

**BRITAIN'S  
BRUISING  
BANANA  
WARS**

**WHY CHEAP BANANAS  
THREATEN FARMERS' FUTURES  
POLICY REPORT**

**“ WHEN I SELL A BOX  
OF BANANAS IT’S A  
PRODUCT WITH QUALITY,  
WITH INCREDIBLE TASTE,  
SO IT SHOULD BE FAIR  
THAT YOU PAY A FAIR  
PRICE FOR IT. ”**

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# 1/ INTRODUCTION IN THE 20 YEARS SINCE THE FAIRTRADE FOUNDATION WAS ESTABLISHED, BANANAS HAVE BEEN ONE OF THE GREAT FAIRTRADE SUCCESS STORIES. BANANAS ARE A VISIBLE SYMBOL OF THE WAY THE BRITISH PUBLIC HAS TAKEN FAIRTRADE TO THEIR HEARTS, WITH 35 PER CENT OF THE BANANA MARKET NOW FAIRTRADE.

Tens of thousands of banana farmers and workers<sup>1</sup> work for Fairtrade producers in 15 countries around the world. Sainsbury's, Waitrose and The Co-operative have made commitments to source 100 per cent of bananas as Fairtrade. Millions of pounds of Fairtrade Premium has been invested in the lives of banana farmers and workers and their communities in areas such as education, housing and healthcare. The Fairtrade Minimum Price has helped to build sustainable livelihoods, and Fairtrade Standards have improved farmers' and workers' terms and conditions and environmental practice at the farm level.

We want Fairtrade to help drive industry-wide change in products like bananas so that all farmers and workers have sustainable, decent work for the long term.

Yet progress against this wider vision is not going far enough or fast enough. It is ironic that the UK market, which is the world's most successful for Fairtrade bananas, has also been the one in which relentless price wars over the past 10 years have resulted in a price decrease of as much as 40 per cent for loose bananas while costs of production for banana producers have risen steeply.

This price squeeze has had an effect all the way down the supply chain, with persistent pressure on prices at the farm level. Average prices in countries that supply Britain's banana market are failing to keep pace with the costs of sustainable production.

The pressure on price has driven a trend in many banana producing countries towards job losses, the casualisation of labour and the marginalisation of smallholder producers. It makes it much harder to achieve the improvements that farmers and workers badly need in wages, access to services and terms and conditions, as well

as environmental sustainability in banana production. In this report we explain what has happened and the effect this is having on farmers and workers.

But this is not simply a research study: it is a call for action. At its heart the problem is one of an imbalance of power – power that lies disproportionately with retailers. Are we happy to live with the knowledge that cheap bananas for British consumers threaten the futures of banana farmers and workers? Solutions can and must be found.

Retailers do take their ethical responsibilities seriously, but there is still much more that they can do. They need to ensure that they support the workers and small producers in their supply chains for the long term by investing in sustainability and decent work and resisting the pressure to drive down prices at all costs.

But retailers are unlikely to do everything alone – they are in competition with each other so altruism is constrained by the bottom line. A structural problem like this needs the government's serious attention, so we call on the UK government, and the Department for Business, Innovation and Skills in particular, to investigate the UK retail market in bananas and its impact on the sustainability of the banana supply chain and the situation of banana farmers and workers.

Fairtrade also has work to do: we must redouble our efforts in support of banana farmers and workers by continually strengthening the Fairtrade system in response to the needs of the producers we work with and inviting our campaigners to bring their voices to bear upon those in power to make bananas fair once and for all.

<sup>1</sup> Fairtrade International global monitoring data, Fairtrade International – private communication

**2/ EXECUTIVE SUMMARY BANANA FARMERS AND WORKERS AROUND THE WORLD ARE BEING SQUEEZED. THE PAST 10 YEARS HAVE SEEN A 40 PERCENT FALL IN THE TYPICAL UK RETAIL PRICE OF LOOSE BANANAS WHILE COSTS OF PRODUCTION HAVE DOUBLED IN SOME REGIONS. THE PRESSURE ON FARMERS AND WORKERS HAS BEEN RELENTLESS.**



**“ THE MONEY EARNED FROM BANANA PRODUCTION IS NOT SUFFICIENT BECAUSE IT IS BELOW THE COST OF BASIC NEEDS, IT IS ALSO NOT ENOUGH TO COVER OTHER FAMILY COSTS SUCH AS EDUCATION AND HEALTH OR FOR THE PAYMENT OF BASIC SERVICES LIKE WATER AND ELECTRICITY. ”**

*A producer from Ecuador interviewed for this study*

The Fairtrade Foundation commissioned this report in order to understand the dynamics affecting the distribution of value in banana supply chains. We also wanted to assess the impact of the failure to deliver adequate value on the lives of banana farmers and workers and their ability to secure long-term sustainable livelihoods. We wanted to assess how far a falling retail price translates into problems for producers.

Our aim is to set out what can be done to change things for the better. The Fairtrade Foundation wants to see farmers and workers building sustainable, decent futures from the bananas they grow. We hope that this report will be a call to action for government, retailers and the public to build a more sustainable and ethical banana industry.

#### **BANANAS AND FAIRTRADE**

Bananas have been an important part of Fairtrade's story over the past 20 years. Their UK launch in 2000 followed several years of campaigning by the Fairtrade movement highlighting the poor conditions of workers on Latin American banana plantations and the way global trade deals were excluding small farmers from the markets they depended on for their livelihoods.

Since their launch bananas have been a visible symbol of the way British consumers have taken Fairtrade to their hearts. Around one-third of this £700 million market<sup>1</sup> is now Fairtrade, and that is helping thousands of farmers and workers to secure a better deal for their labour.

This is good news, but our vision has always been to go further. Our hope is that by demonstrating the ethical (as well as the business) case for Fairtrade we can help to influence wider business practices in products like bananas in favour of farmers and workers. A lot has been achieved: Sainsbury's, Waitrose and The Co-operative have made commitments to source 100 per cent of bananas as Fairtrade.

Millions of pounds of Fairtrade Premium has been invested in the lives of banana farmers and workers and their communities in areas such as education, housing and healthcare. The Fairtrade Minimum Price has helped to build sustainable livelihoods, and Fairtrade standards have helped improve the terms and conditions and environmental practice at the farm level.

## FALLING RETAIL PRICES

It is ironic that the world's most successful market for Fairtrade bananas – the UK – has also been the one in which retail prices for bananas have fallen further and faster than in other countries. Seven large retailers control over 80 per cent of UK banana sales. The price of loose bananas fell from £1.08 per kilo in March 2002 to only 68p per kilo in the biggest UK retailers for most of 2013. If the price of loose bananas had simply kept pace with general inflation, they would cost £1.40 per kilo today. Compared to the prices of other basic foods such as bread, milk, eggs and sugar, which have risen by nearly 80 percent over the past decade, the price of bananas has fallen by 20 percent. By contrast, retail prices for bananas increased by 4 percent in Italy, 7 percent in Germany and 10 percent in France over the same period.

In this report, we show a clear long-term correlation between retail prices and prices paid in banana producing countries.

Retailers may well often be selling below cost<sup>2</sup> in an extremely competitive market, but details are closely guarded and hard

to quantify. In 2009, Mark Price, the Chief Executive of Waitrose, suggested to the Grocer magazine that banana price wars were costing Waitrose £100,000 per week, while costing other supermarkets substantially higher losses<sup>3</sup>.

Several retailers said that they did not believe there is any direct relationship between the costs they incurred in procuring products like bananas and the price at which they offer them to consumers, though most recognised the sustainability challenges facing the industry are linked to the loss of value from the chain.

The next link along the supply chain is the import price – the price at which bananas are brought into the UK. While the retail price has fallen sharply over the past decade, the average import price of bananas has been reducing in real terms (taking account of inflation).

The progressive drop in retail price has contributed to persistent deflationary pressure throughout the banana supply chain, with banana growers at the end of the line.

The squeeze on growers goes further. The costs of agricultural inputs like fertiliser, packing costs and shipping have risen consistently over the past decade. The wages of workers and the incomes of farmers are one of the few variable costs within the supply chain that can be adjusted in response to the downward trend in export prices. Farmers and workers are too often forced to bear the brunt of this pressure.

For this report we wanted to see how people in banana exporting countries, who were already struggling to afford food, housing and other basic needs, were coping after a decade of this level of downward pressure on the price of a product that is the source of their livelihoods.

We found that the declining value of the export price combined with increases in living costs has made it hard for workers to achieve progress in earnings. In most countries there is an increasing gap between the wage rates on banana plantations and what workers need to provide for themselves and their families. Only 25 percent of Ecuadorian households reliant on income from work on banana plantations earn an income that crosses

the poverty line. A notable exception to this trend is Colombia, where a strong independent trade union represents around 80 percent of banana workers in the country.

40 percent of Colombian bananas sold to the UK are now Fairtrade. Some retailers have stated that they pay the Fairtrade Minimum Price to producers in Colombia for their conventional bananas, however we have not seen independent verification of this. The other benefits of Fairtrade such as the premium payment and environmental and workers rights standards would not necessarily apply when bananas are bought on the conventional market.

Fairtrade regularly updates its minimum prices, with a price review recently completed. However, unlike most commodities where market prices regularly move above (and below) the Fairtrade Minimum Price, the Fairtrade Minimum Price is too often treated by industry players as a static market reference price rather than the minimum price floor it is intended to be. This is a further symptom of the deflationary pressure on the banana supply chain and the challenge when ensuring that farmers and workers receive a sustainable, fair price for their bananas.

## LOSS OF PERMANENT JOBS IN THE BANANA INDUSTRY

The price pressure generated by banana value chains has also pushed many employers to transform permanent jobs into casual work or outsource them in order to decrease labour costs<sup>4</sup>. As permanent contracts have become more scarce plantation work has become increasingly unattractive to local workers, thus increasing the flow of migrant workers from, for example, Nicaragua to Costa Rica and Haiti to the Dominican Republic, where migrant workers are vulnerable to discrimination and exploitation. The Colombian model of mature industrial relations is under direct threat, with attempts by employers to contract workers through so-called labour co-operatives (a form of casualisation).

## WHAT ABOUT SMALLHOLDER BANANA FARMERS?

Farmers' income is also under pressure in all of the countries studied. Small farmers are under pressure to match the prices paid to large plantations and emerging origins. Their reduced profits affect income for their families and make it tough to invest in their businesses or invest in diversifying. They cannot survive in the current banana market, and they also cannot afford to leave it.

## FAIRTRADE AND SMALLHOLDER FARMERS

Today the Fairtrade market is one of the few that remains accessible and economically worthwhile for smallholder farmers in the

banana sector. In Ecuador Fairtrade has helped people who were once seasonal migrant labourers to become fulltime farmers on their own land. In Colombia Fairtrade certified co-operatives are achieving good productivity and sales, while in the Windward Islands Fairtrade has been critical to the survival of banana farming by helping smallholder farmers to become organised, upgrade their production to meet supermarket quality requirements, and improve livelihoods<sup>5</sup>.

However, repeated damage to the industry from hurricanes and disease coupled with the pressure on price means that even with Fairtrade farmers are still struggling to secure ongoing and stable market access. In Colombia Fairtrade has helped small farmers achieve a more viable livelihood when this was under threat from the loss of value.

**BEFORE FAIRTRADE A CUT IN OUR WAGES PUT US IN THE RED. THERE WASN'T EVEN ENOUGH FOR FOOD, NOR TO PAY THE WORKERS. FAIRTRADE HAS BEEN BETTER OF COURSE, AND IT HAS CHANGED OUR WAY OF WORKING.**

*Doris Pacheto, member of Coobafrio co-operative, Magdalena, Colombia*



## WHY DID THE SQUEEZE ON PRODUCERS HAPPEN?

We also wanted to understand how and why so much value has been removed from the banana supply chain. The supermarket sector in Britain is one of the most concentrated and competitive in the world, with price promotion one of the most visible features of that competition. Four chains account for over 70 percent of sales of food and drink. In 2005 the Office of Fair Trading found that 93 percent of the population have a choice of at least three different supermarkets within a 15 minute drive<sup>vi</sup>.

Every retailer we spoke to for this study told us of intense and persistent competitive pressure to keep retail prices for loose bananas as low as possible. Where retailers have increased loose banana prices they have frequently reversed their decisions following aggressive advertising by competitors. One retailer interviewed for this report described the price of bananas as a ‘canary’ (an early warning sign) that would quickly show up how one supermarket’s prices compared to the others.

Retailers also spoke of their responsibility to deliver affordable food to consumers, especially at a time when many people in Britain are struggling to feed their families. The number of people using food banks has increased from 26,000 to 128,697 in the past three years<sup>vii</sup>.

Given that bananas are one of the most frequently purchased food products in Britain – one retailer told us that they featured in 90 percent of baskets taken to their checkouts – a falling retail price and a static import cost means that a significant sum of added value has also been stripped out of the UK end of the banana market over the past decade.

This could be seen as an example of free markets delivering value for consumers, however the decision to adjust the value chain of bananas has been taken by retailers alone and producers have had no say in the matter and have received none of the value that has been sacrificed by business actors in Britain.

There is probably no better illustration of the imbalance of power in banana supply chains and the lack of proper governance processes in which all stakeholders could be involved in such decisions.

The pressure to reduce prices, almost at any cost, means that no-one in the supply chain – retailers, banana companies or growers – are able to adequately reinvest profits in improving the sustainability of the banana industry, even though everyone agrees this is vitally important.

Bananas, like many other food crops, face serious challenges arising from population growth and demographic shifts that will change the demand side of markets, while factors such as climate change, water scarcity and rising fuel costs are likely to

have negative impacts on the supply side. All growers are under pressure to achieve higher productivity and better quality and to reduce water usage, chemical inputs and wastage.

But while it is absolutely clear that all producers need prices that fully cover their basic costs of production and provide a surplus for those investments, it is extremely doubtful that this can happen while supermarket ‘price wars’ are squeezing value throughout supply chains, and most critically at the farm level, in the absence of specific measures to support producers.

Retailers are active in debates on the sustainability of bananas. Some have made commitments to sourcing from Fairtrade or other sustainability initiatives. Others are engaged with the World Banana Forum (WBF) – a body under the auspices of the Food and Agriculture Organization of the United Nations (FAO) that brings together the main stakeholders in the industry to work on issues like these. Other supermarkets are active in the Ethical Trading Initiative and other collaborative ventures.

## WHAT PREVENTS RETAILERS FROM TAKING ACTION THEMSELVES?

It is clear that no single retailer can address a complex challenge like this alone – though there is much that they can still do. When the issue is closely related to retail price retailers face other constraints which need to be understood. Competition law at both UK and European level strictly prohibits any form of concerted actions by businesses that may affect trade, and specifically any agreements or practices that ‘directly or indirectly fix purchase or selling prices or any other trading conditions’.

This means that discussions at forums like the WBF or elsewhere can only be on ‘pre-competitive issues’. In other words, you can talk about many things but not the price or other commercially sensitive information<sup>2</sup>. It seems that although price is the most pressing problem facing producers the current interpretation of the law prohibits most, if not all, of the discussions that could enable price to be part of the solution.

This situation has been created by a skewed approach to market regulation that places low prices and short-term consumer interests as its overwhelming priorities. This is not right for a market like bananas, in which 80 percent of the trade is represented by a handful of retailers who closely match each other’s prices in order not to appear uncompetitive.



The current regulatory framework assumes that the market will correct unsustainably low prices as well as artificially high ones, but this is evidently not the case.

The rights of producers to receive truly sustainable prices and the rights of consumers to purchase ethically and sustainably sourced produce are losing out to the pressure for the lowest possible prices, regardless of the true cost.

<sup>2</sup> Competition law would prevent retailers discussing either the retail price to consumers, the wholesale price paid to suppliers, volumes to be bought and sold or cross-commitments as to from whom they should buy products.



**IF WE LOOK AT THE ROOT CAUSES OF THE LACK OF SUSTAINABILITY IN THE BANANA SECTOR, IT'S MOSTLY LINKED TO VERY LOW PRODUCER PRICES, WHICH ARE MAINLY DUE TO LOW CONSUMER PRICES. PRODUCERS DO NOT GET PAID ENOUGH FOR THEIR BANANAS SO THAT THEY CAN INVEST IN SUSTAINABLE PRODUCTION METHODS.**

*Pascal Liu<sup>iii</sup>, senior economist at Food and Agriculture Organization of the United Nations (FAO) and manager of the World Banana Forum, October 2013*

## WHAT SHOULD BE DONE?

*(This is a summary of the detailed recommendations set out in the main report).*

Banana farmers and workers deserve a better deal. Everyone consulted for this report – including retailers and banana traders – agreed that the banana industry faces serious sustainability challenges. Moreover, the problems have been recognised for a long time, and the time for change in the way the industry operates is long overdue.

We want to see banana producers receive the true cost of sustainable production. This would enable small farmers and their communities to thrive and plantations to offer their employees decent working conditions and living wages. A major globally-traded product like bananas should provide opportunities for people to work their way towards a better future instead of trapping them in poverty. Bananas also need to be produced in a way that respects the limits of the environment and uses natural resources more carefully.

To make this happen there needs to be enough money to pay for improvements as well as meeting daily production costs and a fair income for farmers and workers. This report has identified a number of improvements to the ways that bananas are produced and traded that would help achieve greater sustainability and fairness, but none of these can be achieved without a new approach to pricing and price regulations.

We therefore urge the UK government to show leadership and policy coherence across all departments and demonstrate a commitment to sourcing our food sustainably and treating all in the supply chain fairly:

### THE DEPARTMENT FOR BUSINESS, INNOVATION AND SKILLS (BIS) AND UK MARKET REGULATORS

- The Department for Business, Innovation and Skills (BIS) should show leadership by co-ordinating government action to investigate retailer pricing on bananas and evaluate its impact on the long-term interests of banana producers and UK consumers. The government must also commit to act on the findings

- BIS should seek an amendment to the Groceries Supply Code of Practice to cover overseas producers that supply major UK retailers through a third party

- The Office of Fair Trading (OFT)/ Competition and Markets Authority (CMA) should launch a market study into the banana industry. This should look at how short term efficiency gains from low pricing affect producers' ability to produce, innovate and achieve sustainability in the medium to long term, and the effect of this on future pricing and UK consumers.

### THE DEPARTMENT FOR ENVIRONMENT, FOOD AND RURAL AFFAIRS (DEFRA)

- DEFRA should work with BIS to investigate the effects of downward pressure in value chains on the sustainability of UK food and to promote the need for transparency by retailers and traders on value at every stage of their supply chains

- DEFRA should disaggregate statistics on Fairtrade and Organic from total trade in bananas and encourage similar action at European Union (UN) level by Eurostat.

### THE DEPARTMENT FOR INTERNATIONAL DEVELOPMENT (DFID)

- The Department for International Development (DFID) should ensure that the UK's positive impact on poverty among banana farmers and workers is strengthened by supporting initiatives that incentivise living wages and payment of cost of sustainable production in agricultural supply chains

- DFID should promote and support international processes such as the World Banana Forum, the Ethical Trading Initiative (ETI) and similar initiatives

- DFID should encourage the work of trade unions and support collective bargaining as part of multi-stakeholder processes to establish and support living wages in the banana industry.

### THE EUROPEAN UNION (EU)

UK action also needs to be coherent with action at European Union (EU) level in order to be effective. The main European Commission body responsible for supermarket competition is the Directorate General for Competition (DG COMP).

- The EU should investigate the retail pricing tactics on bananas of retailers across Europe, including as part of the current DG COMP study of modern retail on choice and innovation in the EU food sector, and they should also evaluate the impact of low retail prices on the long-term interests of banana producers and European consumers. The EU must also commit to act on the findings

- The EU should show policy coherence by taking public policy considerations into account when applying competition law, for example by stating the relevance of Articles 11 and 208 of the Treaty of the Functioning of the European Union to competition policy

- The EU should consider adopting an ombudsman similar to the UK Groceries Code Adjudicator in order to regulate buyer power in the retail industry, starting with bananas.

### BUSINESS AND EXPORTING COUNTRIES

We also urge concerted action by the banana industry and its stakeholders (retailers, banana companies and governments in producing countries) to make bananas fair. The large retailers and traders must use their dominant positions in banana supply chains responsibly and should commit to paying a fair price to farmers and workers. This includes:

#### • Paying the cost of sustainable production

- Retailers and banana traders should actively support measures aimed at meeting the true costs of sustainable production and deliver living wages for banana workers. They should agree clear timetables for the implementation of these measures
- Retailers should invest in educating their customers about the true cost and value of a sustainably, ethically-sourced banana. Competition is important, but advantage should come from the quality, efficiency and service offered by retailers and not from the ability to artificially subsidise certain products.

#### • Ensuring a place for small farmers in the banana industry

- The banana industry must recognise the role played by small farmers in poverty reduction and contributing to local food security. Retailers should ensure a fair proportion of their bananas are sourced from organised smallholders and support the efforts of small farmers to increase productivity and quality through better prices and/or providing additional investment funds, in similar ways to the Fairtrade Premium

#### • Decent work and living wages for workers

- The banana industry must ensure that plantations minimise the use of temporary contracts and ensure all workers receive a full entitlement to bonuses and non-wage payments such as healthcare and social security provisions enjoyed by permanent workers.
- Governments in banana producing countries must take a lead on setting and enforcing living wage levels in the banana industry. Banana companies and retailers must support these efforts in all origins and encourage a race to the top.
- Governments in producing countries and banana companies must recognise the important role of independent trade unions as the best mechanism for ensuring that fair prices to producers feed through into living wages for workers and the business benefits arising from a mature system of industrial relations. Governments should also take responsibility for ensuring that a national minimum wage is set with unions and employers to ensure it is as close as possible to a living wage.

### THE FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS

- The Food and Agriculture Organization of the United Nations (FAO) should support the processes of research and data collection that will enable sustainable costs of production and living wages to be assessed through a commonly-accepted methodology and transparent and independent processes.

### CIVIL SOCIETY

The role of national and international civil society, especially trade unions, is crucial in delivering change on fair prices at the national and international level.

Standards and certification bodies, including Fairtrade, need to continue raising the 'ethical bar' in order to drive improvements that enable banana farmers and workers to build stable, sustainable livelihoods. Fairtrade should strive towards continual improvement to standards and minimum price setting in order to ensure that the true costs of sustainable production are met as costs change over time, including the full integration of a living wage for workers.

### THE UK PUBLIC

Lastly, but by no means least, the UK public has a crucial role to play. Over 35 percent of the bananas bought in the UK are now Fairtrade and this is in large part due to consumer pressure for ethical sourcing.

The efforts of consumers and campaigners in buying and promoting Fairtrade over many years has demonstrated more clearly than any policy report that the public wants to see fairness and sustainability for banana farmers and workers and is willing to pay for this at the supermarket checkout.

The voices of consumers and campaigners are just as vital today in keeping up the pressure for a fairer banana trade and convincing government and the banana industry to act. By opting for ethically sourced bananas and participating in campaigns such as Make Bananas Fair the public can add its voice to the calls for more fairness and sustainability in the banana industry.

# 3/ ABOUT THIS REPORT 3.1 FAIRTRADE'S INVOLVEMENT IN BANANAS/ IN 2014, THE FAIRTRADE FOUNDATION IS FOCUSING ON BANANAS AS PART OF A THREE-YEAR CAMPAIGN TO MAKE FOOD FAIR. THE FIRST PHASE OF THE CAMPAIGN CALLED FOR A REBALANCING OF POWER IN THE GLOBAL FOOD SYSTEM IN FAVOUR OF SMALLHOLDER FARMERS WHO PRODUCE ABOUT 70 PERCENT OF THE WORLD'S FOOD<sup>x</sup> BUT WHO RECEIVE ONLY A TINY PROPORTION OF THE PRICES PAID BY CONSUMERS IN COUNTRIES LIKE BRITAIN.

While they face increasing costs of food, fertilisers and fuel, smallholder farmers' lack of power to influence terms of trade means they struggle to earn a decent livelihood from their hard work and lack the resources to invest in the modern, sustainable farming techniques that would increase their productivity without damaging the environment. Bananas are an important crop for smallholder farmers in the Caribbean and Latin America.

Bananas are the UK's favourite fruit. They are also important to tens of thousands of workers on plantations who depend on the crop for their livelihoods. These workers have also suffered from an unfair trading system. Only 5 – 10 percent of the retail price of a banana is retained by a typical farmer who grows it<sup>x</sup>. Even before the launch of Fairtrade bananas the product was the subject of high-profile campaigns by many of the development agencies who backed the Fairtrade Mark in response to the problems experienced by workers in Latin America, especially over the use of insecticides that were blamed for serious health problems in workers<sup>3</sup>.

Bananas have been an important part of Fairtrade's story over the past 20 years, especially in Britain. Since their launch in 2000 they have been a highly visible symbol of Fairtrade's penetration of the mainstream retail market. They are available in every major supermarket and account for about 35 percent (by value) of all banana sales<sup>x</sup>. More importantly, the ethical case and the business case, for Fairtrade was recognised in moves by three national supermarket chains (pioneered by Sainsbury's and Waitrose in 2007 and followed by The Co-operative) to make Fairtrade the standard for all the bananas they sell, whether loose or bagged, conventional or organic. As well as increasing the volume of sales for banana producers on Fairtrade terms, it showed that alternatives to conventional trading models can work at scale in the real world.

While we are pleased at the progress made in the UK market, the Fairtrade Foundation also wants the presence of Fairtrade in the banana market to influence business practices by others in favour of the farmers and workers for whom products like bananas should provide a sustainable livelihood and a means of escaping poverty.

## SO WHAT'S THE PROBLEM?

Fairtrade has a vision of tackling poverty through better terms of trade rather than aid and of making mutually respectful and fair trading relationships the norm. However, it now seems that further progress in realising this vision of Fairtrade principles as the norm for trade in products like bananas is being restrained by an aggressively competitive retail environment in which prices have been cut to unsustainable levels.

The price of loose bananas has fallen from £1.08 per kilo in March 2002 to just 68p per kilo in the UK's biggest retailers for most of 2013. In January 2014 Sainsbury's and Waitrose raised the price of loose bananas to 79p per kilo but by February the price had dropped again. This report seeks to understand how and why this has happened, the effect of this price competition along the banana supply chain and to offer recommendations for a different approach that would help to make bananas fairer for everyone.

<sup>3</sup> In the 1990s, banana workers from Latin America took out lawsuits against large fruit and chemical companies (Dole, Del Monte, Chiquita and Dow Chemicals, Shell and Occidental) for using Nemagon (Dibromochloropropane) in banana plantations, even though it had been banned since 1977. The lawsuits finally came to a close in 2011, awarding significant compensatory damages to several of the plaintiffs.

**THE BANANA HERE IN OUR REGION REPRESENTS 70 PERCENT OR 80 PERCENT OF EMPLOYMENT. IF WE DIDN'T HAVE THE BANANA... IT WOULD BE CATASTROPHIC... IMAGINE IF THE CO-OPERATIVES DISAPPEARED, HOW MANY PEOPLE WOULD BE WITHOUT A JOB AND WHAT THE CONSEQUENCES OF THAT WOULD BE.**

Albeiro Alfonso 'Foncho' Cantillo is a 43-year-old banana farmer from the Magdalena region of Colombia. He inherited the small plot of land from his father.



Bananas are Foncho's main livelihood. Getting up at 4am, he spends almost 12 hours a day tending to his banana trees, usually with a friend who owns the neighbouring farm. Foncho sees a close relationship between banana prices and his standard of living.

As part of the Coobafrio co-operative, founded by his father and other farmers in the late 1990s, Foncho and the other 42 members have been producing Fairtrade bananas for the past two years. Foncho believes it has secured their livelihoods and changed the lives of their families and community: '...if we weren't in Fairtrade we would always be making a loss... we wouldn't have profitability in our business. Thank God we are in the scheme because if we weren't... we'd be a group of producers on the way to being out of business.'

**WHEN THE PRICE OF BANANAS GOES DOWN WE SUFFER THE IMPACT. OUR LIVING CONDITIONS GO DOWN. WE NEED THE PRICE TO STAY STABLE.**



## 3.2 RESEARCH OBJECTIVES AND APPROACH

The Fairtrade Foundation commissioned this report in order to understand the dynamics affecting the distribution of value in banana supply chains. We also wanted to assess the impact of the failure to deliver adequate value on the lives of the farmers and workers in countries including Colombia, Ecuador and the Dominican Republic that now grow most of the bananas sold by UK retailers and their ability to secure long-term sustainable livelihoods. We wanted to examine how far a falling retail price translates into problems for producers.

We wanted to understand how people who were already struggling to afford food, housing and other basic needs were coping after a decade of downward pressure on the price of the product that provides the source of their livelihoods.

We also wanted to consider how the structure and trading conditions of the banana market affect efforts to make production and trade more sustainable for farmers and workers.

We interviewed senior managers in seven national supermarket chains who have specific responsibility for bananas or a more general remit on sustainable procurement practices on an individual basis in order to understand their views on dynamics in the banana value chain. These retailers account for over 80 percent of banana sales in the UK retail grocery market. These interviews were only able to consider retail price issues in general terms, as commercially privileged information cannot be shared.

**We have also considered the extent to which the current regulatory framework on competition helps or hinders efforts to achieve a fair and sustainable trade in bananas.** This is discussed further in section 5.3.

In this report we show a clear long-term correlation between retail prices and prices paid in banana producing countries.

Retailers may well often be selling below cost in an extremely competitive market, but details are closely guarded and hard to quantify. In 2009, Mark Price, the Chief Executive of Waitrose, suggested to the

Grocer magazine that banana price wars were costing Waitrose £100,000 per week, while costing other supermarkets substantially higher losses<sup>xiii</sup>. The same report quotes a banana importer as saying that “eventually costs would be passed on to producers in developing countries”.

Within the very limited extent that it was possible to discuss trends in the retail price of bananas, several retailers said that they did not believe there is any direct relationship between the costs they incurred in procuring products like bananas and the price at which they offer them to consumers, though most recognised the sustainability challenges facing the industry are linked to the loss of value from the chain. Furthermore, these retailers insisted that they did not seek to fund reductions in retail prices on bananas by lowering the prices paid to growers<sup>4</sup> and that they often absorbed increases in volatile costs such as shipping within their trading margins.

While it may not be possible to demonstrate short-term knock on effects of price reductions through the supply chain due to a lack of published data, there is a long-term trend of falling value over the past decade that cannot be explained purely by supply chain efficiencies.

**Our hypothesis is that the declining value in real terms of banana prices in UK supermarkets has acted as a deflationary pressure on supply chain value through to the banana growers. This has contributed significantly to eroding growers’ profitability and has restricted their ability to invest unless they can significantly reduce their costs.**

Pressure for cost efficiency in itself is not an unreasonable demand. In many areas of work technological innovation has helped provide these sorts of efficiencies, but bananas are still grown in much the same way as they always have been with labour intensive processes at all stages of production (see Appendix 2), and so even where plants generate higher yields the labour required for harvesting and packing remains fairly constant.

The costs of agricultural inputs and shipping have also risen consistently over the past decade, so the wages of workers and the incomes of farmers are one of the

few variable costs within the supply chain that can be adjusted in response to the downward trend in export prices.

**To investigate the complex interactions between retail prices in Britain, producer prices in countries that supply bananas to Britain and the incomes of farmers and workers in banana-producing countries, we analysed the value chains of bananas sold in UK supermarkets.**

The established methodologies for such analyses (described in the section below) seek to identify how value is created and distributed among different actors in the banana supply chain and the impact on those actors of changes in supply, demand and other market dynamics. They require accurate and up-to-date information on costs of production, processing and distribution as well as incomes of workers and profit margins of businesses.

However, such information is hard to access as it is regarded as commercially confidential by retailers and the companies within their supply chains. Our research has therefore relied on aggregated international trade figures from national governments and inter-governmental bodies like Eurostat and the Food and Agriculture Organization (FAO) using the following methodology:

- We have compared average retail prices in the UK with the data for overall volumes and values of UK banana imports on an annual basis for each of the last 10 years. It has also been possible to adjust these figures for inflation to present a broad picture of the decline in the real value of the UK import price for the countries that supply most of the bananas sold in Britain
- The estimated costs of shipping (based on the most recent academic research and interviews with banana importers and ripeners) have then been deducted from import values to give an estimate of the price available to exporters in different countries of origin. Finally this ‘available price’ has been assessed in terms of the extent to which it covers producers’ costs of production, using the research undertaken by Fairtrade International to set the guaranteed minimum prices for each origin that are prescribed in the Fairtrade Standards for bananas.

The Fairtrade Minimum Price is designed to cover average costs of sustainable production and is set based on costs of sustainable production and stakeholder consultation (see Section 6.3). Producers supplying the Fairtrade market also receive a premium payment of \$55 per tonne (or \$1 per 18kg box), which is earmarked for social and economic investment but can also be used under certain circumstances as cash payments for farmers and other forms of economic support for workers. On average, 24 percent of the premium is used this way (see Section 4.6.) and this has been taken into account in assessing conventional market prices against likely costs of production.

**Our report also draws on Fairtrade impact research undertaken in Colombia in 2012 and in Ecuador and the Dominican Republic in 2010<sup>xiv</sup> to assess the capacity of farmers and workers to withstand the downward pressures on their incomes given the increases in their own costs of living.**

These are pressures that have been at best maintained, and they have probably increased since the original research was conducted, and we also do not take account of the need to provide resources for investment in sustainability.

While Fairtrade is not the only channel for such investments, it is the only mechanism that automatically provides independently audited prices and additional resources as part of banana supply transactions. We have not been able to compare the investment level among Fairtrade producers with the more general population of banana producers.

Nevertheless no-one has disputed our hypothesis that the value that has been stripped out of the banana value chain in recent years means that such investments are not available from normal operating profits. Investments are therefore subsidised from other activities and are vulnerable to changes in trading policies rather than being integrated in a sustainable manner.

<sup>4</sup>The conversation with retailers was focused on bananas and we did not discuss the extent to which this policy applied to other food products.

## PREPARING FOR LONG TERM CHALLENGES

**We have also sought to consider what the future may hold for banana farmers as far as possible – what new challenges are on the horizon?**

Bananas, like many other food crops, face serious challenges arising from population growth and demographic shifts that will change the demand side of markets, while factors such as climate change, water scarcity and rising fuel costs are likely to have negative impacts on the supply side.

All growers are under pressure to achieve higher productivity and better quality and to reduce water usage, chemical inputs and wastage. Finding the resources to make these investments is impossible for smallholder farmers if the prices they receive do not fully cover their costs of production and provide an income that meets their basic needs.

While it is more feasible for well-capitalised banana plantations to fund these investments, their intensive production model also faces increasing challenges from crop diseases, climate change, pressure on water supplies and other environmental factors. Plantations’ heavy reliance on agrochemical inputs, the costs of which are closely linked to the price of oil, suggests further pressures on their costs of production.

While the extent of these challenges is hard to predict, at the level of individual countries or producers, everyone we spoke to in the research for this report agreed that banana growers need to invest to meet the challenges of the future. Further study to quantify these future challenges would be useful.

## 3.3 METHODOLOGICAL NOTE

A full methodological note is included under Appendix 1 to explain the approach used by the research team.

# 4/ THE BANANA VALUE CHAIN 4.1 THE UK BANANA MARKET/ BANANAS ARE BRITAIN'S FAVOURITE FRUIT. AVERAGE CONSUMPTION PER PERSON IS AROUND 100 BANANAS A YEAR, AND CONSUMERS SPEND OVER £700 MILLION A YEAR ON THEM. THE VOLUME OF BANANAS SOLD IN BRITAIN HAS GROWN BY AN AVERAGE OF 5 PERCENT OVER THE PAST DECADE, ALTHOUGH IT HAS SLOWED IN RECENT YEARS.

But whereas the volume of bananas is now 60 percent higher than in 2002 (843,446 MT compared to 531,172 MT), the retail value has grown by only 33 percent (£738 million compared to £548 million). This is because bananas are such a prominent feature of the fierce price competition among supermarkets – one of a number of frequently purchased products that are referred to in the retail industry as Known Value Items (see Section 5.2).

## 4.2 THE RETAIL PRICE OF BANANAS IN BRITAIN

The most reliable data on the retail price of bananas is collected by the ONS each month for the calculation of the CPI measure of inflation. The data is collected from a sample of several hundred retail outlets and covers the items in a typical shopping basket.

Comparison of the data for the period April – June 2002 with the same months in 2013 shows the average price of one kilo of bananas, (considering both loose and pre-packed), falling from £1.08 to £0.86, a nominal reduction of 20 percent. However, during this period the CPI rose by a cumulative 29.5 percent, and when this is factored in the fall in the retail banana price of bananas in real terms is 38.5 percent.

If the price of bananas had simply kept pace with general inflation they would today cost £1.40 per kilo.

When compared with price movements in other staple food products, the fall in banana prices is even more marked as bread, milk, eggs and sugar increased in price by an average of 79 percent. This means that if the price of bananas had kept pace with other products in a typical shopping basket they would today cost consumers £1.93 per kilo.

## PRE-PACKED AND LOOSE BANANAS

A further complication is that the average price of bananas obtained for the CPI includes pre-packed bags of bananas, which are usually sold at a higher price than loose bananas. In 2002 most bananas were sold loose, so the average price recorded by ONS of £1.08 per kilo was very close to the price of loose bananas in the main supermarket chains.

By contrast, in 2013 around half of all bananas were sold pre-packed in bags, so while the average price recorded by ONS is £0.86 per kilo, loose bananas retail in all of the big four supermarkets<sup>5</sup> at just £0.68<sup>6</sup> per kilo.

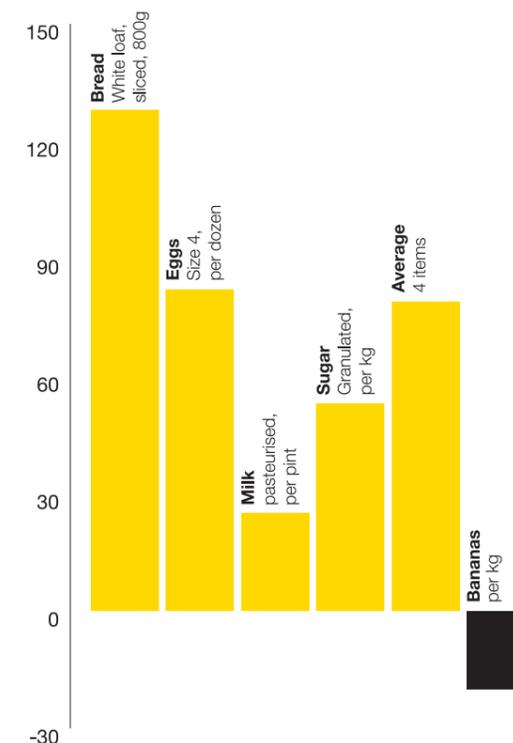
Pre-packed bananas are important in terms of the value chain analysis. When they are packed by the grower (some retailers already do this and others are aiming to do this in the near future) they may re-allocate a small amount of the distribution of value in favour of producers. More importantly, they help to improve quality control and to reduce wastage. This was highlighted by several retailers as having generated savings, although no-one claimed these were significant enough to explain the fall in retail price.

Notwithstanding this trend, it is the price of loose bananas that supermarkets refer to when making price comparisons, and this provides an important reference point for trading along the supply chain.

**Since 2002, loose bananas have fallen in price by 40 per cent in nominal terms, and a massive 51 per cent when inflation is taken into account.**

<sup>5</sup> This is a commonly-used term for Tesco, Asda, Sainsbury's and Morrisons, which account for around 70% of UK grocery sales.

<sup>6</sup> December 2013 prices for loose bananas in Tesco, Asda, Sainsbury's and Morrisons



**% change in UK retail price of basic foods: Q2, 2002 – Q2, 2013**

Source: Timetric based on ONS data

Of course, the growth of pre-packing is not unique to bananas and occurs in all kinds of fresh produce, and supermarkets explain their popularity on the basis of the convenience they provide for busy shoppers. There is a credible case for this, but it is one that runs counter to the argument that the agenda of consumers is dominated by low prices.

The lack of transparent pricing makes it hard for consumers to make good choices about their food, whether on the basis of value-for-money, nutrition, environmental impact or ethical values. It is even harder for low-income families to make good choices, and DEFRA's monitoring of expenditure against a notional 'Eatwell' plate (based on the types and proportions of foods that make a well-balanced, healthy diet) shows that the poorest families spend 22 percent of their food budget on foods that are high in fat or sugar compared to a recommended 7 percent<sup>xv</sup>. The same report shows that the affordability of food has decreased by over 20 percent for the poorest families in Britain as a result of lower disposable incomes and higher costs for food and housing.

Supermarkets also spoke of their responsibility to deliver affordable food to consumers at a time when many people

in Britain struggle to feed their families as a result of the continuing squeeze on disposable incomes over five years of recession and austerity, which has seen the number of people using food banks increase from 26,000 to 128,697 in the past three years<sup>xvii</sup>.

Two supermarkets told us that pre-packed bags at a fixed price of 90p or £1 had become their fastest growing lines in recent years, and their focus groups had identified that shoppers on a fixed budget liked the £1 items because they could easily see what they were spending as they moved round the store. Many were afraid that if they bought loose items they might find they did not have enough money to pay for their shopping at the checkout.

This is a serious matter and shows the caution needed in proposing any increase in the price of basic food such as bananas when so many people in Britain are struggling financially.

At the same time, it's important to note that it is frequently the consumers who can least afford to who are subsidising the low price of loose bananas. The choices we make about food are going to get tougher for many reasons. A growing world population,

increasing urbanisation, constraints on key natural resources such as land, water and oil and the impacts of climate change will all require us to think more about the food we buy. Transparent pricing and more information on the sources of food are vital for consumers to make informed decisions.

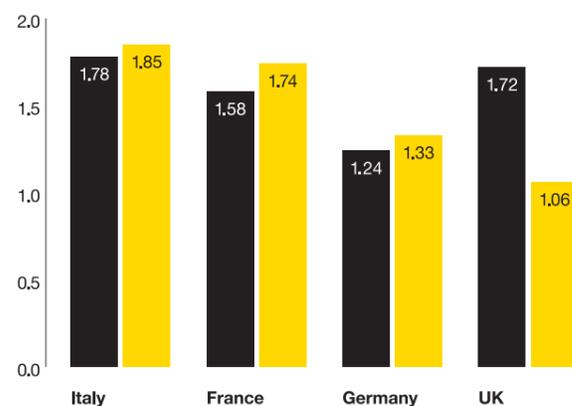
### ARE LOW PRICES UNIQUE TO THE UK?

This price reduction has not occurred in other markets in the EU, which buy bananas from similar sources and incur similar costs in shipping and distribution. Over the past decade retail prices for bananas have increased by 3.9 percent in Italy, 7.2 percent in Germany and 10 percent in France.

The USA banana market is free of tariffs or import restrictions, making it very competitive. Until the end of the last decade consumption was fairly static<sup>xviii</sup>, before rising in recent years. In this context retail prices fell until 2007, before partially recovering and stabilising. Fruit companies succeeded in persuading North American retailers that the purchase price should cover the costs of production. The import price has increased since 2008 to cover the growing costs of inputs and transport<sup>xix</sup>.

#### Change in retail price of bananas in EU 2002 – 2012 (euros/kg)

Source: CIRAD-ODEADOM except for UK (Timetric). GBP:EUR exchange rate from <http://fxtop.com/en/historical-exchange-rates.php>



### 4.3 UK BANANA IMPORTS 2002 – 2013

After the retail price, the next link in the supply chain is the price at import.

Retailers interviewed for this report insisted that the lower retail price for bananas had not been achieved by forcing price reductions onto producers but had been achieved through efficiencies in supply chain operations and through lower retail margins.

Individual supply chain information is confidential, but the overall figures for banana import volumes and values are available from official sources. These have to be adjusted for the effect of inflation in Britain, which has averaged 2.55 percent a year, and also for fluctuations in the sterling/dollar exchange rate (as bananas are traded in US dollars) which has shown a slight improvement, thus offsetting some of the reduction in the import price expressed in sterling.

While these figures alone do not illustrate the prices paid to producers in those countries as they also include the costs of import/export and freight, they do indicate that the value that has been stripped out of the supply chain and has therefore reduced the money available for producers.

Given that bananas are one of the most frequently purchased food products in Britain – Tesco told us that they featured in 90 percent of baskets taken to their checkouts – a falling retail price and a static import cost mean that a significant sum of added value has also been stripped out of the UK retail side of the banana market over the past decade. This can be demonstrated by calculating the difference between the average retail and import prices for the volume of bananas imported into Britain on an annual basis.

This value has, in effect, been passed on to consumers, and if producers were not losing out benefits for consumers would be welcomed.

However, the decision to adjust the banana value chain has been taken by retailers alone. Producers have had no say in the matter and have received none of the value that has been sacrificed by business actors in Britain. There is probably no better illustration of the imbalance of power in banana supply chains and the lack of proper governance processes in which all stakeholders could be involved in such decisions.

#### Average UK import prices per tonne of bananas<sup>7</sup>, 2002 – 2012

Source: Eurostat

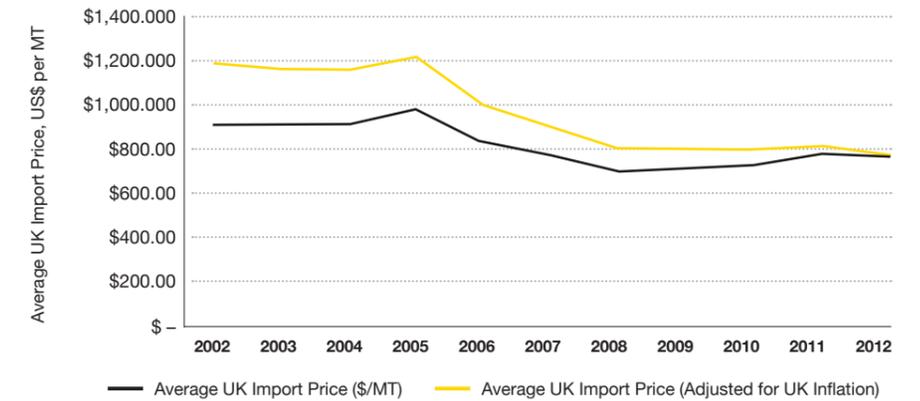
	2002	2012	% change over period
Average UK import price of bananas £ per MT	£605.54	£486.33	-19.6%
<i>(with adjustment for inflation)</i>	£784.02		-38.0%
Average UK import price of bananas \$ per MT	\$910.04	\$770.74	-15.3%
<i>(with adjustment for inflation)</i>	\$1178.27		-34.6%

<sup>7/8/9</sup> Basis: imports from Cameroon, Colombia, Cote D'Ivoire, Dominican Republic, Costa Rica, Ecuador, Windward Islands.



#### Average UK import prices per tonne of bananas, 2002 – 2012

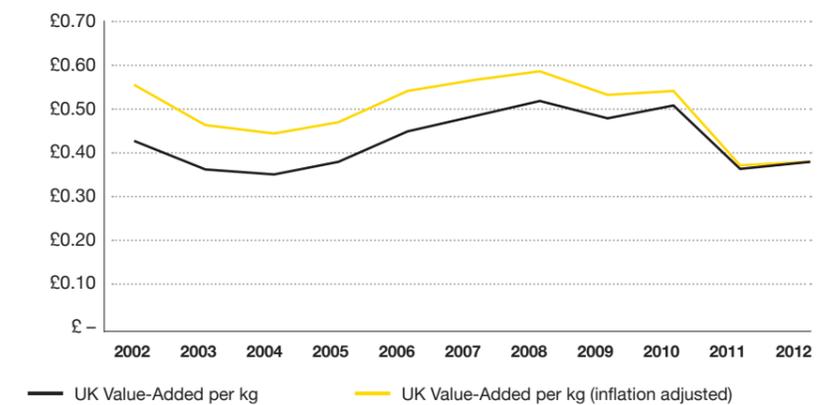
Source: Eurostat<sup>8</sup>



#### Trend in value-added per kilo of bananas, 2002 – 2012

**Average retail price less average import price divided by volume**

Source: Eurostat import data<sup>9</sup> combined with ONS retail price data from Timetric



## 4.4 CHANGES IN BANANA SUPPLY CHAIN OPERATIONS

Until the 1990s even the largest retailers relied on specialist banana companies to handle all the processes from the farm gate and delivery to their stores. As well as export/import arrangements, including payment of tariffs and shipping costs, bananas are harvested and transported in a pre-ripened (or 'green') condition and then ripened in special plants according to individual retailer requirements. These processes were largely the preserve of the vertically integrated banana companies such as Chiquita, Dole, Del Monte and Fyffes, which operated plantations and their own fleets of refrigerated cargo ships – known as reefers.

Advances in container shipping, in which each container can have its own refrigeration unit, meant that bananas could be shipped on conventional vessels along with other cargo, thus providing a more flexible service that could be obtained from general shipping companies such as Maersk. Container vessels are also more fuel-efficient than reefers as their faster loading and unloading times mean they can sail at lower speeds between ports. Containerised shipping offered a significant cost advantage for US importers, but reefers still account for over 70 percent of the banana trade between Latin America and Europe.

Developments in the freight market have enabled some of the UK's largest supermarket chains to shorten their supply chains for bananas and other fruit by buying more directly from producers in countries of origin and contracting the services they need for shipping and ripening – known as 'direct sourcing'. Previously these services would have been provided by a specialist banana supplier as part of the supermarket buying price. Morrisons has worked very closely with the exclusive sourcing company Global Pacific Produce since 2004 and also ripens bananas in their own facility, while Asda sources directly (via its International Procurement and Logistics subsidiary) and Tesco (via its Group Food Sourcing division).

In interviews for this report the retailers that have adopted this type of direct sourcing all noted that this had given them more control over the value chain of bananas

but (for reasons of commercial confidence) they would not disclose the changes it had generated in procurement costs. They acknowledged that it had eliminated much of the profit element previously taken by specialist banana companies and had provided opportunities to buy services more cost-effectively, but it had also exposed them to risks previously borne by suppliers such as wastage and fluctuations in currency exchange rates and fuel costs.

However, direct sourcing is not practical for smaller retailers, and companies such as Marks & Spencer, Waitrose and The Co-operative told us they still see an important role for intermediary suppliers to manage relationships with producers on their behalf. Also, it is clear that direct sourcing cannot completely insulate retailers from the rising costs of shipping and packaging which have to be paid in addition to the price to producers for the bananas.

**As retailers increase their control over supply chains, the situation of farmers and workers is no longer the sole responsibility of banana trading companies. Together with banana traders, retailers now bear a high level of responsibility for the sustainability of the supply chain and how producers are treated.**

## RIISING TRANSPORT COSTS

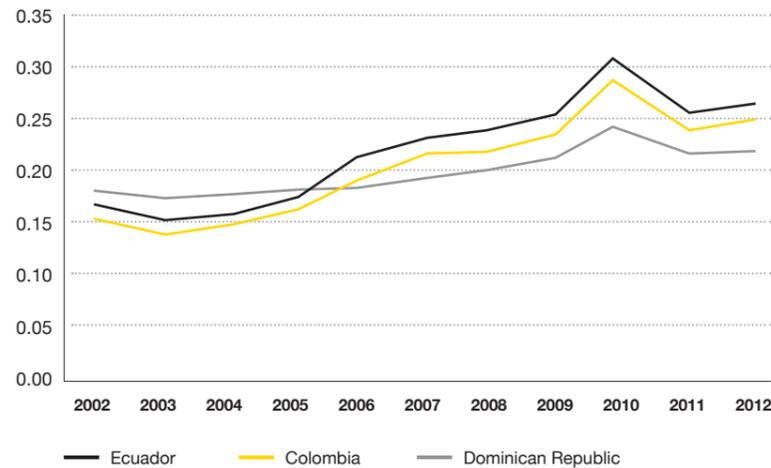
Oil prices (an important determinant of shipping costs) have increased four-fold over the past decade<sup>10</sup>. A study by CIRAD<sup>10</sup> in 2011 showed that freight costs are a major component of the import price in Europe, accounting for 15 percent of the import price of bananas from the Caribbean to as much as 40 percent from Ecuador. This further reduces the amount available for the purchase of bananas from producers. The costs of shipping that should be deducted from the UK import price in order to identify the price available to producers have been estimated from information gained through interviews with UK banana importers.

The likely evolution of the costs of shipping from the main producing countries of bananas sold in the UK, Colombia, Ecuador and the Dominican Republic (based on the analysis made by CIRAD) are shown below, and they indicate that average shipping costs have increased by 44 percent over the past decade.

<sup>10</sup> CIRAD is an agricultural research organisation based in France <http://www.cirad.fr/en>

### Cost of shipping to UK from main countries of origin Estimated costs in US\$ per kg

Source: Anonymous interviews with UK banana importers adjusted for CIRAD analysis of inflation



**THE COSTS OF SUSTAINABLE PRODUCTION ARE HIGHER THAN THE PRICES SMALL PRODUCERS RECEIVE, INCLUDING IN FAIRTRADE AND ORGANIC MARKETS. PRODUCERS ARE ONLY ABLE TO SURVIVE AND TAKE LESS CARE OF THEIR LAND BECAUSE THEY LACK THE NECESSARY RESOURCES TO INVEST. IN MANY PLACES PRODUCTIVITY HALVED IN THE PAST FIVE YEARS.**

*A producer from the Dominican Republic interviewed for this study*

## 4.5 THE IMPACT OF SUPERMARKET PRICE WARS ON PRODUCERS

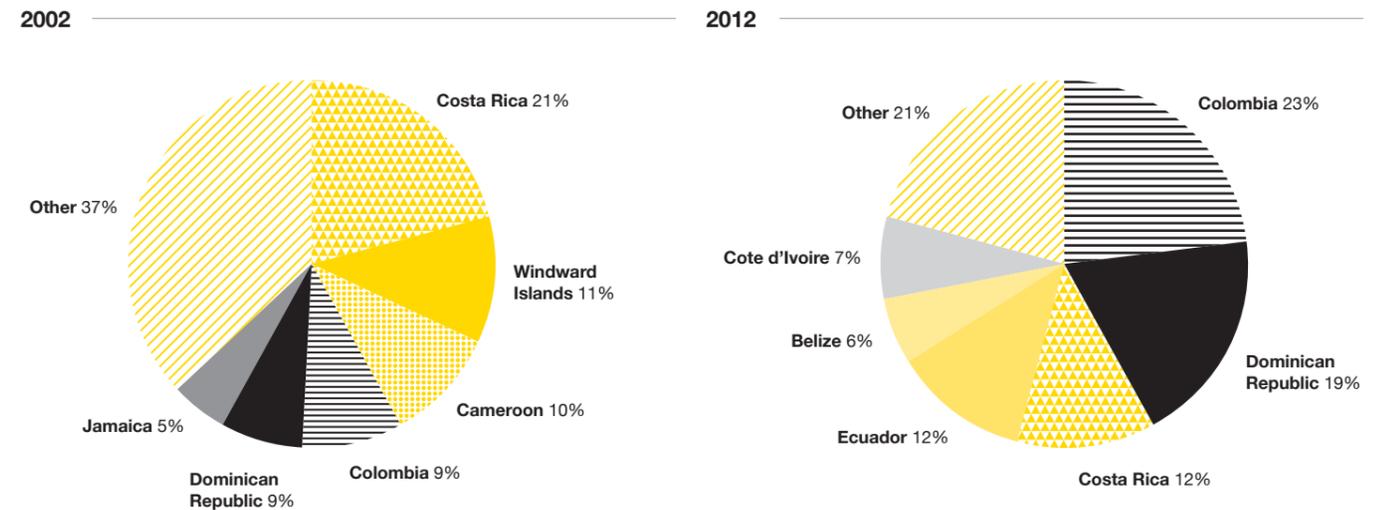
The extent to which individual producers are affected by the loss of value in the banana supply chain depends on the volume of bananas they supply to the UK market. Therefore we need to look at where our bananas come from and the prices available to producers in those origin countries. This has changed considerably over the past decade.

In 2002, 50 per cent of our bananas came from Costa Rica, the Windward Islands, Colombia and Cameroon. In 2012, there had been a big change in countries of origin, with 54 per cent coming from Colombia, the Dominican Republic and Ecuador.

Given the growth in volume of the overall UK market for bananas, this shift represents significant gains for Colombia, the Dominican Republic and Ecuador. Volumes of bananas from Colombia and the Dominican Republic have risen three-fold over the past decade, while Ecuador now sells twenty-one times more bananas to Britain than it did in 2002. Conversely, the three countries that were our largest suppliers in 2002 have all seen volumes fall by between 33 percent (Costa Rica) and 85 percent (Windward Islands).

### % Changes in origins of bananas imported into Britain 2002 - 2012

Source: Eurostat



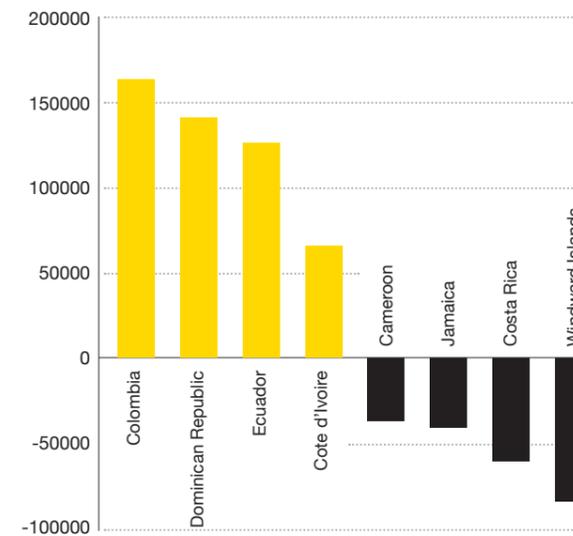


“MANY FELLOW PRODUCERS HAVE DISAPPEARED BECAUSE THEY COULDN'T BEAR THE HIGH COSTS OF PRODUCTION. THEY HAD TO GET OUT OF THE MARKET BECAUSE EVERYTHING IS GOING UP HERE. THINGS ARE GOING UP AND NOT GOING DOWN – GOING UP EVERY DAY.”

*Smallholder farmer, the Dominican Republic*

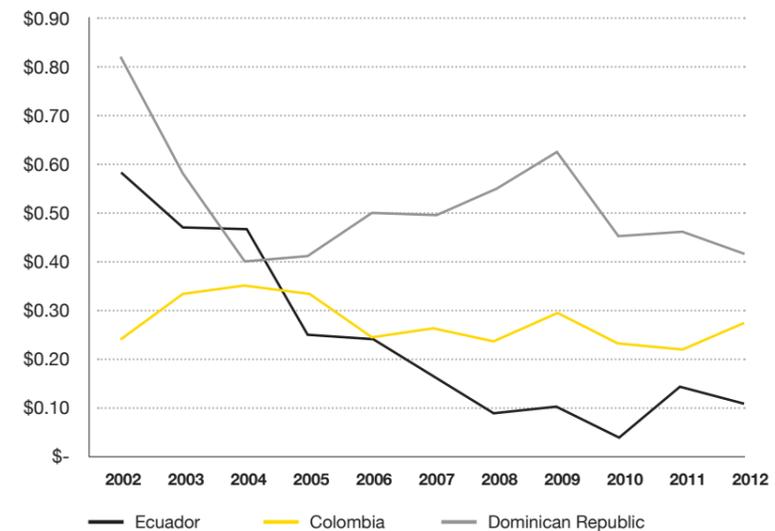
**Winners and losers: Changes in volume of bananas imported into Britain 2002 – 2012**  
**By origin (Metric tonnes)**

Source: Eurostat



**UK import prices of bananas from major origins, less shipping costs, adjusted for local inflation 2002 – 2012**  
**US\$ per kg (at constant 2012 prices)**

Source: UK import prices from Eurostat, minus shipping costs (estimates by CIRAD, as before) see methodology section (Appendix 9.1)



It is therefore possible to look at the trend in UK import prices in the context of the trade with the three largest exporting countries that account for over 70 percent of all banana imports into Britain.

As explained in section 4.3, the real value of the import price has declined due to inflation, and this was illustrated in respect to the trend in consumer prices in Britain. But farmers and workers in Colombia, the Dominican Republic and Ecuador are affected not by inflation in Britain but by the rising cost of living in their own countries.

Inflation in producing countries has been much higher than in Britain; an average of 6.4 percent in Colombia, 8 percent in Ecuador and 21.65 percent in the Dominican Republic. If we look at the UK import costs from those countries minus the costs of shipping to the UK and track the net value against inflation in the producing countries, we can see how the value has changed over the past decade.

This shows that the price in Colombia appears to be stagnating, while in the Dominican Republic the price when selling to the UK market has fallen by 48 percent and in Ecuador by 81 percent.

Declining import prices in the UK are mirrored in origin countries. In order to understand what this means for farmers and workers we will now consider how this compares to the costs of sustainable production.

**IF WE LOOK AT THE ROOT CAUSES OF THE LACK OF SUSTAINABILITY IN THE BANANA SECTOR IT'S MOSTLY LINKED TO VERY LOW PRODUCER PRICES, WHICH ARE MAINLY DUE TO LOW CONSUMER PRICES. PRODUCERS DO NOT GET PAID ENOUGH FOR THEIR BANANAS SO THAT THEY CAN INVEST IN SUSTAINABLE PRODUCTION METHODS.**

*Pascal Liu, senior economist at the Food and Agriculture Organization (FAO), October 2013*

#### 4.6 PRODUCER PRICES VS COSTS OF SUSTAINABLE PRODUCTION

There are different ways to calculate the cost of the sustainable production of bananas, depending on how one defines 'cost' and what is included as necessary for sustainability.

For simplicity we will compare the price available to producers in each of the main countries that supply to the UK market with the Fairtrade Minimum Price and Fairtrade Premium.

The Fairtrade Minimum Price seeks to define a level at which a typical producer can operate in a sustainable way based on the collection of production costs and stakeholder consultation (see section 6.3). This means that the Fairtrade Minimum Price may be set at a level which does not fully meet the costs of sustainable production for some producers.

This often uncomfortable compromise partly reflects the intensive deflationary pressure felt throughout the banana supply chain which can encourage stakeholders to resist upward revisions of the minimum price for fear of losing sales. In most Fairtrade commodities there is considerable

price movement, with the minimum price activated only when necessary. However, too often with bananas industry players treat the Fairtrade Minimum Price as a market reference price rather than as the minimum price floor and starting point for negotiation that it is intended to be.

#### BUYERS TAKE THE FAIRTRADE MINIMUM PRICE AS A MARKET PRICE WHEN IT SHOULD BE A MINIMUM PRICE FLOOR.

*Banana producer, the Dominican Republic, interviewed for this study.*

Fairtrade prices are reviewed regularly through a research exercise among selected relevant producers using a common calculation methodology and a process of stakeholder dialogue which seeks to balance the principles of meeting the costs of sustainable production with market access. The last full price research for bananas was undertaken in 2009, and this was updated in 2012 to take account of inflation.



#### Change in Fairtrade Minimum Price from 2002

Country of origin	Fairtrade Minimum Price 2002	Fairtrade Minimum Price 2012	Fairtrade Premium 2013
Colombia	\$5.25	\$9.80	\$1.00
Ecuador	\$5.25	\$8.85	\$1.00

*FOB prices per 18.14kg box of conventional Fairtrade bananas. Adapted from: 25 jaar Fairtrade Max Havelaar Bananen Met Toekomst, Max Havelaar Netherlands, 2013*

The 2012 prices provide a simple measure of typical costs that were applied in that year which can be compared with average prices for sales of bananas (excluding Fairtrade) from the three main producing countries supplying Britain.

The Fairtrade Minimum Prices and Premium used for this comparison are:

Country of origin	Fairtrade Minimum Price (US\$)	
	Per 18.14kg box	Per kg
Colombia	9.80	0.54
Dominican Republic (organic)	13.50	0.74
Dominican Republic (non-organic)	10.90	0.60
Ecuador	8.85	0.49

*Source: Fairtrade International Standards and Pricing Unit*

A photograph of a man in a yellow shirt working in a banana plantation. He is smiling and holding a bunch of green bananas. The background shows rows of banana plants with large green leaves and some blue plastic mulch. The man is wearing a yellow long-sleeved shirt and a watch on his left wrist.

**“ THE MONEY EARNED FROM BANANA PRODUCTION IS NOT SUFFICIENT, BECAUSE IT IS BELOW THE COST OF BASIC NEEDS. IT IS ALSO NOT ENOUGH TO COVER OTHER FAMILY COSTS SUCH AS EDUCATION AND HEALTH OR FOR THE PAYMENT OF BASIC SERVICES LIKE WATER AND ELECTRICITY. ”**

*A producer from Ecuador interviewed for this study*

A very significant proportion of bananas from the Dominican Republic are certified organic. The country is the number one exporter of organic bananas in the world, and more than 60 percent of banana production for export is organic certified<sup>xxi</sup>. Almost three quarters of banana producers in the Dominican Republic are organic – 100 percent in the southern region and 60 percent in the northern region<sup>xxii</sup>. However, the Eurostat figures for imports do not allow specific volumes and values for organic bananas to be identified, and the average price calculated for bananas traded on the conventional market (i.e. excluding Fairtrade) includes both organic and non-organic. To make a single comparison with Fairtrade, a composite of the two minimum prices has been used assuming that just 50 percent of Fairtrade sales are organic (\$0.67 per kilo). This is a cautious estimate and almost certainly understates the true picture.

Producers supplying the Fairtrade market also receive a premium payment of \$1 per 18.14 kilogram box (\$55 per tonne), which is earmarked for social and economic investment but which can also be used as cash payments for farmers and for other forms of economic support for workers in some circumstances. On average 24 percent of the premium is used in this way<sup>xxiii</sup>.

On plantations, a much higher proportion of this premium – 59 percent – is used for economic support, but the plantations' share of the premium is 30 percent compared to 70 percent for smallholder organisations, where only 9 percent of the premium is used for cash payments.

This means that on average \$0.01 per kilo of bananas is used for economic support while \$0.04 is retained for investment.

The combined Fairtrade Minimum Price plus Fairtrade Premium can be compared against the average prices paid to producers. This allows an estimate of the extent to which prices at farm level are keeping up with costs of production and the need for additional social and economic investment to ensure sustainability.

The average price received by Ecuadorian producers from UK importers is very close to the official government support price, which is based on production costs that apply only to the largest 10 percent of producers in the country (see Section 7.1),<sup>xxiv</sup> and studies in Ecuador show that only 25 percent of Ecuadorian households reliant on income from work on banana plantations earn an income that crosses the poverty line<sup>xxv</sup>.

Colombia appears to come closest to receiving a price that covers the costs of sustainable production, but the gap is still significant. It seems that Fairtrade may have influenced prices in the wider market. Fairtrade accounted for 40 percent of the volume of Colombian bananas sold to the UK in 2012<sup>xxvi</sup>. Some retailers have stated that they benchmark their prices to the Fairtrade Minimum Price in plantations in Colombia, regardless of whether or not they are sold with the FAIRTRADE Mark.

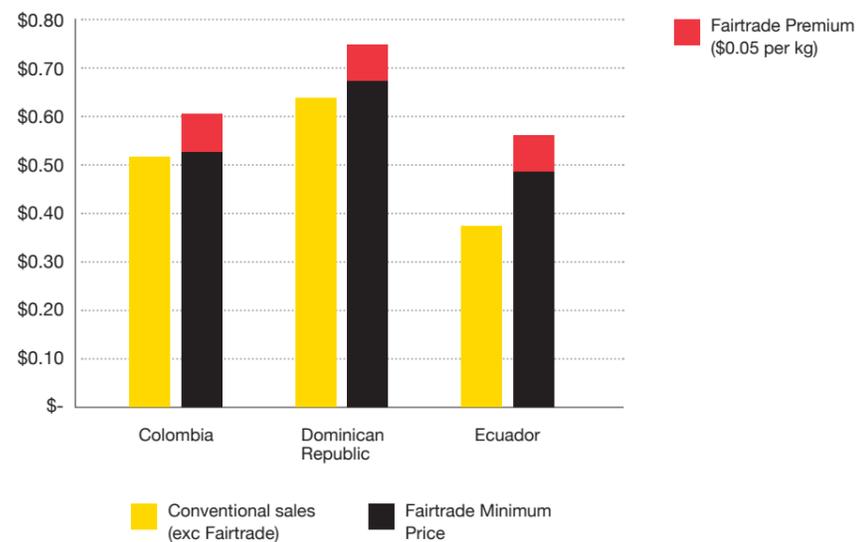
However, we have not seen independent verification of this and note that the other benefits of Fairtrade such as the premium payment and environmental and workers' rights standards would not necessarily apply.

**THE ORGANIC AND FAIRTRADE MARKETS ARE KEY FOR THE PROTECTIVE STRATEGY OF PRODUCERS BECAUSE THEY OFFER MORE STABLE PRICES.**

*A producer from Dominican Republic*

**Average price available to producers compared to Fairtrade Minimum Price in 2012 US\$ per kg**

Source: Fairtrade Minimum Prices and Premium from Fairtrade International. For calculation of conventional price see methodology section (Appendix 9.1)



# 5/ THE MARKET ENVIRONMENT FOR BANANAS

## LOW RETAIL PRICES ARE NOT THE ONLY FACTOR KEEPING PRICES LOW FOR BANANA FARMERS AND WORKERS. TRADE LIBERALISATION IS ALSO VERY IMPORTANT. TO UNDERSTAND HOW WE NEED TO STEP BACK AND TAKE A BROADER LOOK AT HOW THE BANANA TRADE HAS CHANGED OVER THE YEARS.

### 5.1 EVOLUTION OF THE GLOBAL BANANA TRADE

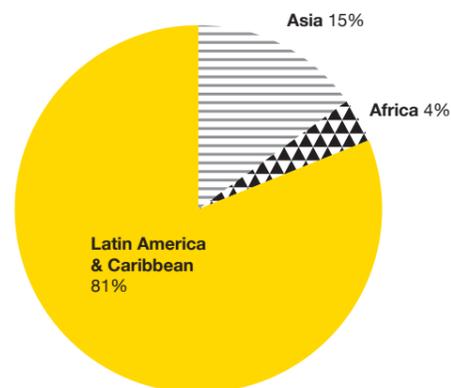
Most bananas never leave their country of origin. Bananas are the fourth most important food staple in the world after rice, dairy products and wheat. They play a key role in food security for many countries. Their production is often one of the few activities that provide households with regular income throughout the year, and the trade is a key contributor to the economies of many low income countries<sup>xxvii</sup>. Only 15-21 percent of world banana production is exported<sup>xxviii</sup>. Countries such as India and Brazil produce mainly for their own domestic markets and export very little of their crop.

Although domestic banana production is dominated by small producers, at least 80 percent of exports come from large-scale plantations (between 100 and 4,000 hectares)<sup>xxix</sup>. The five leading banana-exporting countries (Ecuador, Colombia, the Philippines, Costa Rica and Guatemala) accounted for more than 80 percent of global banana exports. Ecuador is by far the main supplier of bananas in the world market, supplying more than a third of the total volume of bananas traded internationally (see overleaf)<sup>xxx</sup>.

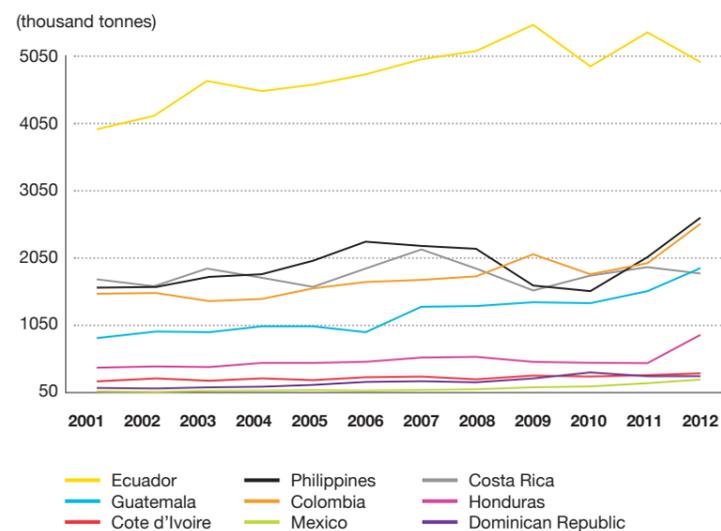
The most important regions for smallholder production are the Caribbean and south America. In the Windward Islands and the Dominican Republic<sup>xxxi</sup>, the majority of growers are smallholders established in hilly landscapes prone to run-off erosion with limited possibilities of mechanisation, irrigation and transport<sup>xxxii</sup> and with high risks of severe climatic events such as hurricanes<sup>xxxiii</sup>. Bananas play a key role in the preservation of the social and economic fabric of these islands<sup>xxxiv</sup>.

In Ecuador and Colombia, production is more differentiated, and small and medium-sized farmers are integrated into modern export chains. By contrast, production in central America and west and central Africa<sup>xxxv</sup> is far less fragmented, with most exports coming from large plantations with mechanisation and irrigation<sup>xxxvi</sup> that are often controlled by multinational fruit companies. There are also a handful of larger plantations in the Colombian region of Uraba<sup>xxxvii</sup>.

**Banana exports by region 2003 – 2012 average**  
14409 thousand tonnes



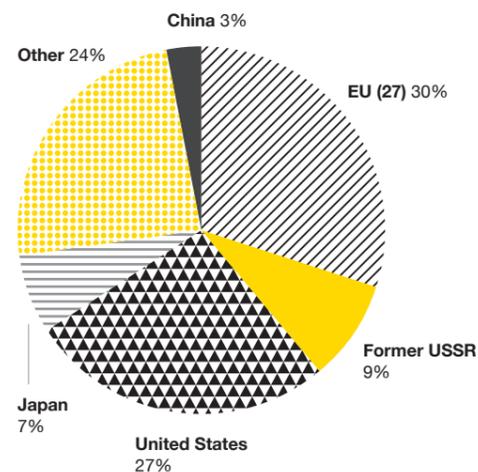
**Banana exports – major countries**



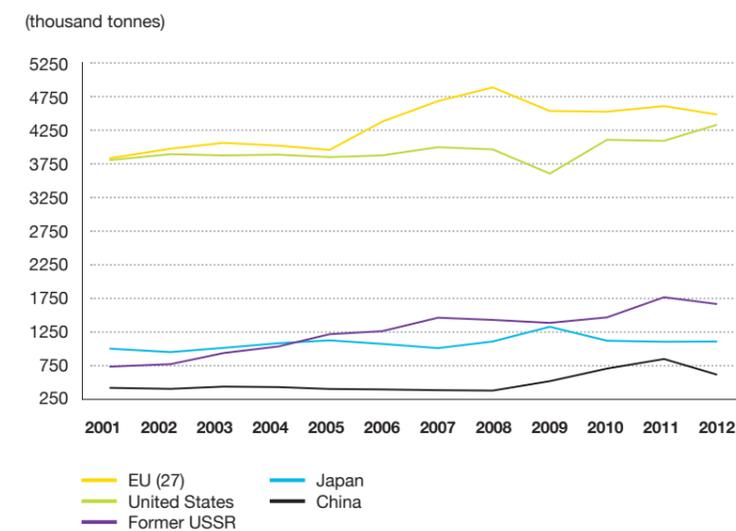
Source: FAO, Commodity markets monitoring and outlook, 2013<sup>xxviii</sup>

The main markets for exported bananas are north America, the European Community, Japan, Russia and countries in eastern Europe.

**Banana imports 2003 – 2012 average**  
14711 thousand tonnes



**Banana imports – major countries**



Source: FAO, Commodity markets monitoring and outlook, 2013<sup>xl</sup>

In response to these production and consumption patterns, the world banana trade follows a regional pattern and can be split into three trading systems<sup>xi</sup>:



## GROWING RETAILER POWER IN BANANA SUPPLY CHAINS

For most of the twentieth century the banana industry was dominated by vertically-integrated companies that owned plantations, operated shipping lines, and managed import and wholesale activities. From the 1970s until the 1990s the global banana trade was dominated by five large companies – Dole (formerly the Standard Fruit Company), Chiquita (formerly the United Fruit Company), Del Monte, Fyffes and Noboa – which at their peak accounted for 80 percent of the world banana market<sup>xvii</sup>. Over the past 20 years this market share has declined to around 60 percent, while the influence of large retail buyers, especially in Europe, has increased correspondingly<sup>xviii</sup>.

## TRADE LIBERALISATION REDUCING BANANA PRICES

This transformation in Europe was accelerated by moves by the European Union (EU) to harmonise and liberalise its market for banana imports. Prior to 1993 individual EU states were able to provide preferential access for traditional suppliers in the African, Caribbean and Pacific (ACP) regions who were heavily dependent on those markets. These included the Windward Islands and Jamaica as traditional suppliers to Britain and Cameroon and Cote d'Ivoire as suppliers to France. The EU was hotly pressed by the US to open up its markets and reduce trade barriers for agricultural commodities in the Uruguay Round of the General Agreement on Tariffs and Trade, which was concluded in 1993. Within Europe there was also pressure from Germany for a more open market.

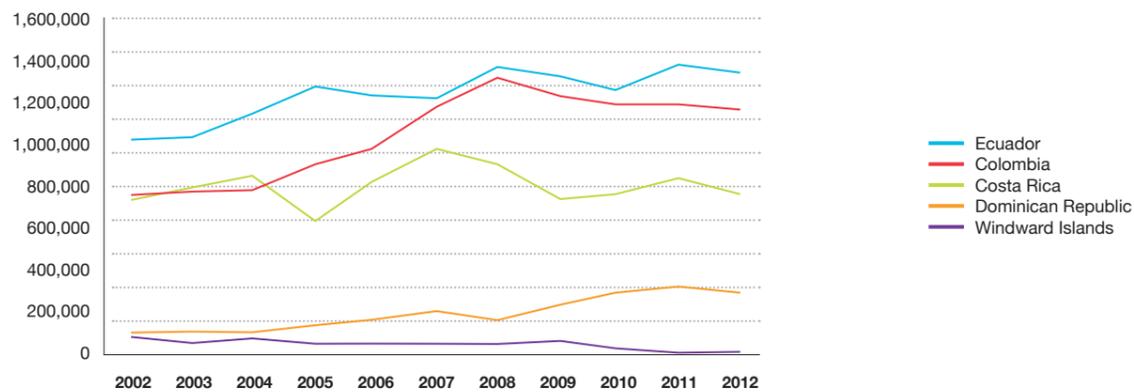
The World Trade Organization (WTO) harmonised the EU's banana tariff regime, which had imposed quotas for different origins and tariffs for imports above the levels of the quotas. This was replaced in 2006 by a tariff-only system, and although Latin American bananas currently pay a higher tariff than traditional origin countries this differential is expected to reduce significantly by 2020.

The 1993 changes benefited non-traditional Caribbean suppliers in countries such as the Dominican Republic and Belize. At the same time, banana traders saw a major business opportunity from a European market that they forecast would increase as it opened up to lower cost producers. Their investment in banana production was higher in this period than at any time in the previous 25 years. The EU market reforms did not lead to an expansion in the volume of banana imports as expected, but the major Latin American exporters to the EU (Ecuador, Costa Rica and Colombia) benefited from changes in the EU import regime, and volumes from Ecuador and Colombia accelerated sharply after the introduction of the 'tariff-only' system in 2006<sup>xlix</sup> (see below).

However, the expansion of supply and the stagnant demand resulted in a significant fall in banana prices (see below)<sup>xl</sup>.

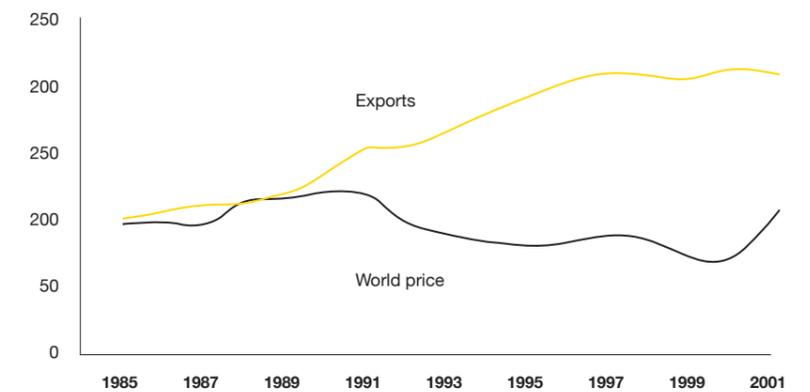


**Banana import volumes per origin into the EU-27**  
**BASIC based on Eurostat data**  
 (downloaded from Eurostat website)



**World banana exports and world price indices (base year 1985) 1985 – 2000**

Source: FAO, *The world banana economy 1985 – 2002*, Rome 2003



## 5.2 CONSOLIDATION OF SUPERMARKET POWER AND UK PRICE WARS

At the same time, this oversupply in bananas created the conditions for a buyers' market. Large European supermarkets were poised to grasp this opportunity as part of a strategy to increase their share of the fresh fruit and vegetable market. It has been estimated that supermarkets accounted for just 33 percent of global fresh fruit and vegetable sales in 1989, but that this had grown to 80 percent by 2003.

Many moved their buying from traditional wholesale markets to dedicated supply chains<sup>xvi</sup> and looked to realise economies of scale. They also required producers to become accredited to standards that would provide assurance on quality and safety and enable them to change suppliers as and when necessary.

In 1999 17 retailers decided to introduce a common, independent verification system for their suppliers on good agricultural practice, which became known as EurepGAP. This evolved into a global system called GlobalGAP, in 2007. All of these moves further consolidated retailer buying power in fresh fruit and vegetables, most noticeably in bananas.

This change has been particularly acute in Britain where the concentration of retailing, with four chains accounting for over 70 percent of sales (see below), is higher than in other countries. Competition among UK supermarkets is also fiercer than in most other European markets. In 2005 the Office of Fair Trading (OFT) found that 93 percent of the population have a choice of at least three different supermarkets within a 15-minute drive<sup>xvii</sup>. The British market has also seen a marked decline in the use of familiar banana brand stickers such as Geest and Fyffes, which may have made it hard for Chiquita and Dole to establish a consumer-facing presence<sup>11</sup>.

## A BRIEF HISTORY OF BANANA PRICE WARS

In August 2002 Asda, under its new owner Walmart, decided to reduce prices on a basket of key consumer products, funding this through lower retail margins. Loose bananas in the UK had been priced at £1.08 per kilo for the previous six years, but Asda reduced its retail price to £0.94. Tesco, Sainsbury's and Safeway followed Asda's lead, and Morrisons took the next step by cutting its price to £0.85, again followed by the other big four chains. In 2003, the price fell further to £0.79 per kilo<sup>xviii</sup>. A second wave of price-cutting began in 2007, when Asda announced a further round of price cuts on 10,000 products. It announced that this was being achieved by reduced margins that would cost Asda £250 million. As part of this initiative bananas were reduced from 62p to 59p per kilo<sup>xix</sup>. Within hours, Tesco had responded by promising £270 million of price cuts on 3,000 products<sup>1</sup>. 2007 coincided with commitments from Sainsbury's and Waitrose, followed later by The Co-operative to source 100 percent Fairtrade bananas.

## EMERGENCE OF THE 'HARD DISCOUNTERS'

Price competition has also been heightened by the presence of 'hard discounters', a form of retailing that originated in Germany in the 1960s with the Aldi<sup>12</sup> chain and its main competitor Lidl. Based on their success in their home market, where they achieved a share of the grocery market of over 20 percent, they expanded across Europe in the 1970s and 1980s and entered the British market in 1989 and 1994 respectively. The discount chains work from smaller stores and stock fewer items per category than the main supermarket chains. This helps them to streamline operations, achieve higher sales per unit of space, and buy products in greater volumes<sup>4</sup>. All of these generate savings that are passed on to consumers in the form of discounts.

The main British supermarkets were aware of the success of the discounters in other European markets and concerned about a similar trend in the United Kingdom. Even now, Aldi and Lidl account for less than 9 percent of the total grocery market, but their growth has been accelerating for the past few years in response to the prolonged recession and the squeeze on spending power for most consumers.

Aldi and Lidl have also increased the range of products they sell in order to cover a typical weekly shop<sup>ii</sup>. As part of this strategy they now sell fresh fruit and vegetables, including bananas. These were explicitly not part of the original 'hard discount' concept<sup>iii</sup>, precisely because they did not offer the same potential for discounting as manufactured food and household products. Most of the retailers interviewed for this report agreed that the influence of Aldi and Lidl on the prices of Known Value Items in the big four chains (and therefore on the overall price level across the country) is high, despite their relatively small share of the overall grocery market.

## THE PRICE WARS CONTINUE

The price wars have also been aggressively pursued via frequent supermarket advertising that focuses on a comparison of one chain's prices for one or two items compared to those of its competitors. Every retailer we spoke to told us of the intense and persistent competitive pressure they face to keep retail prices for loose bananas as low as possible. Where retailers have attempted to increase loose banana prices they have frequently reversed their decisions after aggressive advertising by competitors. In this context, one supermarket described the price of bananas as a 'canary' – or an early warning sign that would quickly reveal how one supermarket's prices compared to the others.

Several retailers now commit to matching the prices of their competitors on a typical shopping basket. Sainsbury's innovated by offering consumers vouchers at the checkout to the value of the saving that could have been made at Asda or Tesco. Asda responded by offering to beat Sainsbury's' and Tesco's prices by 10 percent. These public announcements mean that any of the Big Four supermarkets can choose to play 'beggar thy neighbour' with prices by making reductions with the aim of costing rivals money rather than with the objective of having a sustainable commercial strategy. This concern was raised in general terms by several of the retailers individually interviewed for this report.

### Market shares of national supermarket chains in UK

Source: Kantar Worldpanel

Retailer	% share of UK grocery market		% change year-on-year
	12 weeks to 11/11/12	12 weeks to 11/11/13	
Tesco	30.5	29.8	-2.3
Asda	17.6	17.2	-2.3
Sainsbury's	16.9	16.8	-0.6
Morrisons	11.7	11.5	-1.7
The Co-operative	6.5	6.3	-3.1
Waitrose	4.6	4.8	4.3
Aldi	3.0	3.9	30.0
Lidl	2.7	3.0	11.1

<sup>11</sup> Interviews with retailers for this report asked whether the presence of banana brands in the UK market would have resulted in higher retail prices, and this statement reflects the general consensus among those interviewed.

<sup>12</sup> The name is an abbreviation of 'AlbrechtDiskount' and was introduced in 1962. The Albrecht family had been retailers in Germany since 1913.

**THE EU SHOULD ADDRESS POWER IMBALANCES IN FOOD CHAINS BY MORE EFFECTIVELY APPLYING ITS COMPETITION LAW TO ADDRESS THE CREATION, MAINTENANCE AND ABUSE OF BUYER POWER NOT ONLY TO PROTECT SUPPLIERS, PARTICULARLY IN DEVELOPING COUNTRIES, FROM THE IMPACT OF ABUSES OF DOMINANT POSITIONS, BUT ALSO TO ENSURE TO THE LONGER TERM STABILITY OF SUPPLY FOR CONSUMERS.**

*Olivier De Schutter, United Nations  
Special Rapporteur on the Right to Food<sup>ixiv</sup>*



## 5.3 THE IMPACT OF COMPETITION LAW ON BANANA PRICES

Retailers do not operate in a vacuum but within a context of government regulation. What does this look like, and how far does it help banana producers?

In the UK the Department for Business, Innovation and Skills (BIS)<sup>iv</sup> oversees work to enforce fair trading and competition law. The main bodies implementing these rules are the Office of Fair Trading (OFT) and the Competition Commission (CC). In 2014 the competition and markets functions of these bodies will be merged into a new Competition and Markets Authority (CMA), which will have the aim of making markets work well for consumers, businesses and the economy. UK regulation<sup>v</sup> is based upon European competition law<sup>vi</sup>, which is enforced by the European Commission (EC) as the regulator of the single European market. The EC's Competition Directorate has wide-ranging powers to investigate anti-competitive practices that have cross-border implications. The OFT (CMA) enforces UK and EU competition law within the UK.

### HOW DOES COMPETITION LAW WORK?

The presumption of competition law at both UK and European levels is that effective competition is manifest in low prices for consumers, and conversely that artificially-high prices reflect a lack of competition. In general the law therefore strictly prohibits any form of concerted action by businesses that may affect trade, and specifically any agreements or practices that 'directly or indirectly fix purchase or selling prices or any other trading conditions'<sup>vii</sup>. Harsh penalties have been introduced for breaches of these laws, including fines of 10 percent of worldwide turnover of the firms involved, up to five years in prison and disqualification of company directors. In principle it is possible to justify such arrangements where companies agree to achieve appropriate goals proportionately (and without eliminating competition), but it is difficult to satisfy the exemption test where competing sellers agree the price at which they sell a product or the quantities they sell. Given the substantial risks involved in any breach of

competition law, companies bar their staff from any discussion of pricing policies or practices except in the most general terms.

### DO REGULATORS CHALLENGE RETAILER POWER, AND IN WHOSE INTERESTS DO THEY CHALLENGE IT?

The competition authorities have long recognised the fact that the supermarket sector is an oligopoly (a market form dominated by a small number of sellers) and have been keen to protect consumers from the potential for this to be abused.

But in fact the supermarket sector is also an oligopsony (a form of imperfect competition arising from the dominant power of a small number of buyers), in which retailers have a high measure of power over the producers they buy from. In this context, do regulators protect producers as well as consumers?

### THE GROCERIES CODE ADJUDICATOR

A Competition Commission report into the supermarket sector in 2000 highlighted a number of concerns about the buying power of the large supermarkets. This led to a voluntary code of practice to protect suppliers being adopted by Tesco, Sainsbury's Safeway and Asda. In February 2004 the OFT published a report on the how well the code was working<sup>viii</sup>. This report found a widespread belief among suppliers that the code had not brought about any change in supermarket behaviour.

Suppliers were afraid that complaints under the code would result in them being de-listed by the supermarkets or being required to trade with them on worse terms<sup>ix</sup>. The OFT could find no evidence of supermarkets behaving in this way but noted that the 'climate of apprehension'<sup>x</sup> among suppliers extended to not allowing even their trade associations to raise matters on their behalf. Four trade associations responding to the OFT consultation refused to allow it to reveal their names or even the sectors in which they operated.

A further enquiry by the Competition Commission in 2008 said that many of the

concerns raised in its 2000 report were still ongoing. Although the primary focus of the commission's investigation was whether supermarkets offer customers a fair deal, the Competition Commission had serious concerns about practices that place unreasonable pressure on suppliers. These practices are ultimately bad for consumers because they stifle competition and innovation.

This prompted the Groceries Supply Code of Practice (GSCOP) in 2010 and the appointment of a Groceries Code Adjudicator (GCA) in 2013, which was supported by a wide number of farmers' groups, Non-Governmental Organisations and members of the Food and Drink Federation. The British Retail Consortium, lobbying on behalf of its largest retail members, opposed the appointment of the adjudicator on the grounds that it would add unnecessary costs to the supply chain as there had been no complaints under the GSCOP in its first two years of operation<sup>xi</sup>. This ignored the concerns raised in the OFT's 2004 report that the lack of complaints under the voluntary code may actually be a symptom of the code's ineffectiveness.

### WILL THE GCA TACKLE PRICE WARS?

The GCA is intended to provide suppliers, including overseas suppliers when they are directly supplying retailers, with a better channel for complaints if they believe they have been unfairly treated. The GCA has the power to fine retailers for breaches of the code.

However, the focus of the GCA is primarily on contract terms between grocery retailers and their direct suppliers, and so the adjudicator brings limited benefits for primary producers who do not deal directly with supermarkets.

**Moreover, the GCA and other UK regulators do not have the mandate to consider a structural decline in price such as that seen in banana retail or the long-term harm to primary producers and the potential harm to long term sustainable agricultural practices that may result from retailers stripping value out of the supply chain.**

## COMPETITION LAW

The current approach to competition law (favoured by the OFT and the EC) assumes a narrow definition of consumer interest which focuses almost entirely on price rather than broader consumer interest in long-term sustainable and ethically sourced food. The OFT and EC are powerful actors in this sphere, but their approach is not in line with many EU court judgements or the wishes of the Member States<sup>xii</sup>, nor is it in line with the original aims of EU or UK competition law<sup>xiii</sup>.

This line of judgements from the EU courts is supported by explicit demands in EU treaties that a high level of environmental protection requirements (including prudent use of worldwide resources) 'must be integrated into the definition and implementation of the Union policies and activities, in particular with a view to promoting sustainable development.'<sup>xiv</sup> Similar provisions relate to poverty reduction and development co-operation.

However, all of the stakeholders we spoke to, including retailers, are concerned that the current trading models for bananas do not return sufficient value to producers to allow them to invest in meeting emerging sustainability challenges and to improve ethical standards of production, including the delivery of living wages. Regulators are aware of this tension between competition law and sustainability goals. An OFT roundtable discussion in 2010<sup>xv</sup> suggested that 'a broader definition of benefits to consumers, including future generations and therefore sustainability issues, would allow inclusion of wider policy objectives so that competition law isn't a block on 'desirable social goals'.

The Scottish Government has recently legislated to impose a minimum price per unit of alcohol. So far, challenges to the legality of this move under EU competition law principles have been unsuccessful, though challenges are ongoing. This case suggests that it is possible for governments to apply wider social goals in the context of retail pricing<sup>xvii</sup>.

**It is also clear that no single retailer would be able to address the long-term decline in value alone, though there is still much that they can and should do. Government also needs to acknowledge the problem and help to resolve this impasse.**

Many retailers are engaged with the World Banana Forum, an initiative sponsored by the Food and Agriculture Organization that brings together large producers, small farmer organisations, trade unions, banana companies, retailers and civil society organisations to work for a sustainable banana industry. They spoke positively about the value of multi-stakeholder dialogue and collaboration – but only on 'pre-competitive issues' since discussion of pricing policies is strictly off-limits. **It seems that although price is the most pressing problem facing producers, discussions about price cannot be part of the solution under current interpretations of competition legislation.**

**So while we would like to see retailers take the initiative to buck the trend and break out of the price war that has progressively depressed prices to unsustainable levels, if they are unwilling – or unable – to do so, then government has a clear responsibility to facilitate a transparent and responsible approach to investigate the situation and, if necessary, act on its findings to correct any imbalances that undermine government goals to drive ethical and responsible business and long-term food security.**

Market regulation needs to achieve a better three-way balance between the right of the public to long-term sustainable food supplies, the right of the public to affordable food, and the rights of producers to sustainable and fair prices. Government will need to show leadership and policy coherence across departments so that regulation supports rather than undermines the goals of sustainable sourcing of food and fair treatment of farmers and workers in overseas supply chains.

## > What needs to happen?

**Market regulation needs to achieve a better three-way balance between the right of the public to long-term sustainable food supplies, the right of the public to affordable food and the rights of producers to sustainable and fair prices. If we are serious about sourcing our food sustainably and treating all in the supply chain fairly then government will need to show leadership and policy coherence across departments (including the OFT/CMA) so that regulation supports rather than undermines these goals.**

**Government regulation at UK and European Union (EU) levels needs to be rebalanced in order to ensure that the rights of banana producers to protection from excessive price competition are upheld. We set out detailed recommendations for this in the conclusions and recommendations sections of this report.**

# 6/ FAIRTRADE'S ALTERNATIVE APPROACH

## FAIRTRADE<sup>13</sup> IS AN ALTERNATIVE APPROACH TO CONVENTIONAL TRADE. BY CHOOSING FAIRTRADE, CONSUMERS CREATE THE PUBLIC DEMAND FOR PRODUCTS THAT OFFER ORGANISATIONS OF FARMERS AND WORKERS GUARANTEED TERMS OF TRADE, MORE STABLE AND ADEQUATE PRICES AND THE USE OF A SALES-RELATED FAIRTRADE PREMIUM.

### 6.1 GENERAL BACKGROUND TO THE FAIRTRADE SYSTEM

To be certified as Fairtrade producer organisations are required to comply with a number of social, economic and environmental criteria and function democratically and transparently as representatives of their member farmers and workers.

Today Fairtrade is a global system that certifies 1,149 organisations in 70 countries, representing 1.3 million farmers and workers. Standards exist for over 300 products that are sold in 125 countries, generating estimated sales in 2012 of €4.8 billion and providing over €80 million in Fairtrade Premium<sup>xviii</sup>. 2014 marks the 20th anniversary of the FAIRTRADE Mark in the UK.

Many independent studies have been undertaken in recent years to study the impact of Fairtrade on farmers and workers<sup>14</sup>. One such report commissioned by two Fairtrade organisations in 2011<sup>xix</sup> highlighted that one of Fairtrade's strongest contributions to rural development comes from farmers' and workers' ownership of decisions on how to use the Fairtrade Premium on projects that benefit the whole community such as improving access to health and education. The study also found higher productivity and income levels among members of Fairtrade certified producer organisations, as well as increased levels of investment in comparison with non-certified settings.

The study also showed that on its own Fairtrade certification provides a platform for initiating rural development and poverty reduction. In order for a broader and deeper development impact to be achieved organisations need support and investment to ensure farmers and workers are aware of Fairtrade and how it works so that they can participate in decision-making. This will also strengthen leadership and technical and commercial capacities so that efficient and effective services are provided to members.

Most importantly, organisations need to sell a significant proportion of the products they grow under Fairtrade conditions so that members receive a stable income that at least covers their basic needs, and so that the organisation receives sufficient premium

income to make significant investments. If a producer is certified as Fairtrade but only sells a small percentage of goods on Fairtrade terms while relying on conventional sales for the rest, the economic impact can be limited – hence the importance of maintaining demand for Fairtrade produce.

### 6.2 FAIRTRADE BANANAS – SCOPE AND SCALE

At the end of 2012, 110 banana producer organisations in 15 countries worldwide were certified to Fairtrade standards, including 64 small producer organisations (representing 17,512 farmers) and 46 hired labour organisations (i.e. plantations with a total of 7,100 workers). The majority of Fairtrade banana producer organisations are in Colombia and the Dominican Republic.

The table below contains disaggregated data based on 2011 figures, therefore the total figures in the table below differ from those in the paragraph above.

Retailer	Small producer organisations	Farmers	Hired labour organisations	Workers
Colombia	9	420	21	2010
Dominican Republic	12	1980	12	1830
Peru	12	4710	0	0
Ecuador	6	2330	1	280
Windward Islands	2	3560	0	0
Other (Costa Rica, Mexico, Panama, Ghana, Philippines)	2	300	3	780
<b>Totals</b>	<b>43</b>	<b>13300</b>	<b>37</b>	<b>4900</b>

Source: Fairtrade International – Monitoring the scope and benefits of Fairtrade, 4th Edition, 2012

Over the past three years, Fairtrade banana sales have evolved as shown below:

	2010	2011	2012
Sales volume (MT)	294,400	320,923	331,980
% available production of certified producers	52.5%	65.2%	Not available

Source: Fairtrade International – Monitoring the scope and benefits of Fairtrade, 4th Edition, 2012 (excerpt for 2012 sales volumes from Fairtrade International Annual Report 2012-13)

<sup>13</sup> [http://www.fairtrade.net/fileadmin/user\\_upload/content/2009/resources/140112\\_Theory\\_of\\_Change\\_and\\_Indicators\\_Public.pdf](http://www.fairtrade.net/fileadmin/user_upload/content/2009/resources/140112_Theory_of_Change_and_Indicators_Public.pdf)

<sup>14</sup> Impact studies are published on the Fairtrade International website: [www.fairtrade.net](http://www.fairtrade.net)



### 6.3 FAIRTRADE: THE BENEFITS AND CONSTRAINTS FOR FARMERS AND WORKERS

Fairtrade's overall impact comes in two ways: Change through the standards and the economic change that comes as a result of trading on Fairtrade terms.

Both of these dimensions are closely connected. Impact can be increased by strengthening the requirements of the standards (e.g. when minimum prices or premium payments are increased or toughening up environmental regulations). When taking such steps Fairtrade also needs to take into account market conditions.

#### THE FAIRTRADE MINIMUM PRICE

The Fairtrade Minimum Price seeks to cover the average costs of sustainable production for the relevant product. A typical producer (farmer or plantation worker) should be able to operate in a sustainable way without systematic economic losses while contributing to a higher overall income (which requires that the price level needs to consider market acceptance)<sup>xx</sup>. Prices are based on research and consultation among selected relevant producers using a common calculation methodology followed by a process of stakeholder dialogue. This means that the Fairtrade Minimum Price may be set at a

level which does not fully meet the costs of sustainable production for some producers.

The value of the **Fairtrade Minimum Price** is experienced by small producer organisations (co-operatives or associations), for whom the guaranteed floor level provides a safety net for their role as an intermediary between their members and exporters. If the market price is higher than the Fairtrade Minimum Price then producers receive the market price. This guaranteed price can help them obtain finance to pay their members regularly.

Improved cashflow for smallholders belonging to co-operatives was a noticeable finding of recent research in Colombia<sup>xxi</sup>. This research also found that small farmer co-operatives supplying the Fairtrade market were more likely than other producers to have contracts with exporters and, as they gained experience from these relationships, to be able to negotiate better prices and trading terms.

Fairtrade co-operatives in Colombia are currently forming a joint venture – a 'second tier' co-operative – to improve their negotiating position with a view to also moving up the value chain and acting as an exporter of Fairtrade bananas<sup>xxii</sup>. The **Fairtrade Premium** helps provide investment for these kinds of improvements, and 67 percent of the premium received by small banana producers in 2010/11 (€6.6 million) was spent on business or organisational development, production and processing<sup>xxiii</sup>.

For workers on large plantations, Fairtrade standards require **conditions of employment** that at least meet legal minimum requirements, with specific safeguards on **occupational health and safety, no child or forced labour, freedom of association of the workforce, access to collective bargaining processes, and non-discriminatory employment practices**<sup>xxiv</sup>. Fairtrade seeks continual improvement beyond the minimum entry level in most of these areas. The entry-level requirements are broadly similar to the standards applied by the Ethical Trading Initiative's Base Code and are based on the International Labour Organization (ILO) conventions.

Similarly, Fairtrade standards on wages require workers to receive the highest of three reference benchmarks: the legal minimum wage, average wages for the sector or local area, and rates agreed through a Collective Bargaining Agreement with an independent trade union<sup>xxv</sup>. While wages on Fairtrade certified banana plantations may not therefore be higher than on other plantations as a general rule, there is a significant benefit to workers from Fairtrade's requirements for employees to be provided with permanent contracts and employment rights such as holiday pay, sick leave and maternity pay. Temporary workers are permitted, but they must be paid the same rates as permanent workers and must receive a legal employment contract no later than after being in service for three months.

Measures to protect temporary workers are important in banana production, as one effect of the downward pressure on prices has been the casualisation of employment as a way of reducing labour costs (discussed further in Section 7.3). Casual workers are far less likely to receive the legal minimum wage or bonus payments (which can be an important element of total earnings) or have access to social security and healthcare benefits (where available).

A study conducted by the IDS (Smith: 2010) in Ecuador, the Dominican Republic and the Windward Islands showed that the workers employed on Fairtrade-certified plantations earn wages that are in line with industry averages, but that workers generally receive higher income than their counterparts outside Fairtrade once wage-related benefits (e.g. bonuses, social security) are taken into account<sup>xxvi</sup>. The Corporation for Rural Business Development (CODER) study in Colombia surveyed three Fairtrade plantations and one non-Fairtrade plantation as a control and found that 100 percent of the workers on the Fairtrade plantations had permanent employment contracts against just 16 percent on the control plantation<sup>xxvii</sup>.

Historically, many Fairtrade plantations have also used the Fairtrade Premium for cash or in kind payments and to cover the costs associated with housing, healthcare and education. These payments represented 59 percent of the Fairtrade Premium use in hired labour banana producers in 2011, or €2.48 million, an average of €500 per worker.

**THERE ARE COMPANIES THAT ARE PAYING \$6.50 OR \$7. IN FAIRTRADE, WE ARE AT \$9.30. THE DIFFERENCE IS OVER \$2, WHICH WE CAN USE ON FERTILISERS.**

*Smallholder banana farmer, the Dominican Republic*

#### > What needs to happen?

**This report does not claim that Fairtrade is the only route to a sustainable banana industry, but we believe it has achieved a deeply positive impact in its work with many different producer organisations. This experience would provide valuable learning for the wider banana industry in achieving genuine sustainability. In the next section we call for a shift from 'business as usual with minor incremental improvements' to fundamental change in the business model.**

As a result, even though in some contexts studied the wages achieved by the Fairtrade workers cover basic needs, Fairtrade workers also receive significant economic benefits through the Fairtrade Premium<sup>xxviii</sup> which are not available to workers on non-Fairtrade plantations.

Fairtrade also contributes towards improvements in workers' working conditions. The Colombia study found improvements in workers' health through better access to personal protective equipment, occupational health services and hygiene facilities for sanitation, handwashing and meals. Workers on the non-Fairtrade plantation were found to have higher levels of sick leave, one of the factors that was identified as a business benefit for plantation owners in improving conditions for workers<sup>xxix</sup>.

A summary of recent field-based impact studies analysing the benefits of Fairtrade and areas for improvement is provided in Appendix 3.



## GOING ORGANIC IN THE DOMINICAN REPUBLIC

Jetta Van Den Berg is the owner and President of SAVID, a banana producer in the Dominican Republic. Jetta explains the set up: 'We have our own farms and also work with small producers. On our own farms we have 400 workers. We also work with six small farmers' organisations and associations. We run model farms to teach good farming practices.' The Dominican Republic is an important origin for bananas, with around 30 percent of SAVID's production going to the UK. Jetta says: 'For the last few years we have been selling roughly 50-60 containers of bananas per week. 75-80 percent is Fairtrade and 75 percent is organic. Most of the conventional Fairtrade bananas go to the UK, and most of the organic Fairtrade bananas go to Europe.'

As SAVID's owner, Jetta has clear sight of the pressures on the banana trade, and top of her list is the need for long-term commitments from buyers. 'A major issue is ensuring commitments to volume. Volumes are not guaranteed but can go up and down quickly from 6,000 to 30,000 boxes per week which is unworkable. Supermarkets run tenders every year, but for stability we need five-year contracts,' she says.

SAVID does not sell directly to supermarkets, but to intermediary ripening companies. But supermarket price wars are still a worry. Jetta says: 'Buyers are under a lot of pressure to negotiate the best price possible. They are working in a context where bananas are used for price fights between supermarkets.' She sees a lot of pressure from buyers to pass costs on to producers. 'We experience problems after contracts have been agreed, asking for retrospective discounts,' she adds.

If it were not for the Fairtrade and Fairtrade Organic bananas the producer sells Jetta is sure that SAVID would be in trouble. She says: 'The conventional market does not pay the amount we would need to meet costs of production. With the Fairtrade Minimum Price it is enough to cover costs.' She also speaks proudly of the ways in which the Fairtrade Premium has been used: 'This has been used for housing, medical care, and education programmes, among other things,' she adds.



# 7/ ACHIEVING A SUSTAINABLE BANANA INDUSTRY GIVEN THE SIGNIFICANT INCREASES IN COSTS OF PRODUCTION AND COSTS OF LIVING, SMALLHOLDER FARMERS' INCOME IS UNDER PRESSURE IN ALL OF THE COUNTRIES STUDIED.

## 7.1 AN INCLUSIVE MARKET FOR SMALLHOLDERS

Smallholder farmers are forced to match the prices set by larger actors in the industry and so they make less of the profit which is the source of income for their families and the investment finance for their businesses which might allow diversification. Smallholder farmers cannot survive in the current banana market and cannot afford to leave it.

For example, the official support price set by the Ecuadorian government is based on the estimation of the average costs of a typical industrialised plantation in Ecuador (> 50 Ha), with a productivity of 1,800 boxes/ha/year, even though 90 percent of producers in the country operate farms that are smaller than 50 hectares<sup>xxxx</sup> and over the past 10 years the price available to producers from exports to the UK has reduced to a level close to this official minimum price.

It is also much harder for small farmers to comply with the requirements and afford the certification of standards such as

GlobalGAP than it is for large plantations. While the liberalisation of the EU market, the decline of the vertically-integrated fruit companies and the use of containerised shipping have removed many of the historic barriers to entry for producers, the standards imposed by retailers have created additional costs that can be hard for small producers to meet.

Today, the Fairtrade market is one of the few that remains accessible and economically worthwhile for small farmers, though even within the Fairtrade system some smallholder farmers are struggling to maintain sales as competition with other origin countries rises. In addition, Fairtrade is one of the only systems offering market access for the banana agroforestry producers, who have the lowest productivity<sup>xxxx</sup> but farm in a way that maximises the protection of the environment.

In Ecuador Fairtrade has helped people who were once seasonal migrant labourers to become fulltime farmers on their own land. In Colombia Fairtrade certified co-operatives are achieving high rates of productivity and

sales. In the Windward Islands Fairtrade has been critical to the survival of banana farming, helping smallholder farmers to become organised, upgrade their production to meet supermarket quality requirements, and improve livelihoods. However, repeated damage to the industry from hurricanes and disease coupled with the pressure on price means that even with Fairtrade farmers are still struggling to secure ongoing and stable market access<sup>xxxx</sup>.

Fairtrade has also demonstrated that it is possible to manage a system in which small farmers and plantations co-exist. Although there has been a significant increase in the number of certified plantations in the Dominican Republic and Colombia over the past five years, the overall global market share of Small Producer Organisations has so far remained stable (see below).

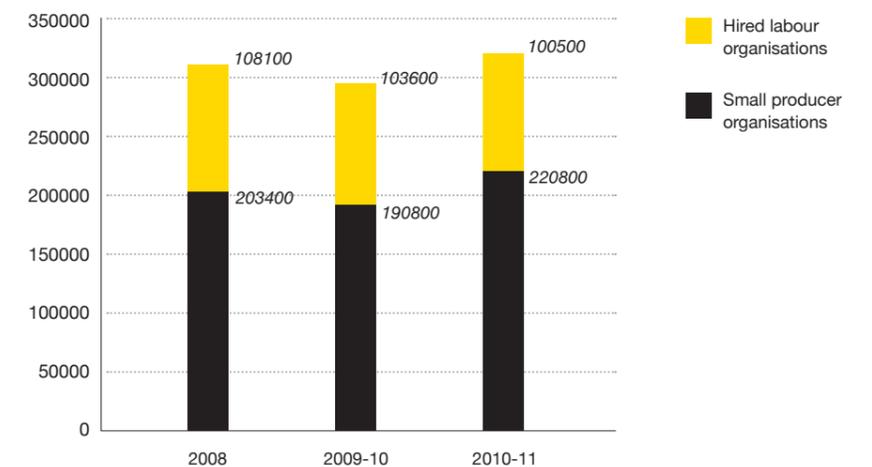
However, the continuing deflationary pressure, caused in part by UK supermarket prices, is challenging this delicate balance, and as a result small producers are very worried that they will be displaced from the market by plantations.

### > What needs to happen?

Retailers should ensure a fair proportion of their bananas are sourced from smallholders and support the efforts of small farmers to increase productivity and quality through better prices and/or providing additional investment funds in similar ways to the Fairtrade Premium.

Global sales of Fairtrade bananas (Metric tonnes)

Source: Fairtrade International – Monitoring the scope and benefits of Fairtrade, 4th Edition, 2012



**CONSUMERS DO NOT CARE WHERE THE BANANA COMES FROM, BUT ONLY IF IT IS NICE AND CHEAP, THERE IS NO AWARENESS OF THE EFFORT OF THE SMALL PRODUCERS.**

*A trade union representative from Costa Rica interviewed for this study*

## 7.2 THRIVING BANANA FARMING COMMUNITIES

Despite rapid urbanisation and an increase in large-scale commercial farming, much of the agriculture around the globe is still in the hands of small-scale producers<sup>xxxiii</sup>: 2.5 billion people worldwide depend on agriculture for their livelihoods (500 million smallholder farms support 2 billion people worldwide<sup>xxxiv</sup> and 450 million workers globally work in agriculture<sup>xxxv</sup>).

A significant body of empirical studies<sup>xxxvi</sup> shows the positive multiplier effects of small-scale farmers in local economies. Through creating employment opportunities (especially for young people) in rural areas and contributing to food security they play a key role in poverty reduction. Conventional markets also fail to take into account the long-term costs of large-scale intensive farming. Several international studies<sup>xxxvii</sup> have documented the external costs to local communities from the industrialisation of agriculture. These include the costs of pollution generated by chemical inputs, the related health costs on farmers and workers, and the unpaid costs of the depletion of natural resources and the loss of ecosystem services.

These hidden external factors distort price signals along supply chains and increase the economic pressures on smallholder farmers. As a result, worldwide rural societies are facing a major demographic shift and migration to urban areas (see below) as farming becomes an increasingly unattractive option for young people and their parents<sup>xxxviii</sup>. To compensate for the resulting labour shortages large plantations require a larger pool of migrant<sup>xxxix</sup> and casual workers in agriculture and food processing<sup>x</sup>.

## FAIRTRADE'S SUPPORT FOR SMALLHOLDERS

One of Fairtrade's most significant impacts has been in contributing to the strengthening of smallholder co-operatives. In the CODER study in Colombia four of the six co-operatives studied have increased their membership in the last three years, and the benefits they derive from Fairtrade is a major contributory factor in this rise. The Fairtrade Premium has funded qualified administrative personnel with business orientation who have then developed a broad portfolio of services delivered by the co-operative that are greatly valued by member farmers. The study also found that Fairtrade has contributed much to the revitalisation of the regional economy in the Magdalena banana zone in Colombia through higher farmer incomes, investment of the Fairtrade Premium in a range of business and social projects, and job creation. This spending had created a multiplier effect by stimulating local demand for goods and services. Smallholders also reported that their link to Fairtrade helped them to overcome the social and economic crisis left by internal conflict in the country.

The Colombia study echoes the findings of a study by the Institute of Development Studies in Ecuador, Colombia and the Dominican Republic (Smith:2010) that co-operatives performed a number of important roles, from facilitating production of high-quality fruit for premium markets to promoting sustainable rural development through investments in social and environmental programmes. Fairtrade contributed to social and community development at the local level via use of the premium for constructing public infrastructure (e.g. schools, clinics, water

tanks, roads, street lights), paying the salaries of public sector workers (e.g. teachers, doctors, nurses) and providing educational and medical supplies. In some instances, producer organisations were working in partnership with civil society organisations and local authorities, which should help to strengthen the institutions required for sustainable rural development.

Through improving small producer and worker incomes and generating business for agriculture-related markets and services Fairtrade was having an impact in stimulating local economies.

### > What needs to happen?

**The banana industry must recognise the role played by small farmers in poverty reduction through creating employment opportunities (especially for young people) in rural areas and contributing to local food security. It is important that farming communities thrive and provide places where young people want to live, work and raise future generations. These goals are more likely to be achieved when small farmers are able to work together to build knowledge, good agricultural practices and market linkages through democratic organisations such as co-operatives. These organisations need better support and investment.**



## 7.3 DECENT WORK

The price pressure generated by banana value chains has pushed many employers to transform permanent jobs into casual work or outsource them in order to decrease labour costs<sup>xi</sup>. The decreasing unit value of exports to the UK is likely to strengthen this trend, especially in Ecuador and the Dominican Republic where only large plantations can make profits when selling to the UK.

One way of doing this is to replace guaranteed hourly wage rates with piece work rates, which enables employers to transfer productivity risks to their employees: workers have to work whatever time it takes to earn the minimum wage (rather than the specified eight-hour period), and in cases where there is no work to do, they are not paid at all<sup>xii</sup>.

Plantations are also increasingly hiring workers for limited (and repeated) periods of three months, thereby reducing the number of permanent workers<sup>xiii</sup>.

A notable example has been documented by Sindicato de Trabajadores Plantaciones Agrícolas (SITRAP) in Costa Rica, where the numbers of permanent contracts fell from approximately 80 percent in 2000 to around 40 percent in 2006<sup>xiv</sup>.

**BANANA WORKERS IN COSTA RICA NOW EARN LESS THAN ENOUGH TO BUY THEIR HOUSEHOLDS' BASIC NEEDS. THIRTY YEARS AGO THEY WERE NOT ONLY ABLE TO PAY FOR THIS WITH THEIR BANANA WAGE, BUT ALSO FOR THEIR LEISURE ACTIVITIES, EVEN HOLIDAYS.**

*A trade union representative from Costa Rica interviewed for this study*

As permanent contracts became scarcer, plantation work has become increasingly unattractive to local workers, thus increasing the inflow of migrant workers in several countries. The vulnerability and discrimination experienced by Nicaraguan migrants in Costa Rican plantations, Haitians in the Dominican Republic and central American migrant workers in Belize are all clear illustrations of this situation<sup>xv</sup>.

At the same time, plantations have used sub-contractors and temporary agencies as a way of distancing themselves from their responsibilities under labour laws<sup>xvii</sup>. In Colombia, the trade union Sintrainagro has so far headed off attempts by employers to contract workers through so-called labour co-operatives (a form of casualisation), but the continuation of the price war in markets such as the UK increases the attractiveness of such approaches for employers.

The Colombian model of mature industrial relations is under direct threat if price deflation continues to be driven by the UK retail price decline, particularly since one-third of all bananas from Uraba, in Colombia, are sold in the UK market. Hired labour contexts are challenging, and Fairtrade has only started to make small

differences in some countries. Evidence presented in this report points to some advantages that workers employed in Fairtrade plantations have in comparison to their non-Fairtrade counterparts. Fairtrade's revised Standards for Hired Labour settings (introduced in January 2014), strengthen requirements for employers in a number of areas including strengthened rights of freedom of association and trades union engagement and clearer timetables for employers to introduce living wages.

On Fairtrade certified plantations the trend towards employing workers on a casual or temporary basis has been stemmed. The IDS study in Ecuador and the Dominican Republic in 2008 showed the progress that had been made in these respects on Fairtrade plantations over a six year period (2002 – 2008).

### > What needs to happen?

**The banana industry must minimise the use of temporary contracts and ensure all temporary workers receive a full entitlement to bonuses and non wage payments such as healthcare and social security provisions enjoyed by permanent workers.**

### Increase in number of workers on indefinite contracts on Fairtrade plantations

Source: Fairtrade Bananas: A global assessment of impact

Year of FLO Cert inspection		Ecuador	Dominican Republic
2002	Total workforce	281	160 (not including management, foreman and administrative staff)
	Number of permanent workers	193 but no written contracts	0
	<b>Permanent workers as % of total at start</b>	<b>69% but no written contracts</b>	<b>0%</b>
2008 (2006 for Dominican Republic)	Total workforce	346	160
	Number of permanent workers	258 with written contracts	150
	<b>Permanent workers as % of total at start</b>	<b>75%</b>	<b>94%</b>

## 7.4 LIVING WAGES

The declining real value of the export price of bananas in most producing countries, combined with increases in living costs as a result of local inflation clearly makes it hard for workers to achieve progress in earnings, and in most regions there is an increasing gap between what workers need to provide properly for themselves and their families and the wage rates on banana plantations.

A notable exception to this trend is Colombia, where Sintrainagro, a strong independent trade union, represents around 80 percent of banana workers in the country, and a system of more mature industrial relations has translated into above average working conditions and wages for banana workers compared to wages in Colombia as a whole and better terms of employment compared to other countries in the region (see below)<sup>xviii</sup>. The level of wages in the Colombian banana sector is therefore closer to the benchmarks for living wage,

which enables many families to achieve a more sustainable livelihood.

Some retailers have stated that they benchmark their prices to the Fairtrade Minimum Price to plantations in Colombia regardless of whether or not they are sold with the FAIRTRADE Mark. However, we have not seen independent verification of this and note that the other benefits of Fairtrade such as the premium payment and environmental and workers' rights standards would not necessarily apply<sup>15</sup>. This has not fully insulated Colombian workers from international price pressures. The CODER study<sup>xvix</sup> found that unions had actually agreed to a reduction in wage rates in 2012 and that rates had not increased in 2013. This was cited as an example of a system of mature industrial relations, but it has not been without its challenges. During 2013 Colombian workers threatened to go on strike because of the pressure on wages<sup>6</sup>.

By contrast other studies have found a shortfall against the living wage in both

Ecuador and the Dominican Republic. In early 2012 the World Banana Forum's permanent Working Group on the Distribution of Value along the Chain commissioned a comprehensive survey of the wages and livelihoods of 199 families in Ecuador across both small to medium farms and large plantations<sup>ci</sup>. Analysis of the overall income of families where one member was employed in banana production showed that the ability of families to achieve a 'living wage'<sup>ci</sup> for the household depended on:

- the level of formality of the employment, which is higher in large plantations
- the capacity for family members to earn additional income or have multiple jobs, which is greater for workers in small and medium-size farms

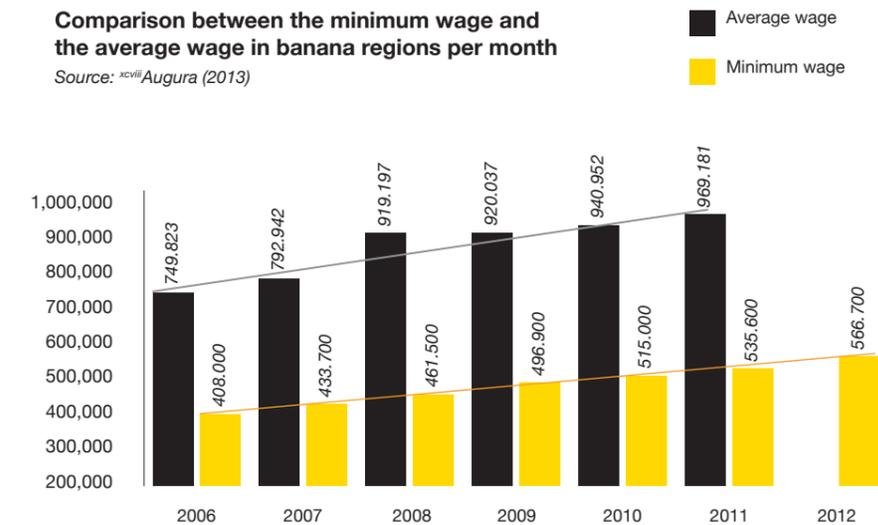
Overall, only 25 percent of banana workers in Ecuador earn a living wage for their household and, in many cases, workers or family farmers still found themselves with income below the poverty line, fostering a spiral of negative social consequences.

**WHAT WE NEED TO ENSURE TRUE SUSTAINABILITY IS A LIVING WAGE BOTH FOR WORKERS AND SMALL FARMERS.**

*Marike de Pena, General Manager of Banelino (Dominican Republic) and President of CLAC (The Fairtrade Producer Network for Latin America and the Caribbean)*

### Comparison between the minimum wage and the average wage in banana regions per month

Source: <sup>xviii</sup>Augura (2013)



In the Dominican Republic migrants from Haiti have made up much of the agricultural labour force since the 1920s, but the country has maintained labour laws requiring at least 80 percent of a firm's employees to be Dominican. This forces migrants to work illegally and without documents, which then leaves them vulnerable to economic, social and political disadvantages<sup>ciii</sup>.

A study conducted in 2010 by the Dominican Ministry of Labour concluded that 66 percent of all banana workers were Haitian, varying from 54 percent in the south to 77 percent in the north west. It also showed that 86 percent of field workers and 69 percent of packhouse workers were Haitian, while 61 percent of supervisors (field and packhouse) were Dominican<sup>civ</sup>. Fairtrade has actively supported the movement to legalise Haitian migrant labour and improve working conditions for migrants<sup>cv</sup>.

Only very recently, and as a result of international campaigns to highlight the situation of migrant workers, have Dominican trade unions started to take an interest in organising Haitian banana

workers, even though nothing in the national legislation prevents migrant workers from joining a union<sup>cvi</sup>. In 2012 banana workers were for the first time issued so-called 'NM1' visas, giving them full permission to work and access to the social security system. However, the process for getting a passport in order to qualify for the visa is complicated, costly and time-consuming for many workers<sup>cvi</sup>. Employer-worker labour relations are characteristically informal and based on verbal contracts. National statistics state that 66 percent of producers do not register any of their workers with the Ministry of Labour. Data from 2010 shows that there are substantial wage differences between Dominican and Haitian employees (see below)<sup>cvi</sup>.

### HOW WELL DOES FAIRTRADE DELIVER A LIVING WAGE?

Fairtrade has taken recent steps to strengthen Fairtrade Standards with regard to living wages. The 2014 Hired Labour Standard requires companies to increase real wages annually to continuously close

#### Daily wage comparison for national and migrant workers

Source: Ministry of Labour of Dominican Republic, 'Inmigrantes Haitianos y Merca Laboral', 2010

Job	Dominican wage (Dominican peso)	Haitian wage (Dominican peso)
Field/pack house supervisor	375.20	235.90
Packhouse worker	311.20	243.70
Main field workers tasks	227.80	229.30
Other field worker tasks	272.00	198.00
<b>Average</b>	<b>294.00</b>	<b>228.30</b>



the gap with living wages, as defined by Fairtrade International. Fairtrade International's methodology for calculating living wages has also been agreed (in close consultation with other members of the ISEAL Alliance<sup>cix</sup> – the global membership association for sustainability standards, and Fairtrade International is working towards integrating living wage criteria into the calculations of costs of sustainable production and into standards for Fairtrade Minimum Prices.

The strengthening of standards is a response to concern on the part of Fairtrade that progress against living wage benchmarks was too slow for some Fairtrade workers, including those on banana plantations.

The likely shortfall in the banana sector against the living wage can be seen from the fact that most Fairtrade plantations also use the Fairtrade Premium for economic support, such as the costs associated with housing, healthcare and education. These payments represented 59 percent of Fairtrade premium use in hired labour banana producers in 2011, or €2.48 million at an average of €500 per worker.

#### > What needs to happen?

**Governments in banana producing countries must take a lead on setting and enforcing living wage levels in the banana industry. Banana companies and retailers must support these efforts in all origins and encourage a race to the top.**

**Fairtrade should monitor the effectiveness of the new hired labour standard closely, ensuring continual improvements to standards and minimum price setting to ensure that the true costs of sustainable production are met as costs change over time, including the full integration of a living wage for workers.**

## 7.5 WORKERS' RIGHTS TO UNIONISE

For decades labour rights conflicts in plantations and criticisms of employers and/or governments for actively repressing or discouraging union activities have been common in the banana sector. Allegations have included dismissal or harassment of union members (actual or threatened), administrative and legal hurdles to unionisation and bargaining, and even the repression of union members or strikers<sup>cxv</sup>. Lack of workers' resources and low wages also caused low unionisation rates. As a result, membership fees have had to be kept very low to be affordable to workers, thereby restraining unions' capacities and resources<sup>cxii</sup>.

An example is Ecuador's banana industry, where only one percent of the country's banana workers are unionised<sup>cxiii</sup>. In 2002 key barriers to unionisation were described by Human Rights Watch, in a report which alleged opposition by employers, precarious work and weak legal protection for workers engaging in union activities<sup>cxiv</sup>. In 2008 the Correa government banned labour sub-contracting in large companies, and as a result more than half of Ecuador's banana workers have become permanent employees since then.

Since 2000 more than a dozen conflicts and cases of labour rights abuse were taken to the ILO Committee on Freedom of Association and publicised in Europe and the US. The publicity around these cases helped to increase consumer awareness of the ethical issues related to banana production and trade<sup>cxv</sup>.

As a result of pressure from Latin American trade unions and civil society groups in Europe and North America some successful initiatives to promote workers' organisation have managed to emerge since the 1990s. A notable example is the Framework Agreement signed in 2001 between Chiquita, the international agricultural and food workers union, the International Union of Food workers (IUF) and COLSIBA (alliance of Latin American banana workers unions)<sup>cxvi</sup>.

Again, Colombia is a notable exception. The strong independent trade union Sintrainagro is rooted in the deep social connections that many workers had established during Colombia's internal conflict between the government and insurgent groups. The main banana producing regions in the country are ones that were heavily affected by fighting, and the development of the banana producing industry in the 1990s provided much-needed employment opportunities for former insurgents and their families.



## FAIRTRADE AND FREEDOM OF ASSOCIATION

On Fairtrade plantations the requirement for workers to be organised and represented in wage negotiations and decision-making on the Fairtrade Premium has helped improve labour practices and reduced the marginalisation of groups such as migrant and casual workers and women.

### > What needs to happen?

**Governments in producing countries and banana companies must always recognise and support the important role of independent trade unions as the best mechanism for ensuring that fair prices to producers feed through to living wages to workers and the business benefits arising from a mature system of industrial relations.**

## 7.6 TAKING FULL ACCOUNT OF EXTERNALITIES

Many other important factors relating to the erosion of social and environmental capital by banana production should also be taken into account in evaluating costs of production on a genuinely sustainable basis.

These include the need to invest in preventing long-term environmental damage to water, biodiversity and soil, to adapt to climate change, mitigate against job losses in the banana sector, and to speed up progress towards living wages.

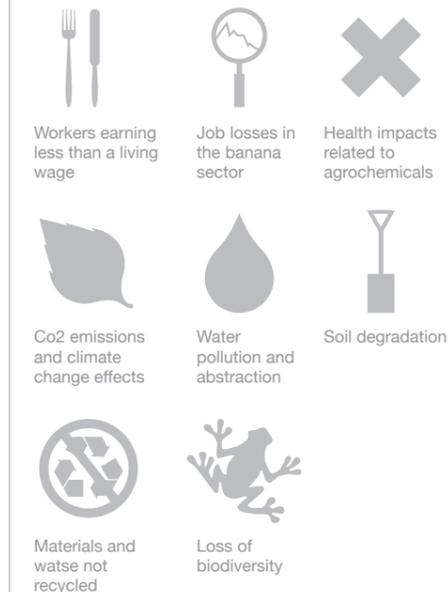
The elements illustrated below apply in different exporting countries in varying degrees, and their individual impact is the subject of much discussion among banana industry stakeholders. However, their existence at some level is not generally disputed.

While it is difficult to quantify them, it is clear that the prices paid by UK retailers and importers do not allow an adequate margin for banana producers to invest in addressing these important ethical and sustainability issues.

**THE BIGGEST PROBLEM FOR BANANA PRODUCERS IS THE LACK OF PRODUCTIVITY. TO ADDRESS THIS CRITICAL ISSUE THEY NEED TO STRENGTHEN THEIR TECHNICAL CAPACITIES AND THEIR ORGANISATIONS. BUT IF PRICES RECEIVED BY PRODUCERS CONTINUE TO BE INSUFFICIENT THERE IS NO RECOURSE TO INVEST AND PRODUCERS CANNOT SECURE A BANK LOAN.**

*An Ecuadorian technical support officer interviewed for this study*

### Sustainability challenges requiring investment beyond the scope of costs of production calculations



### > What needs to happen?

**The banana industry must recognise the increasing indirect costs associated with banana production on the social and environmental capital of producing countries and local communities and ensure that these are addressed through more sustainable production and trading arrangements.**

**Where necessary, banana prices must include the costs of repairing environmental and social damage and investing in improved sustainability.**

## 7.7 A NEW APPROACH TO PRICING

None of the improvements listed above can be achieved without a new approach to pricing and price regulations. The current approach to competition regulation in Europe and the UK is based on a theoretical model of a perfectly free market, with a large number of buyers and sellers with equal power and the ability of producers to quickly enter or exit the market in response to price movements. In the real world in which bananas are bought and sold, the reality is very different.

### > What needs to happen?

**Change of this kind requires strong leadership. The UK Government should grasp the opportunity to develop a more appropriate model of market regulation for the 21st century that balances the needs of consumers, producers, businesses and the environment and use its influence in the European Union and World Trade Organization to promote its wider take-up.**

# 8/ CONCLUSIONS AND RECOMMENDATIONS

## BANANA FARMERS AND WORKERS DESERVE A BETTER DEAL. EVERYONE CONSULTED FOR THIS REPORT, INCLUDING RETAILERS AND BANANA TRADERS, AGREED THAT THE BANANA INDUSTRY FACES SERIOUS SUSTAINABILITY AND ETHICAL CHALLENGES.

Moreover, the problems have been recognised for a long time, and the time for change in the way the industry operates is long overdue.

The Fairtrade Foundation wants to see all banana producers receive the true cost of sustainable production. This would enable small farmers and their communities to thrive and plantations to offer their employees decent working conditions and living wages. A major globally-traded product like bananas should provide opportunities for people to work their way towards a better future instead of trapping them in poverty. Bananas also need to be produced in a way that respects the limits of the environment and uses natural resources more carefully.

To make this happen there needs to be enough value in the supply chain to pay for improvements as well as meeting daily production costs and providing a fair income for farmers and workers. But excessive price competition is a major structural constraint to this. The progressive stripping out of value from the supply chain makes attempts to address sustainability and fair pricing unaffordable. Whatever the aspirations for change, the ability to act is low.

The problem is reinforced by a skewed approach to market regulation that places low prices as its overwhelming priority. This is simply not appropriate for a market like bananas in which 80 percent of the trade is undertaken by a handful of retailers that are closely following each other's prices in order to appear competitive. The current regulatory framework assumes that the market will correct unsustainably low prices as well as artificially high ones, but this is evidently not working. The rights of producers to receive truly sustainable prices and the rights of consumers to purchase ethically, sustainably sourced produce are losing out to the pressure for the lowest possible prices, regardless of the true cost.

This report has identified a number of improvements to the ways that bananas are produced and traded that would help achieve greater sustainability and fairness, but none of these can be achieved without also adopting a new approach to pricing and price regulations. Of course, competition law and regulation needs to protect consumers, but it appears to be undermining sustainability and fairness for

vulnerable banana farmers and workers. It is for this reason that the government must review its own role and act to bring about a fairer balance of power between retailers and producers. If government is serious about sourcing our food sustainably and treating all in the supply chain fairly it will need to show leadership.

Our first recommendations are therefore addressed to market regulators in the UK and internationally:

### BIS AND UK MARKET REGULATORS

- The Department for Business, Innovation and Skills (BIS) should show leadership by co-ordinating government action to investigate retailer pricing on bananas and evaluate its impact on the long-term interests of banana producers and UK consumers. The government must also commit to act on the findings.
- BIS should seek an amendment to the Groceries Supply Code of Practice to cover overseas producers that supply major UK retailers through a third party
- The Office of Fair Trading/ Competition and Markets Authority should launch a market study into the banana industry. This should look at how short term efficiency gains from low pricing affects producers' ability to produce, innovate and achieve sustainability in the medium to long term and the effect of this on future pricing and UK consumers.

### THE DEPARTMENT FOR FOOD, ENVIRONMENT AND RURAL AFFAIRS (DEFRA)

- The Department for Food, Environment and Rural Affairs (DEFRA) should work with BIS to investigate the effects of downward pressure in value chains on the sustainability of UK food and to promote the need for transparency by retailers and traders on value at every stage of their supply chains.
- DEFRA should disaggregate statistics on Fairtrade and Organic from total trade in bananas and encourage similar action at an EU level by Eurostat.

## THE DEPARTMENT FOR INTERNATIONAL DEVELOPMENT (DFID)

- The Department for International Development (DFID) should ensure that the UK's positive impact on poverty among banana farmers and workers is strengthened by supporting initiatives that incentivise living wages and payment of cost of sustainable production in agricultural supply chains
- DFID should engage with, promote, and support international processes such as the World Banana Forum, the Ethical Trading Initiative (ETI), and similar initiatives
- DFID should encourage the work of trade unions and support collective bargaining as part of multi-stakeholder processes to establish and support payment of cost of sustainable production and living wages in the banana industry.

## THE EUROPEAN UNION (EU)

UK action also needs to be coherent with action at the European Union (EU) level in order to be effective. The main European Commission (EC) body responsible for supermarket competition is the Directorate General for Competition (DG COMP). The Directorate General for Trade (DG Trade) has responsibility for EU trade policy in and out of the EU<sup>exvii</sup>.

- The EU should investigate the retail pricing tactics on bananas of retailers across Europe, including as part of the current DG COMP study of modern retail on choice and innovation in the EU food sector, and evaluate the impact of low retail prices on the long-term interests of banana producers and European consumers. The EU must also commit to act on the findings
- The EU should show policy coherence by taking public policy considerations into account when applying competition law, in line with multiple EU court judgements, for example by stating the relevance of Articles 11 and 208 of the Treaty of the Functioning of the European Union to competition policy
- The EU should consider adopting an ombudsman similar to the UK Groceries Code Adjudicator to regulate buyer power in the retail industry, starting with bananas.

## BUSINESS AND EXPORTING COUNTRIES

We also urge concerted action by the banana industry and its stakeholders (retailers, banana companies and governments in producing countries) to make bananas fair. The large retailers and traders must use their dominant position in banana supply chains responsibly and commit to paying a fair price to farmers and workers. This includes:

- **Paying the cost of sustainable production**
  - Retailers and banana traders should actively support measures aimed at meeting the true costs of sustainable production and delivering living wages for banana workers, and they should agree clear timetables for the implementation of these. This must be verified by external audit processes to ensure delivery in practice and correction of any non-compliance.
  - Retailers should invest in educating their customers about the true cost and value of sustainably and ethically-sourced bananas. Competition is important, but advantage should come from quality, efficiency and service offered by retailers, not from the ability to artificially subsidise certain products.
  - Retailers should ‘publish what they pay’ to banana farmers and workers to ensure transparency
- **Ensuring a place for small farmers in the banana industry**
  - The banana industry must recognise the role played by small farmers in poverty reduction and contributing to local food security. It is important that farming communities thrive and are places where young people want to live, work and bring up future generations. These goals are more likely to be achieved when small farmers work through democratic organisations such as co-operatives. These organisations also need better support and investment.
  - Retailers should ensure a fair proportion of their bananas are sourced from organised smallholders and support the efforts of small farmers to increase productivity and quality through better prices and by providing additional investment funds such as those provided by the Fairtrade Premium

### • Decent work and living wages for workers

- The banana industry must ensure that plantations minimise the use of temporary contracts and ensure all workers receive a full entitlement to bonuses and non-wage payments such as healthcare and social security provisions enjoyed by permanent workers
- Governments in banana producing countries must take a lead on setting and enforcing living wage levels in the banana industry. Banana companies and retailers must support these efforts in all countries and encourage a race to the top
- Governments in producing countries and banana companies must recognise the important role of independent trade unions as the best mechanism for ensuring that fair prices to producers feed through as living wages to workers, as well as the business benefits arising from a mature system of industrial relations.
- Governments should also take responsibility for ensuring that a national minimum wage is set with unions and employers to ensure that it is as close as possible to a living wage.

### • Long-term sustainability

- The banana industry must recognise the increasing indirect costs associated with banana production on the social and environmental capital of producing countries and local communities and ensure that these are addressed through more sustainable production and trading arrangements. Where necessary banana prices must include the costs of repairing environmental and social damage and investing in improved sustainability.
- Retailers and banana traders should actively support initiatives such as the World Banana Forum, Fairtrade and the Ethical Trading Initiative as ways to work together towards greater sustainability and fairness in the banana industry.
- Supermarket buyers should be incentivised on the basis of whether they deliver sustainability in their sourcing of bananas in addition to their commercial targets.

## THE FOOD AND AGRICULTURE ORGANIZATION OF THE UNITED NATIONS (FAO)

- The FAO should support the processes of research and data collection that will enable sustainable costs of production and living wages to be assessed through a commonly-accepted methodology and transparent and independent processes. There is a critical need for this in order to make progress on living wage issues and to ensure the main social and environmental externalities are integrated into costs of production. The FAO seems to be best placed to do this. Publishing the full costs of banana production on a regular basis would provide significant leverage to stop the current ‘race to the bottom’.

## CIVIL SOCIETY

The role of national and international civil society, especially trades unions, is crucial in delivering change on fair prices at national and international levels.

- Standards and certification bodies, including Fairtrade, need to continue raising the ‘ethical bar’ to drive improvements that enable banana farmers and workers to build stable, sustainable livelihoods
- Fairtrade should ensure continual improvements to standards and the minimum price setting to ensure that the true costs of sustainable production are met as costs change over time, including the full integration of a living wage for workers
- Civil society actors should continue to campaign for industry-wide action so that farmers and workers outside certified producers also see improvements to their livelihoods.

## THE UK PUBLIC

- Lastly but by no means least, the UK public has a crucial role to play. Over 35 percent of the bananas bought in the UK are now Fairtrade, and this is in large part due to consumer pressure for ethical sourcing. The efforts of consumers and campaigners in buying and promoting Fairtrade over many years has demonstrated more clearly than any policy report that the public wants to see fairness and sustainability for banana farmers and workers and is willing to pay for this at the supermarket checkout
- The voices of consumers and campaigners are just as vital today in keeping up the pressure for a fairer banana trade and convincing government and the banana industry to act. By opting for ethically sourced bananas and participating in campaigns such as Make Bananas Fair the public can add its voice to the calls for more fairness and sustainability in the banana industry.

## 9.1 APPENDIX 1 – METHODOLOGICAL NOTE

### Terms of reference

The objective of the research was to bring together different strands of evidence and analysis to provide an in-depth understanding of retail price trends of bananas in the UK and the impact of these on farmers and workers. As a result the research questions of this study have been:

- To what extent have the price wars among major supermarkets impacted on the sustainability of banana producers?
- What are the main solutions for improving sustainability in the banana sector?
- How can Fairtrade contribute to this objective?

### Theoretical approach

In order to address the above challenges and fulfil the objective of the study the theoretical framework employed is based on the global value chain (GVC) model developed by Gereffi et al (2005), Gibbon and Ponte (2005), Kaplinsky and Morris (2001).

The concept of global value chains derived from the world systems theory developed by Immanuel Wallerstein in the 1970s was originally defined as ‘a network of labour and production processes whose end result is a finished commodity’.

The concept was later consolidated and modelled through four dimensions:

- a. The input-output structure of the chain
- b. The territories covered (geographical coverage)
- c. The governance structure, i.e. barriers to entry, chain co-ordination and distinction between producer-driven and buyer-driven governance structures
- d. The institutional framework surrounding the chain, delineating the conditions under which key or ‘lead’ agents incorporate subordinate agents through their control of market access and information (both technological and market information).

Global Value Chains enable us to analyse the creation and distribution of value from the production of the raw material to delivery to the final user and the end of life of the product. It starts with mapping the range of activities and nodes in the chain. The

outcome is a synoptic view which allows us to decompose total value chain earnings into gains achieved by each party in the chain. The analysis then looks at supply and demand, production costs at all stages, price formation, and incomes and margins along the chain. In doing so it addresses the nature and determinants of competitiveness. It also analyses their dynamics and evolution over time.

The Global Value Chain analysis conducted in this study follows the methodological guidelines developed by:

- Duke University: ‘Commodity Chains Framework for Analyzing Global Industries’ (Gereffi, 1999)
- The International Development Research Centre (IRDC): ‘A handbook for Value Chain Research’ (Kaplinsky and Morris, 2002)
- The Center on Globalization Governance & Competitiveness: ‘Global Value Chain Analysis: A Primer’ (Gereffi and Fernandez-Stark, 2011).

A second stage of Impact Evaluation analysing both social and environmental impacts was added to the Global Value Chain analysis in order to investigate and assess the end consequences on farmers and workers and the communities they live in.

To achieve these different analyses – value chains and impacts – the study drew as much as possible on existing literature and research so as to incorporate a wide array of reliable evidence, avoid duplications, and focus on additional research where data is lacking. Overall, 127 reports have been compiled, analysed and consolidated for the study through an extensive systematic review.

The reports reviewed originate from international organisations, governments, public and independent research centres, peer-reviewed journals, universities, Non-Governmental Organisations, trade unions, consumer groups and the multi-stakeholder World Banana Forum, which is facilitated by the FAO.

The systematic review performed is consistent with the description given by Petrosino et al. (cited in van der Knaap et al., 2008: 49): ‘a rigorous and transparent form of literature review that involves ‘identifying, synthesising and assessing

all available evidence, quantitative and/or qualitative, in order to generate a robust, empirically derived answer to a focused research question'.’

The methodological framework used for the systematic review is based on the guidelines set out by the British Overseas Development Institute (ODI) in its Briefing Paper ‘Making systematic reviews work for international development research’ (published in January 2012).

This systematic review has been complemented with a number of interviews conducted in English and Spanish with key stakeholders in the banana trade and industry including:

- Banana farmers’ representatives
- Trade Union representatives
- Technical staff supporting farmers and workers on the ground
- Fairtrade Labelling Organisation field representatives and banana experts
- Banana exporters
- Banana importers
- Banana ripeners
- Retailers
- Academics and researchers working on the banana trade, value chains and Fairtrade.

In total, 25 semi-structured interviews were conducted to collect complementary data from the field, verify assumptions and analyse tendencies.

Among UK retailers semi-structured interviews were undertaken with Morrisons, Asda, Tesco, Waitrose, Sainsbury’s, Marks & Spencer, and The Co-operative Food. We interviewed senior managers who have specific responsibility for bananas or a more general remit on sustainable procurement practices. These retailers account for 90 percent of sales in the UK retail grocery market.

Information on retail prices and import costs To overcome these limitations this study has first tracked average UK retail prices for bananas using information collected by the UK Office for National Statistics (ONS) and stored by Timetric. Bananas are one of the components of the Consumer Price Index (CPI) and the Retail Price Index (RPI), both calculated weekly by the ONS. Prices are collected weekly for a typical selection of products which includes bananas – referred to as the ‘basket of goods’ – using a representative sample of about 200 shops and other outlets.

Retail prices of a kilo of loose bananas in other consumer countries have been sourced from the International Research Centre on Agriculture for Development (CIRAD) which publishes monthly statistics of retail prices of bananas in its ODEADOM report each year.

Eurostat figures have been used to identify the volume and value of UK banana imports by country of origin. These figures have been used to derive an average import value per metric tonne.

A notional overall retail value of bananas has been calculated by multiplying the volume imported on an annual basis by the average retail price identified through ONS data. By deducting the value of imports from the notional retail value the amount of value-added in the UK (which covers import duties and charges, inland transport, ripening and retailing) has been derived.

Shipping costs and export value An estimate has then been made for the cost of shipping and the trends in these costs over the past 10 years based on informal discussions with banana companies and reference to the CIRAD study. It has been assumed that deducting shipping costs from the average import value indicates the amount that is available to producers in countries of origin.

#### **Inflation**

Where values have been adjusted for inflation the rates used have been based on the CPI for the appropriate countries sourced from:

- Eurostat for the UK, France, Germany, Italy, the European Union as a whole and the Eurozone
- The U.S. Bureau of Economic Analysis
- The Economic Commission for Latin America and the Caribbean (ECLAC / CEPAL) for Ecuador, Colombia, Costa Rica and the Dominican Republic
- The International Monetary Fund (IMF) for Cameroon.

#### **Costs of production**

There are several possible sources for estimating the cost of sustainable production of bananas. The government of Ecuador calculates a figure in order to determine the minimum export price, which is an important benchmark for world trade as Ecuador is the largest exporter of bananas and accounts for three times the volume of Colombia (its closest competitor). However, this is based on large plantations operating under optimum conditions and cannot be easily applied more widely.

Wage rates are also published by national sources (Augura in Colombia, the Ministry of Agriculture in Ecuador and the Ministry of Labour in the Dominican Republic). This study has also referenced the work done in 2012 by the Montpellier-based CIRAD on the evolution of production and transport costs of bananas up to import stage since 2000<sup>cxviii</sup>. Unfortunately the CIRAD Cost Index used for part of the analysis is not adjusted for inflation.

The cost of sustainable production is also assessed by Fairtrade International as part of regular reviews of its banana standards and revision of the Fairtrade Minimum Price.

Although there was a review of the Fairtrade Minimum Price in 2012 this was based on an uprating for inflation of costs obtained in 2009. The Fairtrade Minimum Prices determined through the 2012 review were announced in November 2013 and were due to take effect from 1 January 2014.

In order to make a simple presentation of the general relationship between banana export prices and costs of production it was decided to compare the the price available to producers for 2012 (derived as explained above) with the new Fairtrade Minimum Prices due to take effect from January 2014, but based on estimates of costs of production for 2012.

#### **Non-standard products and pricing**

It was not always possible to isolate volumes and values for Fairtrade, organic, pre-packed and loose bananas, because official statistics do not track these at import and export level.

Where it has been useful and practical to isolate Fairtrade volumes and value this has been done with the help of staff at the Fairtrade Foundation and Fairtrade International (FLO). The trade audit systems used to verify the integrity of products carrying the FAIRTRADE Mark were used for the years 2009 to 2012.

Prior to this information was collected on a different basis, and this has been used to estimate figures for previous years. Figures on organic bananas were estimated on the basis of global averages for each exporting country.

Pre-packing of bananas has proved very difficult to track, and the balance between bananas imported as loose and packed in the UK as opposed to bananas packed at source varies from time-to-time and with different origins.

#### **Externalities**

There has been insufficient time to quantify the social and environmental externalities that affect banana production, although these issues seem to be widely recognised as factors that increase costs of sustainable production.

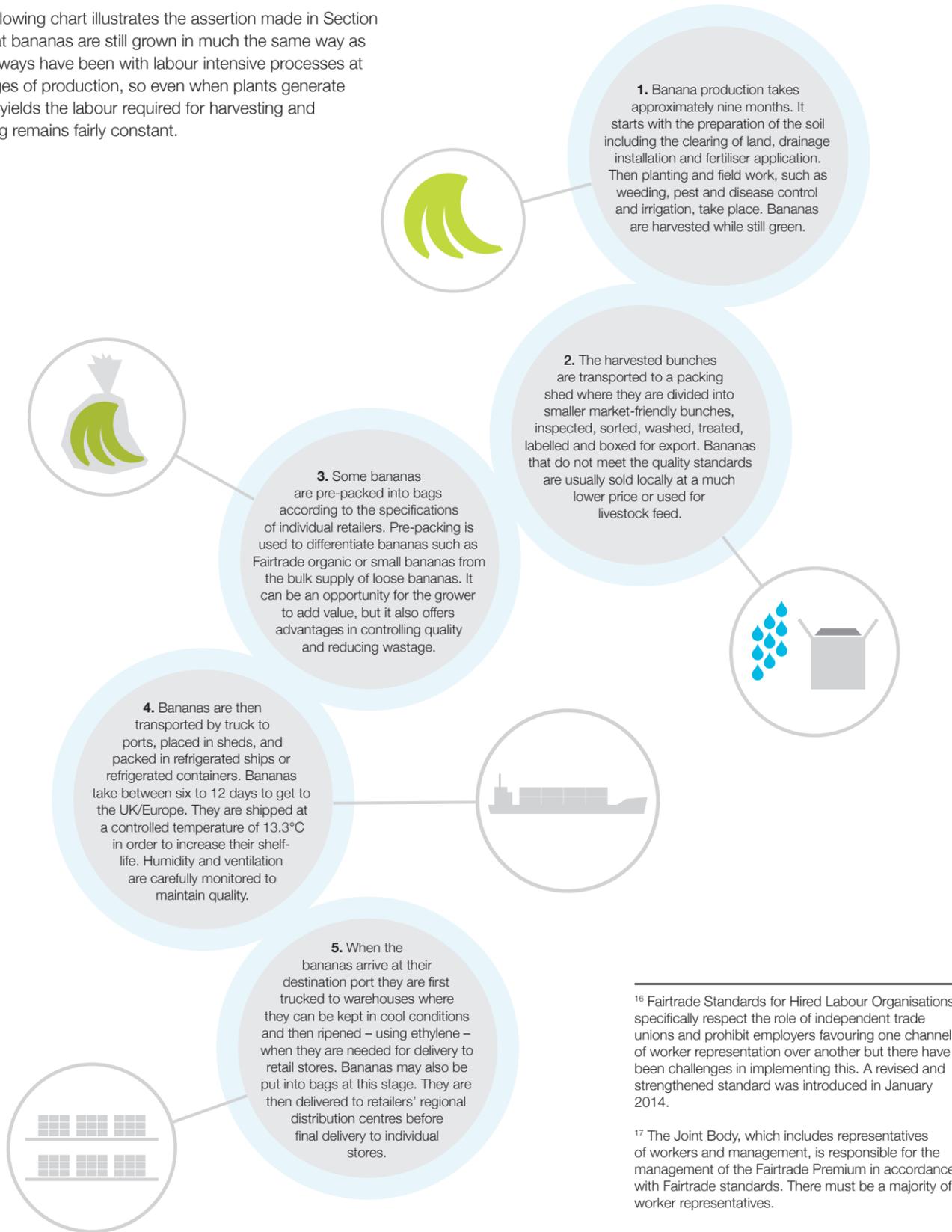
#### **Limitations**

The main limitations of the study are related to the availability and reliability of price and cost data along the chain. Companies are cautious of sharing information that is commercially sensitive, even for use in aggregated analysis. It was not possible to discuss their policies on buying and retail prices for reasons of commercial confidentiality. This implies that the data in this report is, in our view, the best estimate of cost and price information in key banana value chains.

A second limitation was the availability of accurate data from the customs’ databases of banana-exporting countries on the volumes and values of banana sales by volume and value. This is because export country records are based on the first port of destination of bananas, whereas Eurostat identifies re-exports among European countries. A further complication is that banana companies sometimes use subsidiaries in third countries in the management of exports.

## 9.2 APPENDIX 2 – DESCRIPTION OF BANANA PRODUCTION AND DISTRIBUTION

The following chart illustrates the assertion made in Section 3.2 that bananas are still grown in much the same way as they always have been with labour intensive processes at all stages of production, so even when plants generate higher yields the labour required for harvesting and packing remains fairly constant.



<sup>16</sup> Fairtrade Standards for Hired Labour Organisations specifically respect the role of independent trade unions and prohibit employers favouring one channel of worker representation over another but there have been challenges in implementing this. A revised and strengthened standard was introduced in January 2014.

<sup>17</sup> The Joint Body, which includes representatives of workers and management, is responsible for the management of the Fairtrade Premium in accordance with Fairtrade standards. There must be a majority of worker representatives.

## 9.3 APPENDIX 3 – SUMMARY OF FAIRTRADE IMPACT STUDIES

The following is our summary of the findings and limitations of Fairtrade drawn from recent field-based impact studies analysing the benefits of Fairtrade and areas for improvement referred to in Section 6.3. This analysis draws mainly from a study by the IDS (Smith: 2010).

### Benefits

The Fairtrade Minimum Price provides a safety net that offers a more stable income for small farmers and helps improve food security and protect against vulnerability to extreme poverty.

Less intensive agricultural practices on small farms require more labour per hectare than industrialised plantations and thus sustain or increase employment in rural communities.

In the context of increasing industrialised monoculture in most banana exporting countries, Fairtrade has an indirect impact on natural resource management by supporting smaller producers that practice less intensive farming methods. Fairtrade Standards encourage the use of organic farming techniques where possible. 39 percent of Fairtrade production was certified organic in 2010-11, an increase of 54 percent on the previous year<sup>xxx</sup>. Impact has been greatest in the Windward Islands, where although full organic production is not yet practical Fairtrade had resulted in increased wildlife, reduced soil erosion and generally cleaner and healthier local environments.

The Fairtrade Premium provides resources for building the capacity of Small Producer Organisations. 67 percent of the premium they received in 2010/11 – €6.6 million – was spent on business or organisational development, production and processing<sup>xxxi</sup>. A recent study in Colombia has shown that the yields of small farmers belonging to Fairtrade certified co-operatives were 10-15 percent higher than non-Fairtrade farms<sup>xxxi</sup>.

Fairtrade employment standards require workers on plantations to be employed on permanent contracts. This provides stability and also access to social security and healthcare benefits (where available) Permanent workers are better able to secure legal minimum wages and are more likely to achieve industry average wage levels (which often include bonuses). In a few cases, some of the benefits received by workers on Fairtrade plantations have spilled over to other plantations locally.

The requirement for workers to be organised and represented in wage negotiations and decision-making on the Fairtrade Premium has helped improve labour practices and reduced the marginalisation of groups such as migrant and casual workers and women.

On plantations the Fairtrade Premium has financed investment with wider community benefits. 18 percent of premium funds – €760,000 – was invested in education in 2010/11 and a further €340,000 in health and community facilities in 2010/11<sup>xxxiiv</sup>.

### Limits

The Fairtrade Minimum Price does not always cover all production costs. The full extent of family labour and the external costs of ensuring long-term sustainable production are rarely covered. The costs of meeting Fairtrade standards (including both compliance and certification) are also not fully covered by the Fairtrade Minimum Price, especially when only a small proportion of total sales are made under Fairtrade terms.

Farming is still not a sufficiently attractive employment option to attract young people, and most Small Producer Organisations face the challenge of generational renewal<sup>xxxi</sup>.

Ideally, farmers would earn enough through the price of their bananas to fund investment in higher future yields. But this is not the case and so available resources depend on the level of Fairtrade Premium in each organisation. In fact, many small farmers need loans or additional payments from their organisations to cover their living costs. These funds are taken from the Fairtrade Premium. On average 9 percent of the funds received by Small Producer Organisations – €892,000 – was spent in this way in 2010/11<sup>xxxi</sup>. In some organisations this proportion is significantly higher.

Fairtrade Standards on wages reference three benchmarks – the legal minimum wage, average wages for the sector or local area and rates agreed through a Collective Bargaining Agreement with an independent trade union. They would require workers to receive whichever is the highest. The new Fairtrade Hired Labour Standard introduced in January 2014 strengthens requirements for employers to move wages progressively towards living wage benchmarks.

The development of representative structures for Fairtrade can create conflicts with trade unions and may be used by employers in countries with a record of poor industrial relations as alternatives to trade union representation<sup>16</sup>. This can undermine the role of unions in bargaining wages and benefits and enforcing application of agreements with legal backing. Fairtrade is also struggling to take into account the aspirations of migrant workers, in particular because the Fairtrade Premium is supposed to be invested in local communities, yet migrant workers rarely live with their families.

Although the Fairtrade Standards prohibit the use of Fairtrade Premium as a substitute for the legal obligations of employers to provide facilities for workers, especially in health and housing, these vary by country and region and can be difficult to verify. There are examples of Joint Bodies<sup>17</sup> using the Fairtrade Premium to leverage additional investment from employers as well as informal reports of situations where the Fairtrade Premium has displaced social investment that would normally be made by an employer.

# 10/ REFERENCES AND OTHER SOURCES

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<sup>v</sup> Smith, Sally. Fairtrade Bananas: A Global Assessment of Impact for the Institute of Development Studies, 2010, [http://www.fairtrade.org.uk/includes/documents/cm\\_docs/2011/F/Fairtrade%20in%20the%20Banana%20Sector\\_IDS%20Final%20Report%20December%202011.pdf](http://www.fairtrade.org.uk/includes/documents/cm_docs/2011/F/Fairtrade%20in%20the%20Banana%20Sector_IDS%20Final%20Report%20December%202011.pdf)

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<sup>xi</sup> Powering Up Smallholder Farmers, Fairtrade Foundation 2013

<sup>xii</sup> Nielson/Tracking Data 52 weeks to 12/10/13

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<sup>xv</sup> UK Department of Environment, Food & Rural Affairs, Food Statistics Pocketbook, 2013, <https://www.gov.uk/government/publications/food-statistics-pocketbook-2013>

<sup>xvi</sup> Centre for Economics & Business Research for Kellogg's, 'Hard to Swallow: The Facts about Food Poverty', March 2013, <http://pressoffice.kelloggs.co.uk/index.php?s=20295&item=122399>

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<sup>x</sup> Standard Operating Procedure for development of Fairtrade Minimum Prices and Premium, Fairtrade International, revised 11 January 2013, [www.fairtrade.net](http://www.fairtrade.net)

<sup>xi</sup> The Corporation for Rural Business Development (CODER) for Max Havelaar Netherlands, An Evaluation of Fairtrade Impact on Smallholders and Workers in the Banana Sector in northern Colombia, 2013

<sup>xii</sup> Ibid. The research noted that all exporters ask for exclusivity so that farmers cannot sell to other traders, and one requires producers to commit to this exclusivity permanently. This limits the possibility for smallholders to export directly or to diversify their trade relationships and the creation of a new second tier co-operative seeks to end this practice.

<sup>xiii</sup> Fairtrade International, Monitoring the scope and benefits of Fairtrade, Fourth Edition, 2012, [http://www.fairtrade.org.uk/includes/documents/cm\\_docs/2012/M/Monitoring%20the%20scope%20and%20benefits%20of%20Fairtrade%202011%20PUBLIC%20FLO%20Dec11.pdf](http://www.fairtrade.org.uk/includes/documents/cm_docs/2012/M/Monitoring%20the%20scope%20and%20benefits%20of%20Fairtrade%202011%20PUBLIC%20FLO%20Dec11.pdf)

<sup>xiv</sup> Fairtrade International, Aims of Fairtrade Standards, <http://www.fairtrade.net/aims-of-fairtrade-standards.html>

<sup>xv</sup> Fairtrade International, Fairtrade Standards for Hired Labour, 2014 [www.fairtrade.net/standards.html](http://www.fairtrade.net/standards.html)

<sup>xvi</sup> Smith, Sally. Fairtrade Bananas: A Global Assessment of Impact, for the Institute of Development Studies, 2010, [http://www.fairtrade.org.uk/includes/documents/cm\\_docs/2011/F/Fairtrade%20in%20the%20Banana%20Sector\\_IDS%20Final%20Report%20December%202011.pdf](http://www.fairtrade.org.uk/includes/documents/cm_docs/2011/F/Fairtrade%20in%20the%20Banana%20Sector_IDS%20Final%20Report%20December%202011.pdf) In the case of Fairtrade plantations in Ecuador and the Dominican Republic, daily wages or piece rates are above national minimum wage levels but broadly in line with industry averages. Worker income is often boosted by payment of legislated wage related benefits such as annual bonuses, paid annual leave and premiums for overtime hours.

In the case of workers employed by small producers in Ecuador, both permanent and temporary workers were generally paid higher daily rates than those employed by non Fairtrade plantations in Ecuador. Permanent workers also received social security, which gave them access to credit and loans.

In the Dominican Republic, a study carried out by the small farmer organizations indicated that 42 percent of members’ workers had stayed with them for more than 5 years, deemed unusual in the banana sector, and this is apparently related to higher wage rates and various other financial and non financial benefits.

<sup>xvii</sup> The Corporation for Rural Business Development (CODER) for Max Havelaar Netherlands, An Evaluation of Fairtrade Impact on Smallholders and Workers in the Banana Sector in northern Colombia, 2013

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[http://www.fairtrade.org.uk/includes/documents/cm\\_docs/2011/F/Fairtrade%20in%20the%20Banana%20Sector\\_IDS%20Final%20Report%20December%202011.pdf](http://www.fairtrade.org.uk/includes/documents/cm_docs/2011/F/Fairtrade%20in%20the%20Banana%20Sector_IDS%20Final%20Report%20December%202011.pdf)

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<sup>x</sup> Based on the latest census carried out by the Agriculture Ministry of Ecuador, 2009 <http://www.ecuadorencifras.com/sistagroalim/pdf/Banano.pdf>

<sup>xi</sup> In Ecuador, yields range from an average 1471 boxes per hectare per year under a conventional monocrop system to just 192 boxes per hectare under a diversified organic system. Taken from Smith, Sally. Fairtrade Bananas: A Global Assessment of Impact for the Institute of Development Studies, 2010, [http://www.fairtrade.org.uk/includes/documents/cm\\_docs/2011/F/Fairtrade%20in%20the%20Banana%20Sector\\_IDS%20Final%20Report%20December%202011.pdf](http://www.fairtrade.org.uk/includes/documents/cm_docs/2011/F/Fairtrade%20in%20the%20Banana%20Sector_IDS%20Final%20Report%20December%202011.pdf)

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<sup>xvii</sup> Augura – Asociacion de Bananeros de Colombia, ‘situacion del sector bananero’, 2013, <http://www.augura.com.co/>

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<sup>xix</sup> The Corporation for Rural Business Development (CODER) for Max Havelaar Netherlands, An Evaluation of Fairtrade Impact on Smallholders and Workers in the Banana Sector in northern Colombia, 2013

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<sup>xvii</sup> European Commission Directorate General for Trade website, accessed January 2014, <http://ec.europa.eu/trade/>

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Consolidating the previous studies they had conducted (K. Pierret, CIRAD, “Evolution des coûts intermédiaires des filières bananières d’approvisionnement du marché européen: mise en place d’un outil d’analyse”, November 2011) and complementing them with recent data from Ecuador (Ecuador to Europe value chain study for the World banana forum – not yet published), the CIRAD researcher calculated the breakdown of costs as a percentage of total costs.

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<sup>x</sup> Fairtrade International - Monitoring the scope and benefits of Fairtrade, 4th Edition, 2012, [http://www.fairtrade.org.uk/includes/documents/cm\\_docs/2012/M/Monitoring%20the%20scope%20and%20benefits%20of%20Fairtrade%202011%20PUBLIC%20FLO%20Dec11.pdf](http://www.fairtrade.org.uk/includes/documents/cm_docs/2012/M/Monitoring%20the%20scope%20and%20benefits%20of%20Fairtrade%202011%20PUBLIC%20FLO%20Dec11.pdf)

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### Cost components of bananas up to the import stage

*Source: BASIC based on CIRAD (2012)*

<b>Stage of the chain</b>	<b>Type of costs</b>	
<b>Produce</b>	<b>Fertilizers</b>	Fertilizers and soil conditioners used in production
	<b>Agrochemicals</b>	Pesticides, nematocides and treatment products used in production and packing
	<b>Irrigation</b>	Irrigation costs and inputs
<b>Packing</b>	<b>Packing material</b>	Cardboard boxes, polybags and pallets used in packing
<b>Shipping</b>	<b>Ocean freight</b>	Chartering, insurance and fuel costs
<b>Cross-cutting</b>	<b>Wages</b>	Salary costs of hired labour in field work (soil preparation, planting, weeding, harvest...) and packing
	<b>Energy</b>	Fuel costs of farm equipment and road trucks
	<b>Financial costs</b>	Amortization, general services, salary costs of management staff, harbour taxes and customs, cargo loading costs

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**'WHEN THE PRICE OF BANANAS  
GOES DOWN WE SUFFER THE  
IMPACT. OUR LIVING CONDITIONS  
GO DOWN.'** Albeiro Alfonso 'Foncho' Cantillo

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