



BRITAIN'S BRUISING BANANA WARS

MEDIA REPORT



FAIRTRADE
FOUNDATION





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1/ INTRODUCTION BANANAS ARE THE UK'S MOST POPULAR FRUIT AND ONE OF THE MOST IMPORTANT COMMODITIES IN WORLD TRADE. RICH IN POTASSIUM AND VITAMINS A, B6 AND D, THEY ARE TASTY, HEALTHY AND PLENTIFUL.



IF BRITISH RETAILERS DO NOT BREAK THE LOGIC OF THE BANANA PRICE WARS, THEY WILL BE HELD RESPONSIBLE FOR FORGING PRODUCERS OUT OF BUSINESS AND WORKERS OUT OF JOBS. THE SQUEEZE HAS ALREADY DESTROYED LIVELIHOODS AND THE PRESSURE TO KEEP PRICES LOW IS DIRECTLY UNDERMINING THE OPPORTUNITIES TO INVEST IN LIVING WAGES AND SUSTAINABILITY

Alistair Smith, BananaLink⁴

In the UK we each consume 100 bananas on average a year, spending over £700 million¹ annually at grocery tills, making bananas one of the top selling food lines in the country. Bananas are important globally as a source of both food and livelihoods, providing employment to tens of thousands of farmers and workers in over 150 countries and generating over US\$8.9 billion² in export earnings for producer countries. Bananas are the fourth most important food crop after rice, wheat and maize as well as being the staple food for some 400 million people³.

It might be assumed that a global industry with a popular product would guarantee a sustainable living for all those involved in producing and supplying the market but this is not the case. Bananas in the UK are priced at a level that does not reflect the true cost of production, which causes ripples across the supply chain that impact on the farmers and workers at the end of the chain.

Our research shows that instead of making a decent living and getting a fair return for their hard work in growing the fruit, many workers and farmers are now in danger of being trapped in an ever-increasing cycle of poverty.

Our research also suggests that a farmer growing bananas only retains 5–10 per cent⁶ of the retail price of each banana he/she grows, while workers on plantations typically receive even less than this. When the price for a banana is only 11p, you can see how little money farmers and workers earn and how even a little more would make a huge difference.

LOW-PRICED BANANAS ARE NOT SUSTAINABLE

Stakeholders across the industry agree that the way the banana trade works now is not sustainable and fear for its future. The Fairtrade Foundation's concern is what impact a failing banana industry is having on the tens of thousands of small farmers and workers⁶ who rely on the industry to make a living.

The Fairtrade Foundation's new report: Britain's Bruising Banana Wars,⁷ looks behind the supermarket displays and delves into the true state of the banana supply

chain. Along with other shopping basket staples such as bread and milk, bananas are the battleground on which the big four supermarkets; Tesco, Asda, Sainsbury's, and Morrisons⁸, compete for market share. As a result, the typical retail price of loose bananas in Britain is currently just 68p per kilo⁹, compared to £1.08 in 2002¹⁰, a fall of more than 40 per cent. If bananas had kept inflationary pace with other food prices over the past 10 years, they would now cost £1.40 per kilo; more than double their current price.

Bananas are still grown in much the same way as they always have been, with labour intensive processes at each stage of production. Market pressures have required growers to increase yields on their plantations through intensive cultivation. There are hidden long-term costs to this intensification, such as the increased use of agro-chemicals and water and reduced biodiversity. This in turn leaves them more vulnerable to the effects of climate change.

Small farmers are forced to match the prices set by larger actors in the industry which cuts their profit. This reduces their ability to provide for their families and invest in their business. Many are trapped in this situation as they cannot survive in the current banana market but cannot afford to leave it.

The market pressure of low prices also drives the trade in bananas to origins that can produce at lower costs. For example, the higher costs of production in Costa Rica and the Windward Islands means these countries have struggled to maintain market share while bananas from lower-cost producer countries have gained ground. Our research reveals that in the last decade, wages in some of these countries have failed to keep up with costs of living and inflation increases, which in some banana growing countries have been more than 200 per cent.

¹ Kantar Fresh Produce Journal, December 2013 gives £606 million for banana sales through major supermarkets. Supplementary analysis by the author comparing average retail price and total import volume is that the total figure is in excess of £700 million when independent grocers' sales are also included.

² (2011, FAO, FAOSTAT)

³ (UNCTAD, Infocomm banana commodity profile)

⁴ For more information on BananaLink go to www.bananalink.org.uk

⁵ 'Powering up Smallholder Farmers', Fairtrade Foundation 2013

⁶ Fairtrade International global monitoring data, Fairtrade International – private communication.

⁷ For a full copy of our report go to www.fairtrade.org.uk

⁸ BananaLink, Collateral Damage: How price wars between UK supermarkets helped to destroy livelihoods in the banana and pineapple supply chains, November 2006.

⁹ December 2013 prices for loose bananas in Tesco, Asda, Sainsbury's and Morrisons.

¹⁰ Finch, Julia, 'Supermarket price wars break out again', The Guardian, June 2007.



**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.**

*Horatio Hernandez, Coobafrio Co-operative,
Magdalena, Colombia, January 2014*

FAIRTRADE

Fairtrade's success in the UK and other European markets during the past decade has been the most effective countervailing trend to ever-lower farm gate prices. Fairtrade Standards¹¹ for bananas aim to provide a minimum price that covers the cost of sustainable production for small farmers. For plantations the standards protect the rights of workers and ensure decent working conditions. There is an additional Fairtrade Premium for economic, social and environmental investment in banana communities.

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

British shoppers have been the most receptive in the world to Fairtrade bananas since their launch in 2000, with 1 in 3 bananas in the UK now Fairtrade, which equates to 35 per cent¹² (in value) of the market share. Three retailers sell 100 per cent Fairtrade bananas – Sainsbury's and Waitrose switched all their bananas to Fairtrade in 2007 and the Co-operative committed to sourcing 100 per cent Fairtrade bananas in 2012.

But the Fairtrade Foundation has a wider vision to transform business practice.

This report aims to uncover the real story behind our cheap bananas. Consumers are increasingly concerned about where their food comes from. In research by Nielsen¹³ half of all respondents (50 per cent) said they would be willing to reward companies that give back to society by paying more for their goods and services. Our evidence shows cheap bananas are threatening farmers' futures and if the industry won't act, then government must step in and investigate.

As part of this report, the Fairtrade Foundation commissioned the Ethical Consumer Research Association¹⁴ to collate a supermarket scorecard based on transparency and social, economic and environmental factors to show how the main supermarkets perform in these areas and to evaluate whether the bananas they sell are being produced in an ethical and fair way. The results are published in section six of this report.

MAKE BANANAS FAIR

This year marks the 20th anniversary of the FAIRTRADE Mark in the UK. Although the banana has become an iconic Fairtrade product, we believe aggressive UK retail pricing strategies are one of the factors that have continued to de-value this shopping basket staple, threatening the ability of tens of thousands of small farmers and

workers around the world to earn a decent living. That's why on 24 February 2014 the Fairtrade Foundation is launching the **Make Bananas Fair**¹⁵ campaign, fronted by Colombian banana farmer Albeiro Alfonso 'Foncho' Cantillo. Foncho, as a representative of banana farmers and workers, will work alongside campaigners and consumers to call on the government to act on our findings and put an end to unfair bananas being available on Britain's supermarket shelves.

¹¹ For information of Fairtrade Standards, Prices and Premiums go to <http://www.fairtrade.net/our-standards.html>

¹² Nielsen/Tracking Data 52 weeks to 12/10/13

¹³ 'Consumers Who Care And Say They'll Reward Companies with Their Wallets', August 2013, Copyright © June 2013 The Nielsen Company. All rights reserved.

¹⁴ For more information on the Ethical Consumer Research Association go to <http://www.ethicalconsumer.org/>

¹⁵ For more about the campaign go to <http://foncho.fairtrade.org.uk/>

2/ SUPERMARKET PRICE WARS THE UK GROCERY MARKET IS ONE OF THE MOST HIGHLY CONCENTRATED IN THE WORLD WITH FOUR NATIONAL CHAINS CONTROLLING 70 PER CENT¹⁶ OF THE GROCERY MARKET.

Competition among UK supermarkets is also fiercer than in most other European markets. Tesco, Asda, Sainsbury's and Morrisons have competed aggressively among themselves to protect their market position and gain market share from their competitors.

Bananas are one of the most frequently bought food products in Britain – one retailer told us that they featured in 90 per cent of baskets taken to their checkouts. Every retailer we spoke to for this report told us of the continual, intense competitive pressure they face to keep retail prices for loose bananas as low as possible. When retailers have attempted to increase loose banana prices they have often reversed their decisions following advertising by competitors. Price comparison advertising is a frequently used tool and several retailers had committed to matching the prices of their competitors on a typical shopping basket.

The price wars began in August 2002 when 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 typically priced at £1.08 per kilo¹⁷ for the previous six years but Asda reduced its retail price to £0.94 per kilo. Tesco, Sainsbury's and Safeway followed Asda's lead and Morrisons took the next step, cutting its price to £0.85, again followed by the other big four chains.

A second wave of price-cutting began in 2007 when Asda announced a further round

of price cuts on 10,000 products. It reported 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. Within hours, Tesco responded by promising £270 million of price cuts on 3,000 products¹⁸.

In the same year, Sainsbury's and Waitrose, followed in 2012 by The Co-operative, made commitments to source 100 per cent Fairtrade bananas. This ensured farmers and workers were paid a sustainable Fairtrade Minimum Price and Fairtrade Premium, which farmers and workers could invest in community development projects.

As a result of the price wars, average banana retail prices in Britain have plummeted – by more than 40 per cent between 2002 and 2013. The typical retail price of loose bananas in Britain is currently just 68p per kilo, compared to £1.08 in 2002. If bananas had kept pace with other food prices over the past 10 years, they would now cost £1.40 per kilo, more than double the current price.

¹⁶ Kantar World Panel.

¹⁷ 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.

¹⁸ Finch, Julia, 'Supermarket price wars break out again', The Guardian, June 2007.

IF BANANAS HAD KEPT PACE WITH THAT OF A MARS BAR THEY WOULD COST:



INFLATION



IN REAL TERMS, TAKING INTO ACCOUNT INFLATION AND THE PRICE OF BANANAS RELATIVE TO OTHER PRODUCTS, THE DECREASE IS EVEN MORE MARKED. IF THE PRICE OF BANANAS HAD KEPT PACE WITH THAT OF A MARS BAR, WHICH ROSE FROM 41p IN 2007 TO 59p IN 2012, BRITISH CONSUMERS WOULD NOW BE PAYING £2.60 PER KILO OF BANANAS INSTEAD OF 68p.



SIMILARLY, WHEN COMPARED TO OTHER FRUIT, A SINGLE BANANA CAN BE GROWN ON THE OTHER SIDE OF THE WORLD AND SHIPPED TO BRITAIN TO BE SOLD AT 11p, LESS THAN THE PRICE OF AN APPLE GROWN ON A UK FARM, WHICH COSTS 20p.



PRICE OF AN APPLE GROWN IN THE UK



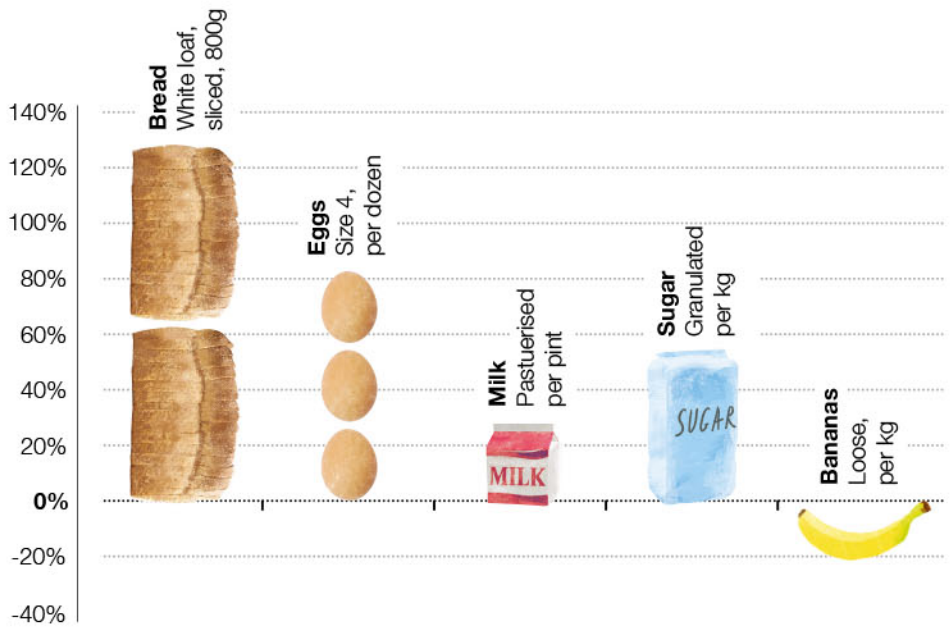
Finally, when compared with other shopping basket favourites like bread, milk, eggs and sugar, the fall in banana prices is even more pronounced as these other staple foods have increased in price by an average of 79 per cent over the last 10 years¹⁹. This means that if the price of bananas had kept pace with other products in a typical shopping basket, they would today cost consumers £1.93 per kilo. It is important to note here the above comparisons only refer to loose bananas as pre-packed bags of bananas are sold at a higher price than loose bananas.

After a decade of these tactics driving down the price of bananas to half the level of 10 years ago, the link between the price that consumers pay for bananas and what the product costs retailers has been completely broken as retail prices are set simply to match the competition.

The price match promises are costing some retailers thousands of pounds a week so the pressure to save money anywhere they can is immense. But this is not just a case of retailers slashing the prices they pay their suppliers in order to fund price cuts – it's a much more insidious long-term squeeze on costs throughout the supply chain.

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

Source: Timetric based on ONS data



¹⁹ Timetric based on ONS data

**IF WE WEREN'T
IN FAIRTRADE, WE
WOULD ALWAYS BE
MAKING A LOSS...
WE WOULDN'T HAVE
PROFITABILITY IN
OUR BUSINESS.**

*Albeiro Alfonso 'Foncho'
Cantillo, smallholder banana
farmer, Colombia.*

WHO REGULATES THE SUPERMARKETS?

In the UK, the Department for Business, Innovation and Skills (BIS)²⁰, 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 is based upon European competition law, which is enforced by the European Commission (EC)²¹ as the regulator of the single European market.

The EC's Competition Directorate has wide-ranging powers, including a mandate to investigate anti-competitive practices that have cross-border implications. The OFT (CMA) enforces UK and European Union competition law within the UK.

WHAT ABOUT THE GROCERIES CODE ADJUDICATOR?

The appointment of a Groceries Code Adjudicator (GCA) in 2013 was supported by a wide number of farmers' groups, Non-Governmental Organisations and members of the Food and Drink Federation.

The GCA is intended to provide suppliers, including overseas suppliers when they are supplying directly to 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 Groceries Supply Code of Practice²².

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.

IS THIS HAPPENING IN OTHER EUROPEAN COUNTRIES?

No, this is unique to the UK. The retail price of bananas in other European countries such as France, Italy and Germany, has increased by 10 per cent, 3.9 per cent and 7.2 per cent respectively²³. This is despite the fact that they buy bananas from similar sources and incur similar costs in shipping and distribution.

²⁰ Department for Business Innovations and Skills, Processes for dealing with anti – competitive activity, 2012, <https://www.gov.uk/processes-for-tackling-anti-competitive-activity-2>

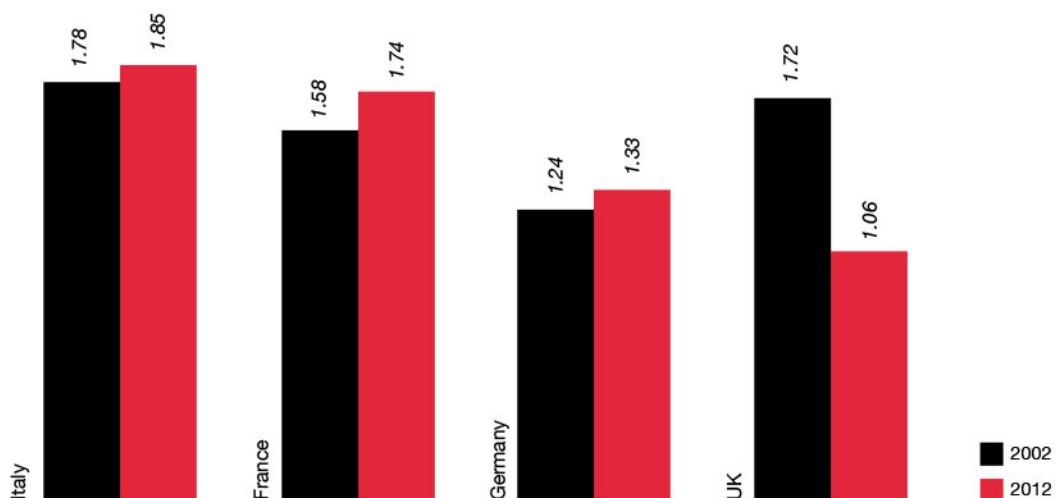
²¹ The Consolidated Version of the Treaty on the Functioning of the European Union, The Official Journal of the European Union, March 30 2010.

²² British Retail Consortium, 'Grocery Supply Chain cit 'GSCOP has operated since 2010 and to date no supplier has applied for arbitration to resolve a dispute with their retailer'.

²³ CIRAD-ODEADOM except for UK (Timetric).

Change in retail price of bananas in EU, 2002 – 2012, Euros per kilogram

Source: CIRAD-ODEADON except for UK (Timetric)



3/ WHERE THE UK'S BANANAS ARE GROWN THE WORLD'S FIVE LEADING BANANA – EXPORTING COUNTRIES ARE ECUADOR, COLOMBIA, THE PHILIPPINES, COSTA RICA AND GUATEMALA²⁴. TOGETHER THEY ACCOUNT FOR MORE THAN 80 PER CENT 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.

The most important export regions for smallholder production are the Caribbean and South America. In the Windward Islands farms are around two hectares in size and established in hilly landscapes. The terrain and location mean the farms are prone to soil erosion with limited possibilities for mechanisation, irrigation and transport, and high risk of severe climatic events such as hurricanes. Bananas play a key role in the preservation of the social and economic fabric of these islands and have done for more than 50 years. At one time the banana trade employed half of the islands' workforce, contributed to 50 per cent of export earnings and supplied 60 per cent of the UK banana market²⁵.

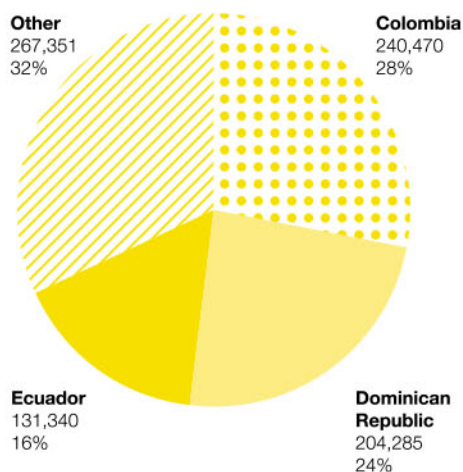
Ten years ago, 70 per cent of our bananas came from Costa Rica, the Windward Islands and Cameroon²⁶. Today 70 per cent come from Colombia, the Dominican Republic and Ecuador.

Most banana exports from central America and west and central Africa come from large plantations with mechanisation and are often controlled by multinational fruit companies.



UK'S banana split – origin of Britain's banana imports in 2012

Source: Eurostat



For St Lucia, one of the Windward Islands, banana production and export are the most important activities in the agricultural sector as they make a crucial contribution to income and employment in a country where 25 per cent of the population lives below the poverty line. All the bananas produced for export are Fairtrade.

But European Union reforms have eroded the protection traditionally given to the islands' banana exports in recognition of their economic importance, leading to a dramatic decline in the banana trade. The islands' share of the UK market has plummeted to 9 per cent, after being displaced by lower-cost bananas from Latin America. The number of banana farmers exporting to the UK has dropped from 3,400 in 2011 to around 500 today.

Moses Rene, 34, was born and raised in the farming community of Grace, at the southern end of St Lucia, where he still lives with his wife Robertina.

Since he was 16, Moses (pictured above) has grown bananas for export on a 1.2 hectare plot alongside crops for the home and local market. He now rents an additional 1.6 hectare plot to grow pineapples, pepper and root crops, including dasheen, yams and tania for sale to local hotels and supermarkets. Moses tends to his farm eight hours a day, six days a week, and work is hard on the steep terrain, particularly in the rainy season. He employs two part-time workers when needed and seven for the fortnightly banana harvest, when he packs and sells an average of 80 boxes (18.14 kilograms per box).

He says his biggest worry is the dwindling export market for bananas from the Windward Islands, which he believes is caused by the pressure for cost-cutting down the banana supply chain. He says: 'While retail prices stay low, exporters are looking for bananas from cheaper origins, like those on the huge plantations in Latin America. We simply can't compete.'

²⁴ UN Food and Agriculture Organization figures: <http://www.fao.org/economic/est/est-commodities/banana/banana-imports/en/>

²⁵ Fairtrade Foundation case study of the Windward Islands can be found on http://www.fairtrade.org.uk/producers/bananas/winfa_2/connrad_james.aspx

²⁶ Eurostat data



The UK is a key market for bananas from the Dominican Republic, which exports 69 per cent of all the bananas it produces to our shores, Colombia exports 13 per cent to the UK, (although 30 per cent of bananas from one of Colombia's main producing regions – Uraba – come to the UK) and Ecuador exports the least to the UK with only 3 per cent exported here.

Until the 1990s even the largest retailers relied on specialist banana companies such as Chiquita, Dole, Del Monte and Fyffes, which operated plantations and their own fleets of refrigerated cargo ships, to handle all the processes in the banana supply chain – from the farm gate to delivery to supermarkets.

However, developments in the freight market have enabled some of the UK's largest supermarkets to shorten their supply chains for bananas and other fruit. This means retailers increasingly buy directly from producers in countries of origin and contract out 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.

In interviews for this report, retailers that have adopted this type of direct sourcing all noted that the new policy has given them more control over banana value chains but (for reasons of commercial confidentiality) they would not disclose the changes it had generated in procurement costs. The supermarkets acknowledged that the changes had eliminated much of the profit element previously taken by specialist banana companies and had provided opportunities to buy services more cost-effectively. However, they also stated it had exposed them to risks previously borne by suppliers, such as wastage and fluctuations in currency exchange rates and fuel costs.

In this new landscape, in which retailers have increased their control over supply chains, the situation farmers and workers are in is no longer the sole responsibility of banana trading companies. Retailers, together with banana traders, now have a high level of responsibility for the sustainability of the supply chain and how producers are treated.

4/ GROWING A BANANA TREE A YEAR AFTER PLANTING, A BANANA TREE CAN PRODUCE FRUIT ALL YEAR ROUND FOR 25 YEARS OR MORE. A TREE CAN GROW UP TO 15 METRES (50 FEET).

FROM TREE TO SHOP SHELF, THERE ARE FOUR MAIN STAGES IN THE LIFE OF A BANANA.

1 GROWING

Bananas require moist soil with good drainage, an average temperature of 27 degrees Celsius and good drainage. Growing banana trees requires regular care: land must be cleared, drainage dug, fertilisers applied and interloping plants weeded. After nine months, the bananas are ready for harvesting.

2 HARVESTING

Bananas are cut into bunches from the tree while still green. They are transported to a packing shed, divided into smaller, market-friendly bunches, inspected and sorted, washed, treated, labelled and boxed for export.



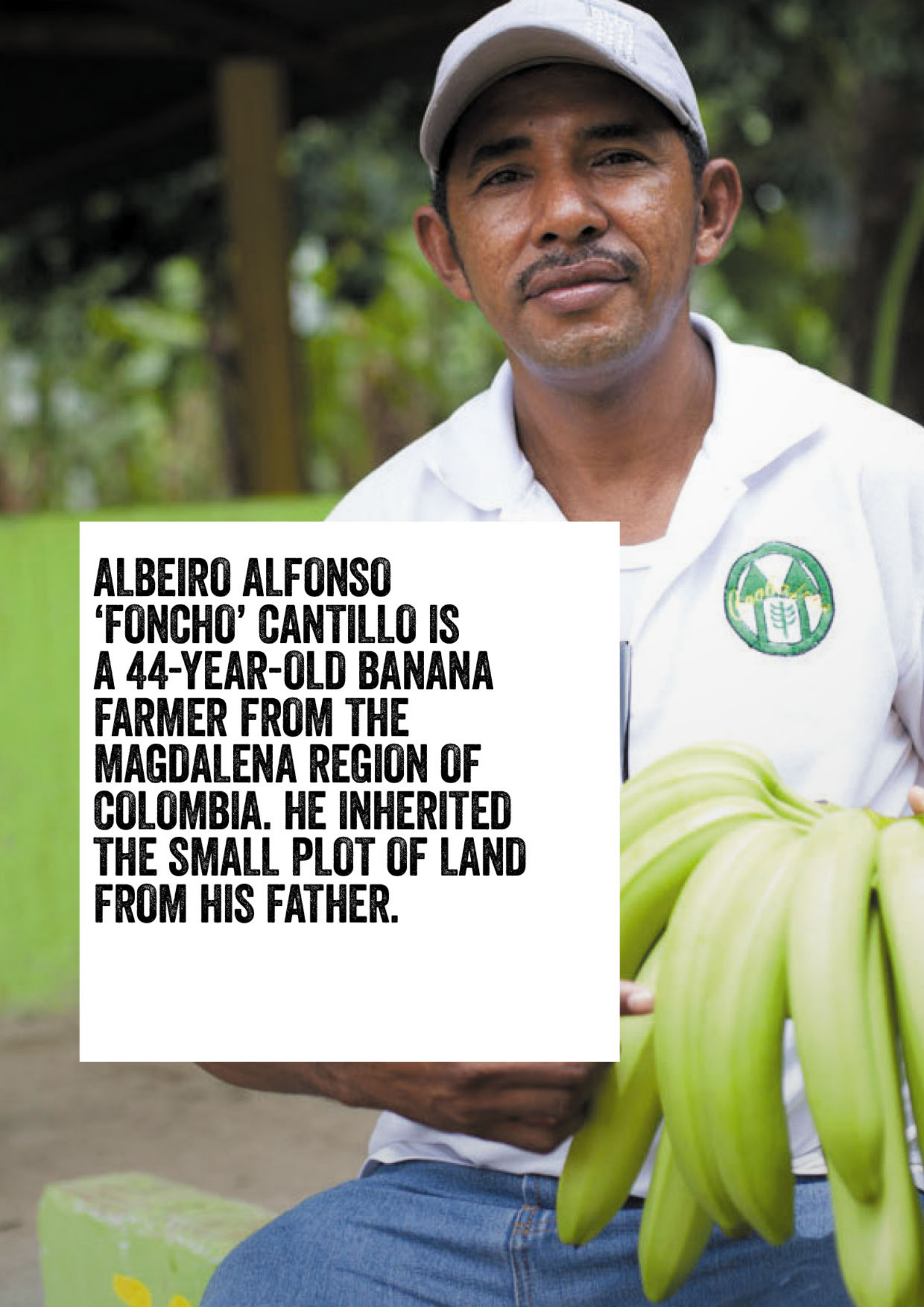
3 SHIPPING

Bunches are trucked to ports and loaded onto refrigerated ships or refrigerated containers. They are kept at a temperature of 13.3 degrees Celsius to increase their shelf life and humidity and ventilation are carefully monitored. The 5,000-mile plus journey to ship the bananas to Europe from Latin America takes between six and 12 days.


4 RIPENING

Once at UK ports, bananas are trucked to ripening rooms. They are then delivered to the regional distribution hubs of retailers before being transported to stores nationwide. A shop worker places the bananas on to supermarket shelves.



A man with a mustache, wearing a white polo shirt and a white cap, is holding a large bunch of green bananas. The polo shirt has a circular logo on the left chest. The background is a blurred green field.

**ALBEIRO ALFONSO
'FONCHO' CANTILLO IS
A 44-YEAR-OLD BANANA
FARMER FROM THE
MAGDALENA REGION OF
COLOMBIA. HE INHERITED
THE SMALL PLOT OF LAND
FROM HIS FATHER.**



‘
THE BANANA HERE IN
OUR REGION REPRESENTS
70 PER CENT OR 80 PER
CENT 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. WHEN THE PRICE
OF BANANAS GOES DOWN,
WE SUFFER THE IMPACT. OUR
LIVING CONDITIONS GO DOWN.
WE NEED THE PRICE TO STAY
STABLE.’

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. Farming is back-breaking work but Foncho loves being his own boss and tending his land. He also understands the 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. He says: '...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 weren't... we'd be a group of producers on the way to being out of business.'²⁷

²⁷ For more information about Foncho go to <http://foncho.fairtrade.org.uk/>

**5/ THE SQUEEZE ON FARMERS AND
WORKERS IN THIS REPORT WE
FOLLOWED BANANAS BACK ALONG
THE SUPPLY CHAIN TO SEE WHERE
AND HOW RETAILERS AND THEIR
SUPPLIERS WERE CUTTING COSTS
IN THE FACE OF THE PRICE SQUEEZE.**

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 2013²⁸

Labour costs are an easy target. They are cut by reducing the number of workers per hectare, make use of 'flexible' contract staff rather than permanent staff, and keeping wages are low as possible.

So ultimately, the price wars are funded by the people who can least afford it – the small farmers and plantation workers who have to work harder and harder for wages that are worth less and less in their communities. As a result, a product that is worth billions of pounds in global trade relies on poverty level wages for the people who grow it.

Alistair Smith, from the NGO BananaLink, which advocates for better pay and working conditions in the banana industry, says the situation is getting worse on the ground: 'Many banana workers still earn less than £5 a day, some as little as a third of that. In Latin America they often work 10 to 12 hour days, six days a week, with very short breaks. Many are up at 4 or 5am and do not return before dark, and still do not earn enough to meet their family's basic needs. They regularly have to choose between food, schooling, rent and healthcare.'

RISING COSTS ALONG THE SUPPLY CHAIN

A study by leading research centre CIRAD²⁹ showed that freight costs are a major component of the import price in Europe, accounting for 15 per cent of the import price of bananas from the Caribbean and as much as 40 per cent of the import price of bananas from Ecuador. Supermarkets and banana companies can sometimes negotiate better prices because of their buying power – for example by using general container ships rather than specialist banana reefers, but they cannot buck the oil price and so the potential for savings is limited.

Farmers are feeling the squeeze of rising production costs, as many farm inputs, especially fertiliser, are also linked to the price of oil and have steadily increased in price over the past decade.

Albeiro Alfonso 'Foncho' Cantillo says that he is feeling the squeeze on the 40 per cent of bananas he sells on the conventional market where prices are lower. 'It's difficult to understand that a product that we process

²⁸ Balch, Oliver, 'Banana Pricing: the unsustainable nature of the UK's favourite fruit', October 2013, the Guardian, <http://www.theguardian.com/sustainable/business/banana-pricing-unsustainable-nature-uk>

²⁹ CIRAD is an agricultural research organisation, based in France <http://www.cirad.fr/en>

with such care and which we dedicate so much time to, maybe does not generate the prices that can help us to maintain it,' he says.

At the same time the costs of food, healthcare, education, housing and transport have increased in banana producing countries. Official figures from the ECLAC (Economic Commission for Latin America and the Caribbean) and the IMF (International Monetary Fund), show living costs have rocketed by 40 per cent in Cameroon, 85 per cent in Colombia, 240 per cent in Ecuador, 295 per cent in Costa Rica and 350 per cent in the Dominican Republic in the last 10 years.

All of this means income to farmers and wages to workers are not increasing. Data shows 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.

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 plantations³⁰. They found overall, only 25 per cent 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. Another worrying trend is emerging on banana plantations. In countries analysed

for this research, plantations are reducing labour costs by sacking permanent workers and hiring temporary and casual workers in their place. These workers tend to be paid on a piece work basis rather than hourly rates and in Latin America it's common for people to work 10 to 12 hour days, six days a week, with very short breaks. As permanent contracts became scarcer, plantation work has become increasingly unattractive to local workers and plantations have had to rely increasingly on migrant workers who are desperate for work and vulnerable to exploitation and discrimination. Examples of this situation exist among Nicaraguan migrants in Costa Rican plantations and central American migrant workers in Belize, as well as Haitians in the Dominican Republic. The average wage for a banana worker in the Dominican Republic is 250 pesos (US\$6.5). Data from the Dominican Ministry of Labour shows that Haitian workers are paid less than Dominican nationals. For example a packhouse worker and field worker can earn the equivalent almost US\$2 a day less than a local person³¹.

Lastly, plantations have used sub-contractors and temporary agencies as a way of distancing themselves from their responsibilities under labour laws. 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 downward price pressure in markets such as the UK increases the attractiveness of such methods for employers.

THE ENVIRONMENT

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.

Without money it is impossible for farmers to continue to invest in their businesses and to prevent long-term environmental damage to water, biodiversity and soil, and to adapt to climate change. Recent outbreaks of Black Sigatoka and Panama disease, two diseases which attack and kill banana plants, highlight how difficult it is for smallholder farmers to survive periods of loss of productivity without savings. For example, farmers in the Windward Islands struggled to pay for fertilisers needed to combat the disease and some went out of business as a result.

³⁰ INCAE Business School, 'Análisis de la estructura salarial en la industria bananera en Ecuador', Feb 2012. The Ecuadorian government calculates the 'living wage' based on the median value of extended basket of basic goods and services necessary for a household to purchase divided by the average number of wage-earners in a household. It remains indicative, and non-binding.

³¹ Bananalink, 'Collateral Damage: How price wars between UK Supermarkets helped destroy livelihoods in the banana and pineapple supply chains', November 2006. Bananalink, Banana Trade News Bulletin 50, June 2012: <http://us2.campaign-archives1.com>, P.K. Robinson, 2011, op.cit.

‘ 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



6/ SUPERMARKET SCORECARD

ABOUT THE RESEARCH

We commissioned independent experts at Ethical Consumer Research Association (ECRA) to conduct the research. ECRA is a consumer organisation founded in 1989 and has more than 20 years' experience in conducting research in the ethical sector.

ECRA developed these findings by reviewing publically available information and using supermarkets' answers to a questionnaire to score retailer practice against the ranking methodology. Final scores were derived from all the data provided and shared with retailers before the publication of this report.

The ranking methodology was developed by ECRA, drawing on the criteria for a fair banana. These criteria are based on the three pillars of sustainability: social, economic and environmental good practice, with the additional dimension of transparency. Criteria were weighted as high, medium and low within each category and retailers received scores of Best/Reasonable/Rudimentary/Worst against each criterion.

- Social criteria included: health and safety, freedom of association, workers' rights, long term community benefits, support for women workers and small producers and employment contracts for workers
- Economic criteria included: covering production costs, contract

arrangements with producers, provision of pre-finance, living wage, ethical buying practices and impact of pricing on producers

- Environmental criteria included: sustainability and biodiversity, pesticide use, sustainable water and soil management and minimising greenhouse gases
- Transparency criteria included: certification, auditing, partnerships with Non Governmental Organisations or other initiatives and participation in organisations such as the Ethical Trading Initiative (ETI) and World Banana Forum (WBF).

We highlighted the importance of transparency in both the criteria and the ranking based on the hypothesis that best practice includes clear public communication of what a business is doing and there is independent verification of the application of ethical policies and practices across all banana sourcing.

The importance of this cannot be overestimated as, without transparency and independent verification, the consumer cannot be sure that a banana is truly fair and that claims made by retailers that a banana is fair are verifiable.

The detailed ranking (and retailer scorecards) are published on Ethical Consumer Research Association's (ECRA) website at www.ethicalconsumer.org/

WHAT THE RESEARCH TELLS US

ECRA's research shows that the area in need of the biggest change to deliver a sustainable banana industry is the economic side of the supply chain. In this area only three retailers could demonstrate a commitment to paying workers their costs of production across all the bananas they source and could demonstrate systematic, independent verification of this.

There is also a clear need for much more effective retailer engagement in industry-wide action to make payment of a living wage to all farmers and workers in supply chains a reality, which in turn also requires scrutiny of the distribution of value in supply chains. With few, notable exceptions, most retailers are engaged in the price wars that distort shoppers' sense of the value of a banana which should, the Fairtrade Foundation believes, provide a decent income for all banana producers.

ALDI
19/100

Transparency: 20%
Social: 15%
Economic: 6%
Environment: 33%



ASDA
49/100

Transparency: 68%
Social: 53%
Economic: 27%
Environment: 50%



THE CO-OPERATIVE FOOD
90/100

Transparency: 80%
Social: 100%
Economic: 78%
Environment: 100%



LIDL
20/100

Transparency: 43%
Social: 11%
Economic: 0%
Environment: 25%



MARKS & SPENCER
69/100

Transparency: 66%
Social: 91%
Economic: 42%
Environment: 75%



SAINSBURY'S
88/100

Transparency: 80%
Social: 100%
Economic: 72%
Environment: 100%



TESCO
65/100

Transparency: 80%
Social: 76%
Economic: 45%
Environment: 58%



MORRISONS
24/100

Transparency: 20%
Social: 20%
Economic: 15%
Environment: 41%



WAITROSE
85/100

Transparency: 78%
Social: 96%
Economic: 66%
Environment: 100%



**7/ FAIRTRADE'S ALTERNATIVE
APPROACH FAIRTRADE IS AN
ALTERNATIVE APPROACH TO
CONVENTIONAL TRADE AND
BANANAS HAVE BEEN AN
INTEGRAL PART OF FAIRTRADE'S
STORY OVER THE PAST 20 YEARS.**

Their UK launch in 2000 followed several years of campaigning by the Fairtrade movement to highlight 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.

The Fairtrade Standards cover social, economic and environmental criteria. The Fairtrade Minimum Price defines the lowest possible price that a buyer of Fairtrade products must pay the producer. The minimum price is set based on a consultative process with Fairtrade farmers, workers and traders and guarantees that producer groups receive a price which covers what it costs them to grow their crop. When the market price is higher than the Fairtrade Minimum Price, the trader must pay the market price.

The graphic below shows that the Fairtrade Minimum Price has almost doubled over the last 10 years in accordance with farmers' feedback on sustainable production costs³².

However, one of the challenges emerging for Fairtrade is that 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.

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.

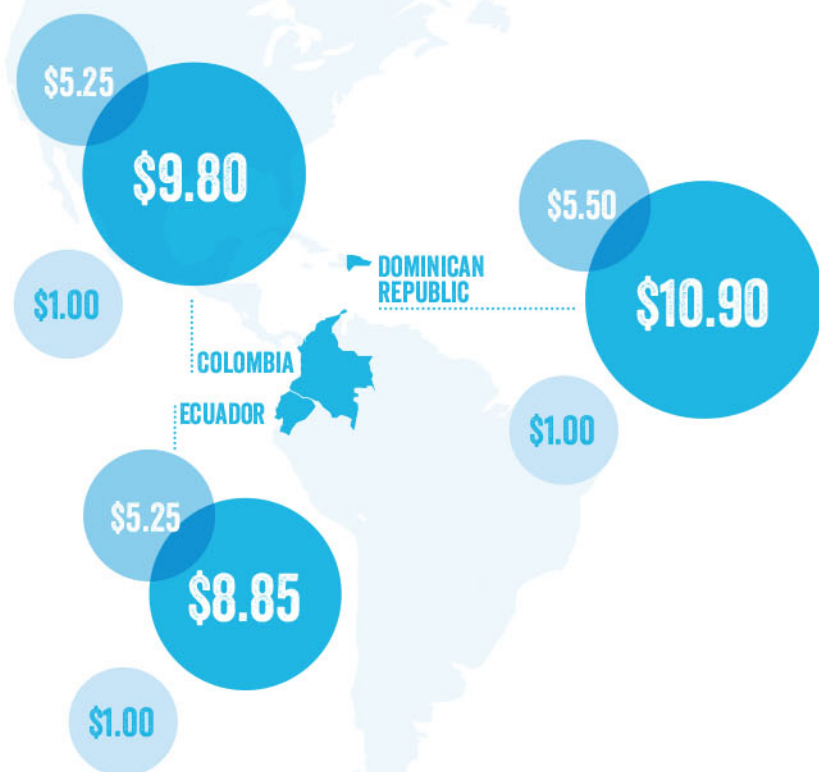
The Fairtrade Premium is an additional sum of money paid on top of the Fairtrade Minimum Price that farmers and workers invest in social, environmental and economic developmental projects to improve their businesses and their communities. They decide democratically by committee how to invest the premium. Banana farmers and workers around the world received £13 million in Fairtrade Premiums in 2012.

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

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)³³.

³² Adapted from: 25 jaar Fairtrade Max Havelaar Bananen Met Toekomst, Max Havelaar

³³ For information of Fairtrade Standards, Prices and Premiums go to <http://www.fairtrade.net/our-standards.html> Netherlands, 2013



Change in Fairtrade Minimum Price from 2002

FOB prices per 18.14kg box of conventional Fairtrade bananas, except Dominican Republic which is for organic. The 2002 price for Dominican Republic was a farmgate price.

- Fairtrade Minimum Price 2002
- Fairtrade Minimum Price 2013
- Fairtrade Premium 2013



Over the past 10 years, the UK's Fairtrade banana sales have grown and our 2013 sales figures, due to be released on 24 February, show that retail sales of bananas grew by around 5 per cent last year and are now worth £269 million.

While this is good news, 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 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 but there remains much more to do.

Fairtrade does not claim that it is the only route to a sustainable banana industry, but we believe it has achieved a positive impact in its work with many different producer organisations. This experience would provide valuable learning for the wider banana industry if it is serious about achieving genuine sustainability.

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.

*Jetta Van Den Berg, owner
and President of SAVID,
Dominican Republic*



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 per cent 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 per cent is Fairtrade and 75 per cent is organic. Most of the conventional Fairtrade bananas go to the UK and most of the organic Fairtrade 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 on costs 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, education programmes, among other things,' she adds.

**8/ CONCLUSION 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 CHALLENGES.**

Moreover, the problems have been recognised for years 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 for plantations to offer their employees decent working conditions and living wages. A major globally-traded product like bananas should provide opportunities for people to prosper, working 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 raise standards unaffordable. Whatever the aspirations for change, the ability to act is limited.

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 per cent of the trade in the UK is undertaken by seven retailers that are closely following 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 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. If bananas are cheap, someone somewhere is paying the price and this report shows that the weight of the burden is being borne, and will continue to be carried in the long-term, by those most vulnerable – the 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.
- The Office of Fair Trading/ Competition and Markets Authority should launch a market investigation 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)

- The Department for Environment, Food 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 European Union 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 the cost of sustainable production in agricultural supply chains.

THE EUROPEAN UNION (EU)

UK action also needs to be coherent with action at European Union (EU) level 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 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.

BANANA INDUSTRY

We also urge 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 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. They should also agree clear timetables for the implementation of these measures. This must be verified by external audit processes to ensure delivery in practice and correction of any non-compliance.

- **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 raise 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.

- **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 that are 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 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 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.

RECOMMENDATIONS FOR THE UK PUBLIC

Sign our petition at **stickwithfoncho.org.uk**. The UK public has a crucial role to play. More than 35 per cent 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 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.



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

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