right to bargain collectively	***	***	***	***	***	***
Wages and other compensation						
Cost of introducing minimum living wage*						
Families living and working on the farm	0	16466	16466	16466	16466	16466
Non-permanent staff*****	0	0	0	0	0	0
Hours of work						
Incremental overtime cost of introducing basic living wage						
Permanent staff	0	0	0	0	0	0
Non-permanent staff	0	0	0	0	0	0
Health and safety						
Upgrading, maintaining and servicing housing****	0	0	0	0	0	0
Incremental cost of installing sanitary equipment at workplace	0	0	0	0	0	0
Upgrading chemical store	0	0	0	0	0	0
Protective gear for workers	0	0	0	0	0	0
Training	0	0	0	0	0	0
Regular employment is provided	0	0	0	0	0	0
Management systems						
Management time spent on planning and implementing compliance actions	1731	0	0	0	0	0
Management time spent on maintaining compliance	0	13844	13844	13844	13844	13844
Audit	0	0	0	0	0	0
Sub total	1731	30310	30310	30310	30310	30310
Miscellaneous (5%)	87	1516	1516	1516	1516	1516
Total (Rand)	1817	31826	31826	31826	31826	31826
Total (£)	181	3167	3167	3167	3167	3167
Total ($)	252	4420	4420	4420	4420	4420

* The introduction of the basic living wage is assumed to inflate the wages of workers who were previously earning more than the living wage level.
In effect, all workers have their wages increased by the amount equivalent to the difference between the wage of the lowest paid worker and the basic living wage.
** Costs of eliminating discrimination are assumed to be contained within the cost of introducing the basic living wage
*** The costs of ensuring free association and the right to collective bargaining are marginal and are assumed to be covered under the 5% miscellaneous costs.
**** 20% of housing stock is assumed to be renovated each year over a five year improvement plan

Graham Beck Wines - assumptions and workings

Exchange rate	
£1 (August 2000 Rand)	10.05
US$1 (August 2000 Rand)	7.2
Weighted average nominal cost of capital (1:1 borrowed to equity)	18.0 %
Living wage	
Net basic living wage (R/month)	1049
(family of 4.5, 1.5 wage earners, including costs of housing and utilities)	
Permanent workers	
Total number of permanent workers	90
Non-cash wage as a proportion of cash wage	730
Pension scheme and UIF deductions	6%
Average gross cash wage (Rand/month)	1350
Average net cash and non-cash wage (Rand/month)	1955
Lowest gross cash wage (Rand/month)	790
Lowest net cash and non-cash wage (Rand/month)	1429
Total cost of introducing living wage for permanent workers (Rand/month)*	0
Average gross cash wage after the implementation of basic living wage (Rand/month)	1350
Non-permanent workers	
Number of non-permanent workers	28
Period of non-permanent work (months)	3.8
Non-cash wage as a proportion of cash wage	5%
Pension scheme and UIF deductions	1%
Average gross cash wage (Rand/month)	867
Average net cash and non-cash wage (Rand/month)	901
Lowest gross cash wage (Rand/month)	867
Lowest net cash and non-cash wage (Rand/month)	901
Total cost of introducing living wage for non-permanent workers (Rand/month)*	4176
Average gross cash wage after the implementation of basic living wage (Rand/month)	1009
Overtime	
Legal overtime rates under Basic Conditions of Employment Act (BCEA) (% of normal cash wage)	150%
Number of overtime hours worked by permanent workers per year	44100
Number of overtime hours worked by non-permanent workers per year	3900
Increased annual overtime bill from implementing basic living wage for permanent workers (Rand)	0
Increased annual overtime bill from implementing basic living wage for non-permanent workers (Rand)	4262
Housing	
Number of houses	52
Incremental cost of house renovation (Rand)	0
Average life of renovation (years)	10
Annualised cost of renovation (Rand/house)	0
Incremental house maintenance cost (R/month/house)	0
Incremental household services costs (R/month/house)	0
Total annual compliance costs per house (capital and running costs in Rand)	0
Protective gear	
Cost of providing protective gear per permanent worker (year)	0
Sanitary equipment at workplace	
Cost of making improvements to sanitary equipment (Rand)	0
Average life of sanitary equipment (years)	10
Annualised cost of sanitary equipment improvements (Rand)	0
Chemical stores	
Cost of making improvements to chemical stores (Rand)	0
Average life of chemical store (years)	10
Annualised cost of chemical store (Rand)	0

Management

Cost of a manager month	20000
Manager months spent on ETI inspection visits and planning compliance	0.23
Manager months to maintain compliance (per year)	0.09

Summary of Compliance Costs

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
	Rand	Rand	Rand	Rand	Rand	Rand
Forced labour	0	0	0	0	0	0
Discrimination	**	**	**	**	**	**
Harrassment or abuse	0	0	0	0	0	0
Child labour	0	0	0	0	0	0
Freedom of association and the right to bargain collectively	***	***	***	***	***	***
Wages and other compensation						
Cost of introducing minimum living wage*						
Permanent staff	0	0	0	0	0	0
Non-permanent staff	0	15885	15885	15885	15885	15885
Hours of work						
Incremental overtime cost of introducing basic living wage						
Permanent staff	0	0	0	0	0	0
Non-permanent staff	0	4262	4262	4262	4262	4262
Health and safety						
Upgrading, maintaining and servicing housing****	0	0	0	0	0	0
Incremental cost of installing sanitary equipment at workplace	0	0	0	0	0	0
Upgrading chemical store	0	0	0	0	0	0
Protective gear for workers	0	0	0	0	0	0
Training	0	0	0	0	0	0
Regular employment is provided	0	0	0	0	0	0
Management systems						
Management time spent on planning and implementing compliance actions	4615	0	0	0	0	0
Management time spent on maintaining compliance	0	1846	1846	1846	1846	1846
Audit	0					
Sub total	4615	21993	21993	21993	21993	21993
Miscellaneous (5%)	231	1100	1100	1100	1100	1100
Total (Rand)	4845	23093	23093	23093	23093	23093
Total (£)	482	2298	2298	2298	2298	2298
Total ($)	673	3207	3207	3207	3207	3207

* The introduction of the basic living wage is assumed to inflate the wages of workers who were previously earning more than the living wage level.
In effect, all workers have their wages increased by the amount equivalent to the difference between the wage of the lowest paid worker and the basic living wage.

** Costs of eliminating discrimination are assumed to be contained within the cost of introducing the basic living wage

*** The costs of ensuring free association and the right to collective bargaining are marginal and are assumed to be covered under the 5% miscellaneous costs.

SONOP Savisa Farm - assumptions and workings

Exchange rate	
£1 (Rand)	10.05
US$1 (Rand)	7.2
Weighted average nominal cost of capital (1:1 borrowed to equity)	13.0 %
Living wage	
Net basic living wage (R/month)	1049
(family of 4.5, 1.5 wage earners, including costs of housing and utilities)	
Permanent workers	
Total number of permanent workers	9
Non-cash wage as a proportion of cash wage	411
Pension scheme and UIF deductions	7.52 %
Average gross cash wage (Rand/month)	1142
Average net cash and non-cash wage (Rand/month)	1436
Lowest gross cash wage (Rand/month)	845
Lowest net cash and non-cash wage (Rand/month)	1162
Total cost of introducing living wage for permanent workers (Rand/month)*	0
Average gross cash wage after the implementation of basic living wage (Rand/month)	1142
Non-permanent workers	
Number of non-permanent workers	35
Period of non-permanent work (months)	3.0
Non-cash wage as a proportion of cash wage	0%
Pension scheme and UIF deductions	0%
Average gross cash wage (Rand/month)	840
Average net cash and non-cash wage (Rand/month)	840
Lowest gross cash wage (Rand/month)	840
Lowest net cash and non-cash wage (Rand/month)	840
Total cost of introducing living wage for non-permanent workers (Rand/month)*	7383
Average gross cash wage after the implementation of basic living wage (Rand/month)	1049
Overtime	
Legal overtime rates under Basic Conditions of Employment Act (BCEA) (% of normal cash wage)	150%
Number of overtime hours worked by permanent workers per year	4000
Number of overtime hours worked by non-permanent workers per year	1500
Increased annual overtime bill from implementing basic living wage for permanent workers (Rand)	0
Increased annual overtime bill from implementing basic living wage for non-permanent workers (Rand)	2410
Housing	
Number of houses	14
Incremental cost of house renovation (Rand)	0
Average life of renovation (years)	10
Annualised cost of renovation (Rand/house)	0
Incremental house maintenance cost (R/month/house)	0
Incremental household services costs (R/month/house)	0
Total annual compliance costs per house (capital and running costs in Rand)	0
Protective gear	
Cost of providing protective gear per permanent worker (year)	0
Sanitary equipment at workplace	
Cost of making improvements to sanitary equipment (Rand)	2750
Average life of sanitary equipment (years)	10
Annualised cost of sanitary equipment improvements (Rand)	507
Chemical stores	
Cost of making improvements to chemical stores (Rand)	0
Average life of chemical store (years)	10

Annualised cost of chemical store (Rand)	0					
Management						
Cost of a manager month	20000					
Manager months spent planning compliance	0.25					
Manager months to maintain compliance (per year)	0.02					

Summary of Compliance Costs

	Year 1 Rand	Year 2 Rand	Year 3 Rand	Year 4 Rand	Year 5 Rand	Year 6 Rand
Forced labour	0	0	0	0	0	0
Discrimination	**	**	**	**	**	**
Harrassment or abuse	0	0	0	0	0	0
Child labour	0	0	0	0	0	0
Freedom of association and the right to bargain collectively	***	***	***	***	***	***
Wages and other compensation						
Cost of introducing minimum living wage*						
Permanent staff	0	0	0	0	0	0
Non-permanent staff	0	2215 0	2215 0	2215 0	2215 0	2215 0
Hours of work						
Incremental overtime cost of introducing basic living wage						
Permanent staff	0	0	0	0	0	0
Non-permanent staff	0	2410	2410	2410	2410	2410
Health and safety						
Upgrading, maintaining and servicing housing****	0	0	0	0	0	0
Incremental cost of installing sanitary equipment at workplace	0	507	507	507	507	507
Upgrading chemical store	0	0	0	0	0	0
Protective gear for workers	0	0	0	0	0	0
Training	0	0	0	0	0	0
Regular employment is provided	0	0	0	0	0	0
Management systems						
Management time spent on planning and implementing compliance actions	5000	0	0	0	0	0
Management time spent on maintaining compliance	0	461	461	461	461	461
Audit	0					
Sub total	5000	2552 8	2552 8	2552 8	2552 8	2552 8
Miscellaneous (5%)	250	1276	1276	1276	1276	1276
Total (Rand)	5250	2680 4	2680 4	2680 4	2680 4	2680 4
Total (£)	522	2667	2667	2667	2667	2667
Total ($)	729	3723	3723	3723	3723	3723

* The introduction of the basic living wage is assumed to inflate the wages of workers who were previously earning more than the living wage level.
In effect, all workers have their wages increased by the amount equivalent to the difference between the wage of the lowest paid worker and the basic living wage.
** Costs of eliminating discrimination are assumed to be contained within the cost of introducing the basic living wage
*** The costs of ensuring free association and the right to collective bargaining are marginal and are assumed to be covered under the 5% miscellaneous costs.

SONOP Savisa Cellar - assumptions and workings

Exchange rate	
£1 (Rand)	10.05
US$1 (Rand)	7.2
Weighted average nominal cost of capital (1:1 borrowed to equity)	13.0 %
Living wage	
Net basic living wage (R/month)	1049
(family of 4.5, 1.5 wage earners, including costs of housing and utilities)	
Permanent workers	
Total number of permanent workers	8
Non-cash wage as a proportion of cash wage	245
Pension scheme and UIF deductions	9%
Average gross cash wage (Rand/month)	1500
Average net cash and non-cash wage (Rand/month)	1588
Lowest gross cash wage (Rand/month)	840
Lowest net cash and non-cash wage (Rand/month)	987
Total cost of introducing living wage for permanent workers (Rand/month)*	497
Average gross cash wage after the implementation of basic living wage (Rand/month)	1543
Non-permanent workers	
Number of non-permanent workers	34
Period of non-permanent work (months)	6.0
Non-cash wage as a proportion of cash wage	0%
Pension scheme and UIF deductions	0%
Average gross cash wage (Rand/month)	1000
Average net cash and non-cash wage (Rand/month)	1000
Lowest gross cash wage (Rand/month)	840
Lowest net cash and non-cash wage (Rand/month)	840
Total cost of introducing living wage for non-permanent workers (Rand/month)*	7172
Average gross cash wage after the implementation of basic living wage (Rand/month)	1209
Overtime	
Legal overtime rates under Basic Conditions of Employment Act (BCEA) (% of normal cash wage)	150%
Number of overtime hours worked by permanent workers per year	1000
Number of overtime hours worked by non-permanent workers per year	1800
Increased annual overtime bill from implementing basic living wage for permanent workers (Rand)	333
Increased annual overtime bill from implementing basic living wage for non-permanent workers (Rand)	2892
Housing	
Number of houses	0
Incremental cost of house renovation (Rand)	0
Average life of renovation (years)	10
Annualised cost of renovation (Rand/house)	0
Incremental house maintenance cost (R/month/house)	0
Incremental household services costs (R/month/house)	0
Total annual compliance costs per house (capital and running costs in Rand)	0
Protective gear	
Cost of providing protective gear per permanent worker (year)	0
Sanitary equipment at workplace	
Cost of making improvements to sanitary equipment (Rand)	0
Average life of sanitary equipment (years)	10
Annualised cost of sanitary equipment improvements (Rand)	0
Chemical stores	
Cost of making improvements to chemical stores (Rand)	0
Average life of chemical store (years)	10
Annualised cost of chemical store (Rand)	0

Management

Cost of a manager month (notional farmer salary in Rand)	20000
Manager months spent planning compliance	0.25
Manager months to maintain compliance (per year)	0.02

Summary of Compliance Costs

	Year 1 Rand	Year 2 Rand	Year 3 Rand	Year 4 Rand	Year 5 Rand	Year 6 Rand
Forced labour	0	0	0	0	0	0
Discrimination	**	**	**	**	**	**
Harrassment or abuse	0	0	0	0	0	0
Child labour	0	0	0	0	0	0
Freedom of association and the right to bargain collectively	***	***	***	***	***	***
Wages and other compensation						
Cost of introducing minimum living wage*						
Permanent staff	0	5963	5963	5963	5963	5963
Non-permanent staff	0	43034	43034	43034	43034	43034
Hours of work						
Incremental overtime cost of introducing basic living wage						
Permanent staff	0	333	333	333	333	333
Non-permanent staff	0	2892	2892	2892	2892	2892
Health and safety						
Upgrading, maintaining and servicing housing****	0	0	0	0	0	0
Incremental cost of installing sanitary equipment at workplace	0	0	0	0	0	0
Upgrading chemical store	0	0	0	0	0	0
Protective gear for workers	0	0	0	0	0	0
Training	0	0	0	0	0	0
Regular employment is provided	0	0	0	0	0	0
Management systems						
Management time spent on planning and implementing compliance actions	5000	0	0	0	0	0
Management time spent on maintaining compliance	0	461	461	461	461	461
Audit	0					
Sub total	5000	52683	52683	52683	52683	52683
Miscellaneous (5%)	250	2634	2634	2634	2634	2634
Total (Rand)	5250	55317	55317	55317	55317	55317
Total (£)	522	5504	5504	5504	5504	5504
Total ($)	729	7683	7683	7683	7683	7683

* The introduction of the basic living wage is assumed to inflate the wages of workers who were previously earning more than the living wage level.
In effect, all workers have their wages increased by the amount equivalent to the difference between the wage of the lowest paid worker and the basic living wage.
** Costs of eliminating discrimination are assumed to be contained within the cost of introducing the basic living wage
*** The costs of ensuring free association and the right to collective bargaining are marginal and are assumed to be covered under the 5% miscellaneous costs.

Vredendal Co-op Cellar and Wholesaling Activities - assumptions and workings

Exchange rate	
£1 (Rand, August 2000)	10.05
Weighted average nominal cost of capital (1:1 borrowed to equity)	18.0%
Living wage	
Net basic living wage (R/month)	1049
(family of 5, 1.5 wage earners, including costs of housing and utilities)	
Permanent workers	
Total number of permanent workers	173
Non-cash wage as a proportion of cash wage	0%
Pension scheme and UIF deductions	1%
Average gross cash wage (Rand/month)	1170
Average net cash and non-cash wage (Rand/month)	1158
Lowest gross cash wage (Rand/month)	997
Lowest net cash and non-cash wage (Rand/month)	987
Total cost of introducing living wage for permanent workers (Rand/month)*	10859
Average gross cash wage after the implementation of basic living wage (Rand/month)	1233
Non-permanent workers	
Number of non-permanent workers	103
Period of non-permanent work (months)	2.3
Non-cash wage as a proportion of cash wage	0%
Pension scheme and UIF deductions	1%
Average gross cash wage (Rand/month)	780
Average net cash and non-cash wage (Rand/month)	772
Lowest gross cash wage (Rand/month)	780
Lowest net cash and non-cash wage (Rand/month)	772
Total cost of introducing living wage for non-permanent workers (Rand/month)*	28782
Average gross cash wage after the implementation of basic living wage (Rand/month)	1059
Overtime	
Legal overtime rates under Basic Conditions of Employment Act (BCEA) (% of normal cash wage)	150%
Number of overtime hours worked by permanent workers per year	32870
Number of overtime hours worked by non-permanent workers per year	10527
Increased annual overtime bill from implementing basic living wage for permanent workers (Rand)	15871
Increased annual overtime bill from implementing basic living wage for non-permanent workers (Rand)	22627
Housing	
Number of houses	0
Incremental cost of house renovation (Rand)	0
Average life of renovation (years)	10
Annualised cost of renovation (Rand/house)	0
Incremental house maintenance cost (R/month/house)	0
Incremental household services costs (R/month/house)	0
Total annual compliance costs per house (capital and running costs in Rand)	0
Protective gear	
Cost of providing protective gear per permanent worker (year)	0
Sanitary equipment at workplace	
Cost of making improvements to sanitary equipment (Rand)	0
Average life of sanitary equipment (years)	10
Annualised cost of sanitary equipment improvements (Rand)	0
Chemical stores	
Cost of making improvements to chemical stores (Rand)	100000
Average life of chemical store (years)	20
Annualised cost of chemical store (Rand)	18682

Management

Cost of a manager month	20000
Manager months spent planning compliance	1
Manager months to maintain compliance (per year)	0.5

Summary of Compliance Costs

	Year 1 Rand	Year 2 Rand	Year 3 Rand	Year 4 Rand	Year 5 Rand	Year 6 Rand
Forced labour	0	0	0	0	0	0
Discrimination	**	**	**	**	**	**
Harrassment or abuse	0	0	0	0	0	0
Child labour	0	0	0	0	0	0
Freedom of association and the right to bargain collectively	***	***	***	***	***	***
Wages and other compensation						
Cost of introducing minimum living wage*						
Permanent staff	0	130307	130307	130307	130307	130307
Non-permanent staff	0	66420	66420	66420	66420	66420
Hours of work						
Incremental overtime cost of introducing basic living wage						
Permanent staff	0	15871	15871	15871	15871	15871
Non-permanent staff	0	22627	22627	22627	22627	22627
Health and safety						
Upgrading, maintaining and servicing housing****	0	0	0	0	0	0
Incremental cost of installing sanitary equipment at workplace	0	0	0	0	0	0
Upgrading chemical store	0	18682	18682	18682	18682	18682
Protective gear for workers	0	0	0	0	0	0
Training	0	0	0	0	0	0
Regular employment is provided	0	0	0	0	0	0
Management systems						
Management time spent on planning and implementing compliance actions	20000	0	0	0	0	0
Management time spent on maintaining compliance	0	10000	10000	10000	10000	10000
Audit	0	0	0	0	0	0
Sub total	20000	263907	263907	263907	263907	263907
Miscellaneous (5%)	1000	13195	13195	13195	13195	13195
Total (Rand)	21000	277102	277102	277102	277102	277102
Total (£)	2090	27572	27572	27572	27572	27572
Total ($)						

* The introduction of the basic living wage is assumed to inflate the wages of workers who were previously earning more than the living wage level.
In effect, all workers have their wages increased by the amount equivalent to the difference between the wage of the lowest paid worker and the basic living wage.

** Costs of eliminating discrimination are assumed to be contained within the cost of introducing the basic living wage

*** The costs of ensuring free association and the right to collective bargaining are marginal and are assumed to be covered under the 5% miscellaneous costs.

Vredendal Average Co-op farmer member - assumptions and workings

Exchange rate	
£1 (Rand)	10.05
Weighted average nominal cost of capital (1:1 borrowed to equity)	13.0%
Living wage	
Net basic living wage (R/month)	1049
(family of 4.5, 1.5 wage earners, including costs of housing and utilities)	
Permanent workers	
Total number of permanent workers	8
Non-cash wage as a proportion of cash wage	30%
Pension scheme and UIF deductions	1%
Average gross cash wage (Rand/month)	607
Average net cash and non-cash wage (Rand/month)	781
Lowest gross cash wage (Rand/month)	563
Lowest net cash and non-cash wage (Rand/month)	725
Total cost of introducing living wage for permanent workers (Rand/month)*	2618
Average gross cash wage after the implementation of basic living wage (Rand/month)	858
Non-permanent workers	
Number of non-permanent workers	8
Period of non-permanent work (months)	12.0
Non-cash wage as a proportion of cash wage	0%
Pension scheme and UIF deductions	1%
Average gross cash wage (Rand/month)	650
Average net cash and non-cash wage (Rand/month)	643
Lowest gross cash wage (Rand/month)	650
Lowest net cash and non-cash wage (Rand/month)	643
Total cost of introducing living wage for non-permanent workers (Rand/month)*	3277
Average gross cash wage after the implementation of basic living wage (Rand/month)	1060
Overtime	
Legal overtime rates under Basic Conditions of Employment Act (BCEA) (% of normal cash wage)	150%
Number of overtime hours worked by permanent workers per year	500
Number of overtime hours worked by non-permanent workers per year	0
Increased annual overtime bill from implementing basic living wage for permanent workers (Rand)	968
Increased annual overtime bill from implementing basic living wage for non-permanent workers (Rand)	0
Housing	
Number of houses	6.4
Incremental cost of house renovation (Rand)	10000
Average life of renovation (years)	10
Annualised cost of renovation (Rand/house)	1843
Incremental house maintenance cost (R/month/house)	50
Incremental household services costs (R/month/house)	50
Total annual compliance costs per house (capital and running costs in Rand)	3043
Protective gear	
Cost of providing protective gear per permanent worker (year)	300
Sanitary equipment at workplace	
Cost of making improvements to sanitary equipment (Rand)	2000
Average life of sanitary equipment (years)	10
Annualised cost of sanitary equipment improvements (Rand)	369
Chemical stores	
Cost of making improvements to chemical stores (Rand)	10000
Average life of chemical store (years)	10
Annualised cost of chemical store (Rand)	1843
Management	

Cost of a manager month (notional farmer salary in Rand)	10000
Manager months spent planning compliance	1
Manager months to maintain compliance (per year)	0.5

Summary of Compliance Costs

	Year 1 Rand	Year 2 Rand	Year 3 Rand	Year 4 Rand	Year 5 Rand	Year 6 Rand
Forced labour	0	0	0	0	0	0
Discrimination	**	**	**	**	**	**
Harrassment or abuse	0	0	0	0	0	0
Child labour	0	0	0	0	0	0
Freedom of association and the right to bargain collectively	***	***	***	***	***	***
Wages and other compensation						
Cost of introducing minimum living wage*						
Permanent staff	0	31417	31417	31417	31417	31417
Non-permanent staff	0	39321	39321	39321	39321	39321
Hours of work						
Incremental overtime cost of introducing basic living wage						
Permanent staff	0	968	968	968	968	968
Non-permanent staff	0	0	0	0	0	0
Health and safety						
Upgrading, maintaining and servicing housing****	0	3895	7790	11685	15580	19475
Incremental cost of installing sanitary equipment at workplace	0	369	369	369	369	369
Upgrading chemical store	0	1843	1843	1843	1843	1843
Protective gear for workers	0	2400	2400	2400	2400	2400
Training (provided centrally through the co-operative)	0	125	125	125	125	125
Regular employment is provided	0	0	0	0	0	0
Management systems						
Management time spent on planning and implementing compliance actions	10000	0	0	0	0	0
Management time spent on maintaining compliance	0	5000	5000	5000	5000	5000
Audit	0					
Sub total	10000	85338	89233	93128	97023	100918
Miscellaneous (5%)	500	4267	4462	4656	4851	5046
Total (Rand)	10500	89605	93695	97784	101874	105964
Total (£)	1045	8916	9323	9730	10137	10544
Total ($)						

* The introduction of the basic living wage is assumed to inflate the wages of workers who were previously earning more than the living wage level.
In effect, all workers have their wages increased by the amount equivalent to the difference between the wage of the lowest paid worker and the basic living wage.

** Costs of eliminating discrimination are assumed to be contained within the cost of introducing the basic living wage

*** The costs of ensuring free association and the right to collective bargaining are marginal and are assumed to be covered under the 5% miscellaneous costs.

**** 20% of housing stock is assumed to be renovated each year over a five year improvement plan

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